



How to Market Dairy Products in China?

An explanatory study on market entry mode for a foreign dairy company to enter China's urban dairy market



MST-80430 Thesis Management Studies

Student

Jiajun Hu

MSc Food Technology, Food Innovation and Management

WU Supervisor

dr.Emiel F.M. Wubben

WU Co-reader

Prof. dr S.W.F. (Onno) Omta



Executive summary

China's dairy industry has changed dramatically in production techniques and production scales in the past decade. Together with the economic boost of China, these aspects have created new business opportunities of dairy products in China. As a consequence, many foreign dairy companies have decided to enter China's dairy market. The objective of this research is to determine the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market by providing considerate views of strategic management.

Three strategic management concepts and four types of market entry mode are reviewed in this research. First, with the concept of the industry life cycle, four different phases of one industry is reviewed on the basis of generic strategies, functional areas, value-creating activities, and overall objectives. Second, with the concept of the strategic group analysis and, third, the market segmentation, the analysis at market level is reviewed in detail. Four market entry modes are reviewed in this research, i.e. exporting, licensing/franchising, strategic alliances/joint ventures and wholly Foreign-Owned Enterprises. The factors influencing the choice of a market entry mode can be divided in external factors and internal factors. Based on the research background and research objective, the external factors are the primary focus in this research.

Regarding to literature review, at industry level, the current China's dairy industry is in a transition stage between growth and maturity. At market level, the China's urban dairy markets are very divers, both regarding strategic groups and market segments. The recommended market entry mode differ, dependent on the acceptable risk profile and wanted control levels.

The research objective is achieved by a case study, which includes interviews, documents study and observations, on China's urban dairy market. A semi-structured interview is applied to two groups, a group of experts on China's dairy market and a group of managers of the dairy companies in China.

On the basis of research results and analysis, it can be concluded that the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market is strategic alliance/joint venture. For the company that already has achieved essential experience in China's dairy business. A wholly Foreign-Owned Enterprise can also be considered as a good market entry strategy. In addition, the impact of the recent milk crisis is considered to be merely of temporary influence. The growth trend of China's dairy industry will not change.

Regarding to the research topic, several recommendations are mentioned. The suggestion for foreign dairy companies and the recommendations for future research are listed underneath:



- The appropriate market entry mode for a foreign dairy company to enter China's urban dairy market is strategic alliance/joint venture. For the company that already has achieved essential experience in China's dairy business. A wholly Foreign-Owned Enterprise can also be considered as a good market entry strategy.
- The dairy industry is a highly dynamic business in China. This dynamic has direct effects to the companies in the sector and for the companies who want to enter the sector. Especially, the market factors, such as the quality, quantity and cost of raw milk resource, and the environment factors, such as the changes of policies, are important for selecting the market entry strategy.
- Highly differentiated products are preferred to enter China's dairy market through imports and low differentiated products may better enter the market via local manufacturing, contract manufacturing, or equity investment.
- To combat the cultural differences with China, it is recommended to select either a strategic customer in China's urban dairy market, such as a local retailer with a good reputation, or to experience and adapt to the local markets in China. For example, start as small company and grow overtime as experience helps you.

We have two recommendations for future research:

- More in depth insight might be reached for this research topic. The assessment of China's urban dairy could be investigated on the basis of a survey. The theoretical model, obtained from a strategic management perspective, could be extended.
- The market entry mode is a strategic decision based on multiple considerations of internal and external factors. Thus, in contrast to the current research additional research could be conducted focused on the internal factors.



Acknowledgement

This research is a diploma thesis of MSc in Food Innovation and Management in Wageningen University. It has been written in the period of March, 2008 till November, 2008.

I have chosen this research topic on the basis of my study background and the interest in dairy industry. During this research I have experienced the highly dynamic of dairy industry in China and gain a lot empirical skills from the literature review and case study part. I sincerely hope this research will help foreign companies who want to enter China's dairy market, to further understand the current situation in China, and to make the appropriate market entry strategy.

Most importantly, I would like to express my gratitude to all the people who contributed to this report.

First, I would like to thank my supervisors, Mr. Emiel Wubben and Mr. Onno Omta from Management study group, for their support and professional guide through the entire research period.

Second I would like to thank all the experts on China's dairy industry and all the managers of dairy company in China, for providing their opinions on dairy industry and market entry modes. Especially, I would like to thank my contact person Mr. Tongtao Chai from Tetrapak China, for his time and organizing of the interviews.

Last I would like to thank my family and friends for their support.

Wageningen, November 2008

Jiajun Hu



Index of content

Executive summary	2
Acknowledgement	4
Chapter1 Introduction	10
1.1 Conceptual design.....	10
1.1.1 Research background.....	10
1.1.2 Research objective	11
1.1.3 Research framework.....	12
1.1.4 Research questions	13
1.1.5 Key concepts	13
1.2 Technical research design.....	14
1.2.1 Research strategy.....	14
1.2.2 Research material	14
1.2.3 Research planning.....	15
Chapter 2 Literature review on market analysis and market entry mode	16
2.1 Market analysis of industry level	16
2.1.1 Industry life cycle	17
2.1.2 Summary	20
2.2 Market analysis of market level.....	21
2.2.1 Strategic group.....	21
2.2.2 Market segments	23
2.2.3 Summary	25
2.3 Market entry mode.....	26
2.3.1 Exporting	27
2.3.2 Licensing/franchising	29
2.3.3 Strategic alliances/joint ventures	30
2.3.4 Wholly Foreign-Owned Enterprises (WFOE)	31
2.3.5 Factors influencing the market entry mode	32
2.3.6 Summary	35
2.4 Conclusions	37
2.4.1 Critical characteristics of market analysis.....	37
2.4.2 Critical characteristics of market entry mode	38
Chapter 3 Market analysis and entry mode for China’s urban dairy market	41
3.1 China’s dairy industry.....	42
3.1.1 Factors to determine the dairy industry.....	42
3.1.2 Transition stage of China’ dairy industry	46
3.2 China’s urban dairy market.....	47
3.2.1 Strategic group in China’s urban dairy market.....	47
3.2.2 Market segments in China’s urban dairy market	50
3.2.3 Summary	53



3.3 Market entry mode for China's urban dairy market	53
3.3.1 Exporting	54
3.3.2 Licensing/franchising	56
3.3.3 Strategic alliances/joint ventures	58
3.3.4 Wholly Foreign-Owned Enterprises.....	59
3.3.5 Summary	60
3.4 Conclusions of China's urban dairy market	61
3.4.1 Critical characteristics of China's urban dairy market.....	61
3.4.2 Critical characteristics of market entry mode for China.....	62
Chapter 4 Theoretical framework and methodology.....	63
4.1 Theoretical framework	63
4.1.1 Explanation of theoretical framework.....	64
4.2 Research methodology	65
4.2.1 Sampling and the quality	66
4.2.2 Data collection technique.....	67
4.2.3 Interview design.....	68
4.2.4 Case study design.....	70
Chapter 5 Results of interviews	71
5.1 Results on market analysis.....	71
5.1.1 Industry life cycle	71
5.1.2 Strategic group.....	72
5.1.3 Market segments	72
5.2 Results on market entry modes.....	73
5.2.1 Influence of market factor (market analysis)	73
5.2.2 Influence of other factors	74
5.2.3 The best entry mode considered by the interviewees.....	75
Chapter 6 Analysis of the results.....	76
6.1 Analysis on market analysis	76
6.1.1 Industry life cycle	76
6.1.2 Strategic group.....	77
6.1.3 Market segments	78
6.2 Analysis on market entry modes	78
6.2.1 Analysis on influence of market factor(market analysis)	79
6.2.2 Analysis on influence of other factors	80
6.2.3 The analysis on the best market entry mode	80
6.3 Analysis on updates issues.....	81
Chapter 7 Conclusions and recommendations	83
7.1 Conclusions	83
7.2 Recommendations	87
7.2.1 Suggestion for foreign dairy companies	87
7.2.2 Recommendation for future research	88



References	90
Appendix	94
Appendix 1 Product diversity of dairy company in China.....	94
Appendix 2 Interview to the experts	97
Appendix 3 Interview to the managers of the dairy company.....	102



Index of table

Table 1 Research planning	15
Table 2 Characteristics for identifying strategic group.....	22
Table 3 Variety of reasons for consumer needs (Johnson et al. 2005)	24
Table 4 Market entry modes: advantages and disadvantages (Johnson et al. 2005)	36
Table 5 Cost of advertising from January to October in 2003 of China's dairy companies	46
Table 6 Result of literature review of China's dairy industry	47
Table 7 Dairy market volume growth rates by sector(Business Insights, 2006) .	51
Table 8 Purchases of dairy products produced by foreign companies or foreign joint ventures (Fuller et al. 2004b)	55
Table 9 Theoretical framework of this research.....	63
Table 10 Sampling list of this research	66
Table 11 Market segments which were mentioned by the interviewees.....	72



Index of figure

Figure 1 Research framework	12
Figure 2 Structure of the literature review in Chapter 2	16
Figure 3 Stages of industry life cycle and factors change over stage(Dess et al. 2007).	18
Figure 5 Progression of market entry mode(Dess et al. 2007)	27
Figure 6 Structure of literature review in Chapter 3	41
Figure 7 Cow milk production, fluid milk consumption of China 1998–2014(prediction) and cow milk production after milk crisis in 2008 (Lior 2008)(FAPRI 2005) and (Simpson 2006)	44
Figure 8 Strategic groups of China’s dairy urban dairy industry	48



Chapter1 Introduction

In the first chapter, the research design is introduced. It is structured according to the book of Piet Verschuren and Hans Doorewaard entitled *Designing a Research Project*. All methodological terms and definitions refer to that book. The design consists of two parts, conceptual design part in Par.1.1 and technical research design part in Par.1.2.

In conceptual design part, the dairy market particularly the China's dairy market is introduced as the research background. On the basis of this background, the research objective and research framework are defined. For the other part, the transition of conceptual to technical research design is the main focus. In this part, the research is delineated further and more clarity that where to look up the specific information in library and in empirical reality. It includes the information of research material, research strategy and research time plan.

1.1 Conceptual design

1.1.1 Research background

Dairy industry, as one of the traditional food industries, has grown slowly worldwide in past decade. By contrast, in the same period, China's dairy industry has changed dramatically in production techniques and production scales. Changing of consumer demand has played an important role in this progress. Particularly the younger generation (25-44 years old) has great impact on these demands. Although a gap remains between the demand patterns of urban and rural areas, the largest future consumption markets stay in the urban areas. In order to meet the consumption demand, dairy companies have focused on different strategies to enhance their competitive advantage. In a word, the different aspects of China's dairy market create opportunities for new dairy products in the future. In following paragraphs, the three aspects and the new dairy products to China are described in order.

Dairy industry

An overview report by USDA (United States Department of Agriculture) in December, 2007 estimated the global dairy market would be relatively tight market as exports of major dairy commodities are not expected to expand significantly while demand is likely to at least remain stable given that the world economy is forecasted to grow at 3.5 percent(USDA 2007). By contrast, in the past ten years, the growth of China's milk production has accelerated to nearly 20% annually(Fuller et al. 2006). According to the Chinese dairy report 2006-2007, the total output of milk production was 34.3 million tons in 2006 which is 3.3 times than 1995(ResearchInChina 2007).

Consumer demand



Consumer demand which varies in different scopes is one of the important driving forces in dairy industry.

The living conditions in China are continuously improving year by year which has significant effect on the consumption patterns. For instance, younger generations emerge as the main consumption group. According to report of AC Nielsen, this consumption group is pursuing diverse and innovative product constantly (Nielsen 2006). As a result of the improvement, dairy consumption is getting expanded and matured. The consumer demand for milk and dairy products has changed as well. For example, cheese is not a traditional food in Chinese diets, the expansion of several restaurant chains serving Western-style foods into Chinese cities can be expected to have an impact on cheese consumption in China (Fuller et al. 2004b).

Nevertheless, the demand differences exist between urban and rural areas in China. For example, the income growth rate in urban areas is more than three times higher than in rural areas which has indicated the relative large purchasing power stays in the urban areas (Fuller et al. 2004b).

Dairy companies in China

In order to meet the consumption demands, the dairy companies in China have focused on different strategies to enhance their competitive advantage. Companies from different parts of China face the same challenge in the market, for example, the resource integration, strategic corporation, product and market diversification and etc. Especially, the product and market diversification are getting more concerned.

New dairy products to China

In a conclusion, the above mentioned aspects have created opportunities of new dairy products to China. These products could be developed by innovation center of local companies in China, it could be chosen from another country or region. For example, Europe used to have the tradition to produce and consume dairy products. Nowadays it has a well developed dairy market with high production output and divers products type. The products which have good reputation on Europe dairy market would be an option for future China's dairy market.

Ideally, if the foreign company who has expertise on the dairy products has chosen the appropriate strategy, they would achieve half success to great profits. Therefore, the main topic of this research is focus on an appropriate market entry strategy to enter China's urban dairy market.

However, an appropriate market entry strategy is not an independent decision. It is a series integration of complex information. In this research the market analysis are considered as most relevant issue to develop the appropriate market entry mode.

1.1.2 Research objective

According to the background information, the research objects of this study are market analysis and market entry mode. Due to the demand differences between



rural and urban areas in China, the market analysis is focus on the urban areas only. In a result, the research objective is defined as follow:

The objective of this research is to determine the appropriate market entry mode for a foreign dairy company to enter China’s urban dairy market by providing considerate views of strategic management.

According to the concept of intervention cycle, one research context can be divided into five stages, such as, problem finding, diagnosis, design, intervention and evaluation (Verschuren and Doorewaard 2005). On the basis of research background, this research has covered the stage of diagnosis and the stage of design. For instance, the study of market analysis and the market entry modes are considered as diagnosis process. And the final conclusion of appropriate market entry mode for China’s dairy market can be considered as a design process.

1.1.3 Research framework

The research framework is a schematic and highly visualized rough representation of the steps to be taken to realize the research objective (Verschuren and Doorewaard 2005). In this research, there are four parts are divided: the literature review, theoretical framework, case study and conclusion. By using the concept of research framework, the detailed steps in this project are showed in Figure 1. The corresponding chapters, research question (RQ) and sub-questions (SQ) are defined in the framework.

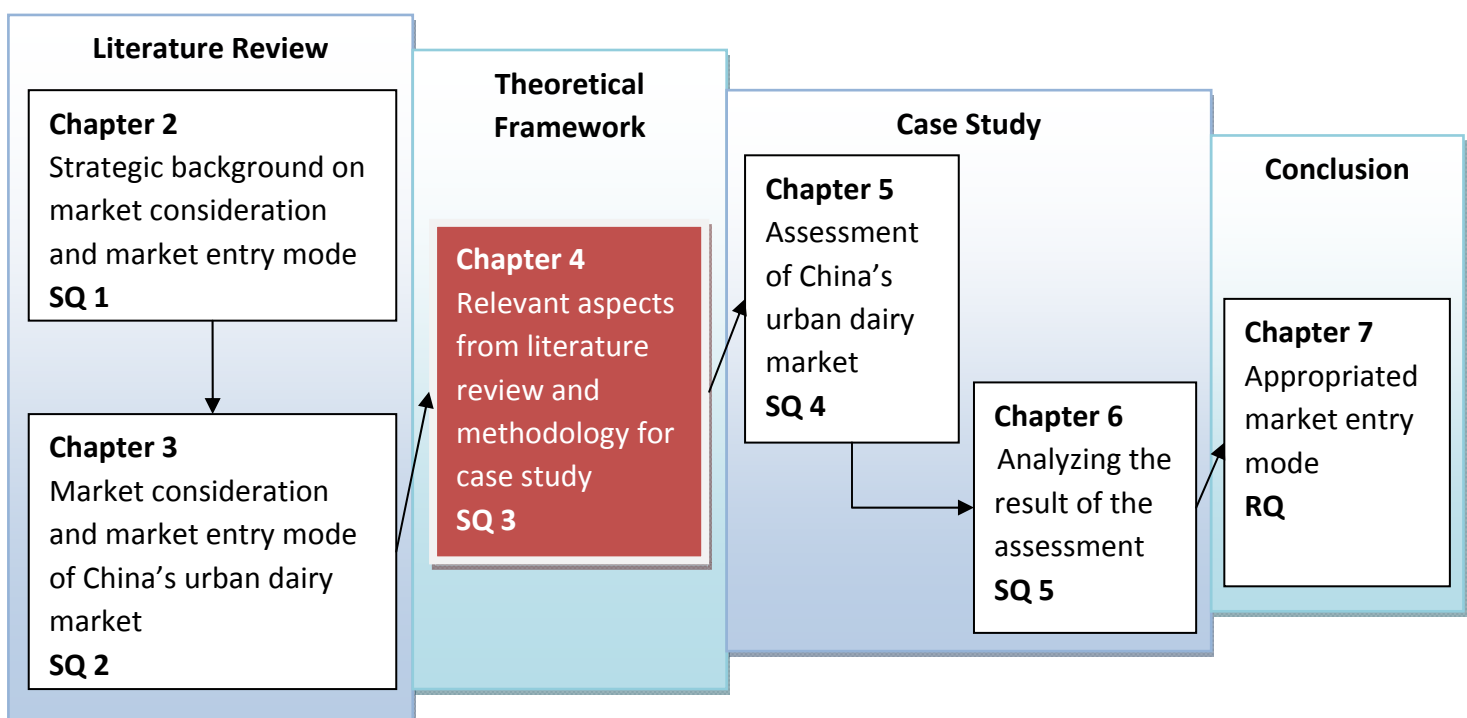


Figure 1 Research framework

As it is showed in Figure 1, the research starts from a **literature review** to study the strategic background on market analysis and market entry mode which follows



the specific study on China's urban dairy market. By summarizing and analyzing the relevant theoretical attributes of the research, one **theoretical framework** is designed. It is a connection between literature review and case study which includes the result of literature review and methodology for this research. In the **case study** part, an investigation of China's urban dairy market are carried out and analyzed with regard to the theoretical framework. In the end, as a **conclusion**, the appropriate market entry mode of foreign dairy company to enter China's dairy market will be discussed.

1.1.4 Research questions

The research question of this research is **what is the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market?** In order to answer the research question effectively. The following sub-questions which are defined in Figure 1 are applied in this research.

SQ 1:

What are the critical strategic management characteristics of market analysis and market entry mode?

SQ 2:

What are the specific characteristic of the market analysis and market entry mode for China's urban dairy market?

SQ 3:

What are the relevant aspects from the literature review and how to assess these relevant aspects?

SQ 4:

What are the results of the assessment of China's urban dairy market on market analysis and market entry mode?

SQ 5:

What analyzing can be provided for the appropriate market entry mode of foreign dairy company to enter China's urban dairy market?

1.1.5 Key concepts

The major concept used in this research is defined in this part.

Market entry mode

There are different ways to category the market entry mode. In this research, the definition are cited from book *Exploring corporate strategy*(Johnson et al. 2005). The key entry mode types are: exporting, licensing/franchising, joint ventures and strategic alliances, and wholly Foreign-Owned Enterprises(WFOE) which may involve the acquisition of established companies and 'Greenfield' investments, the development of facilities 'from scratch'(Johnson et al. 2005). In the second part of Chapter 2, the literature review of market entry modes is presented in detail.



1.2 Technical research design

The aim of the technical research design is to find which material is required and which strategy is used in order to answer to research questions and how and when this material is gathered (Verschuren and Doorewaard 2005). In following paragraphs, the above mentioned items are described in detail.

1.2.1 Research strategy

Research strategy describes the type of approach which will be taken towards the research. There are five major strategies: survey (characterized by broad, quantitative data), experiment (characterized by very specific testing of effects under controlled circumstances), case study (characterized by in-depth, qualitative data), ground theory approach (characterized by theory based, qualitative data), and desk research (characterized by not empirical, especially theory research) (Verschuren and Doorewaard 2005).

In order to achieve the research objective, a desk research will be conducted first in this research. However, the research question can not be solved by solely literature approach. In order to give a holistic and qualitative insight on the topic, the main empirical strategy of this research is case study. This means detailed and labor intensive observation, personal open interviews and the study of all sorts of documents, called the ‘triangulation of methods’ will bring a profound insight on the problem (Verschuren and Doorewaard 2005).

Case study

As a typical case study, the use of labor intensive methods to collect data is a weak point in this research. Therefore, face to face interviews based on the theoretical framework with open questions are designed to combat this constrain. In Chapter 4, the detailed research methodology is elaborated.

1.2.2 Research material

One of the important thing to consider when constructing the technical research is the kind of material required and how and where to gather this material (Verschuren and Doorewaard 2005). According to the research strategy and research objects, different sources are used in this research. The different sources of the material are allocated to the different research parts.

Literature review

To understand the strategic aspects of market analysis and market entry modes (Chapter 2), many standard strategic books are used. The book *Exploring Corporate Strategy* (Johnson et al. 2005) and *Strategic Management* (Dess et al. 2007) are used as major resources.

To describe the current China’s dairy market (Chapter 3), the annual report of China’s Dairy Institution (CDIA), Dairy Association of China (DAC) and USDA are



reviewed. Furthermore, by studying scientific literature and up to date literature, for instance, *Got milk? The rapid rise of China's dairy sector and its future prospects* (Fuller et al. 2006) and *China's Dairy Industry: Current Situation and Long-Term Projections* (Miller and Blayney 2006) are the basis to describe the general situation of China's urban dairy market. Others, for example, institutional website and national news paper are also considered as a useful source.

Interview

Based on research strategy and research objective, the samples for interview are divided into two groups. In 7, 8 and 9th September, 2008, China Dairy EXPO and annual conference of Dairy Association of China (DAC) were held in Harbin, China. Most of the interviews were carried during this period. Detailed information of research methodology and research material is described in Chapter 4.

1.2.3 Research planning

This research (MST-80430 Thesis Management Studies) has covered approximately 800 hours of work. Time scheme of this research is showed in the following table.

Table 1 Research planning

Tasks and Objectives	Research duration (Month)									
	3	4	5	6	7	8	9	10	11	
Conceptual design of research										
Literature review										
Preparatory research on research background										
Insight literature study										
Theoretical framework design										
Preparation of empirical study										
Time planning										
Preparation of interviews(Experts and Managers)										
Empirical study										
Face to face interviews										
Case study(Initial analysis)										
Case study(Additional analysis)										
Results presentation										



Chapter 2 Literature review on market analysis and market entry mode

This chapter consists with literature review of market analysis and market entry mode. The critical strategic management characteristics which are mentioned in sub question 1 will answer in the end of this chapter.

SQ 1: What are the critical strategic management characteristics of market analysis and market entry mode?

The literature reviews are divided into two parts. The first part is market analysis and the second part is market entry mode. This division creates structure in Chapter 2. Corresponding parts and paragraphs (Par.) are defined in Figure 2.

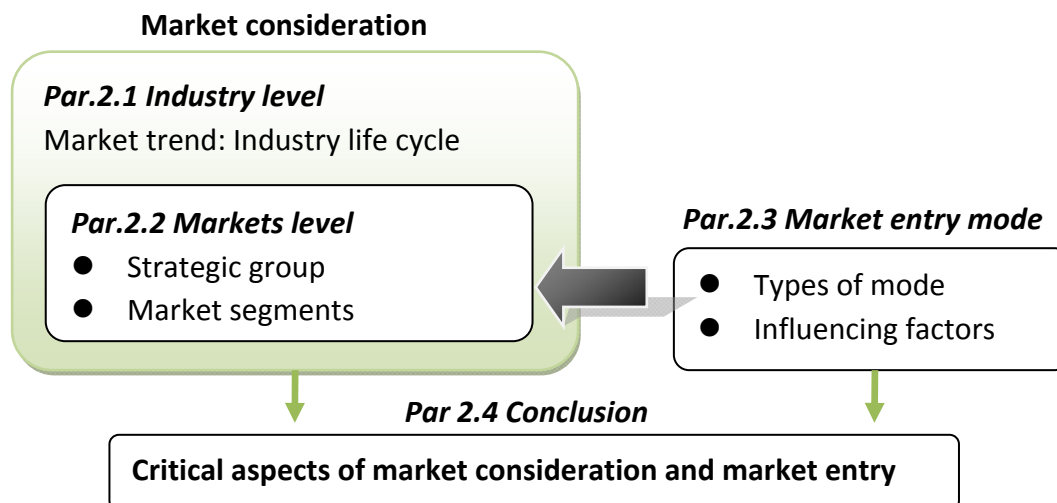


Figure 2 Structure of the literature review in Chapter 2

In Par.2.1 and Par.2.2, the literature review of market analysis is related with strategic management knowledge. This is done with the help of three theories: industry life cycle, strategic group and market segments. As a further step of market analysis, the market entry mode for a defined market would be selected. In Par.2.3 the market entry mode and the influencing factors of mode are studied.

In last part of this chapter, the critical aspects of market analysis and market entry mode are summarized in Par.2.4. As a result, the conclusion of this chapter gives direct opinion on SQ 1.

2.1 Market analysis of industry level

Industry growth rate often effects the market development. By using the concept of industry life cycle, the characteristic of an industry can be concluded. This is important in term of competitive behavior for the company who wants to enter a



new market. In following paragraphs, the industry life cycle concept is discussed in detail.

2.1.1 Industry life cycle

Overview

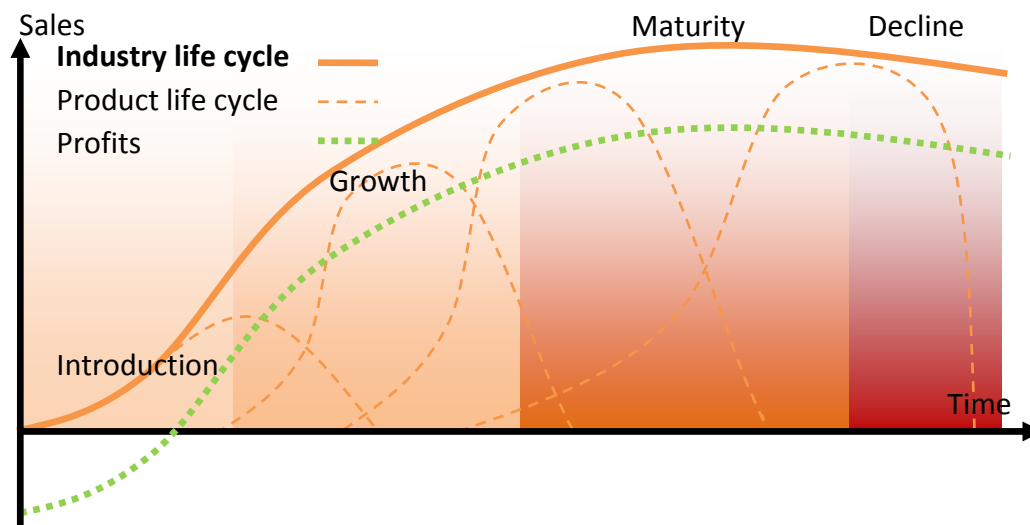
Industries generally go through a four-stage life cycle of introduction, growth, maturity, and decline (Dess et al. 2007). Different market conditions and strategic options can be expected at different stages. An important reason to consider industry life cycle is the emphasis on various generic strategies, functional areas, value-creating activities, and overall objectives varies over the course of one industry. With respect to the concept, it is useful to think in terms of board product lines such as personal computers, photo copier, or long-distance telephone service (Dess et al. 2007). In this research, the industry life cycle of dairy products is studied.

Different market conditions can be expected at different stages of industry life cycle. For example, firms depend on their research and development (R&D) activities in the introduction stage of life cycle. Later, during the mature stage, the function of product managers then place greater emphasis on production efficiencies and process(as opposed to product) engineering in order to lower manufacturing costs(Dess et al. 2007).

As the industry life cycle pass from one stage to another, the historical competitive strategies normally become ineffective. There are many key factors change as industry cycle move into new stage. For example, in the introduction and growth stage, the success is related with innovation timing and low cost. When growth begins to decelerate, the differentiated product, market and anticipation of needs often affect the success (Ansoff and McDonnel 1990).

Figure 3 illustrates the four stages of industry life cycle and how the factors change over time. The industry life cycle curve describes a typical evolution of industry from the day as previously un-served societal need begins to be served by product or services(Ansoff and McDonnel 1990). In this research, the curve indicates dairy products to server the China's consumers.

In practice, products and services go through many cycles of innovation and renewal. Maturity stages of an industry can be 'Transformed' or followed by a stage of rapid growth if consumer tastes change, technologic innovations take place, or new development occur in the general environment (Dess et al. 2007). Take China's dairy industry as an example. While the improving of people's living condition, the tastes of Chinese people had been influenced, and the demand of different dairy products has increased. More relevant literature is reviewed in Chapter 3. In following paragraphs, each stage of the industry life cycle is described in detail.



Stage	Introduction	Growth	Maturity	Decline
Generic strategies	Differentiation	Differentiation	Differentiation Overall cost Leadership	Overall cost Leadership Focus
Market growth rate	Low	Very large	Low to moderate	Negative
Number of segments	Very few	Some	Many	Few
Intensity of competition	Low	Increasing	Very intense	Changing
Emphasis on process design	Very high	High	Low to moderate	Low
Major functional area of concern	Research and development	Sales and marketing	Production	General management and finance
Overall objective	Increase market awareness	Create consumer demand	Defend market share and extend product life cycles	Consolidate, maintain, harvest or exit

Figure 3 Stages of industry life cycle and factors change over stage(Dess et al. 2007).

Introduction stage

In introduction stage, products are unfamiliar to consumers. Market segment are not well defined, and product features are not clearly specified. The early development of an industry typically involves low sales growth, rapid technological change, operating losses, and the need for strong source of cash to finance operations. Since there are few players and much growth, competition tends to be



limited(Dess et al. 2007). The lack of available components may force firms to integrate vertically(Ansoff and McDonnell 1990). For example, dairy company in the early years of dairy industry in China made nearly all the material that it needed: cows, raw milk, packaging, and delivery channel.

Success in the introduction stage requires an emphasis on research and development and marketing activities to enhance awareness of product and service. The challenge becomes:

1. Developing the product and finding a way to get users to try it.
2. Generating enough exposure so the product emerges as the 'standard' by which all other competitors' products are evaluated.

There's an advantage to be the 'first mover' in the market. In connection to the absence of substitutes and the presence of patents, the firms entering early in the industry life cycle can benefit from market power and monopoly profits. However, some of the firms entering during early stages of the industry life cycle, may not succeed in producing the dominant design and therefore might have to exit already before the industry mature(Charlie Karlsson and Nyström 2002).

Growth Stage

Growth as the second stage of industry life cycle is characterized by strong increase in sales. The potential for strong sales (and profits) attracts other competitors who also want to benefit. As products enter the growth stage, the primary key to success is to build consumer preferences for specific brands. This requires strong brand recognition, differentiated product, and the financial resource to support a variety of value-chain activities such as marketing and sales, customer service, and research and development(Dess et al. 2007).

Revenues in growth stage growing at an accelerating rate because:

1. New consumers are trying the product.
2. A growing proportion of satisfied consumers are marking repeat purchases.

In general, as a product moves through its life cycle, the proportion of repeat buyers to new purchasers increases. Conversely, new products and services often fail if there are relatively few repeat purchases(Dess et al. 2007). In fact, this can be explained by the emergence of a growth stage championed by one or more firms that has identified a way to operate the business efficiently and that has promoted the model successfully among customer and suppliers. The emergence of a dominant model is very important to industry evolution because these models generate opportunities to achieve economies of scale and scope(McGahan et al. 2004).

Maturity Stage

In maturity stage, the aggregate industry demands begin to slow. Since markets are becoming saturated, there are few opportunities to attract new adopters. It's no longer possible to 'grow around' the competition, so direct competition becomes predominate. With few attractive prospects, marginal competitors begin to exit the



market. At the same time, rivalry among existing competitors intensifies because there is often fierce price competition at the same time that expenses associated with attracting new buyers are rising. Advantages based on efficient manufacturing operations and process engineering become more important for keeping costs low as customer become more price sensitive. It also becomes more difficult for firms to differentiate their offerings, because users have a great understanding of products and services(Dess et al. 2007).

As it was mentioned in the overview section, companies must strive to emphasize the key functional areas during of the fourth stage and to attain a level of parity in all functional areas and value creating activities. Therefore, even though controlling production cost may be a primary concern during the maturity stage, managers should not totally ignore other functions such as marketing and R&D. Otherwise, the company become so focused on lowering cost that could miss market trend or fail to incorporate important product or process designs.

Decline Stage

The decline stage occurs when industry sales and profits begin to fall. Typically, changes in the business environment are at the root of an industry or product group enter this stage(Dess et al. 2007). In this stage, customers become more and more sensitive to price, and the price decreases over time. During the later stage of the industry life cycle the major type of competition is price competition (C Karlsson 1988). As competition becomes a zero-sum game (where no firm can gain volume except at the expense of others), rivalry may heat up considerably(McGahan et al. 2004).

In order to compete with price most of the innovations during the later stage have character of process innovations. The presence of economies of scale tend to result in larger firms, higher capital intensity, and a more concentrated industry structure (Magee 1977). Furthermore, avoiding a war of attrition becomes a major strategic imperative. Inefficient firms may diversify out of the industry and may seek to consolidate through mergers with former rivals(McGahan et al. 2004).

In a summary, a firm's strategic options in decline stage become dependent on the actions of rivals. Four basic strategies are available in the decline phase: maintain, harvesting, exiting or consolidating.

2.1.2 Summary

Industrial life cycle concept gives comprehensive overview of a given industry by separating the life cycle into different stages. The characteristics of each stage namely introduction, growth, maturity, and decline often have different effects for market entry strategy. In this research, the concept of the industry life cycle is used to study the China's dairy market in national level. In Chapter 3 Par 3.1, the current China's dairy industry are investigated with the concept of industry life cycle and analyzed by the emphasis factors which mentioned in Figure 3.



2.2 Market analysis of market level

The market analysis of industry level has provided general information of external environment. Nevertheless, in a given industry, an overview at market level is also essential for the market development. In this research, two concepts are studied from two perspectives. The concept of strategic group analysis, which is from researcher point of view, explains the understanding of similarities and differences in the characteristics of 'producers'- those organizations that are potential or actual competitors. And the concept of market segmentation, which is from manager point of view, is used in understanding similarities and differences between groups of customer. In following paragraphs, these two concepts are discussed in detail.

2.2.1 Strategic group

Overview

Strategic group refer to meaningful collections of firms or substructures within an industry. They are often defined as sets of firms with similar strategies, or as groups of firms isolated by common mobility barriers (Porter 1979). This concept is often used to examine different aspects of competitive strategy. For example, the concept of strategic group analysis allows firms to make more sense of competition in analyzing complex industries, in defining firms' competitors, in illustrating the competitive positions available within an industry and etc. In this research, the concept of strategic group analysis is used to provide insights into competitive structures, opportunities and constraints for development of China's dairy industry. In this part, the reason to apply strategic group and the approach to indentify the strategic group are reviewed.

The reason to apply strategic group analysis

First, strategic grouping assists a firm identify barriers to mobility that protects a group from attacks by others. Mobility barriers are factors that deter the movement firms from one strategic position to another. For example, in dairy industry, the major barriers protecting the quality oriented group are technology, brand image, and established distribution channels.

The second value of strategic grouping is that it assists a firm to identify groups whose competitive position many be marginal or tenuous. The firm may anticipate that these competitors may try to move into another group or to quit the industry.

Third, strategic groupings assists chart the future directions of firms' strategies. Arrows emanating from each strategic group can represent the direction in which the group (or a firm within the group) seems to be moving. If all strategic groups are moving in a similar direction, this could indicate a high degree of future volatility and intensity of competition. This characteristic is especially important for this research to determine the trend of China's dairy market. For example, the competition in



functional milk segments has intensified in recent years as many firms have entered those product segments.

Fourth, strategic group are useful in thinking through the implication of each industry trend for strategic group as a whole. Is the trend increasing or decreasing entry barriers in a given group? Will the trend decreasing the viability of a group? If so, in what direction should the strategic group move? Such analysis can help in making predication about industry evolution. For instance, while improving of living condition of Chinese people, the impact on providers of higher price food would less than on providers of good quality food.

Identifying strategic groups

Classifying an industry into strategic group involves judgment(Dess et al. 2007). The natural way to assign firms to strategic group is by reference to the characteristics of their strategies with group members displaying similar strategies, and differences between groups being relatively sharp(McGee and Thomas 1986). However, firms within a group resemble one another closely and recognize their mutual dependence most sensitively(Caves and Porter 1977). Here raises the important question of how to identify the range of strategies available to a firm. Combined with different characteristics that distinguish between strategic groups two major categories can be concluded. In Table 2, the characteristics to identify the strategic group are listed in detail.

The first category is the scope of organization’s activities, such as product range, geographical coverage and range of distribution channels used. Second category is the resource commitment, such as brands, marketing spend and extent of vertical integration. Each of these character are especially relevant in terms of the history and development of that industry(Johnson et al. 2005). For example, if all firms in an industry have roughly the same level of product differentiation (or R&D intensity), this would not be a good dimension to select (Dess et al. 2007). In practice, the map of strategic group can be used to visualize these characteristics(Johnson et al. 2005).

Table 2 Characteristics for identifying strategic group

<p>Scope of activities</p> <ul style="list-style-type: none"> ● Extent of product (or service) diversity ● Extent of geographical coverage ● Number of market segments served ● Distribution channels used
<p>Resource commitment</p> <ul style="list-style-type: none"> ● Extent(number) of branding ● Marketing effort (e.g. advertising spread, size of sales force) ● Product or service quality ● Technology leadership(a leader or follower) ● Size of organization



2.2.2 Market segments

Overview

In most markets there is a wide diversity of customers' needs, so the concept of market segmentation can be useful in identifying similarities and differences between groups of customer. A market segment is a group of customers who have similar needs that are different from customer needs in other parts of the markets (Johnson et al. 2005). An understanding of how consumers differ by market segment would be extremely valuable to participants in the food marketing system. Food producers, processors, and retailers require a deeper and more detailed understanding of consumer preferences with regards to their socioeconomic characteristics in order to develop products and marketing strategies that effectively target individual consumer needs (Gregory 1999).

To effectively determine the market segments, means-end-chain approach is considered as a powerful and actionable tool. It has been proved by Steenkamp (Steenkamp 1998) in his research for identifying the relations between yoghurt and consumers in each segment. The approach assists dairy companies to develop differentiated products that better meet the needs of the consumers. It also enables consumers to make purchase decisions which result in a greater degree of consumer satisfaction, while providing a stronger competitive position to the food suppliers.

In following paragraphs, the most important factors to describe the market segments, such as customer needs, relative market share and how to identify and server the markets segments are discussed in detail. Furthermore, several market segments which mentioned in the article of Steenkamp (1998) are elaborated.

Customer needs

Customer needs may vary for a whole variety of reasons - some of which are identified in Table 3. Theoretically, any of these reasons could be used to identify market segments. However, in practical terms it is important to consider which bases of segmentation are most important in any particular market (Johnson et al. 2005). For example, in food industrial markets, segmentation is often thought of in terms of quality- such as 'Good quality food'. Segmenting by buyer behavior or purchase value might be more appropriate in other markets. In deed, it is often useful to consider different bases of segmentation in the same market to help understand the dynamics of that market and how these are changing (Johnson et al. 2005).

Globalization often affects consumer behavior and attitudes in many ways, in that they transcend national borders. Groups of consumers in different countries often have more in common with one another than with other consumers in the same country. Therefore, there is a greater receptivity to global brands and foreign products across the world. Consumer brands have received wide global acceptance in categories such as consumer electronics, cars, fashion, home appliances, food products, and beverages (Hassan and Lea 1994). Many of these products respond to



the needs and wants of segments of consumers that cut across national boundaries (Kaynak and Hassan 1994).

Table 3 Variety of reasons for consumer needs (Johnson et al. 2005)

Type of factor	Consumer markets
Characteristics of people	Age, sex, race Income Family size Life-cycle stage Location Lifestyle
Purchase/Use situation	Size of purchase Brand loyalty Purpose of use Purchasing behavior Importance of purchase Choice criteria
Users' needs and preferences for product characteristics	Product similarity Price preference Brand preferences Desired features Quality

Relative market share

The share in relation to that of competitors within a market segment is an important consideration. Companies that have built up most experience in servicing a particular market segment should not only have lower costs in so doing, but also have built relationships which may be difficult for others to break down. What customers value will vary by market segment and therefore ‘producers’ are likely to achieve advantage in segments that are especially suited to their particular strengths. They may find it difficult to compete on a broader basis (Johnson et al. 2005). For example, a small local dairy company competing against the big company on the basis of its low prices underpinned by low costs of distribution and marketing is confined to that segment of the local market that values low price.

How to identify and serve the market segments

How market segments can be identified and ‘served’ is influenced by a number of trends in a business environment. For example, the improving of living conditions in China and the consumer ability of pursuing diverse and innovative products combined with increased productivity of dairy industry allow segmentation to be identified differently. There are many approaches to study market segments The means-end chain approach as an innovative model is used to study and quantify what a food product means to consumers or what the purchase value of the food.



The means-end chain model consists of three levels: attributes, benefits, and values. Attributes stand for the relatively concrete and tangible characteristics of the food product (Steenkamp 1998). The key idea underlying means-end chains is that product attributes are means for consumers to obtain desired ends. The means-end chain approach explicitly establishes the relation between product and consumer: attributes lead to benefits which contribute to value attainment. For instance, using national surveys of over 3,000 consumers in eleven EU-countries, consumers' means-end chains were identified. Based on their means-end structure and other characteristics, the segments are labeled as: 'healthy and vital', 'sensible and secure', 'healthy and innovative' and 'top quality seeker' of the yoghurt market in the EU (Steenkamp 1998).

One of the key advantages of this approach is that it links explicitly physical attributes of food products to the needs of consumers. This increases the actionability of results for successful product development as well as for effective and targeted communication strategies (Steenkamp 1998).

Opportunities in new market segments

Looking for new market segments may provide opportunities, but product or service features may need to change. For example, the emphasis is on selling emotional appeal, the alternative may be to provide a no-frills model that costs less and would appeal to another potential market (Johnson et al. 2005).

Furthermore, identifying the strategic customer is crucial in new market segments. The strategic customer is the person at whom the strategy is primarily addressed because they have the most influence over which good or service are purchased (Johnson et al. 2005), for instance, most consumers purchase dairy products through a retailer. Therefore, for dairy products the retailer is one of the strategic customers as the way it displays, promotes and supports the dairy products in store is hugely influential on the final consumer preferences.

2.2.3 Summary

The market analysis of market level gives specific background of one market by providing the concepts of strategic group analysis and market segmentations. The general findings are summarized in following paragraphs.

Strategic groups are used to understand the competition in one given industry. It can be assessed on the basis of two categories: the scope of organization's activities and the resource commitment. According to the research objective, there are two statements critical for this research. The one is that strategic groupings assist to chart future directions of firms' strategies and the other is that strategic groups are useful in thinking through the implication of industry trend for the strategic group as a whole. In the next chapter, the strategic groups of China's dairy market are reviewed regarding to these two statements.



Market segments are used to investigate the segmentation in one market. In practice there are three major factors to determine the customer needs in the market: the characteristics of people, the purchase/use situation and the users' need/preferences for product characteristics. According to research background, the dynamic of consumer demand and emerging of younger generation are considered as a major trend of China's dairy market. In next chapter, the market segments of China's urban dairy market are reviewed regarding to the three factors.

2.3 Market entry mode

Many literatures have proved that the entry and exit decisions of rival firms over the growing, mature, and decline phases in the industry life cycle have strong relations with market development. A firm seeking to enter a foreign market must make an important strategic decision on which entry mode to use for that market. The key entry mode types are: exporting, licensing/franchising, strategic alliances, joint ventures and wholly Foreign-Owned Enterprises(WFOE) which may involve the acquisition of established companies and 'Greenfield' investments, the development of facilities 'from scratch'(Johnson et al. 2005). There are different way to category the market entry modes, in this research the definition are cited from book *Exploring corporate strategy*(Johnson et al. 2005) and *Strategic Management* (Dess et al. 2007). By considering of the challenge of market entry, many firms first start on a small scale and then increase their level of investment and risk as they gain greater experience with the overseas market in question(Dess et al. 2007).

Figure 5 show a wide variety of market entry modes form a continuum that ranges from exporting (low investment and risk, low control) to a wholly Foreign-Owned Enterprises (high investment and risk, high control). However, the progression of the indicated path is not unique. Many firms create their own ideal entry modes, for example, the market entry of Haagen-Dazs, the ice-cream and frozen yogurt company. The company uses a three-step process. First, it uses high-end retailers to introduce the brand. Next, it finds high-traffic areas to build company-owned stores. The last step is to sell Haagen-Dazs products in convenience stores and supermarkets(Dess et al. 2007). Since ice-cream and yogurt are in the category of dairy products, the above mentioned example has some implication for this research.

In following paragraphs, the different types of market entry mode and their general advantages and disadvantages for market development are reviewed.

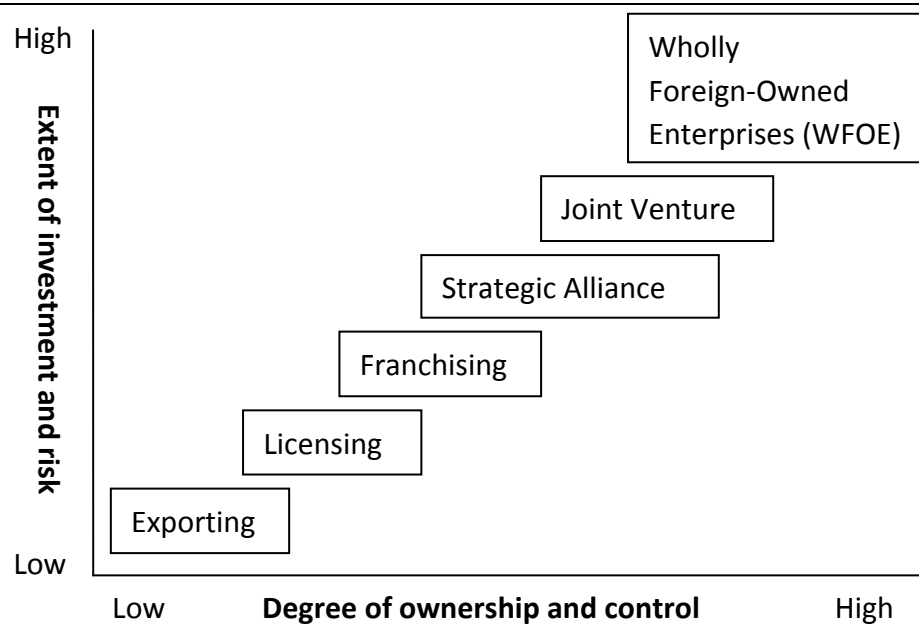


Figure 4 Progression of market entry mode (Dess et al. 2007)

2.3.1 Exporting

Exporting is an important source of revenues for many small and medium-sized companies. It is the practice of sending or carrying product to a foreign country for trade or sale. Generally, exporting is considered as a good entry mode for small firms who are lack of information and experience for foreign market. Firms that strongly value learning from international experience are more likely to continue exporting even when initial financial returns are disappointing (Burpitt WJ and Rondinelli DA 2000). However, many host countries dislike this entry mode because it provides less employment than other modes of entry (Dess et al. 2007). There are two types of exporting, the direct exporting and indirect exporting. In following paragraphs, the characteristics of these two types are reviewed in detail.

Direct and indirect exporting

Direct exporting generally require greater initial outlays of funds, personnel, other resources, and they are generally regarded as riskier in nature than indirect exporting options. But direct exporting can also be a tremendously profitable practice. It basically requires businesses to find a foreign buyer for its products and make all arrangements to deliver those goods to the buyer. There are four primary methods of direct exporting (Hillstrom and Hillstrom 2002):

- **Agent/distributors**: a commonly utilized method of direct exporting is to turn to agent/distributors, which purchase goods and re-sell them for profit in international markets. The agent could be the manufacturer in the target country. It as simple salesman has no title on the manufacturer's product and has limited functions. The distributor is an independent company who sales the manufacturer's goods as the agent. By Contrast, it takes title of the products and has more functions (Root 1994)



- **Foreign branch:** some businesses, though, choose to sell their goods directly to foreign retailers. Firms that employ this kind of direct exporting hire sales representatives to work in the target market. Normally, they own operating unit in the target country, which also has more control over the channel. On the other hand, the requiring of higher commitment, resource and equity investment in marketing institution located in the target country (Root 1994).
- **E-business:** another approach of foreign branch is to introduce the company and their products to retailers via direct mail campaigns or the Internet. It is less expensive, for it eliminates commission fees and travel expenses associated with maintaining a sales force, but it also curtails opportunities to engage in one-on-one communication with potentially valuable clients.
- **End-users:** exporting product line directly to the end-user is considered as simplest approach. End-users that may make purchases in this manner range from foreign governments and major businesses to individual consumers.

By contrast, indirect exporting is considered to enter international markets by using the intermediaries. Export intermediaries include commissioned agents, export management companies (EMCs), export trading companies (ETCs), ETC cooperatives, and foreign trading companies who are located in the export's local country. This means the manufacturer doesn't need detailed information for the entry market, however, the control power are limited.

Advantage and disadvantage

The approach of exporting has its advantages. After all, firms start from scratch in sales and distribution when they enter new markets. Because many foreign markets are nationally regulated and dominated by networks of local intermediaries, firms need to partner with local distributors benefit from their valuable expertise and knowledge of their own market.

In addition to the need to partner with local firms, multinationals often want to minimize their own risk. They do this by hiring local distributors and investing very little in the undertaking. In essence, the firm gives up control of strategic marketing decisions to local partners much more than they would be willing to give up in their home market.

As expected, exporting is a relatively inexpensive way to enter foreign markets. However, it can still have significant downsides. In the vast majority of the cases, the distributors were bought (to increase control) by the multinational firm or fired. In contrast, successful distributors shared two common characteristics:

1. They carried product lines that complemented, rather than competed with, the multinational's products
2. They behaved as if they were business partner with the multinationals. They shared market information with the corporations, they initiated projects with distributors in neighboring countries, and they suggested initiative in their own or nearby markets



In one words, it is importance to develop collaborative and win-win relationships.

2.3.2 Licensing/franchising

To ensure more control over operations without incurring significant risks, many firms have used licensing/franchising as a mode of entry.

Licensing

Licensing as a entry mode enables a company to revive a royalty or fee in exchange for the right to use its trademark, patent, trade secret, or other valuable item of intellectual property(Dess et al. 2007). It is commonly used in science-based industries.

Compare to exporting, licensing have several advantages, for example, less limits on trade barriers and more competitive power. Licensor underwrite its research and development costs, increase its visibility as well as that of its products, spread its marketing costs across more items, and add volume to its manufacturing operations. In many cases, the country also benefits from the product being manufactured locally. For example, Yoplait yogurt is licensed by General Mills from Sodima, a French cooperative, for sale in the United States(Dess et al. 2007).

However, the loss of the control power and the less income could be the drawbacks. For example, the licensor gives up control of its product and forgoes potential revenues and profits. Furthermore, the licensee may eventually become so familiar with the patent and trade secret that it may become a competitor; that is, the licensee may make some modifications to the product and manufacture and sell it independently of the licensor without having to pay a royalty fee. Additionally, if the licensee selected by the multinational firm turns out to be a poor choice, the brand name and reputation of the product may be tarnished.

Normally, the licensing agreement gives licensee exclusive right to use the licensed technology or trademark in the target market. Therefore, the licensor can not use an alternative entry mode over the agreement. On the other side, licensor can transfer the arrangement into a strategic alliance based on the performance.

Franchising

Although licensing/franchising are both form of contractual arrangements, franchise contract generally include a broader range of factors in an operation and have a longer time period during which the agreement is in effect(Dess et al. 2007). For example, Dairy Queen, who has stores are independently owned and operated franchises.

The franchiser may receive some percentage of total sales in exchange for furnishing equipment, buildings, management know-how, and market research. The franchisee supplies lab or and capital, operates the franchised business and agrees to abide by the provisions of the franchise agreement(Dess et al. 2007).

Franchising has advantage of limiting the risk exposure that a firm has in overseas markets while expanding the revenue base of the parent company. On the



other side, multinational firm receives only a portion of the revenues, in the form of franchise fees, instead of the entire revenue, as would be the case if the firm set up the operation itself through direct investment(Dess et al. 2007).

Franchising differ from licensing manly in a great emphasis on control power which in another word more flexible on franchisee' operations. It is often used as transitional entry mode of new target market. Same with licensing, the franchising can also transfer the arrangement into a strategic alliance or wholly Foreign-Owned Enterprises based on the performance(Hillstrom and Hillstrom 2002).

2.3.3 Strategic alliances/joint ventures

Joint ventures and strategic alliances have become in recent years an increasingly popular way for firms to enter and succeed in foreign markets. These two forms of partnership differ in that joint ventures entail the creation of a third-part legal, whereas strategic alliances do not. In addition, strategic alliances generally focus on initiatives that are smaller in scope than joint ventures(Dess et al. 2007).

A strategic alliance is where two or more organizations share resource and activities to pursue a strategy. This kind of joint development of new strategies has become increasingly popular. This is because organization can not always cope with increasingly complex environments (such as globalization) from internal resources and competences alone). Alliances vary considerably in their complexity, from simple two-partner alliances co-producing a product to one with multiple partners providing complex product and solutions.

Joint ventures are arrangement where organizations remain independent but set up a newly created organization jointly owned by the parents. Local firms provide labor and entry to markets; the foreign companies provide technology, management expertise and finance.

All these strategies have been effective in helping firms increase revenues and reduce the cost as well as enhance learning and diffuse technologies. These partnerships enable firms to share the risk as well as the potential revenues and profits. Also by gaining exposure to new sources of knowledge and technologies, such partnerships can help firms' development core competencies that can lead to competitive advantages in the marketplace. Finally, entering into partnerships with host country firms can provide very useful information on local market tastes, competitive conditions, legal matters, and culture nuances. Especially, the joint venture often is a favored means of collaborative ventures in China.

Despite the potential benefits, managers must be aware of the risks associated with strategic alliances/joint ventures and how they can be minimized. First, there needs to be a clearly defined strategy that is strongly supported by the organizations that are party to partnership. Otherwise, the firms may work are cross purpose and not achieve any of their goals. Second and closely allied to the first issue, there must be a clear understanding of capabilities and resources that will be central to the



partnership. Without such clarification, there will be fewer opportunities for learning and developing competences that could lead to competitive advantages. Third, trust is a vital element. Fourth, cultural issues that can potentially lead to conflict and dysfunctional behaviors need to be addressed.

2.3.4 Wholly Foreign-Owned Enterprises (WFOE)

The characteristics of wholly Foreign-Owned Enterprises (WFOE) are full ownership and control, by foreign companies, of product units in the target country. By the target of the investment, the Mergers and acquisitions and the 'Greenfield investment' are the major two approaches (Johnson et al. 2005). Establishing a wholly owned subsidiary is the most expensive and risky of various entry modes. However, as expected, it can also yield the highest returns. In addition, it provides the multinational company with the degree of control of all activities, including manufacturing, marketing, distribution, and technology development (Dess et al. 2007).

Mergers and acquisitions

The primary type of WFOE is mergers and acquisitions, which transfers of existing assets from local firms to foreign firms. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company (Hillstrom and Hillstrom 2002).

Greenfield investments

The Greenfield investment means to establish the wholly owned company in new company in foreign market. It is the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace.

Advantages and disadvantage

Wholly Foreign-Owned Enterprises are most appropriate where a firm already has the appropriate knowledge and capabilities that it can leverage rather easily through multiple locations in many countries. Examples range from restaurants to semiconductor. In establishing wholly owned subsidiaries, knowledge can be further leveraged by the hiring of managers and professionals from the firms' home country, often through hiring talent from competitors.

On the other side, wholly Foreign-Owned Enterprises are typical the most expensive and risky of the various mode for entering international markets. With franchising, joint ventures, or strategic alliances, the risky is shared with the firm's partners. With wholly Foreign-Owned Enterprises, the entire risk is assumed by the parent company. However, the risks associated with doing business in a new country (e.g., political, cultural, and legal) can be lessened by hiring local talent.



2.3.5 Factors influencing the market entry mode

Overview

An entry mode is an institutional arrangement that a firm use to market their product in a foreign market in the first three to five years. This is also seen as the time it usually takes from a firm to fully enter a foreign market(Root 1994). The choice of market entry mode in foreign market can affect rather the firm goes successfully or not(Aman 2008). Therefore, to understand the factors which could influence the choice is an essential part of this research. There are variety factors influencing the choice of market entry mode, many literatures explained from different perspective. The most popular approach is to divide the factors into external perspective and internal perspective. In following paragraphs, the literature reviews of the factors are discussed on the basis from these two perspectives.

External factors

According to the previous literature review, the market analysis can be concluded as the consideration of the external factors for company. Since it cover the external environment at industry level and market level. In addition, cultural and political environment are also considered as important external factors. In following paragraphs, all the external factors are explained in depth. The specific definition are all cited from (Hollensen 2004; Koch 2001; Root 1994).

Target country market factor

Target country market factor is a generalized scope. It not only includes the factors at industry level such as size and growth rate, but also includes the factors at market level such as competitive structure. The detail descriptions of these factors are introduced in the follows.

The size of target country market has significant influence on the entry mode. Where there is small markets that have low break even sales volumes (indirect and agent/distributor exporting, licensing and some contractual arrangements). On the opposite there are markets with high sales potentials fit with entry modes which have high break even sales volumes (branch, subsidiary, exporting and equity investment in local production).

The market growth rate is also very crucial. When a market have a high growth rate and if this rate does not seem to be consistent for several years, the company have to take the opportunity as quick as possible and use indirect or direct exporting. If demand in market overseas is expected to be very large but only in some years setting up an own manufacturing/marketing subsidiaries may be a proper way(Koch 2001).

Another factor regarding the target market is competitive structure, open free markets (atomistic) with several none dominant competitors to oligopolistic where there is few dominant parties and monopolistic where there is only one dominant part. Atomistic markets seems to be encouraging for choosing exports as an entry mode compared to both oligopolistic and monopolistic markets, because these



markets demands entry through equity investment in production to be able to compete against dominant companies. In countries where the competition is seen as too strong for choosing equity and export modes companies can instead start to work with contractual modes such as licensing.

The last factor of the target market is the quality and accessibility of the local marketing infrastructure. When for example skilled local agents and distributors are cooperating with other firms or if they do not exist at all, then the exporting company has to reach the market through a branch or subsidiary as an entry mode.

Target country production factor

The definition of the production factor is very broad. It consist the different factors across the whole production procedure. The production factors such as quality, quantity and cost of raw materials, labor, energy and production factors in the targeted country, and quality, cost of the economic infrastructure (transportation, communications, port facilities etc) often have critical influence on market entry mode.

Target country environmental factor

Environmental factor such as the economical, political and socio cultural of the targeted country often affect the market entry mode significantly.

The most important factor can be considered as government policies and regulations. Defensive import regulations could be seen in form of high tariffs and strictly regulated quotas, these regulations complicates an export entry mode, and forces the companies to evaluate and find other entry alternatives(Root 1994).

In some countries, several entry modes according to law are forbidden. Such entry modes could be fully owned subsidiaries, as well as international joint ventures. This way of leaving out some entry modes often include selected industries that the country has strategic interests in. There are also entry modes such as licensing, that could risk to expose the companies know how, and especially when the countries are not a follower of international conventions related to this issue. Some countries use barriers: restrictive labor regulation, cost of labor, insufficient level of skill, and this may frighten a company to set up a subsidiary or a joint venture operation in the foreign market.

In a contrast, many countries that favor to invest in foreign subsidiaries, through taxation treatment. And this leads to save the company money on paying custom duties. Due to the facts that different entry modes have particular risks and costs that they have different sales potential, some modes are more appropriate than others in a given situation(Koch 2001).

Many countries confirm that there is a great popularity for specific entry mode in specific industry. The new potential entrant's choice of entry mode will be affected by the experience, degree of success of the previous entrants and the expected product market situation. When there is a positive experience in a specific entry mode and when there also is an expectation on increased demand and there is a



stable business environment it often encourages the most popular entry mode over there. However, companies that have positive experiences in other entry modes and other markets may be curious trying an alternative to the entry mode common in the new market, if that would improve strategy match(Koch 2001).

Geographical distance is also an environmental factor that affects market entry mode. When the geographical distance is very long, costs of transportation becomes an obstacle when trying to compete against local competitors. The high transportation costs make it harder to enter the foreign market through exporting. An alternative way for exporting company is to start up an assembly operation in the targeted country and that is a smooth change to the investment entry mode.

Target country economy is another environmental factor that often affects the market entry mode as well, for instance, the scale of economy, absolute level of performance and the relative importance of economic sectors. Especially, the economic sector is related with the market size for the company in the target country.

The last environmental factor is cultural. The cultural difference often very large, for instance, values language, social structure and ways of life differ between the target country and the home country. This makes international managers to ignore the target country and their capacity to manage production operations there(Root 1994). Socio cultural distance between a firm's home and foreign country creates uncertainties for the firm which led to influences on the market entry mode. When the cultural distance is very far between two countries, most probably a company often avoid to use to use entry modes such as direct investment and joint ventures. These entry modes make it very hard for a company to exit the foreign market, if they would face any problems regarding the cultural distance. Finally when the cultural gap between countries is large firms often try to use entry modes with low resource commitment and high flexibility(Hollensen 2004).

Internal Factors

A successful market entry mode also depends on the companies internal factors. In following paragraphs, the major internal factors are reviewed in detail. The specific definitions are all cited from(Hollensen 2004; Koch 2001; Root 1994).

Product factor

Highly differentiated products with clear advantages compared to competitors' products give the seller a very clear limitation when it comes to price setting. Highly differentiated products can demand high transportation costs and high import taxes and still remain competitive. Seen from another perspective, the standardized products that are not differentiated have to compete on the price they can provide for the customer. That sometimes could only be possible through some sort of local production. Thus highly differentiated products are preferred to enter China's dairy market through exports and low differentiated products forces the firm to local manufacturing, contract manufacturing, or equity investment.



Manufactured products that need pre and post purchase services often appear harder to for a firm to market from a far distance. Usually when providing product services the company needs to be close to the customer, and service intensive manufactured products are towards branches or subsidiary exporting and local production modes of entry.

Technology intensive products give the firm an opportunity to license its technology in the foreign target country instead of using other entry modes. Due to the fact that technology intensity in many cases is higher for industrial products, the companies are more encouraged to apply licensing arrangements than consumer products companies.

The products that need a high level of adaptation when going to be marketed abroad prefer the entry mode that permits a company to have a close distance to the foreign markets. For instance, the market entry mode of subsidiaries or branches, exporting and local production are all suitable alternatives.

Resource commitment factor

When a company has a large amount of resources in management, capital, technology production skills and marketing skills, they often have more entry mode alternatives. And reversely, a company with few resources is limited to use only the entry mode that demands low levels of resource commitment. Resource commitment often affect market entry mode but do not determine the mode directly. Resource commitment combined with a willingness to dedicate them to foreign market development often affects the market entry mode. When there is high commitment, means that managers are going to select market entry mode, from a broader spectrum of alternatives than managers with low commitment. High commitment companies are, for instance no matter what sizes, more often going to choose equity entry modes(Koch 2001).

International experience

International experience is another internal factor that often affects the market entry mode. It is a factor that explains the level of a firm has been active in operating internationally, and is achieved through operating in a specific foreign country or in abroad in the international environment. International experience makes the costs and uncertainty lower when working in a foreign market as well as creates a higher level of likelihood for committing resources to foreign markets. A firm's immediate experience in the international marketplace increases the probability of dedicating extra resources to foreign markets(Hollensen 2004).

2.3.6 Summary

The key entry mode types are: exporting, licensing/franchising, strategic alliances, joint ventures and wholly Foreign-Owned Enterprises(WFOE) which may involve the acquisition of established companies and 'Greenfield' investments, the development



of facilities ‘from scratch’ (Johnson et al. 2005). In Table 4 the advantages and disadvantages of these modes are described in detail.

The market entry mode of a foreign market often affect rather a firm goes successfully or not(Aman 2008). Thus, to understand the factors which could influence the market mode is an essential part of this research.

According to the research background, the foreign company who wants to enter China’s dairy market is a generalized definition (Par 1.1). Therefore, the emphasis on external factors is the main focus in this research.

The most important external factors are all contained by the concept of market analysis, for instance, industry life cycle explains the target country market factors, strategic group and market segments describes other market factors.

According to the research framework, the market entry modes for China’ urban dairy market and the factors which influence the modes are reviewed in the next chapter (Par3.3).

Table 4 Market entry modes: advantages and disadvantages (Johnson et al. 2005)

Market entry modes	Advantages	Disadvantages
Exporting <ul style="list-style-type: none"> • Direct exporting • Indirect exporting 	<ul style="list-style-type: none"> • No operational facilities needed in the host country • Economies of scale can be exploited • By using internet small/inexperienced firms can gain to international markets 	<ul style="list-style-type: none"> • Does not allow the firm to benefit from the location advantages of host nation • Limits opportunities to gain knowledge of local markets and competitors • May create dependence on export intermediaries • Exposure to trade barriers such as important duties • Incurs transportation costs • May limit the ability to respond quickly to customer demands
Licensing Franchising	<ul style="list-style-type: none"> • Contractually agreed income through sale of product and marketing tights • Limits economic and financial exposure 	<ul style="list-style-type: none"> • Difficult of identifying appropriate partner and agreeing contractual terms • Loss of competitive advantage through imitation • Limits benefits from the location advantages of host nation
Strategic Alliances Joint ventures	<ul style="list-style-type: none"> • Investment risk shared with partner • Combining of complementary resource and know-how • May be a governmental condition 	<ul style="list-style-type: none"> • Difficulty of indentifying appropriate partner and agreeing appropriate contractual terms • Managing the relations with the foreign partner



	<p>for market entry</p>	<ul style="list-style-type: none"> • Loss of competitive advantage through imitation • Limits ability to integrate and coordinate activities across national boundaries
<p>wholly Foreign-Owned Enterprises (WFOE)</p> <ul style="list-style-type: none"> • Acquisition • ‘Greenfield’ 	<ul style="list-style-type: none"> • Full control of resources and capabilities • Facilitates integration and coordination of activities across national boundaries • Acquisition allow rapid market entry • Greenfield investments allow development of state of the art facilities and can attract financial support from the host government 	<ul style="list-style-type: none"> • Substantial investment in and commitment to host country leading to economic and financial exposure • Acquisition may lead to problem of integration and coordination • Greenfield entry time-consuming and less predictable in terms of cost

2.4 Conclusions

Based on the literature review of market analysis and market entry mode, the sub question 1 is answered by the conclusion of this chapter.

SQ 1: What are the critical strategic management characteristics of market analysis and market entry mode?

In following paragraphs, these characteristic are described in detail.

2.4.1 Critical characteristics of market analysis

The critical characteristic of market analysis can be divided into two levels, the industry level and market level.

With respect to industry level, the industry life cycle concept is reviewed. The important reason to consider the industry life cycle is the emphasis on various generic strategies, functional areas, value-creating activities, and overall objectives varies over the course of an industry life cycle. By considering these factors, one given industry can be assessed at a macro level. Based on the research background, in the past decade, China’s dairy industry has changed dramatically in production techniques and production scales (Par.1.1). In Chapter 3, the literature of current China’s dairy industry is reviewed in detail by considering the factors of industry life cycle.

With respect to market level, the concepts of strategic group analysis and market segmentation are used to describe the specific background information of a certain market. They are both crucial external factors which influencing the market entry



mode (Par.2.3). In this research, the strategic groups are studied from two perspectives: the scope of organization's activities and the resource commitment. Strategic grouping often assists to chart the future directions of firms' strategies, and it is also useful in thinking through the implication of each industry trend for the strategic group as a whole. On the basis of this statement, the strategic groups in China's dairy market are reviewed in Chapter 3.

The concept of market segmentation is used to investigate the different consumer needs in a certain market. In practice, there are three major factors to determine it: the characteristics of people, the purchase/use situation and the users' need/preferences for product characteristics. According to the research background, the dynamic of consumer demand and the emerging of the younger generation are considered as a major trend of China's dairy market. Therefore, the segmentation on the basis of buyer behavior or purchase value is the major focus in this research. In next chapter, the market segments of China's urban dairy market are reviewed regarding to the factor (Par. 3.2).

2.4.2 Critical characteristics of market entry mode

Many literatures have proved that the entry and exit decisions of rival firms over the introduction, growing, mature, and decline phases in the industry life cycle have strong relations with market development. Market entry mode often has a crucial influence on the new market development in future. The four major types of market entry mode are reviewed in this research.

Exporting

Exporting is an important source of revenues for many small and medium-sized companies. It is the practice of sending or carrying product to a foreign country for trade or sale. There are two types of exporting, the direct exporting and indirect exporting.

Direct exporting practices generally require greater initial outlays of funds, personnel, and other resources, and they are generally regarded as riskier in nature than indirect exporting options. It can be classified in Agent/Distributors, Foreign subsidiary, E-business and End-users.

By contrast, indirect exporting is considered to enter international market by using the intermediaries. This means the manufacturer doesn't need detailed information for the entry market, however, the control power are limited.

The advantages of this approach are the low risk and low investment input, on the other side, the less ownership and control are the drawbacks. In one words, the key point to success in exporting is to develop the collaborative and win-win relationships.

Licensing/franchising

To ensure more control over operations without incurring significant risks, many firms have used licensing/franchising as market entry mode. Licensing as an entry



mode enables a company to revive a royalty or fee in exchange for the right to use its trademark, patent, trade secret, or other valuable item of intellectual property. It is commonly used in science-based industries. Although licensing/franchising are both forms of contractual arrangements, franchise contracts generally include a broader range of factors in an operation and have a longer time period during which the agreement is in effect

Licensing/franchising, have several advantages. The typical one is limiting the risk exposure that a firm has in overseas markets while expanding the revenue base of the parent company, for example, fewer limits on trade barriers and more competitive power. On the other side, the multinational firm receives only a portion of the revenues.

Joint ventures/strategic alliances

These two forms of partnership differ in that joint ventures entail the creation of a third-part legal, whereas strategic alliances do not. In addition, strategic alliances generally focus on initiatives that are smaller in scope than joint ventures(Dess et al. 2007).

A strategic alliance is where two or more organizations share resource and activities to pursue a strategy. Alliances vary considerably in their complexity, from simple two-partner alliances co-producing a product to one with multiple partners providing complex product and solutions.

Joint venture is arrangement where organizations remain independent but set up a newly created organization jointly owned by the parents. Local firms provide labor and entry to markets; the foreign companies provide technology, management expertise and finance.

As the most important advantage, all these strategies have been effective to assist firms increase revenues and reduce the cost as well as enhance learning and diffuse technologies. These partnerships enable firms to share the risk as well as the potential revenues and profits.

Despite the potential benefits, managers must be aware of the risks associated with strategic alliances/joint ventures and how they can be minimized, for example, the clearly defined strategy, the clear understanding of capabilities and resources, the trust and cultural issues.

Wholly Foreign-Owned Enterprises (WFOE)

The characteristics of wholly Foreign-Owned Enterprises (WFOE) are full ownership and control, by foreign companies, of product units in the target country. By the target of investment, the mergers and acquisitions and the 'Greenfield investment' are the major two approaches(Johnson et al. 2005).

The primary type of WFOE is mergers and acquisitions, which transfers of existing assets from local firms to foreign firm. The 'Greenfield investment' means to establish the wholly owned new company in the foreign market.



Establishing a wholly owned subsidiary is the most expensive and risky of the various entry modes. However, as expected, it can also yield the highest returns. In addition, it provides the multinational company with the degree of control of all activities, including manufacturing, marketing, distribution, and technology development (Dess et al. 2007).

Wholly Foreign-Owned Enterprises are most appropriate where a firm already has the appropriate knowledge and capabilities that it can leverage rather easily through multiple locations in many countries.

Factors influencing the market entry mode

The choice of market entry mode for foreign market can affect rather the firm goes successfully or not (Aman 2008). Therefore, to understand the factors which could influence the modes is an essential part of this research. The most popular approach is to divide the factors into external perspective and internal perspective.

The external perspective can be divided into three parts. Firstly, the target country market factors which including market size, market growth rate, competitive structure and marketing accessibility. Secondly, the target country production factors which including, quality, quantity and cost of raw materials, labor, energy and production factors in the targeted country. And finally, the target country environmental factors which including economical, political and socio cultural of the targeted country. On the other hand, the internal factors can be divided into three parts as well. The product factors, resource commitment factors and international experience.

Based on the research background and research objective, the external factors are the primary focus in this research. The most important external factors are all contained by the concept of market analysis, for instance, industry life cycle explains the target country market factors, while strategic group analysis and market segmentation describes the other market factors.

In one word, there is no best market entry mode for a specific product-market-combination, the advantages and disadvantages could often be switched in different environment. The choice of market entry mode for a target country is often a result of several conflicting forces (Root 1994). To close this literature review, this chapter gives an in depth explanation of market analysis and market entry mode. As a result, the theoretical background of this research is reviewed. Combined with literature review of China's urban dairy market, the theoretical framework of this research is formulated in Chapter 4.



Chapter 3 Market analysis and entry mode for China's urban dairy market

The theoretical background on market analysis and market entry mode has reviewed in Chapter 2. In this chapter, these two concepts are reviewed on the basis of China's urban dairy market. The specific characteristics which mentioned in sub question 2 will answered in the end of this chapter.

SQ 2: What are the specific characteristic of the market analysis and market entry mode for China's urban dairy market?

The conclusions of this chapter combined with the conclusion of Chapter2 are the theoretical background to formulate theoretical framework of this research. In Chapter 4, this theoretical framework and research methodology will be described in detail.

In order to answer the sub question, the structure of this chapter is in line with the structure of Chapter 2. In Figure 5 the structure of this chapter are illustrated.

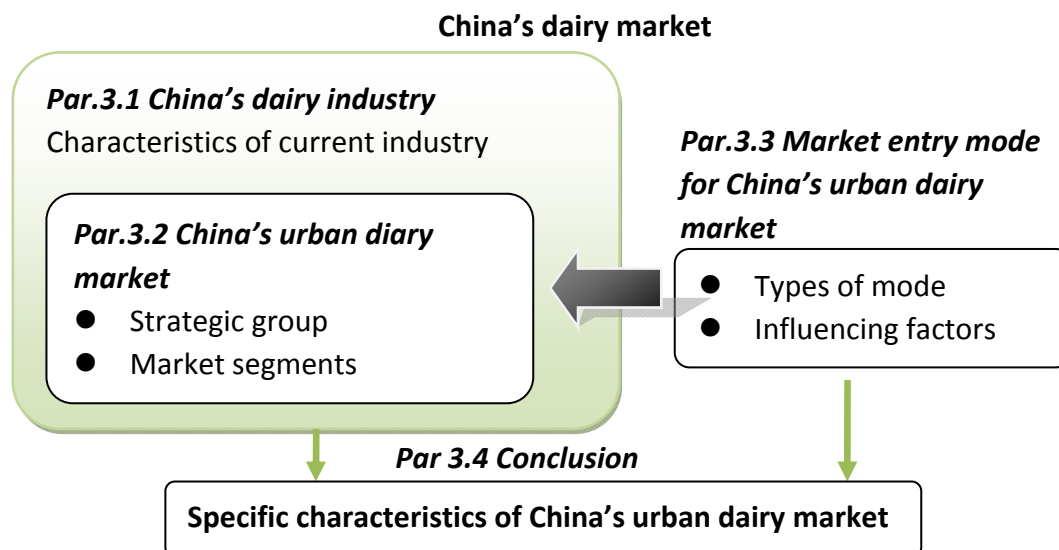


Figure 5 Structure of literature review in Chapter 3

In Par.3.1 and Par.3.2, the literature review on current China's dairy industry and the dairy market in urban areas are reviewed on the basis of the critical characteristics which are defined in Chapter 2. Then in Par.3.3, the market entry mode and the influencing factors for China's dairy market are studied in detail. In the end of this chapter, the specific characteristics of the market analysis and market entry mode for China's urban dairy market are summarized in Par.3.4.



3.1 China's dairy industry

According to the research background, China's dairy industry has changed dramatically in production techniques and production scales (Par.1.1). On the other side, China has witnessed tremendous growth in demand for dairy products in the past few years due to a rapid rise of income, changes in urban lifestyles, promotion of the dairy industry by the government, and improved marketing channels (Simpson 2006). By applying the concept of industry life cycle, the following factors are the starting point of this part. The factors to determine the stage of industry life cycle are generic strategies, market growth rate, number of segments, intensity of competition, emphasis on process design, major functional area of concern and overall objective. In following paragraphs, these factors of China's dairy industry are reviewed in order.

3.1.1 Factors to determine the dairy industry

Generic strategies

While the rapid growth in China's dairy industry, a number of recent papers have addressed many different strategies are implemented by the dairy companies. These strategies are in the range of overall cost and differentiation. In following paragraphs, the generic strategies of recent China's dairy market are reviewed.

In past four years (2004-2008), China's dairy industry has experienced many changes, for instance, the price fluctuating of raw milk over the country, the upgrade of dairy products from both techniques and quality perspective, the Olympia effects on dairy demand, and the market integration which started by the market leaders. In the end of 2007, the emphasis of China's dairy industry has transferred from price lead to product lead (ChinaFood 2007). With the increase of raw milk costs, the margin of the traditional dairy product has been reduced. At the same time, the production rate of liquid milk has decreased as well; especially the sterilizing milk has the lowest rate. In 2007, the margin of China's dairy industry has decreased 0.5%.

As a result, the market or product differentiation and lowering the overall cost become the most popular approach in the market competition. For instance, Yili as one of the biggest local dairy company has built up one milk powder production factory of international standard in June, 2008. As was reported, the milk powder and ice cream production of Yili has increased around 40% in the end of 2007 (CIEN (China Industry Economic News)). In response, many small local dairy companies have also put their emphasis on product development to stay close with the market trend.

According to the concept of industry life cycle, the generic strategies which implemented by China's dairy companies coincide with the generic strategies in growth stage and maturity stage.



Market growth rate

The market growth rate of China's dairy industry has rapidly increased in the past decade. Many has claimed that high rate of growth would continue in the coming years. In following paragraphs, the market growth rate of China's dairy industry is reviewed in detail.

China's dairy production was only about 1 million tons per year in 1980. During the following 15 years, output increased steadily, by about 14 percent annually. However, because China was starting from such a low base, total dairy production was only 6 to 7 million tons by the mid-1990s, a level that placed China about 20th in overall milk production internationally. As showed in Figure 6, there has been a clear structural break in dairy production in year 1997. Between 1997 and 2003, the growth of dairy production accelerated to nearly 20 percent annually. Aggregate production rose to more than 18 million tons in 2003, a level that rank China seventh in the world in cow milk production and eighth in total milk production. Fluid milk includes pasteurize milk, sterilize milk and yoghurt and total consumption includes industry use. Unlike some other Asian countries, almost all of China's milk production was produced by milk cows during this period(Fuller and Hu 2005).

In the earlier 2005, China's total production of milk is projected by FAPRI (Food and Agricultural Policy Research Institute) to be 29.1 million tons in 2014 while total consumption is 31.9 million tons. In fact the actual production had already beyond the prediction in 2005. As consequence, the proportion of net imports has been continually declining, and is substantially lower than in previous years. While daily milk requirements can easily be met, and from a technical standpoint China could produce all of its milk products, China will likely continue to be an importer of some processed products. Such as, specialized cheeses and whey protein(Miller and Blayney 2006). In spite of this minor import China has a comparative advantage in milk production in a short term and even long term. According to the recent article that published after milk crisis in China, China's dairy industry is still expanding very rapidly to meet the demands of the rapidly changing dietary requirements of its huge population. However, local production will continue to increase but not at the same pace as demand, so import of milk products will continue(Lior 2008). As a result, the prediction of cow milk production after milk crisis in China can be integrated into the figure.

However, the development of current China's dairy industry is imbalance. The production of liquid milk, yogurt like product and milk powder have occupied more than 80% of the total dairy production which is not comparable with 30-40% in developed dairy market.

All in one, the market growth rate can be considered as very high in China's dairy industry. By applying the concept of industry life cycle, the market growth of the current China's dairy market is in the growth stage.

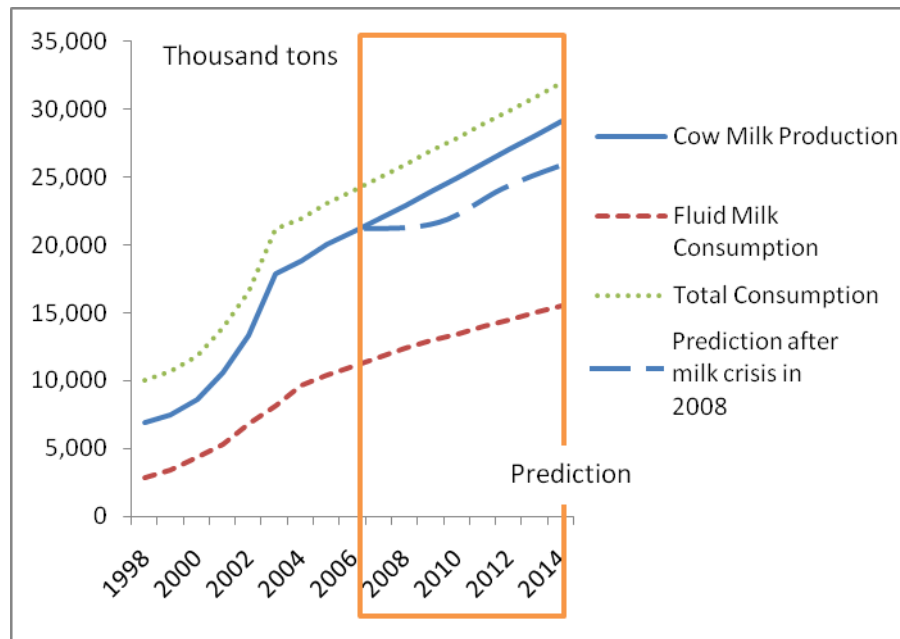


Figure 6 Cow milk production, fluid milk consumption of China 1998–2014(prediction) and cow milk production after milk crisis in 2008 (Lior 2008)(FAPRI 2005) and (Simpson 2006)

Number of segments

Different market segments have emerged in current China's dairy market. China's dairy companies used to emphasize the bulk production quantity in market competition and ignore the consumer demand. However, in recent years, more and more companies have realized that to meet the consumer demand in different segments are crucial for the future development. Therefore, many companies have explored new segments in China's dairy market. In following paragraphs, the traditional market segments and the newly emerged segments are reviewed briefly. The detailed type of market segments are described in Par3.2, the market analysis at market level.

Dairy products to China can be divided into five types based on their product characteristics, which is including liquid milk, yogurt like product, milk powder, ice-cream, cheese and butter. As mentioned above, the liquid milk, yogurt like product and milk powder has occupied the biggest portion in the total amount. In 2006, the production of liquid milk, yogurt like product and milk powder have taken 98% of total dairy production(CDIA 2006). In response, many dairy companies have tried to explore the new market segment to achieve a better development. For example, the functional dairy products for specific group, the advanced dairy products for people who asking for different taste, and the basic dairy product with extreme good quality for people who demanding the best quality.

In a conclusion, the number of market segments are growing rapidly, by considering the concept of industry life cycle, the factor of market segments indicates the stage of China's dairy industry are moving from growth to maturity.



Intensity of competition

Market concentration is a concept to identify the market competition and the monopolization of one industry from economic perspective. The report of *Analysis of industry structure of China's dairy industry* by Deng (2006) has described the competition in China's dairy market based on the concept of market concentration shows the market concentration of China's dairy market between 2000- 2003. According to the concept of market concentration, China's dairy industry is moving to oligopoly in a slow rate and the concentration of China's dairy industry are relative low. It is can be conclude that the competition of current China's dairy market are very intense(Deng 2006). In following paragraphs, the findings of Deng, and the market competition of current China's dairy market are reviewed.

While the growing of China's dairy industry, the market competition are getting intense. The small and medium enterprises (SMEs) can be still considered as rivalries. The merging of dairy companies has taken place cross the country. In year 2002, the large scale merging has happened 30 times. On the other hand, the regional monopolize still remain in some part of China due to the limit of distribution channels. In year 2003, Sanyuan as a local Beijing Company had the market share in Beijing region of 92.6% and Guangming as a local Shanghai company had the market share of 87.1% in Shanghai region. Nevertheless, the progress of oligopoly is continuing(Deng 2006).

On the other hand, companies who are original not from dairy industry have also joined China's dairy business. Most of these companies are the market leaders in other industry, for instance, Tinghsin from Taiwan, who has one market leader brand Kangshifu in instant food industry has just developed dairy brand named Weiquan to compete the profits in China's dairy (Tinghsin 2008). Based on the huge capital commitment in other industries, these companies enhanced the market competition in dairy market very fast. At the same time, foreign enterprises have applied different strategies to expend their business. For instance, merger and acquisition in the dairy market happened more often in recent years. In year 2004, Nestlé has merged one local dairy company in Inner Mongolia, in year 2007 Nestlé has step up another manufactory in the same place to compete for the best milk source in China(ChinaDairy 2007).

As a result, the competition in China's dairy market spread to all participators. As was predicted, by the year of 2010 more than half of the enterprises will be eliminated by rampant competition(CDIA 2006).

Based on the generic strategies, the differentiation concept drives the company to compete in different approach. For example, the competition of product development can be considered as the competition of technology. Because the consumers are no longer satisfied with flavor adding or color changing of the dairy product. As was mentioned, to purchase high quality multifunctional products are becoming the trend in coming years.



Another approach is to push new promotions on media and market. In china, the advertisement and market promotion have great effects on product and market differentiation. Thus, the competition of advertising are extremely intense in current China's dairy market(Deng 2006). Table 5 shows the cost of advertising from January to October in 2003 of China's dairy companies.

Table 5 Cost of advertising from January to October in 2003 of China's dairy companies

Company	Cost of advertising (10Million RMB)	Percentage of total sales %
Yi Li	4.27	8.7
Mengniu	3.74	8.9
Wahaha	2.41	9.0
San Lu	2.31	5.4
Guangming	2.17	5.5
Wandashan	1.08	10.0

In a conclusion the competition of China's dairy market are very intense, by applying the concept of industry life cycle, China's dairy market are positioned in the maturity stage.

Other factors

According to the fact of market competition and generics strategies which are involved in China's dairy market, the companies have still put a lot of emphasis on process design of dairy product. This is because the innovative product can be developed by advanced process design and the reduction of over all cost the can be reached by optimizing the process design as well. Furthermore, based on the huge proportion of advertising cost, the major functional area of concern are mainly focus on marketing and sales and less on product development. By applying the concept of industry life cycle, the China's dairy market is in the growth stage.

The last factor to determine the industry life cycle is the overall objective. As was mentioned in the research background, companies in China's dairy market have taken different strategies in the intensive market competition to meet consumer demand and to defend the market share. Therefore, a conclusion can be drawn that China's dairy industry have covered both characteristics of growth and maturity stage.

3.1.2 Transition stage of China' dairy industry

In the previous part, the factors to determine the China's dairy industry are reviewed. By applying the concept of industry life cycle, the overview of current China's dairy industry can be concluded. In short, the current China's industry is in a transition stage between growth and maturity. The characteristics of this stage are the China's dairy industry has shared the characteristics of two different stages. In following paragraphs, the market analysis at industry level is described in depth.



Table 6 shows the result of literature review of China's dairy industry. According to the concept of industry life cycle, the current China's dairy industry have shared many characteristics between growth and maturity stage which also has the trend to transit from growth stage to maturity stage. For instance, the differentiation strategy are commonly applied in growth stage and maturity stage, but to compete with overall cost has already been implemented by China's dairy companies; the number of segments are increasing from some to many which also indicate the stage are moving; and finally, the overall objective of current China's dairy companies are practically emphasis on creating consumer demand and at the same time defending the market share which again covered the characteristics of both stages.

All this characteristics can be considered as the dominant model of current China's dairy market. The dominant model is very important to industry evolution because these models generate opportunities to achieve economies of scale and scope (Par. 2.1).

Table 6 Result of literature review of China's dairy industry

Factors	Reality of current China's dairy market	Possible stage of industry life cycle
Generic strategies	Differentiation	Growth, Maturity
Market growth rate	Very high	Growth
Number of segments	Some to many	Growth, Maturity
Intensity of competition	Very intense	Growth, Maturity
Emphasis on process design	High	Growth
Major functional area of concern	Sales and marketing	Growth
Overall objective	Create consumer demand, Defend market share	Growth, Maturity

3.2 China's urban dairy market

The concept of industry life cycle gives general information of China's dairy industry at a macro level. The specific information of China's urban dairy market is another essential element for the research objective. In following paragraphs the concepts of strategic group analysis and market segmentations are used to describe the China's dairy industry at the market level.

3.2.1 Strategic group in China's urban dairy market

Mapping of strategic group can provide insights into the competitive structures of industries, the opportunities and constrains for development (Johnson et al. 2005). According to the literature review in Chapter 2 the characteristics of selecting the strategic group should be chosen by considering the industry and the environment.



Based on the literature review in Par 3.1, the extent of product diversity and the geographical coverage are the most relevant factors to determine the strategic group of current China’s urban dairy market.

Figure 8 provides a strategic grouping of China’s urban dairy market which is based on the above mentioned two factors. The grouping is based on the general information and annual report of the company website. The detailed data can be found in Appendix 1. The companies in each group are representative; not all companies are included in the mapping. There are four groups can be identified in this mapping. In the top left-hand corner are the dairy companies who focus on a very narrow product market. Most of the dairy products produced by the members of this group are selling all over the country. For example, Taizinaï, is a yoghurt drink company who highly focuses on lactic dairy product and has national reputations. Yashili and Weiquan are companies who highly focus on milk powder production and have sales over the country. The players in this market have huge rivalry from the groups who have broad product range and broad cover of sales.

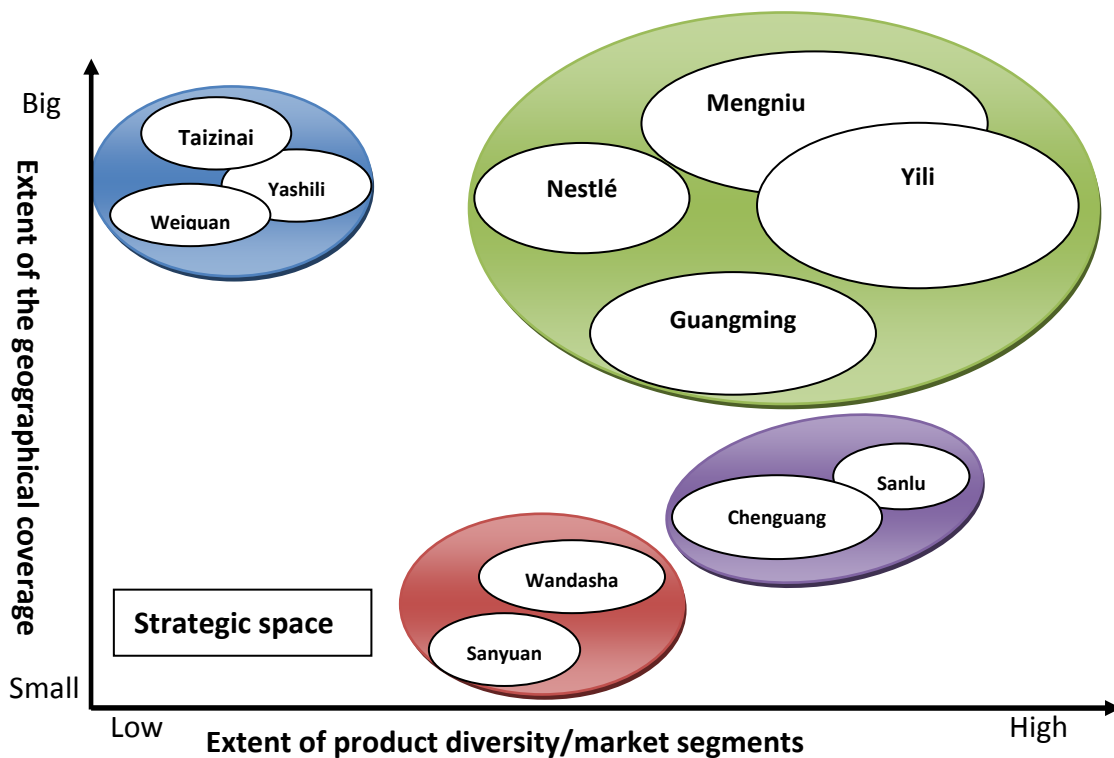


Figure 7 Strategic groups of China’s dairy urban dairy industry

In a contrast, the upper right-hand corner is a strategic group that has high product diversity and targets a wide market. These players, Mengniu, Yili and Nestlé, limit competition from other strategic group by pricing their product very low with relative trustable quality. For example, Mengniu, Yili, Nestlé and Guangming have produced almost all types of dairy products on the China’s urban dairy market, which including liquid milk, yogurt like product, milk powder, ice cream, milk cream and some types processed Cheese.



The third group is in middle right hand side, consists of firms have average in product diversity and smaller in their geographical coverage. For example, Chengguang is a dairy company in south part of China who focus on liquid milk, yogurt like product and milk powder production target on several provinces in southern. Sanlu used to be a famous company of dairy production, nowadays the marketing are mainly focus on the centre part of China. However, the recent dairy crisis in China has changed the fate of the company. The detailed information and effects of this crisis are described and analyzed in the result part (Chapter 6).

The final group at the centre bottom consists of companies that competing with average of product diversity and very small geographical coverage. Take Sanyuan as an example, the company as a local dairy company has raised in Beijing region, the diversity of product and the good reputation of the company have accepted by the local people, which is still difficult for the other strategic group to break through.

As was mentioned, dairy market in China's has been very dynamic and competition has intensified in recent years. The market share of China's dairy industry is briefly indicated by circle size of the company and the strategic group. Since rural consumption can be ignored in this research. The market share of China's dairy industry can be considered as the market share of China's urban dairy market. According to the annul report of Mengniu in 2006, the market share of liquid milk have reached 33.3% by sales. In the end of 2006, the first three dairy companies Mengniu, Yili and Guangming have shared 64.9% market in total(Mengniu 2006).

Within the strategic group, different companies have competed in same product markets, for instance, added value dairy products and high-end products. In the early 2007, Mengniu has first entered high-end product market with Telunsu Milk, Telunsu OMP and Yili has entered as well with Golden milk, Golden organic milk subsequently. All these products have average price on 4 Chinese Yuan per package(200ml) which is much higher than the normal price(ChinaFood 2007). On the side, the companies outside strategic group have extended their product coverage to compete the same market as well. Since 1995,Guangming have built up 25 manufactories over China, sales 70% of the company(ChinaAgricultureInfo 2007). In the middle of 2007, Guangming has introduced high-end dairy product named Zhiyou. And this brings Guangming direct competition with other strategic groups.

As was mentioned in Chapter 2, the strategic grouping can chart the future direction of firms' strategies. In Figure 7, there is a strategic direction showed in lower left-hand corner. In this space, the firms can focus on low product diversity and target relatively narrow range of consumers. For example, one company can produce only cheese products to target western people who lived and worked in urban areas of China.

In a conclusion, the strategic group in China's urban dairy market can be divided into four groups, the group with broad products range and broad coverage of sales, the group with narrow product range but broad coverage of sales, the group with



broad products range but small coverage of sales and the group with average status. According to the industry life cycle, the high product diversity and big sales coverage are the trend for the dairy company in future. Moreover, the strategic space of low product diversity and small coverage could be a new direction for market development.

3.2.2 Market segments in China's urban dairy market

Markets can be segmented in many different ways but this must always related customer need (Johnson et al. 2005). Nevertheless, it is must be very careful about drawing general conclusions for a country as large and diverse as China from several literature. In this research, information of the consumer demands and market segments are gathered from the literature which only focuses on the large cities in China. They are Beijing, Shanghai and Guangzhou. The major resource are *China's Dairy Market: Consumer Demand Survey and Supply Characteristics* (Fuller et al. 2004c), *Urban Demand for Dairy products to China: Evidence from New Survey Data* (Fuller et al. 2004a) and China Dairy Net which is national dairy information centre. In following paragraphs, the needs of the consumer in China's urban areas will be described first and followed by the different segments in response of these demands.

Consumer demand in China's urban areas

According to the literature review, the urban consumers in China view dairy products in a positive light. In general, the dairy products are considered healthy, nutritious foods that should be integrated as a staple component of daily diets. But there are several factors to influence the consumer demand. In addition, the younger generation 25-44 is leading the demand trends.

Chinese consumers value freshness, safety, and taste when choosing dairy products, so purchases are frequent and in small quantities, usually single-serving packages. Consumer confidence in domestically produced products is increasing, but households tend to purchase imported dairy products when safe, high-quality domestic products are not readily available.

On the basis of literature, the most popular dairy products are milk, yogurt, and ice cream. Milk powder appears to be an inferior product, and as fresh milk becomes increasingly available and affordable, consumers are decreasing their milk powder purchases. Cheese consumption in household is infrequent and unlikely to become a regular part of household consumption until methods for integrating cheese into traditional Chinese-style cuisine be developed. However, cheese consumption in restaurants is growing and already becoming a regular part of some consumers' diets away from home.

While income, as expected, positively affects demand, there are a number of other factors. Western or foreign culture integrating in urban China is one of the factors. Cheese and ice cream products in fast-food outlets are well received by



consumers. As showed in Table 7 the total market for dairy products to China has doubled in value since 1999. Among the others, the ice cream and cheese growth rate are in ahead.

The second factor is policies that promote production and consumption of dairy products. For example, Chinese government has encouraged milk consumption through the creation of school milk programs. The programs started in 2000 have gradually changed the amount of liquid milk consumption among students.

Table 7 Dairy market volume growth rates by sector(Business Insights, 2006)

Sector Growth %	1999-2005
Ice Cream	105.6
Yoghurt	87.0
Liquid Milk	91.6
Cheese	100.9
Butter	63.0
Cream	90.7
TOTAL	98.4

Another critical factor driving the expansion of dairy product consumption in urban China is the development of interregional supermarket chains. Some consumers make regular dairy product purchases from supermarkets. The relative low price in supermarket used to be an important driving force for Chinese consumers. However, in recent years, the good quality gradually becomes the major driving force, and the price becomes a criterion to assess the quality of dairy product.

Dairy product consumption does not appear to be associated with any particular age group. Both young and old consume dairy products regularly. But younger generation is leading the trend. According to AC Nielsen Chinese trend report 2006, the younger generations 25-44 years old are more open minded and pursue high quality life. They become the middle class of the society and lead the main consumption trend. For example, due to the lack of shopping time, the demand of convenient food and pre-cooked meal has increased. The growing demand for convenient milk and dairy products is also changing(Nielsen 2006). Additionally, the exposure to international food (foreign travel and or exposure to dairy products while abroad) induces more consumption of dairy products. As mentioned above, the expansion of several restaurant chains serving western-style foods into Chinese cities can be expected to have an impact on cheese consumption in China(Fuller et al. 2004a).

The segmentation in China's urban dairy market

Based on the above mentioned review, the needs of novelty and diversity dairy product has enormous added value for Chinese consumer. In response, the market segments have been created by China's dairy companies according to the trend of consumer demand. By considering the consumer demand, there are three major



market segments in China's dairy urban dairy market can be classified. The first basis market segments are defined as good quality and high-end product. The healthy and nutritious products are followed as second important segments. The last but not least, the divers dairy products can be considered as another important market segments in current China's urban dairy market. In following paragraphs, these market segments are reviewed with several examples.

■ High-end dairy products

The first market segment is the good quality and high-end product segment. This type of market segment refers to the best quality and most expensive of a class of dairy products.

By the end of 2005, Mengniu introduced one series high-end dairy products named Deluxe, which is high protein content with extreme good quality. In response, Yili later launched Golden Milk in the middle of 2006, which is also high-end dairy product with extreme good quality. The segmenting by the market leaders have stimulate the competition of the followers, in the followed year, many other dairy companies have entered high-end dairy product in China's dairy market. For example, in 2007, Guangming have introduced Zhiyou to compete in high-end market segments. This product used ceramic membrane technique instead of UHT and pasteurizes process which brings even higher quality of the liquid milk. The price of this product is also two time higher then standard milk product(Y. Zhao 2007).

Besides the liquid milk, other types of dairy products have developed high-end products as well. For example, foreign milk powder products have dominated China's high-end market. Among the top 10 milk powder sellers in the Chinese market, six are foreign companies. Quality is a concern(Wu 2003).

As a result, the sales records have indicated that the high-end dairy product segmenting is successful. According to the annual report of Mengniu, the gross profits of high-end dairy product in 2006 has remain 22.9%(Mengniu 2006).

■ Healthy and nutritious dairy products

The second market segment is healthy and nutritious dairy products. This segment can be divided into two parts.

The one part is added-value products, in which the milk composition are changed, e.g. low-lactose or lactose-free products, hypoallergenic formulae with hydrolyzed protein for milk-hypersensitive infants, milk products enriched with Ca, vitamins, etc. Primarily, these products are targeted at specific consumer group, and depending on individual opinions. Take Yili as an example, in beginning of 2007, the company have introduced one added value dairy product, low lactose milk, which focus on the lactose intolerance people in China. and according to the statistic data in Chinese Center for Disease Control and Prevention (CCDC), the lactose intolerance Children between 3-13 years old in Beijing, Shanghai and Guangzhou are 87%(Bian 2007).

Another part is functional dairy products with a proven health benefit. The products is based on milk that enriched with a functional component, or the product



is based on ingredients originate from milk. The most common functional dairy products are those with pro biotic bacteria, quite frequently enriched with prebiotic carbohydrates(Saxelin et al. 2002). For example, Taizina Company have introduced Taiziwang Drink yogurt which have probiotic bacteria to target children market in the middle of 2007. In current China's urban dairy market, there are many companies focused on this market segments. And the product functions are very various.

■ Divers dairy products

The third type of market segments is divers dairy products. This includes cheese, cream, butter and other different types of dairy products. Because of the Olympic Games in Beijing 2008, the cheese demands are predicted to increase. The potential demand of this market segment has attracted many companies to compete for the market share. For example, French-based Bongrain SA, the world's fourth-largest cheese maker, builds the second plant in Tianjin aimed China's growing demand for cheese, in 2004. Bongrain was the first foreign investor to produce cheese products on China's mainland. The company has adopted the local taste of the western cheese and focused on consumer educating in the past decade and received a lot of success(ChinaFoodBusiness 2008). In addition, many local dairy companies have also tried to launch cheese product on their own.

3.2.3 Summary

The information gathered in this part reveals that China's urban dairy markets are much diversified, both regarding strategic group and market segments. The strategic groups of China dairy company are mapped with the extent of geography coverage and product diversity which can be divided into four groups. The group with broad products range and broad coverage of sales, the group with narrow product range but broad coverage of sales, the group with broad products range but small coverage of sales and the group in average status. Based on the industry life cycle, the high product diversity and big sales coverage are the trend for the dairy companies. Moreover, the strategic space of low product diversity and small coverage could be a new direction for market development.

With respect to market segments, China's urban dairy market can be segmented into three major segments on the basis of consumer demand. The first basis market segments are defined as good quality and high-end dairy products. The second is the healthy and nutritious dairy products. The third one is divers dairy products. The first two segments have shared most of the profits in the current dairy market. However, the potential demand of divers dairy product should be taken into consideration, for example, the demand of cheese product.

3.3 Market entry mode for China's urban dairy market

Literature review in this part is to answer the second half of sub question 2. The market entry modes for China's urban dairy market are reviewed with regards to the



background of market entry modes and influencing factors which are defined in Chapter 2. According to the research scope, the influencing factors are only focused on external.

3.3.1 Exporting

The current situation of China's dairy import is reviewed first. Then to describe the influence of three external factors, to be precise, the market factor, production factor and environment factor.

China's dairy import

Despite significant increases in milk production, growing demand for dairy products has led to sharp increases in imports in the past decade. However, it has slowed down in recent years. China has rapidly increased its dairy imports during the 1990s. China's share of total Asian dairy product imports was only around 3 percent in 1990, but had more than doubled by 1999. Therefore, China has become one of the larger importers of dairy products in Asia (Ma and Rae 2003). Since 2000, China's imports of whole milk powder have increased by around 120 per cent, from 51,000 tones to an estimated 113,000 tones in 2004. Imports of skim and whole milk powders by China are likely to continue increasing as demand for milk powders grows with the increasing requirements for the rapidly expanding food processing sector and the need for milk powders for children and infant formula (Ashton 2005). However, based on the most recent research, it suggests that China can meet its dairy product needs through domestic production, and that imports as a percentage of all consumption will continue to decline. For example, China will likely continue to be an importer of some processed products, specialized cheeses and bulk commodities, such as whey. The trend of imports whole milk powder, is on a downward slope (Simpson 2006). And this is proved by China Custom data. The net import dairy product is 299,000 tones in 2007, which has decreased 14.2% then 2006 (China Customs 2008).

The import of dairy products has crucial relation with consumer demand. A number of questions in the dairy product survey focused on purchases of dairy items produced by foreign companies or foreign joint ventures have given some indications. The results are showed in Table 8. More than half of households (169) in the sample purchase one or more dairy items produced abroad or by a foreign joint venture 'imported products'. In Guangzhou, 63 percent of the households purchase imported products, which is significantly higher than the 50 percent reported in Beijing and Shanghai. Pearson Chi-Squared tests indicate that the differences across cities are significant at the 5 percent level for milk, whole milk powder, yogurt, and other dairy products. There are two reasons for customer to buy the import products, the first one is due to the low level of domestic production of the commodities, for instance cheese and butter. And the second one is the 'imported products' perceived superior safety, taste, and quality has played an important role in their decision to



buy imports (Fuller et al. 2004c). In addition, Table 8 has also indicated the import characters of China's urban dairy market. Butter and cheese which belongs to processed dairy product are frequently chosen by consumers.

Table 8 Purchases of dairy products produced by foreign companies or foreign joint ventures (Fuller et al. 2004b)

City	Beijing	Guangzhou	Shanghai	Entire sample
Product	Share of total reporting purchases of the product %			
Milk	12.09	55.79	32.98	33.22
Butter	80.00	66.67	16.67	50.00
Cheese	50.00	100.00	80.00	71.43
Non-fact dry milk	28.00	35.14	23.08	29.55
Whole milk powder	16.00	37.84	61.54	38.64
Infant formula	4.00	8.11	3.85	5.68
Yogurt	23.08	43.59	33.33	41.94

As a result, to successfully promote dairy exports to China, there are two essential prerequisites to be met: Chinese consumer demand and cheaper and/or better suppliers. These two conditions can be further translated into three aspects which are adapted from Zhou (1996) (Zhou and Novakovic 1996).

1. Demand and supply of Chinese dairy products;
2. Potential size of China's market;
3. Competitiveness of specific foreign dairy company in the world dairy market and its implications for trade practice;

The first issue determines if there is an import demand from China and how large it might be; the second is to assess the purchasing ability of potential Chinese buyers whenever there is shortage of domestic supply; the third provides the signals to where Chinese buyers would turn, contingent upon strong or weak international competitiveness in the markets.

Influence of external factors

In a summary, the three external factors which influence the choice of the market entry modes are reassessed. To be precise, these factors are the market factor, production factor and environment factor.

The first factor is the market of the target country. Since market size, growth rate and market accessibility are three aspects to carry out successful export in China (Zhou and Novakovic 1996). It is crucial factor to consider exporting as strategy. For example, if the potential size of China's cheese market is increasing, the exporting of cheese product with low cost is a relative good strategy to adopt.

The second factor is the production which including, quality, quantity and cost of raw materials, labor, energy and production of the target country. However, by using exporting as market entry strategy this factor can be ignored since there is no need to produce exporting product in target country.



The last factor is the environmental factor of target country which including economical, political and socio cultural of the targeted country. One of the important facts for this entry mode is China's accession to WTO in December 2001 which requires tariffs on imports of dairy products to be reduced. Applied tariffs on various dairy products were in the range of 42 percent to 50 percent in 2001, and these are reduced to between 10 percent and 20 percent by 2004(Iyengar 2004). Counteracting any downward pressure such tariff cuts might have on domestic prices, the demand growth could be inhibited somewhat as dairy products increase in price relative to other foods, and domestic production could be boosted.

Furthermore, as was mentioned in Chapter 2 the company could test the market by using exporting entry modes. On one hand, the investment risk can be minimized in this way. On the other hand, if the products are not high technology involved type, it can be easily imitated by the local dairy companies. And this could simply happened by exporting in E-business and end-users approach.

Nevertheless, there are also other factors involved in dairy product exporting, for instance, the low bargaining power with the international large distribution and the difficult to develop brand reputations.

3.3.2 Licensing/franchising

The current situation of licensing/franchising in China's urban dairy market is reviewed first. Then to describe the influence of three external factors, to be precise, the market factor, production factor and environment factor.

Licensing/franchising in China's urban dairy market

According to the Retailer Business Magazine, till September, 2004 China already has several global franchisors operating on its soil. These include McDonald's, Kentucky Fried Chicken (KFC), Dairy Queen, 7-Eleven, Pizza Hut, Days Inn and Sign-A-Rama. Among them, Dairy Queen as one of largest ice cream companies in the world has competed in the China's dairy market by franchising (Iyengar 2004). In August 2008, the other largest ice cream company Baskin Robbins has developed their marketing planning for north west China, which is based on the successful franchising history in Beijing(CCFA 2008).

The most recent survey from China Chain Store and Franchise Association (CCFA) reported that China had 2,320 franchise systems at the end of 2005, and 10.4 % more than at the same time in previous year. The average number of outlets per system increased from 57 in 2004 to 73 in 2005. Still franchising accounts for only 3 % of China's retail sales compared to 40% in the United States. If in the future franchising in China comprises a similar proportion of retail sales as it does in the United States franchising in China has significant growth still ahead of it(Jones 2007).

In addition, several companies with very high-profile franchising operations have entered Chinese market with a standard foreign-investment model. This involves to form a limited-liability joint venture (*Gufen Youxian Gongsì*) with a strong domestic



company, followed by the opening of branches in various locations (Iyengar 2004). One of the important concerns is that many of domestic franchise systems in China are still at an early stage. The business models are often not fully developed or proven and the franchisors have yet to develop the level of support systems that are normal in EU and US. CCFA reports that 30% of domestic franchisors do not have a franchise manual, and 20% do not have an operation manual (Jones 2007).

Influence of external factors

In a summary, the three external factors which influence the choice of the market entry modes are reassessed. To be precise, these factors are the market factor, production factor and environment factor.

The first factor is market of target country. By considering licensing/franchising as market entry mode, the first factor is very essential to clarify. For example, the market size, it is a mistake to consider China as a single market - language, culture, development and consumer taste will vary as much between, for instance, Shanghai and Kunming as they would between Chicago and Athens. The potential for a foreign franchised product or service in any of China's regional markets will depend upon timing, local taste, local economy, and of course, local competition (Hallett and Truman 2008).

The second factor is production of target country which is including, quality, quantity and cost of raw materials, labor, energy and production factors. Licensing/franchising means the local partner will take responsibility to produce the product and manage all other production related issues. In this case, the choice of the local partner is crucial. According to Hallett (CIEN (China Industry Economic News)) success or failure for the foreign franchisor in China can depend very upon an initial choice of national or regional master franchise partners. For example, the cost of raw materials, China's national policy for foreign investment aims at maximizing benefit for the local economy, therefore, many foreign franchisors have learned to both support the local economy and improve cost-efficiency (Kodak established joint ventures for film manufacture, while Subway encourages its franchisees to recommend local suppliers of fresh produce) (Hallett and Truman 2008).

The last factor is environmental of target country, which including economical, political and socio cultural of the targeted country. And this factor is the most important one for the market entry mode like contract agreement. With the respect to political issue, the regulation reform is a good example.

On February 6, 2007, the State Council issued the regulations on the administration of commercial franchising superseded the measures on the administration of commercial franchising issued by the Ministry of Commerce (MOFCOM) on December 30, 2004. The administration regulations were issued by the State Council, which has much more weight in addressing the above mentioned issues. The franchise measures focused largely on franchisor disclosure, but the



changes of '2+1' requirement has great impact on foreign companies who want to enter China with franchising strategy.

The '2+1' requirement is known as regulations which required that a franchisor (or its subsidiary) shall own at least two directly-operated outlets which have been in operation for more than one year within China before it can franchise in China. However, the administration regulations now provide that a franchisor shall own at least two directly-operated outlets which have been in operation for more than one year. Careful readers will note that there is no explicit requirement that the outlets being 'within China', a silence that is clearly of potential benefit to foreign franchisors(Hogan&Hartson 2007).

Furthermore, corporate structure are key considerations for China, where very few sectors have yet to allow unhindered foreign investment, and where structure once chosen, will determine the franchisor's flexibility for control, financing, foreign exchange, import, licensing and - crucially - repatriation of franchise (Hallett and Truman 2008).

3.3.3 Strategic alliances/joint ventures

The current situations of strategic alliances/joint ventures in China's urban dairy market are reviewed first to review. Then to describe the influence of three external factors, to be precise, the market factor, production factor and environment factor.

Strategic alliances/joint ventures in China's urban dairy market

The Chinese government views foreign investment not only as an invaluable source of capital skills. Thus, in order to encourage the transfer of technology, Chinese government created some other channels for under taking foreign investment besides licensing/franchising. They are Equity Joint Ventures (EJV, *Hezi Qiye*), Cooperative Joint Ventures (CJV, *Hezuo Qiye*) and wholly Foreign-Owned Enterprises (WFOE, *Waishang Duzi Qiye*). The detail information about wholly Foreign-Owned Enterprises in current China's urban dairy market is explained in next sub paragraph.

Equity Joint Ventures have become one of the most popular forms of investment in China. By the end of 2000, foreigners had signed more than 200,000 EJV contracts, accounting for approximately 60% of all foreign investment. Equity investment may be in the form of equipment, cash, rights for the use of sites, factory buildings, as well as industrial property rights. All EJV participates share profit and losses based on their registered capital contributions(Chadee and Qiu 2003). For example, on October 1st, 2005 Arla Foods and the Chinese dairy company, Mengniu Dairy Company, are setting up a joint venture in which Arla has a 49% stake while Mengniu owns 51%. They two companies have signed a equity joint venture for the production of milk powder in consumer packs for the Chinese market(Arla 2005). An other example, on December 19th 2006 French company Danone had signed a joint venture with China's leading dairy company Mengniu to cooperate in the production



and distribution of fresh dairy products to China. The joint venture will combine Mengniu's market-leading position with Danone's technology and marketing know-how to offer Chinese consumer dairy products. And followed Danone, Fonterra have set up a dairy farm with its joint venture partner Sanlu in China. All foreign companies have underlined their know-how in producing quality products, and as incomes rise, Chinese consumers are spending more on what they perceive to be higher quality (Dominique 2006).

Cooperative Joint Ventures used to be the single most important mode of investing in China until the early 1990s. A CJV is business partnership in which each party cooperates as a separate legal entity and bear its own liabilities. Although the approval process for establishing CJVs and EJV is the same, the main difference between the two is that a CJV's profits and assets are shared as specified in the contract and not necessarily according to the percentage of each partner's share of total investment. Unlike in an EJV, foreign partners are permitted to recover their capital investment prior to the expiration of the CJV. CJVs can also be developed quickly to take advantage of short-term business opportunities and dissolved when they complete their assigned task. Thus, the flexibility of a CJV can be highly attractive for a foreign company interested in property of development, resource exploration, and other production projects in which the foreign party incurs substantial up-front development costs (Chadee and Qiu 2003).

Influence of external factors

In a summary, the three external factors which influence the choice of the market entry modes are reassessed now. To be precise, these factors are the market factor, production factor and environment factor.

With respect to control power, the strategic alliance and joint ventures are in higher levels than exporting and contract agreements. This indicated the general consideration and influence of three external factors also hold for this type of market entry mode. Moreover, since foreign company will take part in the managing activities, the management control and the culture differences are become crucial. (Yan and Gray 1994).

3.3.4 Wholly Foreign-Owned Enterprises

The current situations of wholly Foreign-Owned Enterprises in China's urban dairy market are reviewed first. Then to describe the influence of three external factors, to be precise, the market factor, production factor and environment factor.

Wholly Foreign-Owned Enterprises in China's urban dairy market

With the rapid expansion of China's dairy sector, the widespread availability of dairy products has improved in large in urban areas. Nevertheless, milk products are still scarce in many other parts of China. Both the central and local governments in China are promoting the expansion of milk production and consumption. Milk production has been by the presence of wholly Foreign-Owned Enterprises (WFOE)



and coordination of supply chains by large retailers. China has been following a hybrid policy of expanding and modernizing its domestic industry using WFOE and imported technology and genetics leading to lower domestic prices, an increased choice set and quality while still importing basic milk powder (Fuller et al. 2006).

With respect to first type of wholly Foreign-Owned Enterprises, the mergers and acquisitions, some advantages can be concluded. For example, the ready-made access to customers, products, brands, distribution channels and market knowledge all make mergers and acquisitions an appealing option for geographic expansion. However, on the other hand, when the market in question is developing rapidly, first movers have access to more and better deals than will be available for those that follow. Then this is the advantages of green field investment.

According to Table 8 and the two reasons of customer to buy the 'import' products, the product of wholly Foreign-Owned Enterprises have more different image than local company, which refers superior safety, taste, and quality of imported products (Fuller et al. 2004c). In addition, Table 8 has also proved a trend of current China's urban dairy market that butter and cheese products which belongs to processed dairy product are frequently chosen by consumers.

Influence of external factors

In a summary, the three external factors which influence the choice of the market entry modes are reassessed now. To be precise, these factors are the market factor, production factor and environment factor.

The wholly Foreign-Owned Enterprises is the riskiest market entry mode, the three factors are all crucial for the decision, especially, the second one, the production factor of the target country, because both the mergers with local companies and development new company from sketch, the production factor is critical for the company.

3.3.5 Summary

In the above paragraphs, the four market entry modes are reviewed with the current situation of China's urban dairy market and assessed with the market factor, production factor and environment factor. While the increasing of risk and control level, the influence of the external factors is changing.

The factors of target county market have a strong influence on exporting then other two external factors. Especially, the consumer demands have played an important role. Since the exporting is not producing any product in the target county, the production factor can be ignored. Since China's commitment to WTO, the exporting barrier are gradually reduced, furthermore, the policy environment of China is also positive of exporting.

With respect to the entry mode of contract agreement, the market and production factors are essential, because the product should first meet the demand of local consumers and then to produce by local companies. In addition, the policy to



set up one contract agreement is important for this type of entry modes as well. A small change in the regulation could open an opportunity or close a chance of one contract agreement for market seekers.

Strategic alliance and joint ventures are getting more and more popular in China. The product which made by this companies are also well accepted by the local consumer. Still, the production activities are taken by the local partner in China. The market and production factors have relative less influence then environment factor. However, control power is raised in this type of entry modes. For example, the conflict of the culture differences on management style.

The mode of wholly Foreign-Owned Enterprises should consider all the three external factors in the same level, since it is the riskiest market entry mode and full of control. Among the three, the production factors of the target country have more influences, because both the mergers with local companies and development new company from scratch, the production capability is crucial of the development.

3.4 Conclusions of China's urban dairy market

Based on the literature review of market analysis and entry mode for China's urban dairy market, the sub question 2 is answered by the conclusion of this chapter.

SQ 2: What are the specific characteristic of the market analysis and market entry mode for China's urban dairy market?

The conclusions of this chapter combined with the conclusion in Chapter 2 constitute the theoretical framework of this research. It is an operation tool for the further study of this research which will be discussed in Chapter 4 Par 4.2. In following paragraphs, the answers to sub question 2 are described in detail.

3.4.1 Critical characteristics of China's urban dairy market

The critical characteristics of market analysis can be found at two levels, the industry level and the market level.

At the industry level, current China's industry is in a transition stage between growth and maturity. The characteristics of this stage are that China's dairy industry has covered two different stages in industry life cycle. All these characteristics can be considered as the dominant model of current China's dairy market. The dominant model is very important to industry evolution because this model generates opportunities to achieve economies of scale and scope.

At the market level, the information gathered for research reveals that China's urban dairy market are very diversified, both regarding strategic group and market segments. The strategic group of China dairy company, which is mapped on the basis of extent of geography coverage and product diversity, can be divided into four groups. With respect to market segments, China's urban dairy market can be segmented into three major segments based on the consumers' demand, namely,



good quality and high-end dairy products, healthy and nutritious dairy products, and divers dairy products.

3.4.2 Critical characteristics of market entry mode for China

While the increase of risk and control level, the market entry modes are different.

The factors of target country market have strong influence on the entry mode of exporting then other two external factors. Especially, the consumer demands have played an important role.

With respect to the entry mode of contract agreement, the environment is most important one. Because, a small change in the regulation could open an opportunity or close a chance of one contract agreement for market seekers.

Strategic alliance and joint ventures are getting more and more popular in China. The issues of control power are raised in this type of entry modes. Therefore, the managing activities become crucial.

The mode of wholly Foreign-Owned Enterprises should consider all the three external factors at the same level. Moreover, the production factors of the target country have more influences than others.



Chapter 4 Theoretical framework and methodology

The theoretical framework of this research is a connection between literature review and case study. The structure of this Chapter can be divided into two parts; the first part is to design the theoretical framework by summarizing and integrating the critical results which are reviewed in the literature study (Par.4.1). And the second part is to formulate the research methodology with regard to the defined theoretical framework (Par.4.2). In the end of this Chapter, the sub question 3 is answered in depth.

SQ 3: What are the relevant aspects from literature review and how to assess these relevant aspects?

4.1 Theoretical framework

On the basis of strategic management and China's urban dairy market, the theoretical framework is constituted by the critical characteristics of literature review. In Table 9, the theoretical framework of this research is presented.

Table 9 Theoretical framework of this research

Critical aspects	Exporting	Licensing/ franchising	Strategic alliance and joint venture	Wholly Foreign- Owned Enterprise
Market growth rate (Industry life cycle)	-	+	++	++
Competitive structure and accessibility (Strategic group)	--	+/-	++	+/-
Market size (Market segments)	++	+	+	+
Risk and cost minimization of production	++	+/-	+/-	--
Low policy barriers	+	--	+/-	+/-
Control management (Culture differences)	--	+/-	++	+/-

The first column shows the critical aspects that are crucial for the market entry mode of China's urban dairy market. They are market growth rate (industry life



cycle), competitive structure and accessibility (strategic grouping), market size (market segments), risk and cost minimization of production, policy barriers and control management (culture differences). The first three aspects are main market factors, which in line with critical characteristics of market analysis. And the last three aspects are production and environment factors. The first row shows the four types of market entry mode.

4.1.1 Explanation of theoretical framework

The marks in the cells indicated the level of suitability. (++) indicated the entry mode is optimal about the related aspects, (+) indicated the entry mode is sufficient about the related aspects, (+/-) means the entry have average on pro and con aspects (-), means the entry mode is insufficient about the related aspects and (--) means the entry modes is not suitable about the related aspects.

Market growth rate

With regard to market growth rate, exporting is insufficient about this aspect. The relevant literature review can be found in Par.3.1 and Par. 3.3.1. For example, China could produce all of its milk products, and it will likely continue to be an importer of some processed products. With regard to market growth rate, Licensing/franchising is sufficient about this aspect. The relevant literature review can be found in Par.3.1 and Par. 3.3.2. For example, the potential for a foreign franchised product or service in any of China's regional markets will depend upon timing, local taste, local economy, and of course, local competition. With regard to market growth rate, the Strategic alliance/joint venture and Wholly Foreign-Owned Enterprise are optimal about this aspect. The relevant literature review can be found in Par.3.1, Par. 3.3.3 and Par.3.3.4.

Competitive structure and accessibility

With regard to competitive structure and accessibility, exporting is not suitable about this aspect due to the dynamic change and intensive competition. The relevant literature review can be found in Par.3.2.1 and Par. 3.3.1. Licensing/franchising and WFOE both have average on pro and con aspects about this aspect. The relevant literature review can be found in Par.3.2.1, Par. 3.3.2 and Par.3.3.4. In contrast, the strategic alliance and joint venture are optimal about this aspect. This is because the collaboration with local companies has more advantages regarding to competitive structure and accessibility. The relevant literature review can be found in Par.3.2.1, Par. 3.3.3.

Market size

Market size is one aspect about market segments in China's urban dairy market. With regard to market segments, exporting is optimal about this aspect. This is because the highly flexibility of this entry mode. The relevant literature review can be found in Par.2.3.1, Par. 3.2.2 and Par.3.3.1. The other three types of market entry modes are less optimal about this aspect compare to exporting. The marks are



sufficient about this aspect. The relevant literature review can be found in Par 2.3.1, Par. 3.2.2 and Par.3.3

Risk and cost minimization of production

With regard to risk and cost minimization of production, exporting is optimal about this aspect because there is not necessary to produce the product in target country. The relevant literature review can be found in Par 2.3.1, Par 2.3.5 and Par.3.3.1. In general, the contract agreements have average on pro and con about this aspect. These pro and con points are various regarding to specified entry modes. The relevant literature review can be found in Par 2.3.2, Par 2.3.3, Par.2.3.5 and Par.3.3. WFOE is not suitable about this aspect due to the initial expensive and risk control level of this mode. The relevant literature review can be found in Par 2.3.4, Par 2.3.5 and Par.3.3.4.

Low policy barriers

With regard to low policy barriers, exporting is sufficient about this aspect because the import policies are getting less strict. The relevant literature review can be found in Par 3.3.1. The entry mode of strategic alliance/joint venture and WFOE both have pro and con points regarding to this aspect. The relevant literature review can be found in Par 3.3.3 and Par.3.3.4. In contrast, the licensing/franchising marks not suitable about this aspect due to the strict regulation of commercial franchising. The relevant literature review can be found in Par 3.3.2.

Control management

With regard to control management, exporting is not suitable about this aspect. For example, if the products are not high technology involved type, it can be easily imitated by the local dairy companies. The relevant literature review can be found in Par 3.3.1. The entry mode of licensing/franchising and WFOE both have pro and con points about this aspect. This is because the corporate structure is key consideration for business in China. Compare to other entry modes, strategic alliance/joint venture marks optimal about this aspect. The relevant literature review can be found in Par 3.3.3.

Overall

According to Table 9, the overall suitability of market entry mode is concluded. The mode of strategic alliance/joint venture marks as optimal, the exporting together with WFOE follows in behind, and the last one is licensing/franchising.

4.2 Research methodology

Following the theoretical framework, a tailor made research methodology need to be discussed. Choosing the methodology is based on the project purpose; project schedule, which including the speed with which insights are needed; project budget; project issues or topic being studied and types of participants needed(Cooper and



Schindler 2006). In following paragraphs, the methodology of this research is introduced by sampling, data collection, interview design and case study design.

4.2.1 Sampling and the quality

The choice of sampling techniques is based on the research question and research objective. It is dependent on feasibility and sensibility of collecting data (Saunders et al. 2007). And the sample size for qualitative research vary by techniques but generally small (Cooper and Schindler 2006). In this research, the research question do not require statistically generalization, but an in depth discussion. Therefore, non-probability sampling techniques are applied, for instance, purposive sampling, snowball sampling and convenience sampling.

According to the research objective, the sample is divided into two groups. A group of experts on China's dairy market are provided the opinion of China's dairy market, and a group of managers of the China's dairy companies to provide the opinion of market entry mode and China's dairy market. The sample list is showed in Table 10.

With regard to purposive sampling, the group to provide the opinion of China's dairy market is selected on the basis of the unique characteristics and the experiences of the experts.

Table 10 Sampling list of this research

Sampling	Name	Description	Date and time*
The group to provide the answer of China's dairy market in general	Mr. Chengguo Liu	Chair of DAC (Dairy Association of China)	7 th , Sept. 2008 13:50-14:50
	Mr. Caizhi Wang	Chief of China agriculture department and farming bureau	7 th , Sept. 2008 15:00-16:00
	Ms Deheng Gao	Brand manger of Tetrapak China (Founder of China Dairy Research Center)	8 th , Sept. 2008 14:00-14:30
The group to provide the answer for both of China's dairy market in general and the market entry modes	Mr. Wenjun Yang	Manager of Mengniu (One of the market leader companies)	8 th , Sept. 2008 9:15-9:55
	Mr. Jianqiu Zhang	Manager of Yili (One of the market leader companies)	8 th , Sept. 2008 9:55-10:35
	Mr. Huaguo Liu	Manager of Yinqiao (One of the market follower companies)	8 th , Sept. 2008 10:40-11:15
	Mr. Ross McCowan	Manager of Fonterra (Joint venture with Sanlu)	8 th , Sept. 2008 11:15-11:55
	Mr. Yinyu Wang	Manager of Guangming (One of the market leader companies, Joint venture with Donne)	9 th , Sept. 2008 9:35-10:05
	Mr. Marc de Ruiter	CEO of Yellow Valley (Wholly owned Dutch cheese company)	4 th , Sept. 2008 9:00-11:00

*All the interviews are carried out during the annual conference of DAC, except the interview with Mr. Marc de Ruiter, which is carried out in his company



For example, Mr. Chengguo Liu, the chairman of DAC, has many achievements in the past few years in China's dairy sector. Specially, his has focus on the developing of the raw milk source infrastructure, promotion of national dairy intake project, constituted the business regulation in dairy sector and international integration and communication on dairy related issues. His opinion on China's dairy industry in general can be considered as good in reliability. Moreover, Mr. Caizhi Wang, Chief of China agriculture department and farming bureau, he has the similar background with Mr. Chengguo Liu on dairy sector and the view of him are more in general.

In a contrast, Ms Deheng Gao, the expert from Tetrapak China, has represented different perspective on the dairy industry than the previous two interviewees. She has given the general judgment of Tetrapak China. In order to better service to the dairy industry in China, Tetrapak have set up a Dairy Research Center for China's dairy industry. This research center has views in general and in depth of dairy sector. This special perception is positive for sampling.

Due to the time and budget constrain, the selection of the other group are using the approach of convenience sampling. Most interviewees are the managers who participate in the annual conference of DAC 2008 in Harbin, China (7th, 8th and 9th September, 2008). Combined with the convenience sampling, the approach of purposive sampling is prioritized.

For example, Mengniu, Yili and Guangming, the three big dairy companies who represent the market leader, are selected in priority. Their attitude on China's dairy industry can be considered as good validly. Besides, the market follower, one local company and one foreign dairy company are selected to get different opinion from different perspective. Among the interviewees in second group, the exceptional one is the CEO of Yellow Valley. Mr. Marc de Ruiten is counted as one of successful foreign managers who set up successful dairy business in China. He has lived in China for more than ten years and has education background on agriculture business. The opinion of him has also reflected a typical group of foreign managers.

In general, the sample number of this empirical study is relative less, but the reliability and the validity can be considered good for this research. The interview results can not claim on statistic analysis due to the limited number of interviewees, but the elaboration on specific aspects which related with research question give strong indication on research objective. In next chapter, the results of the interviews are discussed in detail. The interview and the transcription of the answers are reported in Appendix 2 and 3.

4.2.2 Data collection technique

In this research, the data collection technique is selected on the basis of the following four aspects(Saunders et al. 2007):

1. The purpose of the research
2. The significance of establishing personal contact



3. The nature of the data collection questions
4. Length of time required and completeness of the process

In following paragraphs, the top two aspects which are crucial for this research are elaborated in detail.

The purpose of the research

Essentially, where it is necessary for researcher to understand the reason for the decisions that the research participants have taken, or understand the reason for their attitudes and options, it will be necessary for research to conduct a qualitative interview (Saunders et al. 2007). In fact, the research objective of this research **'determine the appropriate market entry mode of foreign dairy company to enter China's urban dairy market by providing considerate views of strategic management'** is rising the question to understand the reason to choice the market entry mode. Thus, the semi-structured and in-depth interviews are chosen as the main techniques of this research.

The significance of establishing personal contact

Many literature has proved that managers are more likely to agree to be interviewed, rather than complete a questionnaire, especially where the interview topic is seen to be interesting and relevant to their current work (Saunders et al. 2007). With regard to the topic of this research, to establish personal contact by interviews is considered as a suitable technique.

Summary

In a summary, the key data collection technique is semi-structured interview. Besides, documents and observation are used as an assistant. In following paragraphs, the interview design and the case study design are described in detail.

4.2.3 Interview design

A semi-structured interview is applied in this research. The characteristic of this type interview is that researcher has a list questions on fairly specific topics to be covered, often refereed to as an interview guide, but the interviewee has a great of leeway in how to reply. Questions may not follow on exactly in the way outlined on the schedule. The questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. By and large, all the question will be asked and a similar wording will be used from interviewee to interviewee (Aman 2008). The interview guide of this research is listed under below.

Interview questions on market analysis

1. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) What would be the reason for this?



- b) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - c) Do you have another way to describe the China's dairy industry? And what?
2. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
- a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
 - b) Do you think if there is more strategic space for new companies in the strategic grouping map?
 - c) Based on my research the strategic space of low product diversity and small coverage could be a new space for market development? How do you think about it?
3. Market segments are a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?
- a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think it is a proper segmenting?

Interview questions on market entry modes

1. Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?
2. Based on the industry life cycle, the market growth rate is increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?
3. Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?
4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?
5. How do the policy barriers (regulation, tariffs) influence the market entry mode of foreign companies?
6. Does the culture difference play an important role in choosing the market entry mode for China's dairy market?



7. What kind of market entry mode for China's dairy market can be considered best? And why?

4.2.4 Case study design

According to the technique research design, case study is selected as the research strategy for this research. It is a powerful research methodology that combines interviews with record analysis and observation (Cooper and Schindler 2006). In this research, the information from company brochures, annual reports of DAC, the media publication such as newspaper and magazine articles on updates issues and combine it with interview data are the major part of the result analysis.

The aim of this method is to obtain multiple perspectives of the research questions in current period or over this period. For example, the dairy crisis in China and credit crisis in the world have different effects on China's dairy sector, the one has long lasting effects and the other has temporary influences. By combining all these factors, the internal connection of empirical study can be built up. In Chapter 6, the results of empirical study are analyzed in detail.



Chapter 5 Results of interviews

In Chapter 4, the theoretical framework and the methodology used in this research are described. In this Chapter the results of empirical study are presented in detail. The aim of this chapter is to answer the sub question 4.

SQ4 what are the result of the assessment of China's urban dairy market on market analysis and market entry mode?

The results of all interviews are collected in this section, and reported in paragraph 5.1 and 5.2 respectively.

5.1 Results on market analysis

The interview results on market analysis are provided by all nine interviewees. Three experts on China's dairy market, Mr. Chengguo Liu, Chair of DAC(Dairy Association of China), Mr. Caizhi Wang, Chief of China agriculture department and farming bureau and Ms Deheng Gao, Brand manger of Tetrapak China. The rest six interviewees are managers of dairy company in China. The detail interview transcription can be found in Appendix 2.

5.1.1 Industry life cycle

With respect to concept of industry life cycle in current china's dairy market, the following results are remarkable.

All the 9 interviewees have agreed the current China's dairy industry has positioned at growth stage. Instead of giving a direct opinion on the transition stage, all the interviewees think the growth stage would last for a certain time. 'the characteristics are more suitable for growth stage. Especially, to create consumer demand is one of the important issues in current China's dairy industry.' (Mr. Chengguo Liu), 'This stage will not transfer into maturity stage in short time due to the industry structure and consumer awareness.'(Mr. Caizhi Wang), 'According to some research, the production rate of liquid milk is slowing down (low to moderate). But the growth rate as whole China's dairy industry remains large.'(Mr. Jianqiu Zhang) and 'It will remain at growth stage since the current problem of China's dairy industry will remain to improve the quality of the milk, which is the basis of development.' (Dengheng Gao).

From the manager point of view, the increase of production rate is less than enough to position the industry at maturity stage. There are many other facilities beside the production rate need to be improved. For instance, 'the milk supply chain system and the manufacture facilities showed that there are lot needs to be improved.'(Mr. Ross McCowan).

In addition, the industry structure and professional level or technical level can be considered as another way to describe the China's dairy industry at a macro level.



5.1.2 Strategic group

With respect to the strategic group in current China's urban dairy market, the following results are collected.

All the nine interviewees think the classification which based on the extent of geography coverage is a good criterion. As they were mentioned there are at least two big dairy companies Mengniu and Yili have shared the most of the urban dairy market in China. These big companies belong to one strategic group. On the other hand, the companies which have relatively less geography coverage can be considered as the second strategic group, which can only focus on the local market.

Six interviewees give neutral answers to the classification which based on the product diversity of the dairy company. The classification that based on the geography coverage and product diversity is considered as a suitable approach by two interviewees. One interviewee, the manager of Yinqiao company, Mr. Huaguo Liu thinks if the strategic grouping based on the product diversity of the company who has more products in abroad, the result might not accurate enough.

In addition, for the question of strategic space in China's dairy market, three experts have recommended the business integration is an important strategy in future.

5.1.3 Market segments

Table 11 Market segments which were mentioned by the interviewees

Market segments	Mentioned times
Health product	7
New product(Innovative, new taste, new package, etc)	5
High quality product	5
Tailor made product for Chinese people	3
Dives product	2
Functional product	2
Added value product	2
Fashionable product	1
Dairy product for elder people	1
Fast food	1

Since market segments is a very open concept to describe a certain market. The interview results are various in this question. With regard to the market segments in current China's urban dairy market, the following results are collected. Some expression of market segments are frequently used by the interviewees, for instance, health product and new product and high quality product. Some are mentioned few times, for instance, the tailor made product for Chinese people, divers product,



functional product, added value product and fashionable product. Table 11 shows all the market segments which were mentioned by the interviewees.

Two experts believe that the market segments in current China's dairy market were not reflecting the demand of consumer. 'Many segments was created on the technology of dairy companies which should be created on the demand of the consumer is a problem of market segments in current China's dairy market' (Chenggou Liu).

In addition, the elder aging problem was mentioned with the segment of functional food by Ms Deheng Gao (Brand manager of Tetrapak China), and negative influence of the policy barriers was mentioned with the development of innovative product segment by Mr. Yinyu Wang (Manager of Guangming).

5.2 Results on market entry modes

The interview results on market entry modes are provided by six interviewees. They are general managers of six dairy companies in China: Mr. Wenjun Yang (Manager of Mengniu), Mr. Jianqiu Zhang (Manager of Yili), Mr. Huaguo Liu (Manager of Yinqiao), Mr. Ross McCowan (Manager of Fonterra, Joint venture with Sanlu), Mr. Yinyu Wang (Manager of Guangming, Joint venture with Donne) and Mr. Marc de Rooter (CEO of Yellow Valley, wholly owned Dutch cheese company). The detail interview transcription can be found in Appendix 3.

5.2.1 Influence of market factor (market analysis)

The main market factors are in line with critical characteristics of market analysis. In this research, market analysis includes three concepts, industry life cycle, strategic group and market segments. Managers of dairy companies have given their opinions on influence of market analysis. In following paragraphs, these opinions are reviewed in detail.

Regarding to the influence of industry life cycle of China's dairy industry, three interviewees think there are some influences on the market entry modes. Because, 'The local companies as well as the foreign companies are both want to catch up the trend of the development. The collaboration demands between these two groups create the many strategic alliance partners.' (Mr. Wenjun Yang, Mr. Jianqiu Zhang, Mr. Huaguo Liu). The others think there is no influence on the market entry modes, for instance 'the best entry strategy is also depends on the internal factors of the company.' (Mr. Ross McCowan).

Regarding to the influence of strategic group of China's dairy industry, Mr. Marc de Rooter, the CEO of Yellow Valley, thinks there are some influences, for instance the brand and reputations of the strategic group. Moreover, the manager of Fonterra, Mr. Ross McCowan thinks the ambition of market followers create opportunities of the foreign companies. This is because, 'often the foreign companies have techniques and experience but too risky to establish one company



on their own in China which entire different than any other countries.’ In a contrast, all the managers of local dairy companies think there is no influence on the market entry modes. The strategic group for foreign companies is a reference to choose the right partner and a chance to learn from the history.

Regarding to the influence of market segments of China’s dairy industry, Mr. Yinyu Wang, the manager of Guangming, is the only interviewee who thinks there are some influences on the market entry modes. As he said, ‘The foreign companies who want to enter China’s dairy market often have advanced technology, for the emerged new market segment, these advanced technology will have positive influence on their market entry modes.’ On the other side, the rest of the interviewees think the market entry can not be influenced by the local market segments.

5.2.2 Influence of other factors

The other factors which might influence the market entry modes refer to the risk and cost minimization, policy barriers and culture differences. During the interview, managers have given their opinions on these factors. In following paragraphs, the results are reviewed in detail.

Regarding to the market entry mode in risk and cost minimization, there are eight interviewees have chosen joint venture as their answer. For the reason that ‘the language and culture gap, the relation of raw milk resource with profits of milk farmers can all be handled by the local partners. The foreign companies don’t have to develop their own strategy to survive in China.’(Mr. Wenjun Yang) and ‘the cost, service, leverage of global business and local sourcing are the typical advantages of this mode.’(Mr. Ross McCowan). In the contrast, Mr. Marc de Ruiten, the CEO of Yellow Valley, have agreed that the joint venture is a good market entry mode and relatively in risk and cost minimization, but he believes the wholly foreign-owned enterprise is the best answer. This is because, ‘the control power is much higher than other types of entry modes, the risk and cost can also be controlled in a high level. But this is under the condition of the good understanding of local culture.’

Regarding to the policy barriers which could influence the market entry modes, there are eight interviewees think the policy barriers has been lowered in the past decade, the regulations have become less strict for the market entry of foreign company. However, Mr. Yinyu Wang, the manager of Guangming, have mentioned that the licensing policy for innovative product could have some influence on the market entry modes of foreign companies. ‘The innovation licensing for novelty dairy product is one of the policy barriers for foreign companies.’(Mr. Yinyu Wang).

Regarding to the culture differences, all the nine interviewees think it is an important and basic issue to setup a successful business in China. For instance ‘Donne has setup joint venture with Guangming in their beginning stage in China’s



dairy market. It helps the company the get familiar with the local culture and local demand in a very short time. To lower their enter risk.’(Mr. Yinyu Wang).

5.2.3 The best entry mode considered by the interviewees

By concluding all the opinions of different aspects, eight interviewees think the best market entry mode for current China’s urban dairy market is joint venture. However, Mr. Marc de Ruitter, the CEO of Yellow Valley thinks for the longer term consideration the best market entry mode is still Wholly Foreign-Owned Enterprise.



Chapter 6 Analysis of the results

On the basis of theoretical framework in Chapter 4 and the interview results in Chapter 5, the comprehensive information is collected for the research objective. The aim of this chapter is to answer the sub question 5.

SQ 5 what analyzing can be provided for the appropriate market entry mode of foreign dairy company to enter China's urban dairy market?

The analysis on market analysis is discussed in paragraph 6.1 and the analysis on market entry modes are discussed in paragraph 6.2 subsequently. In the end, extra information on updates issues is analyzed with all the findings in this research in paragraph 6.3.

6.1 Analysis on market analysis

In line with chapter 5, the three concepts which mentioned in the market analysis are discussed respectively. It starts with the analysis on industry life cycle, then strategic group and market segments.

6.1.1 Industry life cycle

Based on the study of literature review, the industry life cycle concept of China's dairy industry can be mainly concluded at the transition stage between growth and maturity. The current China's dairy industry have shared many characteristics between growth and maturity stage which also has the trend to transit from growth stage to maturity stage (Par.3.1.2). However, the experienced experts on the China's dairy industry and the managers in the dairy sector have indicted that the China's dairy industry will remain at growth stage in a long period (Par. 5.1.1). By analyzing the collected information with each characteristic, the following analysis can be concluded.

With respect to the characteristics of industry life cycle, some findings of literature review are proved by the results of interviews. For instance, the literature review shows the market growth rate is very high. As the opinion to this characteristic, Manager Mr. Jianqiu Zhang thinks 'the market growth rate of liquid milk is slowing down(Low to moderate). But the growth rate as whole China's dairy industry remains large(Par.5.1.1). Another example, the literature review shows the emphasis on processing design is very high. As the opinion to this characteristic, Manager Ms Deheng Gao thinks 'current problem of China's dairy industry will remain to improve the quality of the milk', and Manager Mr. Ross McCowan thinks 'the manufacture facilities showed that there are lot needs to be improved'. Both two answers indicate the processing design as a crucial issue should have enough emphasis in current China's dairy market.



However, for some characteristics, interviewees have different opinions. For instance, as the opinion to numbers of market segments, expert Mr. Chengguo Liu thinks 'not many segments was created on the basis of the consumer demand, is a problem of current China's dairy industry'(Par 5.1.3). Consequently, it's doubtful to posit at transition stage based on the numbers which were collected from literature. Furthermore, to create consumer demand and consumer awareness is recognized as the over all objective of current China's dairy market which is also different from the results of literature review. It implies from the general point of view, the defense of market share in China's dairy industry is not evident at this moment. Lastly, the competition in current China's dairy market is also considered mild instead of intensive by the interviewees. All in one, most characteristics of the industry life cycle are considered more suitable for growth stage.

In addition, by considering other approaches to describe the China's dairy industry, the current China's dairy industry can not be defined as maturity stage all well. For example, the industry structure is imbalance, and the professional level and technical level are relatively low.

In a conclusion, China's dairy industry is at a growth stage regarding to the different perspective, and this status will not have significant change in the coming years.

6.1.2 Strategic group

Based on the study of literature review, the strategic group of China's urban dairy market can be divided into four groups regarding to the geography coverage and product diversity (Par 3.1.3). However, this classification is not fully approved by the interviewees. Both experts and managers have agreed the classification based on the geography coverage, and the grouping result. But there is less agreement of the classification based on the product diversity. By analyzing the collected information of strategic group, the following analysis can be concluded.

Firstly, the classification based on the geography coverage can be considered as an acceptable approach of strategic grouping for China's dairy industry. For instance, 'at least two big dairy companies Mengniu and Yili have shared the most of the urban dairy market in China, the companies which have relatively less geography coverage can only focus on the local market, such as province coverage.'(Par. 5.1.2)

Secondly, the experts and managers are not used to the concept of strategic group analysis, specially the integrated approach of geography coverage and product diversity. Furthermore, some managers might concern about the business sensibility to give their opinion on other companies.

Lastly, the product diversity is different for the companies who have more products in aboard. If the strategic group that based on the product diversity, the diversity level will miss indicate the proper strategic position of the company.



In a conclusion, the strategic group of China's dairy industry can be divided into two groups regarding to the geography coverage. However, with regard to the product diversity, the company should be assessed in detail. The strategic group analysis in this research is less accurate with regard to the product diversity of the company.

6.1.3 Market segments

Based on the study of literature review, the market segments of China's urban dairy market can be concluded as three major segments regarding to the needs of consumer, such as, good quality and high-end dairy products, healthy and nutritious dairy products and divers dairy products (Par. 3.2.2). However, market segmentation is an open topic and opinion can be expected in a wide variety. In the empirical study, interviewees have also indicated the market segments regarding to the characteristics of people and purchase/use situation. By analyzing the collected information of market segments, the following analysis can be concluded.

Firstly, the top three market segments which mentioned by the interviewees are comparable with the results of literature review, for example, the good quality product, health product and divers product (Par. 5.1.3). Among the answers, the new product and dives product are separate segments, however, the intention of these two segments are similar. Therefore, the opinions of the experts have partially proved the market segments in current China's urban dairy market.

Secondly, the interviewees have different profession background, the answers of market segment are various in different perspective. For example, the tailor made product for Chinese people, and the dairy product for elder people are the typical example of the segmentation with regard to the characteristics of people. Another example, the functional product, added value product, fashionable product and fast food can be considered as the segments with regard to the purchase/use situation.

Lastly, experts have indicated that the market segments in China's urban dairy market should keep focus on the consumer demand.

In a conclusion, the market segments in current China's urban dairy market can be divided into many segments. The most important three segments are good quality dairy products, health dairy products and divers dairy products.

6.2 Analysis on market entry modes

The analysis on market entry modes are divided into two parts. The first part is the analysis on the market factor (market analysis) and the second part is the analysis on other factors. In following paragraphs, these two parts are discussed in order.



6.2.1 Analysis on influence of market factor(market analysis)

Regarding to the structure of chapter 5, the analysis on influence of market analysis is discussed in here. The main market factors are in line with critical characteristics of market analysis.

Based on the literature review of industry life cycle, the market entry mode of strategic alliance and joint venture are optimal for the current development of the China's dairy industry(Par.4.1). Some interviewees have proved that influence of current China's dairy industry is positive for market entry modes like strategic alliance and joint venture(Par.5.2.1). On the other hand, some interviewees believe the successful market entry mode also depends on the internal factors. In short, the influences of China's dairy industry are not evident. This can be explained that the development of current China's dairy industry have influenced the decision of foreign company to enter China, but the market entry mode can not be selected based on one macro characteristic only.

Based on the literature review of strategic group, the strategic alliance and joint venture are optimal for current strategic group of the China's dairy industry(Par. 4.1). However, there are some different opinions between the managers of foreign dairy company and the managers of local dairy company. The managers of foreign company agreed the strategic group of current China's dairy industry have some influence on the choice of market entry modes in general, for instance the brand and reputations of the strategic group. These answers imply the market entry mode of strategic alliance and joint venture would have more advantages than other types. On the other hand, the managers of local dairy company think the influence on the market entry mode is limited. This is because the managers of local dairy company are hesitating to give their opinion on future competitors(the foreign dairy companies).

Based on the literature review of market segment, the exporting is optimal for the market segment of the current China's urban dairy market(Par. 4.1). Different from literature review, one of the interviewee think market segment of current China's urban dairy market have positive influence on the market entry mode. On the other hand, the majority don't think market segment have direct influence on market entry mode, but the relevance of market segment with the company long term strategy is crucial for the entry.

As a result, the influences of market factors are considered indirect regarding to the interview. Compare to the literature review of market analysis, these opinions have less persuasion. Firstly, the profession background of the managers are various, they often have their insight on the local market. Secondly, most of the interviewees are sensitive of giving answers to the future competitors.



6.2.2 Analysis on influence of other factors

The structure of this paragraph is in line with Par 5.2.2. The analysis of influence on risk and cost minimization, policy barriers and culture differences are reviewed in detail.

Based on the literature review of risk and cost minimization of production, the exporting has been considered as an optimal entry mode(Par.4.1). However, the interviewees have coincidentally given joint ventures as the optimal mode(Par.5.2.2). One of the possible reason is managers in China are used to discuss business mode in joint venture. And indeed these modes are more acceptable and reliable for both local and foreign companies. Another reason is the companies where these managers belongs to, are use to have joint venture collaboration before or the joint venture collaboration is undergoing. According to theoretical framework, the entry mode of strategic alliance and joint venture has average on pro and con aspects. By integrating the collected information, the pro aspects of this mode for China's dairy urban dairy market can be considered more than the con aspects. In short, the entry mode of risk and cost minimization of production for current China is strategic alliance and joint venture.

Based on the literature review of low policy barriers, the exporting has been considered as a suitable market entry mode (Par.4.1). The interview results are not contradictory to this conclusion. One of the interviewee has mentioned the policy for innovative product could have influence on market entry modes(Par.5.2.2), which implies the suitability of exporting mode are reduced. On the other hand, the entry modes of strategic alliance and joint venture could use the advantage of collaboration to minimize this policy barrier. In general, all interviewees think the policy barriers have been lowered in past decade, which the influence of market entry modes are reduced.

Based on the literature review of culture differences, the strategic alliance and joint venture has been considered as an optimal entry mode (Par.4.1). The interview results have proved this conclusion; all the nine interviewees think it is an important and basis issue to setup a successful business in China.

As a result, the influences of other factors for market entry modes are various.

6.2.3 The analysis on the best market entry mode

Based on the literature review of all, the strategic alliance and joint venture have been considered as an optimal entry mode for China's urban dairy market(Par.4.1). Likewise, eight interviewees think the best market entry mode for current China's urban dairy market is strategic alliance and joint venture as well. Nevertheless, Mr. Marc de Ruitter, the CEO of Yellow Valley thinks for a longer term consideration the best market entry mode is Wholly Foreign-Owned Enterprise(Par. 5.2.3).

There are several analysis can be concluded. Firstly, many positive examples of the joint venture business have shown advantages in China's dairy sector. The



managers of dairy companies are familiar and convinced by the mode. Secondly, literature review has proved the entry mode of strategic alliance and joint ventures were successful in the past decade, in addition, the interviewees have predicted this mode would be suitable for current China's dairy industry. Lastly, the different opinion of Mr. Marc de Ruiter is based on his ten years living experience in China. It is not a representative example of Wholly Foreign-Owned Enterprise, but it has indicated opinion of successful WFOE companies in China.

6.3 Analysis on updates issues

Dairy industry is a highly dynamic business in China. The industry dynamic has direct effects to the companies in the sector and for the companies who want to enter the sector. The milk crisis in China which occurred during the research project is analyzed on the basis of research objective.

In September, 2008 a milk crisis has occurred in China. China's baby milk crisis - in which thousands of Chinese babies have developed kidney stones after drinking milk contaminated with melamine, an industrial chemical - has highlighted the need for the country to improve detection standards for chemical contaminants in foods (Jia 2008). The crisis seems to be a food safety accident, but the impacts to China's dairy industry are crucial. Regarding to the theoretical framework, the impact can be analyzed from market factor and other factors.

With respect to the market factor, dairy industry as a whole was in hot water. The production and distribution activities were strongly influenced by the trust loss. Especially, the famous national brand and the National Inspection-Free production are subjected to criticism (J. Zhao and peng 2008). As a result, the strategic group in current China's dairy market would change, for instance, the strategic position of the company, the size of the strategic group and the strategic space for future development. The vice-chair of DAC, Mr. Dingmian Wang said, 'Sanlu as a famous company, the strategic position in China's dairy industry are very crucial, the milk crisis will have lasting effect on this company, and the company could also be down and out after this crisis.' (Liu 2008). Consequently, the market entry modes of some foreign dairy companies have also been influenced. A typical example is the joint venture collaboration between Sanlu and Fonterra. Due to milk crisis of Sanlu, and the extremely bad reputation which were received during this milk crisis, the collaboration between these two companies has been paused.

Moreover, the market segments in current China's urban dairy market have also been influenced. As was mentioned in literature review, high-end dairy products is one of the important segments in current China's urban dairy market. Within the infant milk sector, foreign dairy companies have produced most of the high-end products. Due to the milk crisis, the mid-end dairy products segment which used to share by Sanlu and other local dairy companies become vacant. The focus on



high-end dairy product would change to mid-end dairy product. The competition for this new market segment are unavoidable(Liu 2008).

With respect to other factors, the influence on policy environment is very crucial. Due to milk crisis, the implementation of business integration policy within dairy sector has been accelerated. The regulation for new dairy company become stricter, and the quality standard within dairy company are reassessed.

In addition, the purchasing power on dairy product have decreased dramatically due to the Sanlu milk crisis. According to the survey of National Bureau of Statistics Lanzhou subsidiary, in Lanzhou areas which is also one of the big cities in mid China, 75.5% of consumer shows the milk crisis have influenced their purchasing and consumption on dairy products, and 24.4% of consumer shows no influence. Particularly, 34.6% of consumer change to purchase foreign brand as their alternative(Luo 2008). Regarding to the 34.6% of consumer, the more opportunities are available for foreign companies.

In a conclusion, the impact of milk crisis in China is temporary. Mr. Dingmian Wang said,' the dairy companies need at least three year to get recover from this crisis, but growth trend of China's dairy industry in a longer term are still increase'(Liu 2008). Nevertheless, the literature review of this research is based on a limited amount of literature and documents. The updated issues of China dairy industry are always critical to consider timely with regard to the market entry mode for foreign companies.



Chapter 7 Conclusions and recommendations

On the basis of information presented in the report, the aim of the final section is to present the conclusions and recommendations of this research. As a result, the main research question will be answered.

RQ: What is the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market?

This chapter is divided into two parts. In Par.7.1 the conclusions of this research are presented by listing the answers to the research sub-questions. Par.7.2 presents some suggestions on market entry strategies for companies who want to enter China, plus recommendations for future research.

7.1 Conclusions

The conclusions of this research are presented in following paragraphs. In order to achieve the research objective (see Chapter 1), five sub-questions have been designed to achieve the goal step by step.

We may conclude that the research objective **'to determine the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market by providing considerate views of strategic management'** has been achieved. The answers of the sub-questions are now listed as conclusions of this research.

SQ 1: What are the critical strategic management characteristics of market analysis and market entry mode? (See Chapter 2 Par 2.4)

- The critical characteristics of market analysis can be divided into two levels, industry level and market level.
 - ◆ Regarding to the industry level, the concept of the industry life cycle, which emphasizes generic strategies, functional areas, value-creating activities, and overall objectives of the industry are selected.
 - ◆ Regarding to the market level, the concept of strategic group analysis and market segmentation, which emphasize market competition, are selected.
- Market entry mode is crucial for new market development. Four major types of market entry mode are reviewed in this research.
 - ◆ Firstly, exporting is a low risk mode, which requires low investments, but comes with less potential for control.
 - ◆ Secondly, the licensing/franchising mode limits the risk exposure of a firm in overseas markets, while expanding the revenue base of the parent company.
 - ◆ Thirdly, the mode of strategic alliances/joint ventures, which enables firms to share the risk as well as the potential revenues and profits.



- ◆ Lastly, the mode of wholly Foreign-Owned Enterprises, which are most appropriate when a firm already has dedicated knowledge and capabilities, which it can leverage rather easily through multiple locations in many countries.
- The factors influencing the choice of entry mode can be divided in external factors and internal factors. Based on the research background and research objective, the external factors are the primary focus in this research, especially the target country market factors, production factors and environmental factors.

SQ 2: What are the specific characteristic of the market analysis and market entry mode for China's urban dairy market? (See Chapter 3 Par 3.4)

- At industry level, the current China's dairy industry is in a transition stage between growth and maturity.
- At market level, the information gathered for this research reveals that China's urban dairy markets are very divers, both regarding strategic groups and market segments.
 - ◆ The strategic grouping of China dairy companies are map based on the extent of geography coverage and product diversity which can be divided into four groups.
 - ◆ With respect to market segments, China's urban dairy market can be segmented into three major segments; 1) good quality and high-end dairy products, 2) healthy and nutritious dairy products and 3) divers dairy products.
- The critical characteristics of market entry mode for China can be mainly concluded as follows. While the increasing of risk and control level, the influence of the external factors for the entry modes are changing. Namely, market factor, production factor and environment factor.
 - ◆ The market factors have strong influence on the entry mode of exporting. For instance, the consumer demands have played an important role. Besides, the environment factors are also crucial. For instance, China's accession to WTO in December 2001 which requires tariffs on imports of dairy products to be reduced. Applied tariffs on various dairy products were in the range of 42 percent to 50 percent in 2001, and these are reduced to between 10 percent and 20 percent by 2004
 - ◆ With respect to the entry mode of contract agreement, the environment factor is most important one. Because, a small change in the regulation could open an opportunity or close a chance of one contract agreement for market seekers. For instance, the franchise measures focused largely on franchisor disclosure, but the changes of '2+1' requirement has great impact on foreign companies who want to enter China with franchising strategy.



- ◆ Strategic alliance and Joint ventures are getting more and more popular in China. For instance, by the end of 2000, foreigners had signed more than 200,000 EJV contracts, accounting for approximately 60% of all foreign investment. The issues of culture differences are raised in this type of entry modes.

SQ 3: What are the relevant aspects from literature review and how to assess these relevant aspects? (See Chapter 4)

- The relevant aspects are summarized into theoretical framework of this research.
- The approach to assess these relevant aspects is realized by semi-structured interviews. According to the research objective, the interviewees are divided into two groups. A group of three experts on China's dairy market to give the opinion on market analysis. And a group of six managers of dairy companies in China to give the opinion on China's dairy market and market entry mode.

SQ 4: What are the results of the assessment of China's urban dairy market on market analysis and market entry mode? (See Chapter 5 Par 5.2)

- With respect to the assessment of market analysis the following results can be found.
 - ◆ Firstly, instead of giving direct opinion on transition stage of industry life cycle, all interviewees think that the growth stage will last for some years to come.
 - ◆ Secondly, the strategic group analysis in current China's urban dairy market which is based on the extent of geography coverage is a good criterion, for instance, Mengniu and Yili that have shared the most of the urban dairy market in China can be considered as one strategic group. Moreover, the companies which only focus on the local market can be considered as another strategic group. In contrast, there are six neutral answers to the classification which was based on the product diversity of dairy company.
 - ◆ Thirdly, some expression of market segments are frequently used by the interviewees, for instance, health product and new product and high quality product. Some are mentioned only a few times, for instance, the tailor made product for Chinese people, diverse products, functional products, added value products and fashionable products.
- With respect to the assessment of market entry mode, the influence of market analysis and other factors can be concluded.
 - ◆ Firstly, three interviewees think that the collaboration between local and foreign companies, which has created many strategic alliances, could influence the choice of market entry mode. On the other hand, other



interviewees think that the suitable market entry mode also depends on the internal factors.

- ◆ Secondly, regarding to strategic group analysis, managers of foreign companies think there are some influences, for instance, brand and reputations of the companies. However, managers of local dairy companies think there is no influence on the market entry modes.
- ◆ Thirdly, regarding market segmentation, most interviewees think that the foreign company is most concerned about the core competitive advantage of the companies. On the other hand, the majority don't think market segments have direct influence on market entry mode, but the relevance of market segment with the company long term strategy is crucial for its entry.
- ◆ Lastly, the other factors which might influence the market entry modes refer to the risk and cost minimization, policy barriers and culture differences.
 - Regarding to risk and cost minimization, eight interviewees suggest joint ventures as the preferred market entry mode.
 - Regarding to the policy barriers which could influence the market entry mode, eight interviewees think that the policy barriers have been lowered over the past decade, as the regulations have become less strict for the market entry of foreign company. However, the policy for innovative product could have some influence on the market entry modes of foreign companies.
 - Regarding to the culture differences, all nine interviewees think it is an important and basis issue to setup a successful business in China.

SQ 5: What analyzing can be provided for the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market? (See Chapter 6)

- Based on the literature review of all, strategic alliance and joint venture has been considered as an optimal entry mode for China's urban dairy market. Likewise, eight interviewees think the best market entry mode for current China's urban dairy market is strategic alliance and joint venture as well. Nevertheless, Mr. Marc de Ruiten, the CEO of Yellow Valley thinks for a longer term consideration the best market entry mode is Wholly Foreign-Owned Enterprise. In general, most of the opinions can be considered as future orientated results; on the other hand, some of the results are conventional orientated. The following conclusions are the main reasons.
 - ◆ Firstly, literature review has shown that the entry mode of strategic alliance and joint venture was successful in the past decade. In addition, interviewees have predicted that this mode is suitable for a longer time.



- ◆ Secondly, many positive examples of the joint ventures business show advantages in China's dairy sector. Managers of dairy companies are familiar and convinced by the mode.
- ◆ Lastly, the unconventional opinion of Mr. Marc de Ruiten is based on his ten years living experience in China. His case is not a representative example of Wholly Foreign-Owned Enterprise, but it indicates successful WFOE companies in China.
- In addition, the analysis on recent issues are integrated with the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market
 - ◆ The milk crisis in China which occurred during the research project has been analyzed on the basis of research objective. Nevertheless, the impact of this crisis is temporary and the growth trend of China's dairy industry on a longer term is still positive. At the same time, there are extra opportunities available for foreign companies.

7.2 Recommendations

The goal of this paragraph is to provide recommendations of this research. Firstly, a brief suggestion on market entry strategy for company who wants to enter China is described. Then the recommendations for the future research are presented respectively.

7.2.1 Suggestion for foreign dairy companies

For foreign dairy companies who want to enter China, the overall assessment of internal and external factor is a useful way to develop market entry strategy. Especially, the internal factors can give more detailed information on business level. Regarding to the scope of this research, the suggestion on external factors is discussed in detail.

- On the basis of research results and analysis, it can be concluded that the appropriate market entry mode for a foreign dairy company to enter China's urban dairy market is strategic alliance/joint venture. For the company that already has achieved essential experience in China's dairy business. A wholly Foreign-Owned Enterprise can also be considered as a good market entry strategy.
- The dairy industry is a highly dynamic business in China. This dynamic has direct effects to the companies in the sector and for the companies who want to enter the sector. Especially, the market factors, such as the quality, quantity and cost of raw milk resource and the environment factors, such as the changes of policies are important for selecting market entry strategy. In addition, to build consumer preferences for specific brand and to build the brand reputations, are important considerations as well.



- With regard to market segments in current China's urban dairy market. The health product and new product and high quality product are the major market segments in nowadays. Besides, the tailor made dairy product for Chinese people, divers product, functional product, added value product and fashionable product are also considered as future trend of market segments in China's urban dairy market. Highly differentiated products are preferred to enter China's dairy market through imports and low differentiated products may better enter the market via local manufacturing, contract manufacturing, or equity investment.
- In the end, the influence of culture differences can not be ignored for the company who want to enter China successfully. The culture differences is a broad topic, which including the business philosophy, customer demand, policy making background and etc. To combat the cultural differences with China, it is recommended to select either a strategic customer in China's urban dairy market, such as a local retailer with a good reputation, or to experience and adapt to the local markets in China. For example, start as small company and grow overtime as experience helps you.

7.2.2 Recommendation for future research

This research is an explanatory study on market entry strategy for foreign dairy companies to enter China's urban dairy market. The review is far from complete. For the future research, the following issues should be considered.

- More in depth insight might be reached for this research topic. The assessment of China's urban dairy could be investigated on the basis of a survey. And the concepts which obtained from a strategic management perspective could be extended.
- The market entry mode is a strategic decision based on multiple considerations of internal and external factors. Thus, more research could be conducted on the internal factors.

In the end, I would like to put forward some personal reflections. All in all, I was very glad to conduct this research at management study group in Wageningen University. And I am grateful to the support of my supervisors. With the research project there are several difficulties and limits need to be evaluated. First, it took rather long to setup a conceptual design of this research due to the change of commissioner. Second, only a limited experts and managers have been interviewed in this research project. The results of these interviews are valuable, but the limitation of the sample group can not be ignored. Third, the interview guide lines are rather general to implement with different interviewees. Some unfamiliar words in the questions might confuse interviewees. Last, most company information was gathered by documents and company websites which would be better to collect in an insight



approach. For example, to visit company or to have an interview with company managers.



References

- Aman, Haile-Mariam [2008], 'External and internal factors influencing Sme's Choice of Foreign market entry mode: Two case studies of Swedish companies ', (Lulea University of technology).
- Ansoff, H. Igor and McDonnell, Edward J. [1990], *Implanting strategic management* (Prentice Hall) 52.
- Arla [2005], 'Arla's milk powder joint venture in China', *Website of Arla News*
- Ashton, Dale [2005], 'DAIRY OUTLOOK TO 2009-10', *Australian commodities*, Vol. 12, No. 1.
- Bian, Changyong [2007], 'Yili introduced low lactose milk to compete for added value segments(In Chinese)'.
- Burpitt WJ and Rondinelli DA [2000], 'Small firms' motivations for exporting: To earn and learn? ' *Journal Of Small Business Management* Vol. 38, No. 4, pp. 1-14.
- Caves, R. E. and Porter, M. E. [1977], 'From entry barriers to mobility barriers: conjectural decisions and contrived deterrence to new competition', *Quarterly Journal of Economics*, Vol. 91, pp. 241-62.
- CCFA [2008], 'Baskin Robbins compete for north west China's dairy market(In Chinese) '.
- CDIA [2006], ' Dairy in China-- A market analysis', (Business Insights).
- Chadee, Doren D. and Qiu, Feng [2003], *Chinese Culture organization behavior, and international business managements*, ed. Ilan Alon (An imprint of Greenwood Publication Group, Inc.).
- ChinaAgricultureInfo [2007], 'Guangming have built up 25 manufactories over China, sales 70% of the company(In Chinese)', Vol.
- ChinaCustoms [2008], 'The import and export data of dairy product in 2008 '.
- ChinaDairy [2007], 'Nestlé has set up a new manufactory in Inner Mongolia to compete for the best milk source in China(In Chinese)'.
- ChinaFood [2007], 'The strategy of dairy company: the review and out look(In Chinese)'.
- ChinaFoodBusiness [2008], ' Introduction of Bongrain SA(In Chinese)'.
- CIEN(China Industry Economic News), 2008 [2008], 'Demand of liquid milk are decreases, the changes of dairy competition in China (in Chinese)'.
- Cooper, Donald R. and Schindler, Pamela S. [2006], *Business research methods ninth edition* (McGraw-Hill Irwin).
- Deng, Yingjie [2006], 'Analysis of industry structure of China's dairy industry(In Chinese)', Vol.
- Dess, Gregory G., G.T.Lumpkin, and Eisner, Alan B. [2007], *Strategic Management: creating competitive advantages* (McGraw-Hill Irwin).



- Dominique, Patton [2006], 'Danone sets up joint venture with China's Mengniu', *Breaking News on Dairy Processing & Markets*.
- Fuller, Frank H. and Hu, Dinghuan [2005], 'Dairy products in southwestern China: Anecdotal evidence from kunming', *WERA-101 meeting* (Reno, NV).
- Fuller, Frank H., Beghin, John C., and Rozelle, Scott [2004a], 'Urban Demand for Dairy Products in China: Evidence from New Survey Data', Vol.
- Fuller, Frank H., et al. [2004b], 'China's Dairy Market: Consumer Demand Survey and Supply Characteristics Center for Agricultural and Rural Development', Vol.
- [2004c], 'China's Dairy Market: Consumer Demand Survey and Supply Characteristics', (State University Ames: Center for Agricultural and Rural Development Iowa).
- [2006], 'Got milk? The rapid rise of China's dairy sector and its future prospects', *Food Policy*, Vol. 31, pp. 201-15.
- Gregory, A. Baker [1999], 'Consumer Preferences for Food Safety Attributes in Fresh Apples: Market Segments, Consumer Characteristics, and Marketing Opportunities', *Journal of Agricultural and Resource Economics*, Vol. 24(1), No. 1, pp. 80-97.
- Hallett, Paul and Truman, Micah [2008], 'How to be successful', Vol.
- Hassan, Salah S and Lea, Prevel Katsanis [1994], 'Global Market Segmentation Strategies and Trends', *Globalization of Consumer Markets: Structures and Strategies* (New York: International Business Press), 47-63.
- Hillstrom, Kevin and Hillstrom, Laurie Collier [2002], *Encyclopedia of Small Business* (Thomson Gale).
- Hogan&Hartson [2007], ' China Introduces New Commercial Franchising Regulations: A Step in the Right Direction'.
- Hollensen, S [2004], *Global Marketing* (Prentice Hall Publishing.).
- Fighting shy of the franchise route in China* [2004], Iyengar, Jayanthi (dir.).
- Jia, Hepeng [2008], 'China milk crisis forces food testing rethink (in Chinese)', (Royal Society of Chemistry).
- Johnson, Gerry, Scholes, Kevan, and Whittington, Richard [2005], *Exploring corporate strategy* (Financial Times Prentice Hall Imprint).
- Jones, Paul [2007], 'FRANCHISING IN CHINA: Judicial and Legislative Update 2005-2006', (Toronto, Canada: Barrister, Solicitor & Trade-mark Agent Jones & Co.,).
- Karlsson, C [1988], 'Innovation Adoption and the Product Life Cycle', (Umeå conomic Studies No. 185: Umeå University).
- Karlsson, Charlie and Nyström, Kristina [2002], 'Exit and Entry Over the Product Life Cycle: Evidence from the Swedish Manufacturing Industry ', *Small Business Economics* Vol. 21, pp. 135-44.
- Kaynak, Erdener and Hassan, Salah S. [1994], 'The Globalizing Consumer



- Market: Issues and Concepts,' *Globalization of Consumer Markets: Structures and Strategies* (New York: International Business Press), 19-25.
- Koch, A.J [2001], 'Factors Influencing market and entry mode selection: developing the MEMs model. ' *Market Intelligence & Planning*, Vol. 19, No. 5, pp. 351-61.
- Lior, Yaron [2008], 'China's milk hunger - China's milk production', (Milkproduction.com).
- Liu, Jianhui [2008], 'Sanlu milk crisis smash China's dairy industry (in Chinese)', (NBD.com.cn).
- Luo, Huansu [2008], 'National Bureau of Statistics shows Sanlu Milk Crisis have influenced 80% consumer(in Chinese)'.
- Ma, Hengyun and Rae, Allan [2003], 'Projections of Dairy Product Consumption and Trade Opportunities in China', (Centre for Applied Economics and Policy Studies Massey University).
- Magee, S. P [1977], 'Multinational Corporations, the Industry Technology Cycle and Development', *Journal of World Trade Law*, Vol. 2, pp. 297-321.
- McGahan, Anita M., Argyres, Nicholas, and Baum, Joel A.C. [2004], 'Business Strategy over the Industry Life Cycle', *Advances in Strategic Management*, Vol. 21.
- McGee, John and Thomas, Howard [1986], 'Strategic Groups: Theory, Research and Taxonomy', *Strategic Management Journal*, Vol. 7, pp. 141-60.
- Mengniu [2006], 'Annual report of China Mengniu Dairy Company Limited ', in Mengniu (ed.).
- Miller, James J. and Blayney, Don P. [2006], 'Dairy Backgrounder Electronic Outlook Report ', (Economic Research Service).
- Nielsen, AC [2006], 'Chinese trend report 2006 '.
- Porter, M [1979], 'The structure within industries and companies' performance', *Review of Economics and Statistics*, Vol. 61, pp. 214-27.
- ResearchInChina [2007], 'China Dairy Market Report, 2006-2007 '.
- Root, Franklin R. [1994], *Entry strategies of international markets* (Jossey Bass).
- Saunders, Mark, Lewis, Philip, and Thornhill, Adrian [2007], *Research Methods for business students* (Prentice hall) Chapter 7 and Chapter 10.
- Saxelin, M., Korpela, R., and Mäyrä-Mäkinen, A. [2002], 'Introduction: classifying functional dairy products', *Valio Ltd.,* Vol.
- Simpson, James R. [2006], 'China's Dairy Industry: Current Situation and Long-Term Projections', *Assessing China as a Market and Competitor* (WERA-101; Conference Washington, D.C).
- Steenkamp, Jan-Benedict E.M. [1998], 'A consumer-led approach to marketing of foods in the EU: The case of yoghurt', *3rd Karlsruhe Nutrition Symposium*



- European Research towards Safer and Better Food Review and Transfer Congress* (Congress Centre, Karlsruhe, Germany).
- Tinghsin 'One of the biggest companies in China's food industry', <<http://www.masterkong.com.cn/tinghsin.jsp>>.
- USDA [2007], 'Dairy Production and Trade Developments Circular Series', (Foreign Agricultural Service).
- Verschuren, Piet and Doorewaard, Hans [2005], *Designing a research project* (Uitgeverij Lemma BV).
- Wu, C [2003], 'China, Peoples Republic of: Dairy and Products, China's Dairy Industry Overview 2003', in U.S. Department of Agriculture Foreign Agricultural Servic (ed.), (Washington, DC.).
- Yan, Aimin and Gray, Barbara [1994], 'Bargaining Power, Management Control, and Performance in United States-China Joint Ventures: A Comparative Case Study', *The Academy of Management Journal*, Vol. 37, No. 6, pp. 1478-517.
- Zhao, Jinghou and peng, Wang [2008], 'The impact of Sanlu milk crisis(in Chinese)', (SYWG research and consulting).
- Zhao, Yi [2007], 'Guangming introduced Zhiyou as a high-end product accessed 2007 September Chinafood(In Chinese)'.
- Zhou, Meng and Novakovic, Andrew M. [1996], ' Exporting to China: Possibilities and Challenges for US Dairy Industry ', *Agribusiness*, Vol. 12, No. 1, pp. 1-13.



Appendix

Appendix 1 Product diversity of dairy company in China

The number of product is indicated in the bracket after the product type. For example, Milk (17), means there are at least 17 different kinds of products within the product of milk. All the product information is collected from the official website of the company; the last access is in August.2008.

Mengniu

One of the market leader companies who have sales over all China

Liquid milk: Milk(17),Functional milk(38),Flavored milk(52),High-end milk

Yogurt like: Yogurt drink, Yogurt(15)

Ice cream: Ice cream(24), High-end ice cream(4)

Milk powder: Baby(24), Adults(12),Milk tea(6)

Others: Cheddar cheese(3), Butter and Cream (4)

http://www.mengniu.com.cn/cpzx_ytn.asp

Yili

One of the market leader companies who have sales over all China

Liquid milk: Milk, Added value milk(40),Flavored milk(48),High-end milk(1)

Yogurt like: Yogurt drink (12),Yogurt(12)

Ice cream: Ice cream(12), High-end ice cream(-)

Milk powder: Baby(26), Adults(13),Milk tea(2)

Others: Cheddar Cheese(7), Butter and Cream (3)

http://www.yili.com/products/milk/product_intro/index.html

Nestlé

The only WFOE within the market leader companies in China. They have sales of dairy product over all China.

Liquid milk: Milk(1),Added value milk(-),Flavored milk(5),High-end milk(-)

Yogurt like: Yogurt drink(-),Yogurt(-)

Ice cream: Ice cream(16), High-end ice cream(9)

Milk powder: Baby(14), Adults(9)

Others: Condense milk (1), Butter and Cream(2)

<http://www.nestle.com.cn/Document.aspx?ChannelId=284&SourceId=5&lang=zh-cn>



Chenguang

One of the market follower companies who have major sales over southern China

Liquid milk: Milk(9), Added value milk(4), Flavored milk(15), High-end milk(-)

Yogurt like: Yogurt drink(-), Yogurt(4)

Ice cream: Ice cream(9), High-end ice cream(-)

Milk powder: Baby(-), Adults(1)

Others: Milk tablet(1)

<http://www.chenguang.com.cn/Product.asp>

Guangming

One of the market leader companies who have major sales over all China

Liquid milk: Milk(4), Added value milk(12), Flavored milk(10), High-end milk(1)

Yogurt like: Yogurt drink(-), Yogurt(12)

Ice cream: Ice cream(-), High-end ice cream(-)

Milk powder: Baby(12), Adults(10)

Others: Cheese(5), Butter(5)

<http://www.brightdairy.com/products.php>

Sanyuan

One of the market follower companies who have major sales focus on Beijing areas

Liquid milk: Milk(5), Added value milk(-), Flavored milk(-), High-end milk(1)

Yogurt like: Yogurt drink(-), Yogurt(-)

Ice cream: Ice cream(-), High-end ice cream(-)

Milk powder: Baby(-), Adults(1)

Others: Cheese(1)

<http://www.sanyuan.com.cn/channel.php?id=3>

Sanlu

One of the market follower companies who use to have major sales over on mid China

Liquid milk: Milk(5), Added value milk, Flavored milk(6), High-end milk(-)

Yogurt like: Yogurt drink(19), Yogurt(25)

Ice cream: Ice cream(12), High-end ice cream(-)

Milk powder: Baby(30), Adults(12)

<http://www.sanlu.com/ProductList.aspx?cid=22&ls=0>



Wandashan

One of the market follower companies who have major sales over north China

Liquid milk: Milk(4), Added value milk(1), Flavored milk, High-end milk(-)

Yogurt like: Yogurt drink, Yogurt(4)

Ice cream: Ice cream(-), High-end ice cream(-)

Milk powder: Baby(9), Adults(14)

Others: Butter(1)

<http://www.wondersun.com.cn/youzimingpin.asp>

Taizina

One of the market leader companies who have focus on yogurt market only. Their sales are over China

Yogurt like: Yogurt drink(27)

<http://www.taizina.com.cn/Product.asp>

Weiquan

One of the market follower companies who have focus on milk powder market only. Their sales are only focus on urban areas in east coast China

Milk powder: Baby(4), Adults(2)

<http://www.weichuan.com.cn/chanpin/index.asp>

Yashili

One of the market leader companies who have focus on milk powder market only. Their sales are over China

Milk powder: Baby(10), Adults(4)

<http://www.yashili.com/cn/product.aspx>



Appendix 2 Interview to the experts

Experts 1

Mr Chengguo Liu, Chair of DAC(Dairy Association of China)

Interview questions of market analysis

1. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) What would be the reason for this?
 - b) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - c) Do you have another way to describe the China's dairy industry? And what?

Answers:

- 1.a) China's dairy industry are still at the growth stage. The structure of the current China's dairy industry are not optimal. There still have big space to develop. For example, the vertical integration of the milk producing and manufacturing.
 - 1 b)It's a good way to describe China's dairy industry, but the characteristics are more suitable for growth stage. Especially, to create consumer demand is one of the important issues in current China's dairy industry.
 - 1 c)The industry structure is a major way to describe the China's dairy industry.
2. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
 - a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
 - b) Do you think if there is more strategic space for new companies in the strategic grouping map?
 - c) Based on my research the strategic space of low product diversity and small coverage could be a new space for market development? How do you think about it?

Answers:

2. The current China's dairy can be simply being divided into two strategic groups. The one is market leader which formed by the three biggest dairy



companies (Mengniu, Yili and Guangming), the other one is the SMEs in local area. Because the variety of China's dairy product is relatively less, the liquid milk production remain the core business. And the three major dairy companies have produced most of the liquid milk in China.

2 a) Since the less variety of the product, the classification by product diversity is evident. But the classification by geography coverage is good.

2 b) As the old saying said: there is no late in business. The business focus are critical point for the new comers.

2 c) (Same answer in question b) In addition, the structure of the company is also crucial. The integration with producing, manufacturing and distributing is an option in future.

3. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?

a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think it is a proper segmenting?

Answers:

The market segments of current China's dairy industry can not be clarified easily. Many segments was created on the technology of dairy companies which should be created on the demand of the consumer is a problem of market segments in current China's dairy market. Tailor made product for Chinese people for Chinese people is one big segments in the future. Of course the high quality and health product are also important.

Expert 2

Mr Caizhi Wang, Chief of China agriculture department and farming bureau

Interview questions of market analysis

1. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?

a) What would be the reason for this?

b) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?

c) Do you have another way to describe the China's dairy industry? And what?

Answers:



- 1.a) The stage of China's dairy industry can be considered at growth stage in the past decade. The growing of the China's economy has played an important role.
 - 1 b) There are some characteristics which can be found in the maturity stage of one industry such as compete for market share have also emerged in current china' dairy industry. It can be considered as transition stage but this stage will not transfer into maturity stage in short time due to the industry structure and consumer awareness.
 - 1 c) The professional level and technical level can be another way to describe China's dairy industry in general.
2. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
 - a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
 - b) Do you think if there is more strategic space for new companies in the strategic grouping map?
 - c) Based on my research the strategic space of low product diversity and small coverage could be a new space for market development? How do you think about it?

Answers:

- 2.a) b) c) The strategic group in China can be divided into four groups, the market leader in national wide, the market follower in national wide, the market leader in regional wide and the market follower in regional. (Agreed with the grouping in this research). The new strategic space has strong relation with the business mode of the company, the integration of producing manufacturing and distributing is crucial for future space.
3. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?
 - a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think it is a proper segmenting?

Answers:

- 3.a) The market can be segmented into many parts, for example, the health, good quality, innovative product, Tailor made product for Chinese people



and so on. Many companies have created this market segments by their experiences. The three general segmentations is good, but there are many sub segments under these three segments.

Expert 3

Ms Deheng Gao, Brand manger of Tetrapak China

Interview questions of market analysis

1. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) What would be the reason for this?
 - b) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - c) Do you have another way to describe the China's dairy industry? And what?

Answers:

- 1.a)The stage of China's dairy industry can be considered at growth in the past decade. However, the unbalanced development is still the reason to position the current industry at this stage.
- 1 b) It will remain the growth stage since the current problem of China's dairy industry will remain to improve the quality of the milk, which is the basis of development.
- 1 c) The quality of the dairy product.
2. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
 - a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
 - b) Do you think if there is more strategic space for new companies in the strategic grouping map?
 - c) Based on my research the strategic space of low product diversity and small coverage could be a new space for market development? How do you think about it?

Answers:

2.The market leading companies share most of the market in China's urban dairy market. For example, Mengniu, Yili and Guangming. They formed as the strategic group in a national range. The other dairy companies who



compete in the local market are the other strategic group. The reason is their sales records and advertisement promotions.

2 a) The geography coverage I have just mention, for the product diversity I think it's also a good way to classify the strategic group.

2 b) c)The niche market segments are still new for China's dairy market.

3. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?

a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think it is a proper segmenting?

Answers:

3. The dairy product for elder people, health product and functional product, fast food, added value. The aging population problem, the younger generation emerged as middle class. The market segment are not restricting to a certain type due to the several of demand.



Appendix 3 Interview to the managers of the dairy company

Manager of dairy company 1

Mr Wenjun Yang, Manager of Mengniu

Interview questions on market analysis and market entry modes

1. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?
 - a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think is it a proper segmenting?
 - b) Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?

Answers:

1. and 1a) Innovative product and basic dairy product with good quality would be the market segments in current China's dairy market. The segments of healthy product are also important. These three segments covered most of the dairy segments in current China's dairy market, but based on the different marketing definition, the market segments can be classified into different ways.
 - 1b) No, the market segments will not influence the market entry modes. However, the core competitive advantage of the company is very crucial. For example the focus of the business.
2. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - b) Based on the industry life cycle, the market growth rate are increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?

Answers:

2. In my personal opinion the current China dairy industry have a long distance to reach the maturity stage. Although the production rate is



growing, the other facilities of the whole industry are still in a lower growing rate.

2a) I think it's a proper way to define the current China dairy industry in a transition stage between growth and maturity, but I think the transition period will remain a long time.

2b) The development have attracted more and more foreign dairy companies to setup win-win collaboration in current China's dairy industry. The competition will be enhanced by these new players. For example, the shortage of raw milk resource is a challenge.

3. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
 - a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
 - b) Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?

Answers:

3. Market leaders who have sales over the country, and the market followers who have sales at local place.

3a) (Hesitated in answering) It's good way.

3b) It's a good question. The foreign company in fact will receive some positive information on the market entry. Because, the examples of successful and failure company in this strategic groupings are list in the history. They can learn from it.

4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?

Answers:

Joint ventures. For example, the language and culture gap, the relation of raw milk resource with profits of milk farmers can all be handled by the local partners. The foreign company don't have to develop their own strategy to survive in China.

5. Is there any policy barriers (regulation, tariffs) influence the market entry mode of foreign companies and how?

Answers:

There used to be many policy barriers to influence the market entry mode before, but in recent years there is not so much.



6. Does the culture differences play an important role in choosing the market entry mode for China's dairy market?

Answers:

Yes, (Mentioned in question 4) most foreign companies prefer to setup joint ventures with Chinese partner as market entry mode to minimize the influence of the unfamiliar culture and other business related gaps.

7. What kind of market entry mode for China's dairy market can be considered best? And why?

Answers:

Joint venture (Was partly answered in 3,4 and 6)

Manager of dairy company 2

Mr Jianqiu Zhang, Manager of Yili

Interview questions on market analysis and market entry modes

1. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?
 - a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think is it a proper segmenting?
 - b) Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?

Answers:

1.a) Divers product, tailor made, Fashionable product, new taste, full of nutrition and new package can be considered as market segment in the current dairy market. The market segment in this research is general way to segment the market.

1b) The slow growing of the liquid milk segment gives more spaces for companies to develop the niche market in China. The competition in these new segments are relative less. The influence for market entry mode is not significant in my personal view.

2. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?



- b) Based on the industry life cycle, the market growth rate are increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?

Answers:

2. China's dairy industry is at the growth stage of the industry life cycle. The construction for raw milk producing are still in a very low level.

2a) According to some research, the market growth rate of liquid milk is slowing down(Low to moderate). But the growth rate as whole China's dairy industry remain large.

2b)Both the local dairy companies and foreign companies are looking for the opportunities to make profit in China. The best way is to setup the win-win collaboration. The local company provides production and relations, the foreign company provide the technology and etc.

3. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?

a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?

b) Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?

Answers:

3. Regarding to the geography coverage of the sales, there are few big dairy companies shared the national market. On the other side, many of local companies focused on the local market.

3a) I think it's good way to group.

3b)(Partly mentioned in question 1), the grouping will have no influence the market entry modes, but the choosing of partners become an issues.

4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?

Answers:

Joint ventures. It has become a standard entry mode to enter China in the past years, and it will suitable for current China's dairy industry as well.

5. Is there any policy barriers (regulation, tariffs) influence the market entry mode of foreign companies and how?

Answers:



There used to be many policy barriers to influence the market entry mode before, but in recent years there is not so much.

6. Does the culture differences play an important role in choosing the market entry mode for China's dairy market?

Answers:

Yes, most foreign companies prefer to setup joint ventures with Chinese partner as market entry mode to minimize the unfamiliar culture.

7. What kind of market entry mode for China's dairy market can be considered best? And why?

Answers:

Joint venture (Was partly answered in 5)

Manager of dairy company 3

Mr Huaguo Liu, Manager of Yinqiao

Interview questions on market analysis and market entry modes

1. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?
 - a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think is it a proper segmenting?
 - b) Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?

Answers:

1. The current China's dairy can be segmented into many small segments, but the one major segment in the future is the added value product. Compare to foreign dairy market, the add value products on China's dairy market are still remain less.

1a) The other two market segments which was mentioned in the research will remain an important role for a long time. (The high end product and divers product)

1b) As I just mentioned, the foreign company have experience on the future market segments in China, because they already have it on their original market. They would more confident to establish their planed market entry mode in the new market.

2. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which



stage do you think the China's dairy industry belongs to according to this concept?

- a) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
- b) Based on the industry life cycle, the market growth rate are increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?

Answers:

2. In the past decade the development of China dairy industry is significant. But I think this growing rate will keep moving in the coming years. So the China' dairy in general is at the growth stage.

2a) The unbalanced development in current China dairy industry is another reason to define the China dairy industry in a growth stage.

2b) The local companies as well as the foreign companies are both want to catch up the trend of the development. The collaboration demand between these two groups create many strategic alliance partners.

3. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?

a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?

b) Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?

Answers:

3. Mengniu and Yili as two of the largest dairy companies can be grouped as market leader in China dairy market, rest of the local dairy companies are market followers.

3a) Although some of the local companies don't have the sales at the national level like Mengniu and Yili, they have opened the market in some where else. For example, south Asian. Their product range are also quite divers. The strategy of these companies are more broad. (No clear answer)

3b) No, the dairy market in China is highly dynamic. I don't think the strategic grouping in China's dairy market will influence the market entry mode of the foreign companies. The company who wants to enter china must have a long term planning



4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?

Answers:

Joint venture. In this type of collaboration, the local company can take more responsibility in local business. In the way, the foreign company have a more smooth enter in a strange market.

5. Is there any policy barriers (regulation, tariffs) influence the market entry mode of foreign companies and how?

Answers:

The tariffs used to be barriers of exporting to China. But in the recent years the policy barriers are relatively low. The collaboration are flexible between local and foreign companies. Thus many of the foreign companies choose not only joint venture, but other type of entry modes to enter China's dairy market.

6. Does the culture differences play an important role in choosing the market entry mode for China's dairy market?

Answers:

Culture differences is one of the crucial factors which may influence the type of market entry mode. While the increasing of the experience, the entry mode used to change from joint venture to foreign direct investment. From lower control to higher control system.

7. What kind of market entry mode for China's dairy market can be considered best? And why?

Answers:

Joint venture(Was partly answered in 5)

Manager of dairy company 4

Mr Ross McCowan, Manager of Fonterra

Interview questions on market analysis and market entry modes

1. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?
 - a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think is it a proper segmenting?
 - b) Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?

Answers:



1. High quality product will remain as an important segment in China's dairy market.
 - 1a) The high quality product segment is the base of other market segments. If the part of the market are full filled. the other segments can be easily reached. For example, the diver product and add value segments.
 - 1b) As one of the foreign companies, to focus on the basic market segments is the priority of Fonterra. How to segments the market has no influence on our market entry mode.
2. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - b) Based on the industry life cycle, the market growth rate are increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?

Answers:

2. China dairy market are the dairy market in future. According to industry life cycle concept, it's at the growth stage. For example, the milk product rate, the milk supply chain system, the manufacture facilities showed that there are lot need to be improved.
 - 2a) Yes, It' can be considered as transition stage, but this transition will be much longer than a moment.
 - 2b) There might be some influence on the market entry modes, but on the other hand the best entry strategy is also depends on the internal factors of the company.
3. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
 - a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
 - b) Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?

Answers:



3. Market leader are two and three big dairy companies, who focus on national market. Beside, there is the group of market followers who used to server local market but have ambition to become a leader in the future. The competition between these two groups are very intense.
3a) (Mentioned in previous question)
3b) The market followers who wants to become market leaders create big opportunities for foreign companies who want enter China. Because, often the foreign companies have techniques and experience but too risky to establish one company on their own in China which entire different than any other countries.
4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?

Answers:

Joint ventures. Because the cost, service, leverage of global business and local sourcing are the typical advantages of this mode.

5. Is there any policy barriers (regulation, tariffs) influence the market entry mode of foreign companies and how?

Answers:

The policy regulation become more flexible in recent years. The tariffs are lower. These changes are all positively influence the number of the new foreign companies.

6. Does the culture differences play an important role in choosing the market entry mode for China's dairy market?

Answers:

Of course, the culture differences is one of important factor to setup a successful company in China. This also the reason why most of foreign companies still choosing joint ventures as their market entre mode, although the policy is open for wholly foreign-owned enterprise(WFOE).

7. What kind of market entry mode for China's dairy market can be considered best? And why?

Answers:

Joint venture(Was partly answered in 5)

Manager of dairy company 5

Mr Yinyu Wang, Manager of Guangming

Interview questions on market analysis and market entry modes

1. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?



- a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think is it a proper segmenting?
- b) Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?

Answers:

1. The functional and health product are the two major segments.
 - 1a) The way of segmenting are various. The functional, added value, divers product are all include. However, the divers product which was mentioned in the research has some difficulty with national policy. For example the new taste or new type of dairy product need apply the license from the government.
 - 1b) The foreign companies who want to enter China's dairy market often have advanced technology, for the emerged new market segment, these advanced technology will have positive influence on their market entry modes.
2. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - b) Based on the industry life cycle, the market growth rate are increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?

Answers:

2. It has grown fast in the past decade, but the average level are far below than international level. The China's dairy industry has long way ahead.
 - 2a) As I just mentioned it's a long way to reach the international average. China's dairy industry can be considered at growth stage.
 - 2b) No. (Heisted to answer)
3. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?



- a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?
- b) Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?

Answers:

3. Market leaders are Mengniu, Yili and Guangming. Market followers are mainly focus on local dairy market and niche market.

3a) (Mentioned in previous question)

3b) No.

4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?

Answers:

Strategic Alliance and the similar type of market entry modes. For instance, joint venture. As long as the company setup win-win collaboration with China's local dairy company the risk will be minimized.

5. Is there any policy barriers (regulation, tariffs) influence the market entry mode of foreign companies and how?

Answers:

The innovation licensing for novelty dairy product is one of the policy barriers for foreign companies. (Refer to questions 1 a)

6. Does the culture differences play an important role in choosing the market entry mode for China's dairy market?

Answers:

Yes, it's very important. For example, Danone have setup joint venture with our company in their beginning stage in China's dairy market. It helps the company the get familiar with the local culture and local demand in a very short time. To lower their enter risk.

7. What kind of market entry mode for China's dairy market can be considered best? And why?

Answers:

Joint venture(Was partly answered in 5)

Manager of dairy company 6

Mr Marc de Ruyter, CEO of Yellow Valley (Wholly owned Dutch cheese company)

Interview questions on market analysis and market entry modes

1. Market segments is a factor to describe one industry at a market level. It can be useful in understanding similarities and differences between groups of customers or users. How would you like to segment the dairy product in current China's dairy market? And why?



- a) According to my research, the China's urban dairy market can be segmented into three major segments. The good quality and high-end product, healthy and nutritious products and divers dairy products. Do you think is it a proper segmenting?
- b) Do you think the market segments will influence the market entry mode of foreign companies? In which way it will influence and which entry mode?

Answers:

1. The current China's dairy market can be segmented into two segments, the high end product and dives product. But somehow these two segments are also overlaps.
 - 1 a) The health product is also important, more and more younger people want the new product and health product.
 - 1 b) The foreign company have more focus on reputation and brand. The market segment has no significant influence.
2. Based on the concept of industry life cycle, there are four stages can be found in one industry, introduction, growth, maturity and decline. Which stage do you think the China's dairy industry belongs to according to this concept?
 - a) According to my research the China's dairy industry have positioned transition stage between growth and maturity. What is your opinion?
 - b) Based on the industry life cycle, the market growth rate are increase in the current China' dairy market. Do you think this will influence the choice of the market entry mode of foreign companies? And how it would be influenced?

Answers:

2. At the growth stage
 - 2 a) It's not the transition stage, it will remain growth stage in a very long time. Because the production rate will increase but the demand will not positively increase as well due to the culture differences.
 - 2 b) The stage of the industry life cycles will not influence the entry mode of the foreign company, but the promotion need to be done, if the foreign company want to compete in the segment.
3. Strategic grouping is a factor to describe one industry at a market level. It brings with understanding the similarities and differences in the characteristics of 'producers'- those organizations that are actual or potential competitors. How would you like to group the dairy companies in current China's dairy market? And why?
 - a) Based on the extent of geography coverage and product diversity, the strategic group of China dairy companies can be divided into four groups. Do you think this is a proper way to group?



- b) Do you think the current strategic grouping in China's urban dairy market can have influence on the market entry modes of foreign companies?

Answers:

3. The biggest dairy share the most part of the market, the market followers have very little space to develop.

3 a) It's quite reasonable classification

3b) The current strategic group has very big influence on the market entry modes of foreign dairy company, for instance, the brand and reputations.

4. What kind of market entry mode for China's dairy market can be considered in risk and cost minimization with respect to production?

Answers:

Joint venture is used to be considered as the answers. But I think wholly foreign-owned enterprise(WFOE) are the best answers. Because the control power is much higher than other types of entry modes, the risk and cost can also be controlled in a high level. But this is under the condition of the good understanding of local culture.

5. Is there any policy barriers (regulation, tariffs) influence the market entry mode of foreign companies and how?

Answers:

No, milk resource in current China dairy industry in a crucial problem. After China joined the WTO, the tariffs was lowered by the regulation, the price of raw milk was keep increasing.

6. Does the culture differences play an important role in choosing the market entry mode for China's dairy market?

Answers:

The culture will influence the market entry mode, especially the collaboration type. Furthermore, the wholly foreign-owned enterprise (WFOE) have highest risk to misunderstand the local culture.

7. What kind of market entry mode for China's dairy market can be considered best? And why?

Answers:

Wholly foreign-owned enterprise(WFOE) always have best result, but the risk and cost are higher. Especially, the start funds. But the high quality product which produced by the foreign companies will be accepted by local people in the future.