Internationalization Strategy of Small Medium Size Enterprises from Developing Countries
A Case Study of XINJIAHUA Export Company

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Abstract
The internationalization of SMEs can be expected to gain further momentum because the world economy is becoming increasingly integrated with continuing declines in government-imposed barriers and continuing advances in technology. Meanwhile, more and more SMEs from developing countries start to increase their overseas business. The purpose of this thesis is to develop and implement the internationalization strategy of SMEs from developing countries. To be able to illuminate this question in more detail, essential factors will be looked upon in this paper. We choose the export business as a main entry mode due to SMEs general lack of resources. Generic strategies and marketing mix analysis will also be discussed in the paper in order to obtain essential factors which influence performance of SMEs from developing countries which internationalize their business.

Only a qualitative study was carried out to help determine the purpose of the paper, where data was collected through a real case study which was an Exporting Company from a developing country. The primary data was collected through interviews via email with the company founder, accounting manager, manufacturing manager and sales managers, complemented with secondary data collected from internet sources.

The empirical findings and analysis has brought to light some interesting conclusions. Export can be a smart choice for SMEs, because they lack of resources at the initial period. Whether the choice is direct export or indirect export, the driving force of SMEs from developing countries are their natural dispositions. Mixed generic strategy can help SMEs conquer disadvantages. While marketing mix theory can also help SMEs aim at niche markets more clearly.

Thus, exporting as the most suitable entry mode for SMEs, while mixed generic strategies and marketing mix theory also should be taken into consideration. Therefore the success of internationalization process will be increased for SMEs from developing countries.

Key words:
Internationalization strategy, SMEs, developing country
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1 introduction

1.1 Problem background

During the last three or four decades, more and more Small and medium sized enterprises (SMEs) have started to get involved in the international market. Meanwhile, many scholars have proven that Small and medium sized firms (SMEs) represent the majority of enterprises in the most countries. Almost over 90% of firms worldwide are SMEs. They are significantly involved in creating wealth and employment in domestic economies, as well as being the driving force behind a large number of innovations and contributions to the growth of the national economy through investments and exports.

However for SMEs, entering new international markets can mean dealing with severe challenges. The psychic distance, for instance differences in terms of social, political and cultural factors (Johanson and Vahlne, 1977) between the domestic market and the new foreign market, creates barriers for SMEs internationalization efforts. As a matter of fact, SMEs lack of financial resources, human resources and lack of expertise in international market expansion and market management, are regarded characteristic as being major barriers to SMEs internationalization (Barringer and Greening, 1998).

Nowadays, more and more SMEs tend to go beyond national borders in order to expand their business territory, however in the past various problems have constantly occurred in the process of internationalization. Therefore, this field of research attracts the interest of and ever rising amount of academics. Specifically, the strategies in the process of internationalization turn to be critically reviewed at this moment (Andersson, 2000; Holmlund and Kock, 1998). Today, the importance of expansion strategies of SMEs, which play an important role in the internationalization process, have been widely accepted in the world.

In addition however, most research only focuses on the internationalization strategy of SMEs in developed countries, since most SMEs from developed countries have more money, experience and knowledge to support a company’s expansion.

1.2 Purpose and problem

The issue of internationalization strategies has been argued over by academics for long time. However, few researchers focus on small medium size businesses and their internationalization strategy in developing countries. Hence, the thesis of this research study will mainly discuss the issue of small medium sized businesses in developing
countries and highlight essential factors affecting their internationalization strategies. This is due because of most SMEs lack of financial, human resource and market expertise. To overcome those kinds of barriers, SMEs have to create their own comparative advantage, for example, creating niche markets, where they are able to sell their products or services at lower prices more easily. The purpose of this thesis is to develop and implement the internationalization strategy of SMEs from developing countries. In order to enhance the competition of SMEs in the international markets, only partial strategy will be analyzed in our research.

The SMEs from developing countries tend to explore business in the international market due to them having a natural advantage over competitors, such as a cheaper workforce, cheap raw material and government support. However with competition lingering everywhere, SMEs have to face an intense challenge from other competitors in the international market. In order to study these issues systematically, we outlined the main research question as follows:
1. How does an SME develop and implement its internationalization strategy in developing countries?

To be able to answer the main research question the following sub-question needs to be looked at:
2. What factors affect the SMEs internationalization strategy?

1.3 Delimitation

SMEs from developing countries tend to be more interested in an overseas market. To make use of their natural advantages, such as cheap prices, they are able to overcome their given lack of resources for instance.

This study only focuses on one selected company in a developing country. The reason is that one of the authors has been working for this company. This paper restricts its research field to SMEs in developing country. Therefore, it makes this research lack of comprehensiveness to cover all the internationalization strategies. In addition, authors didn’t research every industry area that empirical data also only focused on a Chinese company.
2. Literature Review

2.1 Internationalization strategy of SMEs

Jansson and Sandberg (2008) state that relationships and internationalization move together: the more countries in which an SME has established relationships, the more internationally experienced it is. And they further state that relationships are a critical part of entries made into emerging markets. A surprisingly large share of the international trade is directly made between customers and suppliers. This is consistent with the finding that SMEs enter a foreign market because of their lack of resources. Indirect relationships through distributors and agents are vital for SMEs.

Tuppura et al. (2008) mention that SMEs either reacted to the cross-border marketing opportunities offered by their relational contacts or proactively pursued overseas opportunities through existing and newly developed relationships. SMEs’ market entry decisions and internationalization speed appear to have been influenced by these relationships. Both social and business networks were found to be important, but social ties seem more influential in the initial internationalization stage, with business networks becoming more dominant subsequently (Ibeh and Kasem, 2011). However, Tuppura et al. (2008) mention that there is no clear cut solution for the most preferred network option to be found in the context of the firms’ internationalization strategies.

The firm's overall propensity towards early moves and its willingness to benefit from growth in international markets is related to the internationalization strategy (paths, operation modes and geographical diversification). Firms are eager to take early steps and seek growth in international markets that are more proactive and risk-tolerant in their growth strategy as well. Hence, in terms of the internationalization path this implies that a firm with high first-mover orientation (FMO) and high international growth orientation (IGO) is suggested to more likely to follow a born global or born-again global internationalization path than other paths (Tuppura et al. 2008).

Furthermore, Jansson and Sandberg (2008) indicate there are two major challenges SMEs face when they enter emerging countries. First, they have to restructure their knowledge platform from a domestic market focus to an international one. The initial internationalization step of an inexperienced firm is a difficult and critical strategic move. Secondly, the restructuring is even more challenging for SMEs. More experienced companies are able to overcome these challenges more easily.

According to these previous studies, we can summarize some elements of internationalization strategy of SMEs such as establishing relationships, social and business networks, early moving, knowledge and resources. However our field of
study is narrowed down to developing countries, therefore we have to consider a lot of factors of developing countries’ SMEs. For example, the particular political environment of developing countries as well as the disadvantages of SMEs from developing countries, such as incomplete logistics systems and low product quality. Based on factors of developing countries and characteristics of SMEs, we adopt some other elements into our theory framework to present a new but specific point about internationalization.

2.2 Internationalization in developing countries

Ibeh & Young (2001) indicate previous developing country internationalization research has preponderantly focused on traditional sectors, which are considered “suitable platforms for export development”. There is little doubt that developing robust, win–win partnerships with foreign distributors, customers, employees and other relevant market actors often yield significant internationalization benefits for SMEs. This challenges growth-seeking SMEs in developing countries, to pay attention primarily to building new internationalization-enhancing ones (Ibeh and Kasem, 2011).

There is a pressing need to improve the competitiveness of indigenous exporters, especially in light of the fact that competition in global markets is ever increasing. One way to achieve this is by gradually building up a competitive edge on skills, capabilities, and resources on which the exporter’s country can draw. Moreover, there is a need to reduce costs, and to this end it is suggested that existing out-of-date production and operation methods be replaced by more modern techniques. Furthermore, because developing country-based exporters are small by international standards, they should specialize in serving specific niches in foreign markets that do not face the immediate threat of large competitors from developed countries; smart niche strategies, although offering low shares in the total market, can prove very profitable for these firms (Leonidou, 2000). However, Ghauri, Lutz and Tesfom (2003) mention that network development should be demand oriented. The model makes this explicit as it stresses the importance of a market problem or market opportunity. This means that a network must be based on a thorough analysis of the problems and market opportunities. They as well find an argument for the fact that outside instigators may play an important role.

As previous studies have shown, win-win partnerships can create significant internationalization benefits for SMEs. Therefore, we consider it as one of our strategies in this study too. Moreover, reducing cost is also a most important factor in our study because low price is the most powerful competition capacity for most of the developing countries. Previous studies also mentioned network development and building up capabilities and resources. However, our study will not only focus on any single factor, but also look at all related factors step by step, and then find an
appropriate strategy to overcome all the challenges and barriers that occur if SMEs plan to enter new markets.

3. Theory

Many companies that have never even been involved in international marketing have export potential (Doole and Lowe 1999). Barriers always have a serious impact on company decision making which is to enter into export markets. Some companies consequently become preoccupied with the domestic market rather than focus on overseas marketing because of that fear of risk.

International niche market occurs where firms become a strong force in a narrow specialized one or two segments across a number of different countries markets (Doole and Lowe 1999). The segment must be rather small so specialization will not attract the attention of large competitors. The product or service must be highly differentiated and be recognized by consumers and other participants in the international niche market.

3.1 Mode of entry

Wind and Perlmutter (1997) identify that choice of entry mode is a ‘frontier issue’ in international marketing. Although various issues impact the companies internationalization process, such as, products, services, markets, functions and technology, the method a company uses to supply the market will have a major influence upon its success overseas (Jones, Dimitrator, Fletcher, Young 2009). Meanwhile several surveys of how companies make the entry mode decisions reveal the importance of the internationalization process (Jones, Dimitrator, Fletcher, Young 2009). This broad scale of entry strategy with an increasing amount of commitment, risk and potential profit include: indirect exporting, direct exporting, licensing, joint venture, and direct investment. However, this study does not include all entry strategies, due to the limitations of SMEs, only certain entry strategies will be looked at.

1. An indirect export strategy means that the firm works through domestic-based independent middle men. Products are produced in their home country.

2. When choosing a direct export strategy, the firm handles its own export. Goods are still produced in the home country, but they are sold by a domestic-based export sales representative, or foreign-based agents or subsidiaries.

3. In joint ventures the firm joins with foreign investors to create a local business in which they share ownership and control.

4. A direct investment includes an investment in foreign-based assembly or manufacturing facilities.
3.1.1 Entry Modes

According to Doole and Lowe (1999), the most important characteristic of the different market entry methods is the level of involvement of the firm in international operations. Meanwhile the level of involvement has significant impact in terms of level of control and resource requirement.

It is obvious that figure 1 illustrates different levels of resource requirements and controlling market entry methods. Wholly owned subsidiaries combine the highest level of control and resource requirement, joint venture and licensing is at the middle of the diagram, exporting takes the lowest position in the diagram. In more detail, the points associated with higher levels of involvement creates not only higher potential for control but also higher potential required resources. Since small sized businesses u market entry mode does indeed matter for small size business in the internalization process (Jones, Dimittratos, Fletcher, Young 2007)

3.1.2 Exporting

SMEs first step in the process of internationalization is usually the import of foreign goods. Exports can be defined as the delivery of goods or service abroad. It is also a “classic” form of business activity of SMEs outside their home market (Donckels, Haahti and Hall 1998). So many academics identify that a major source of strength in exporting is flexibility and adaptability to export opportunities and the ability to make an immediate strategic response. Moreover, the company size and managers’ experience were not critical factors in export success (Doole and Lowe 1999). Many academics distinguish between direct and indirect export, this means whether the company directly delivers its goods or services to the foreign customers, or rather involves a domestic agent (Jones, Dimittratos, Fletcher, and Young 2007).

A firm has to decide which functions will be the responsibility both of external agents and the firm itself. Establishing the export channel takes different forms, two major types have been proven by many academics: indirect export and direct export (Douglas 1995).
### Figure 2 Advantage and limitations of exporting (Douglas 1995)

<table>
<thead>
<tr>
<th>Indirect</th>
<th>Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantage</strong></td>
<td></td>
</tr>
<tr>
<td>Limited commitment</td>
<td>Better contact</td>
</tr>
<tr>
<td>Minimal risk</td>
<td>More control</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Better sales effort</td>
</tr>
<tr>
<td><strong>Limitations</strong></td>
<td></td>
</tr>
<tr>
<td>Potential opportunity</td>
<td>Investment in sales organization</td>
</tr>
<tr>
<td>Lack of control</td>
<td>Commitment to foreign market</td>
</tr>
<tr>
<td>Lack of contact with market</td>
<td>Commitment to foreign market</td>
</tr>
</tbody>
</table>

The table gives a summary of the advantages and limitations of different types of exporting. When a company decides to establish export channels, various advantages and limitations will have to be considered very carefully. For instance commitment of financial and managerial resources and the degree of control. Douglas (1995) points out that the cost effectiveness is clearly an essential factor to evaluate alternative modes of entry. However it is quite difficult to estimate cost precisely, different uncertain factors influence the estimation process. Nevertheless exporting comes to be a favorite entry method to expand an SMEs’ overseas business.

### 3.2 Strategies development and implementation

In order to identify and analyze the opportunities which exist within international markets, we should pay more attention to the ways in which companies can use international marketing to develop their international business, in order to exploit these opportunities profitably.

Doole and Lowe (1999) suggested that the importance of selecting appropriate implementation strategies is paying attention to the details of marketing. Also implementation should recognize the significance of adaptation for international marketing success. The four marketing P’s communication, distribution, logistics and price will be used as the implementation issues.

#### 3.2.1 Generic strategies

There must be an infinite number of strategies usable by SMEs, but depending on our research area, the principal approach to strategy will be developed as follows.

Porter (1990) suggests that the firm should concentrate much more on the competitive advantage rather than on other elements. There have been three generic competitive strategies to be considered by companies. Cost leadership, focus and differentiation concern the position of the companies among their competitors (Porter, 1990).

1. **Overall cost leadership** means that the firm can produce and distribute at lower costs than competitors, e.g. because of economies of scale.
2. Differentiation means that the firm is exploiting a competitive advantage in e.g. quality, design, service or brand. The product is clearly distinguished from other products.

3. Focus strategy means that the firm is concentrating on one or more narrow market segments and keeps looking for new niches to be served. In order to establish a competitive advantage in the international market, small size businesses should adopt one of the generic strategies. However, each choice of strategy means particular challenges for small sized businesses (Doole and Lowe 1999).

3.2.1.1 Cost leadership in SMEs

For small sized businesses due to a lack of financial resources and limitations in experience in new markets, adopting a low cost strategy would help SMEs reduce the competition risk from local companies and multi-national companies, because they cannot force the company out of the market through cutting prices anymore (Doole and Lowe 1999).

3.2.1.2 Differentiation in SMEs

Differentiation mainly requires systematic innovation to add value for customers. Customers consider that products or services have particular benefits that add value compared to other competitive products. Doole and Lowe (1999) suggested that a differentiation strategy be adopted by SMEs, because small size businesses have the flexibility and responsiveness needed to cater to customer needs. However SMEs have high costs to maintain different from competitors in different international markets.

3.2.1.3 Focus in SMEs

Doole and Lowe (1999) believe that small medium sized businesses should search for a highly specialized niche, but the company has to tackle the problem of the high investments and low numbers of customers in that niche. Further they are subject to stiff competition on the international markets, which can prove to be difficult to fight against.

3.2.2 Marketing mix

Dogra and Ghuman (2008) indicated that the 4Ps make up a typical marketing mix. A marketer has three optional levels for every product category, and the same is also
true for each of the other three variables because the 4Ps are interlinked. By looking at the appropriate levels, the right marketing mix can be developed.

3.2.2.1 Product

When internationalizing, retailers must consider the opportunities and challenges the foreign market possesses, as well as the consumers demand for the product. Satisfying the demand of the market is the primary objective in doing business where success is measured on whether the product offered is suitable and accepted in the marketplace (Doole and Lowe, 1999). Furthermore, the product (or service) is the cornerstone of the marketing mix and should be considered as the starting point for marketing strategy, because without it there is nothing to promote, to price or to distribute (Lancaster and Reynolds, 2005).

Sundstrom and Viktorsson (2009) mentioned that many companies treat innovation as an issue for the early phases of a project, separate from execution phases. This is an approach in accordance with the principles of established linear project models in new product development. However, creativity and innovation is critical to maintain throughout the whole product development (PD) project for developing new knowledge and testing new solutions.

3.2.2.2 Price

Lancaster and Reynolds (2005) referred that price is important because of its direct impact on customers, the company and the economy. To consumers, price is an indication of quality and an important factor in decision-making. For company the selling price represents the means of recouping costs and making a profit. The price refers to the amount the customer has to pay in order to acquire a product or service. It depends on a host of factors that include: cost of production, segment specific ability of the market to pay, demand and supply competing products and substitutes, pricing objectives of the firm and a host of other direct and indirect factors (Dogra and Ghuman, 2008).

Exporting requires a low level of investment in terms of managerial and financial resources, meanwhile the price always comes to be under the most competitive pressure in the international markets (Doole Lowe 1999). Some academics believe that the successful company attempts to maintain flexibility and discretion in price decision. Bradley (1998) thought that successful companies in international markets frequently use both costs and prices in determining their competitive position. An overemphasis on the cost side or price side can lead the company into trouble. The successful company usually competes on several factors related to marketing such as: the product and associated services, quality, design, uniqueness, delivery reliability, business relationships and prices. Holzmuller and Stottinger (1996) suggested that competitive success in export markets derives, however, not just from objective
managerial characteristics but also from behavior related aspects, such as attitudes, values and norms. Companies that are less power oriented, more flexible, organized, goal driven and consensus oriented tend to be more successful exporters (Holzmuller and Stottinger 1996). Export competitiveness is influenced by both managerial and marketing issues and behavioral and attitudinal factors. Bradley (1998) highlights that those factors must be considered before the company establishes export prices:

1. Export marketing objectives are whether the company attempts to penetrate or skim the market.
2. The position of the product in the market and in its life cycle.
3. Activities of competitors.
4. Other elements of the marketing mix.
5. A company’s financial and marketing strengths and characteristics of the export market.

Even if the companies acknowledge the relevance of all of the above factors, they still have to make a decision on what price to charge. However there is no way of determining the best suitable price for international marketing. Bradley (1998) illustrates the picture as blow about range of prices.

### 3.2.2.3 Promotion

Chaffey et al. (2006) mentioned the element of the marketing mix refers to how marketing communications are used to inform customers and other stakeholders about an organization and its products. It also is the element of the marketing mix that is concerned with communicating the existence of products or services to a target market. Open and clear communication between partners improves the accuracy of identifying the transaction environment, obtaining mutual satisfaction, understanding mutual needs and correctly delivering to those intentions (Gray and Laidlaw, 2004).

Bradley, Meyer and Gao (2006) mention that it is relatively easy for large-scale companies customers to end the relationship with the supplier and switch to a competitor. For this reason SMEs attempt to ensure that supplier-customer relationships are reciprocal in nature, thus avoiding asymmetrical dependence upon the relationship (Anderson & Weitz, 1989). An asymmetrical dependence is a dependence which allows the more powerful party to take advantage of the dependent one (Ganesan, 1994). Furthermore, given the appropriate type of resource, which may be available in a supplier-customer relationship within a business system, a small company can mimic the competitive patterns used by larger competitors and may perform as effectively (Bradley, Meyer and Gao, 2006).

### 3.2.2.4 Place

According to Doole and Lowe (1999), distribution channels are the means by which goods are distributed from the manufacturer to the end user. Channels of distribution usually have developed through the cultural traditions of the country and therefore
there are great disparities across nations making the development of any standardized approach difficult.

Donovan (1996) agreed that pricing and product quality are important, but he suggested that SMEs must improve their order processing in order to be considered as potentially successful suppliers to mass retailers. Doole and Lowe (1999) also suggest that retailing in developing countries is characterized by low levels of capital investment. Distribution channels in developing countries depend on manufacturers and wholesalers for their sales promotion ideas and materials. In developed countries retailers often take the initiative regarding sales promotions and will develop their own promotion methods. Another function of distribution is to store products so that they become available just in time, as needed by consumers. SMEs must develop strong relationships with their customers at all levels of the supply chain, as well as develop itself into a reliable brand and establish a credible reputation (Nwankwo and Gbadamosi, 2011).

Increased global competition, deregulation of the transportation industry, rising customer expectations on superior logistical service, growing focus of companies on core competencies, increasing popularity of just-in-time (JIT), and revolution in computers and communication technology are indicated as the main forces causing Three-party logistics (TPL) services to experience explosive growth (Marasco, 2008). Peng (2009) mentions that it is an ideal selection that manufacturing enterprises adopt a TPL service in the external logistics operation because of its characteristics. It can be seen that the external logistics operation and information of SMEs are all adopt
outsourcing mode. These measures can achieve such objectives as reducing an SMEs logistics cost, raising profits to SMEs and enhancing the competitive advantage of SMEs. Coyle et al. (1996) identified some key benefits of logistics outsourcing, including operating cost reduction, service level improvement, core competence prioritization, and employee based reduction and capital cost reduction.

4. Methodology

4.1 Research Strategy

As chosen appropriate research methods would directly affect the results and decide whether researcher can find an answer to the researched question (Bryman & Bell, 2007), it is essential to choose suitable research methods.

When it comes to analysis research, there are two different groups of methods we can choose between: the quantitative and/or qualitative methods. According to Bryman and Bell (2007), there are three orientation types that maintain the fundamental differences between quantitative and qualitative research strategies. The first is principle orientation towards the role of theory in relation to research, second is epistemological orientation and last one is ontological orientation. It is also common to describe qualitative research as being related to the generation rather than the testing of theories.

On the subject of our research question, a Chinese small size international company will be conducted in the paper, only qualitative research method will be conducted. This is by the reason of deploying, this is an issue specific information. Therefore there is a need of acquiring internal and in-depth information.

4.2 Data Collecting

With the purpose of collecting necessary data, it is suggested to both secondary and primary research. Primary data is the collected first hand data from primary sources. It is accumulated by the researcher him/herself and can be obtained, for example, by doing observations, surveys and interviews (Yin, 1994).

XINJIAHUA Company is one of the typical small size export companies in China. From 1994 to 2007, the company expand their business on the international market. Nowadays they develop their own manufactory and sales department. The author has priority to obtain much internal information because XINJIAHUA Company is a family business.
The in-depth interview with the company’s managers provides the main basis of the data collection. Due to the geographical distance, our only possibility to interview company’s managers was by communicating via email. Nevertheless we got the chance to interchange with the company’s founder, the overseas market director, the accounting manager and manufactory manager. By having purported the interview guideline in the survey as a matter of convenience in favor of the interviewees, we hoped to get the necessary answers. In order to accumulate the information from XIN JIAHUA Export Company, we sent, first of all, the questionnaire to company’s managers in order to obtain useful information that helped us to state the interview questions referring to our research. Secondly, we sent interview questions to the company’s managers, since the answers obtained by this action were precisely the relevant data for our research. Some difficulties occurred while doing the survey. Chinese are reluctant to pass company information to strangers, even if it is just for research purposes and not for business, because they are suspicious of them. In order to handle this problem, we just make more questions for each part, in hope of getting as much necessary information as needed in some degree. In order to obtain more accurate information from the company, we modified our interview guide for the different departments of the company. For example, for the sale department, our questions were mainly conducted by the issues of sales competitive advantage. For the manufactory, the question of cost cutting was of primary interest.

Overall, we have four managers answered our survey questionnaire. Company’s founder, overseas market director, accounting manager and manufactory manager as our interviewees helped us to obtain company’s information. However we only send email with interview questions to our interviewees and each interviewee responded our interview questions at the different time. It is very hard to give very specific duration of interviews.

Secondary data includes general, published company information, literature reviews from course books and scientific articles. Those information was mainly collected with the use of the company’s website, Halmstad University’s library and other scientific websites. Key words that were used are “competitive strategy”, “SMEs internationalization”, “factors influence internationalization strategy”, “market factor in internalization process”, “resource” etc. The collected secondary data assisted us to understand information generally.

4.3 Data Analysis

Examining, categorizing and recombining the evidences in order to figure out the purpose of the study is what data analysis consist of (Yin, 1994). According to Yin (1994), every researcher should start with a general analytic strategy and priorities what to analyze and why. Furthermore the author states that the most used strategy among researchers is to follow the theory that lead to the case study (Yin, 1994).
4.4 Validity and Reliability

According to Bryman and Bell (2007) the validity is the most important criterion of research. In this research study the information’s validity has a strong connection with the sources, since the majority of the data is collected through different references. All the information has been dealt with critical measures by researchers. Thus, we use a great deal of data collected from primary and secondary sources that help us to enhance the validity and reliability of the research. Considering the fact that one of companies we chosen belongs to family business, we direct with th company’s owner. arrier do not exist between researchersget information from company, we valid and reliable. Moreover, the secondary data, like company web sites and annual reports, are reliable as well (Yin, 1994).

To prevent lingual based errors we translated the questionnaires to Chinese. Nevertheless there may be some unavoidable changes due to our translation of the obtained data back from Chinese into English.

5. Empirical data

5.1 Barrier and niche market

According the interview several barriers significantly affected XINJIAHUA Company’s ambition to expand to the international market. At the initial period, language and information capability blocked the company’s aim of internationalization, although they have highly qualified their productions and maintained the whole supply chains. In 1995, XINJIAHUA Company already had superior advantages compared to other local clothing manufactories with the same size in specialized sections. The sales report showed that XINJIAHUA Company mainly focuses on men’s clothing and winter coats. The company’s founder thinks that competition and barriers form a kind of double-edged sword. Besides, the best way to utilize this sword could be complicated, however, he said, the company knew the appropriate way to be completely able to compete on the domestic market. In 1996, company started to get clothing orders from several local export & import firms and helped them to produce the clothing for exporting. However, companies realized that most of the benefit has been gained by export & import companies, although it is not possible to contract the foreign customers directly. As a result, the company has started to get involved in international business since 1997, due to the language and information barrier so that company lost amount of opportunities to get the orders from foreign customers. Nevertheless, company still insisted on producing men’s-clothing and winter coats as their specialized area. In 1997, the export
department has been established also. After that company started to employ salesmen from overseas in order to expand to international marketing.

### 5.2 Mode of entry

![Figure 4 The different sale with two different entry modes (from interview)](image)

Before the company established the export department in 1997, the indirect export was the only one export way of XINJIAHUA Company. Their lack of knowledge and experience about how to manage the international marketing business as well as their limited financial capability prevented them from exploring costumers in overseas markets. Mr. Yu, the founder of XINJIAHUA Company, said “We have to depend on some export companies even though we know that they will take most benefit away from us.” The figure depicts the sales number with direct export and indirect export in 1997 and 2007. Until the company drove their own export department, direct export had contributed approximately 7.9 million RMB (Chinese currency) in total (the total sale number is 9.9 million RMB in 2007). Currently, the company dedicates to set representative office on the international market. “We want to update the market information on time. Meanwhile, our aim is to get more commitment to the market. Basically speaking, we want to have more and more power of control when we have enough capabilities.”

### 5.3 Mixed Generic Strategy

“We don’t have sufficient founds to support the company on creating so many different product lines. Concentrating on one or two specialized industry domains make our company have better performance in the market.” Mr. Yu said. Low labor cost and low raw material appear to be the major advantages in the international competition. In 2004, the sale of the company approximated 5 million US dollars, 80% of which was created by men’s-clothing and winter coats. Mr Dong, the oversea marketing director, said that there was no doubt about surviving on oversea markets due to lower prices. The most important thing, however, was that they know where the niche market was.
5.3.1 Cost leadership

The XINJIAHUA Export & Import Company consists of two main divisions. One is the manufactory and the other is the sales department. “During this decade’s practice, our department upgrades not only production engineering but also modifies the production methods which has become the most important innovation in order to decrease the costs and make our products have more competitive advantage.” the manager of manufactory said. “Cheap prices don’t imply low quality products. We dedicate so much effort to improve our product quality while keeping our costs below branch average.” Manufactory recreates “one piece flow” as their manufacture mode instead of the traditional work flow mode. It requires workers who concentrate completely on producing one unit as their main working aim. This manufacturing mode is much more flexible in comparison with the traditional one because both company and employee of the manufactory gain benefit by this innovation. According to the feedback employees have given, over 90% of them are satisfied with their work conditions. The workers’ salary are linked directly to their work performance. Most of them stated that they spent less work hours but nevertheless gained a higher salary compared to other manufactories. In contrast, company also gets benefits based on the stability of labor. That means the company maintains the costs of the wage level in order to decrease the manufacturing costs. With high quality and cheap product prices, the company continues to insist on following the cost leadership strategy optimize their profit on international markets.

5.3.2 Differentiation

Mr. Dong agreed that the product lines are narrow. He said “We only had 20 tailors in the work station at the beginning so it was not possible to cover the whole clothing industry. Now, we are very experienced in designing and producing the clothing. We are dependent on this specialized domain.” However, the market evidence shows that the competition in this specialized market has gotten harder and harder after 2005.

![Figure 5. The percentage of export sales number (from interview)](image)

<table>
<thead>
<tr>
<th>2003 Sales</th>
<th>2005 Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>men-clothing</td>
<td>men-clothing</td>
</tr>
<tr>
<td>winter coat</td>
<td>winter coat</td>
</tr>
<tr>
<td>sports performance</td>
<td>sports performance</td>
</tr>
<tr>
<td>accessories</td>
<td>accessories</td>
</tr>
</tbody>
</table>

16
These two pictures having been placed at our disposal by the company’s sale department show the percentages of export sales on the French market in 2003 and 2005. It illustrates obviously that the percentages of the export sales have dramatically changed. The sales figures of men’s-clothing and winter coats as a main export section decrease and decrease. According to the marketing director, the company currently meets a huge business competition since competitors are focusing on men-clothing and winter coats, too. “We invest a lot of money trying to improve our products. We even about to develop our own brand or cooperate with a customer service company in order to enhance potential in the niche market. The results always make us upset” said Mr. Dong. The company tries hard to develop the differentiation strategy to increase its competitive capability, but customers from the niche market hardly care about the performance or service and only consider the price and quality. After 2005, the company concentrated again, as in earlier times, on improvements of their working models and invested again to be able to produce high quality products with lower costs.

5.3.3 Focus

The manufacturing department has a significant possibility to help the company to reduce the production costs. Meanwhile, the sales department’s goal is to find potential niche markets the company could profit from.

![Figure 6. Company Sales](from interview)

Figure 6 shows the company’s export sales on four different markets. Europe always maintains the biggest target market for company since approximately half of the sales are contributed by the European market. Mr. Yu said “We have been cooperating with our business partners in Europe more than 10 years already. Our first order came from France. Afterwards, we noticed that our winter coats increase in popularity. The logical step was to expand to the market of the northern parts of Europe since we considered it to be the perfect market for our coats. In southern parts of the world, we are processing goods for world famous brands and try to be their OEM.” South America’s market privileged for clothes manufacturing because of the warm climate. Customers from South America prefer Chinese products because these products are...
much more economic compared to others. Since the company explored the South American market in 2004, it had become the second largest export market by 2007. The sales department aims to diversify the offered products much more, so that the focus is not only on winter coats or men’s-clothing. “But we still have long road to walk” Mr. Yu said.

5.4 Marketing mix

5.4.1 Product

Mr. Yu emphasized the significance of product such as quality, design and also service. Especially for SMEs of developing countries, low quality, generic design and underserved are the main impressions in most people’s eyes. So changing these stereotypes and building up new images is extremely important. For clothes, quality management instead of daily production management has been adopted by a huge number of clothing enterprises. But when workers start to carry out specific work, they will realize that production and management restrict each other but are also inseparable and closely connected. In this case, the only approach to develop a good quality management is to straighten out the relationship between production and quality.

In this case, innovation plays an important role in improving the product and also the quality management. Mr. Yu said XINJIAHUA is still a small enterprise whose main problem was the limited capital when they wanted to innovate the approach of management and also the design of product. However, XINJIAHUA is willing to invest in innovation. Mr. Yu said: "There is no vitality without innovation. More and more garment companies start to change their original direction of development by taking investment as a principle. It can increase additional values of their products. All in all, Innovation is the soul of a brand.

5.4.2 Price

“When we set the prices for our clothes, it means we have to understand two things: First, who are our customers? This is the most important question on brand positioning and the starting-point of price positioning. Second, the value our target customers receive when they buy the clothes for our expected prices. At this point, it is closely related to the characteristics of the garment industry. In addition, it is deepening the brand positioning.” Mr. Yu mentioned his idea about setting price.
According the figure 7 above, there are five different types of costs in the company. It is illustrated well that raw material occupied the biggest part of the cost proportion with approximately 65%. Cost of labor includes salaries of employees and training fee. Cost of maintenance and management such as bills of electric or manufactory rental also include transporting costs. In order to increase productivity, company outsources some services to other manufactories. Therefore the costs of EMS build up a small part of the total costs. So nevertheless, the productivity is dramatically increased.

Miss Xie, who has been an accounting department manager in the company for 10 years, has a big knowledge about her specialized branch and also a good understanding for it.” While trying to find the cheapest price of raw material you realize that it can vary, with the price depending on the relationship between you and your suppliers”.

With Clothing being relatively fast in upgrading products, product design has become a key point of cost control. R & D department turns out to be the most important department in the company for a long period, although the cost of R & D only takes approximately 5% to 10% in total, but 80% of product costs have been confirmed by R&D department. In 2003, the company invested huge amounts of money to arrange their own R&D department in order to enhance their price competitive capability.

Another interesting issue we want to talk about is the influence of the Chinese culture. The founder of the company had been a tax-officer before having established his own business. Therefore, he cherishes his contacts to the government and therefore he gets special privileges from government, transport companies and even insurance companies. The high initial capital was provided to the company by a capital institute. However, the founder refused to give more details about the initial period as well as about the relationship to governmental institutions.
5.4.3 Promotion

70% of XINJIAHUA’s problems are based on communication barriers. Mr. Yu made an example: companies often have problems such as low efficiency, which can be caused by several kinds of problems. Nevertheless we do not communicate or even have any idea how to communicate. In addition, executive authority of XINJIAHUA Company is poor, and leadership is not good. They all suffer from the lack of communication. The main purpose of marketing communication is to reach a consensus with the other party to obtain a win-win situation. For suppliers and customers, the main purpose is to establish a long-term mutual trust. In brief, the way to communicate should assess how to get the mentioned win-win situation by communication so that avoidable mistakes are prevented.

Mr. Yu indicated that the most important thing is communicating with customers, and direct communication plays a very important role. In particular, competition between companies is as tough as competition between their supply chains, meaning their suppliers and subsequently their customers. Many SMEs are able to communicate with customers, when communicating with suppliers. The win-win principle is often ignored. The result is that during critical times of short supply or cash flow problems originating in low sales figures, the business cannot run smoothly.

“Supplier-customer relationship is a win-win concept but in reality, only when suppliers and customers can get continuously benefit from this long-term cooperation, this relationship can be persistent. However, the supplier-customer relationship is not static. Over time, the changes in customers’ demands will impact the supplier-customer relationship, too. If you establish a set of customer profiles and tracks, if you analyze your customer’s trends and react to the customers’ change on time, this relationship will hold.” Mr. Yu answered about his opinion on supplier-customer relationship.

5.4.4 Place

Mr. Yu mentioned that wholesale and retail are important in the distribution industry. The prosperity of garment wholesale trade helps to reduce consumer costs and is conducive to both the development of garment industry and the nurturing of a clothing brand. Compared to foreign clothing retail channels, our retail channels still have a big gap. China has not formed a complete market-oriented form of distribution. But private retail outlets are gradually breaking the regulatory bottleneck recently. The Chinese retail channels are changing. In the United States and in European countries, clothing enterprises do not need to spend too much effort on recruiting many dealers and counseling them, and then the terminal sales. Including CK, DKNY, and many other clothing brands, the turnover of their Regular Chain ratio is very small, while 60% -70% of the turnover is mostly like entering Walmart or a certain shopping mall in order to make profit of other national chains. With these national or
global chains, their products can be shipped worldwide. Clothing industry is trapped in the scattered and fragmented channels. Therefore, Mr. Yu has the idea that their current retail channels, such as department stores and small franchisees, could cause a big bound on brand management, marketing strategy and future development.

Mr. Yu’s opinion about logistics of Chinese SMEs is that logistics strategy plays an important role for large enterprises in improving competitiveness, while most of the SMEs are not aware of the logistics cost control strategies and the importance of logistics. XINJIAHUA Company pays attention to building up its own logistics system, and the construction of the logistics system leads to a strategic height. Moreover, SMEs cannot compete with large enterprises for technology and product quality, but SMEs can make use of the advanced logistics management forms to save product cost. So SMEs can utilize fully their own rapid, flexible and unique advantages. “What we want to do is to reduce overall operating costs. In this context, working on the logistics information system is one of the plans we can evolve to reduce the costs. For example, if goods distribution cycle can be cut from the current 5~8 days to 3~4 days, storage costs can be reduced by 1/3, and losses will decrease because out-of-stock costs can be avoided.” Mr. Yu said about his expectation of logistics. As a result of logistics system, changing the original traditional manual operation and greatly enhancing the distributor's internal management capabilities can improve the competitive capacity of a company.

6 Analysis

6.1 Barrier and Niche Market

Growth by international diversification is an important strategic option for both small and large firms. During recent years, a significant development within the broad internationalization trend has been the increasingly active role played by small and medium-sized enterprises (SMEs) in international markets (Oviatt and McDougall, 1994, 1999). The internationalization of SMEs can be expected to gain further momentum because the world economy is becoming increasingly integrated with continued declines in government-imposed barriers and continued advances in technology (Jane W. Lu and Paul W. Beamish, 2009).

However, in many important dimensions, for example: assets, producing facility, technology, popularity and credit etc. there is an obvious gap between the SME group and large companies. SMEs usually encounter more barriers in their way of internationalization.

Finance always having been the major barrier for SMEs, from our interview it turned out to be obvious that XINJIAHUA Company was constrained a lot by financial capabilities during the period of market expansion. The barriers of competiveness of
other large companies also have significant influence on SMEs with the knowledge about market as a shortage to limit the decision of SMEs.

Overall, most of the SMEs know that only niche market as a target market is the best chance for them to operate successfully. XINJIAHUA just follows the original strategy which is focused on the niche market in the domestic market. The company troubles to explore the niche market on an international level. They utilize their native advantage, namely to concentrate on specialized markets in order to avoid the disadvantages of financial capability, knowledge and language etc.

However, to identify the niche market can be tough for SMEs. According our empirical data, we found that XINJIAHUA Company used to rely on other agent companies that assisted the company with exploring the most suitable international market. The process of identifying the niche market can vary, depending on the details of companies. Each company has different circumstances, knowledge, financial conditions etc. There is no recipe how to identify the appropriate niche market for SMEs, but due to other agent companies taking over resources that are useful to be owned, it can be an effective strategy to find out the appropriate niche market for SMEs.

6.2 Mode of Entry

How do the SMEs enter the niche markets with very limited resources? Firms can either use licensing, exporting, franchising, joint ventures or wholly-owned subsidiaries to enter the niche markets. (Hill, 2000). The choices of SMEs are very constricted due to the resource limitation. Therefore SMEs might have more flexible strategies but less assets and convenience. As a result, they would probably choose the ways that require less cost than the others.

The selection of appropriate entry mode plays an important role in determining the success and performance of firm in the new market (Ekeledo & Sivakumar, 2003). “We always try to have direct contacts, since agents are too expensive for our kind of products. Many customers do not like too deal with agents, as they know that they have to pay for it” Mr. Dong, the marketing manager of XINJIAHUA Company, said. We can see that direct export is one of the best ways for the firm, which lacks of resources. The customers will also evaluate that whether the product’s price includes cost of agents.

When the company makes a decision which is about the choice of direct or indirect export as an entry mode, there are always several important points affecting their decision. XINJIAHUA Company adopted the indirect export as their single entry mode at the initial period because on the one hand they lacked of information and on the other hand they were not able to take such an uncontrollable risk. When they
occupied more and more market share, direct export took over the indirect export and turned to be the most important export mode for company.

“The more risk you took, the more profit you could gain.” said Mr. Yu. The company’s representative office has been established in Hong Kong since 2006. Consequently, the mode of export starts to shift because the company has confidence to expand their export mode. SMEs always worry about their limitation of resources. They are afraid of adopting high risks and high control entry mode to expand their oversea markets. However, we found that flexible entry modes are much more suitable for SMEs. There is no need to insist only on one entry mode forever. Therefore letting the strategies be more multifaceted in order to fit the niche markets is a much better way.

6.3 Mixed Generic Strategy

As empirical data was collected, not only cost leadership strategies have been well developed in the manufacture department but also focus strategies helped managers of the company to figure out clearly the basic advantages of the company’s products. In order to enhance the competition in the niche market, the company started to create special products and tried to offer excellent service to customers. The company however considered the cost and profit options such that the company hardly continued with mixing differentiation strategy with the other two strategies.

As a result, SMEs cannot afford a huge bunch of producing systems and own powerful productivity. The similar situations also occur in other parts, such as financing, marketing etc. However, every coin has two sides. Some characteristics, which are considered to be disadvantages, could become advantages in certain situations.

Accordingly, thanks to the flexible producing system, SMEs could have more flexibility and innovation abilities in production. The same situation also happens in the other sections, especially the developing strategies. SMEs have not as many bottle-necks or scruple as big companies who might worry more about the effect of their activities.

6.4 Marketing mix

6.4.1 Product

As Doole and Lowe (1999) mentioned, satisfying the demands of the market is the primary objective in doing business. While, in this case, the product is the main factor to satisfy the market and consumers, Mr. Yu also emphasized the significance of the products such as quality, design and also service. SMEs have to change the image that
they only produce low quality products of generic design and without appropriate service for the costumers. In this case, Mr. Yu suggested that the only approach to reach a good quality management is to straighten out the relationship between production and quality, because production and management restrict each other but at the same time, they are also inseparable and closely connected.

Even XINJIAHUA still being a small enterprise with limited capital having been the main problem, they wanted to innovate on the approach of production management and also the design of product. However, they are still working on innovation. This action matches the opinion of Sundstrom and Viktorsson (2009) that many companies treat innovation as an issue for the early phases of a project. Creativity and innovation were critical to maintain throughout the whole PD project for developing new knowledge and testing new solutions. Mr. Yu proposed that SMEs need to change their original way of development that considered investment as a principle thing and simply extend the scale to innovation-driven development way which can increase additional values of their products. Innovation is the soul of a brand.

6.4.2 Price

The company very concerned about the costs because costs are a fundamentally connected to the price. Douglas (1995) points out that there are extremely many factors that influence the firm’s costs. Not only internal affairs such as experience and management skills but also external relationships to suppliers, government and costumers affect the costs and make it fluctuate.

XINJIAHUA Company understands its position in the niche market well. The founder steers the course of the company into a right direction. This direction aims for reducing every kind of costs in the company, so that the competitiveness can be improved. First, the company borrowed a certain amount of money from local bank without high interest. Second, it maintains the good relationship to the suppliers, because otherwise they could not get such a cheap price of raw materials. The founder’s experience as a tax-officer working for the government extended the network of the company and helped the company to get to know how to reduce the documents of exporting.

6.4.3 Promotion

The main purpose of marketing communication, Mr. Yu indicated during the interview, is to reach a consensus with the other party to obtain a win-win result. And Gray and Laidlaw (2004) indicate the way to reach this aim is an open and clear communication between partners. This improves the accuracy of identifying the transaction environment, obtaining mutual satisfaction, understanding mutual needs, and correctly delivering those intentions. An example Mr. Yu gave us is that companies often have problems, such as low efficiency, which is caused by problems
that appear. Even small problems can have far-reaching consequences because of the disqualification of communication. As mentioned above, XINJIAHUA’s poor execution authority and the inconsequent leadership, linked to the lack of communication provides a fertile basement for the propagation of problems. Mr. Yu indicated that to maintain the most important relationship, it is necessary to communicate with customers, and direct communication plays a very important role.

According to Bradley, Meyer and Gao (2006), it is relatively easy for large-scale firm customers to end the relationship with the supplier and switch to a competitor. Mr. Yu also says communication with suppliers is important because not only because of the competition between two enterprises, but also due to the competition between the two supply chains. It means, no matter for large-scale firms or SMEs, that the relationship to suppliers is always important. One of the reasons is the competition which could lead to adverse effects to new business and also to lose customers. Mr. Yu also indicates that SMEs are able to communicate with customers, but often ignore the equal and win-win principle when communicating with suppliers. This causes problems in business in critical situations, such as the tight marked supply period or when cash flow difficulties occur because of a lack of vendor support.

Hence, for all of these influences, Anderson & Weitz (1989) suggested SMEs to ensure that supplier-customer relationships are reciprocal in nature, thus avoiding asymmetrical dependence upon the relationship, or as Bradley, Meyer and Gao (2006) mentioned, SMEs can provide the appropriate type of resource which may be available in a supplier-customer relationship within a business system and also mimic the patterns used by larger firms to make increase the performance. In this case, Mr. Yu mentioned that establishing a set of customer profiles, tracks, analysis of customer trends, and timely respond to customers’ change can keep this relationship.

6.4.4 Place

As Doole and Lowe (1999) indicated by Figure 3, which shows distribution channels for consumer goods. We can see that mail order, Internet, wholesalers, agents and retailers are main distribution channels for the direct foreign country channel members. On this basis, Mr. Yu mentioned wholesale and retail are important in the distribution industry and the prosperity of clothing wholesale trade helps to reduce consumer costs. Furthermore it is conducive to the development of clothing industry, and also nurturing clothing brands. This matches Donovan’s (1996) opinion that distribution channels in developing countries depend on manufacturers and wholesalers on their sales promotion ideas and materials. In addition, he also mentioned that with the rapid growth up of online shopping, online retail has become another important retail channel.

According to Doole and Lowe (1999), distribution channels are the means by which goods are distributed from the manufacturer to the end user. Channels of distribution
have usually been developed through the cultural traditions of the country and so there are great disparities among nations making the development of any standardized approach difficult. And the fact is, comparing with foreign clothing retail channels, XINJIAHUA’s retail channels still have a big gap. China has not formed a complete market-oriented mechanism of channel mode. But currently, private retail outlets are gradually breaking through the bottleneck and so the Chinese retail channels are changing. Clothing industry is trapped in the scattered and fragmented channels. Therefore, XINJIAHUA adopts the idea that their current retail channels, such as department stores and small franchisees, could cause a big bound on brand management, marketing strategy and future development. This matches the opinion of Nwankwo and Gbadamosi (2011) that SMEs must develop strong relationships with the customers at all levels of the supply chain, developing itself into a reliable brand and establish a credible reputation.

According to Mr. Yu, clothing is a seasonal product. Therefore it is necessary to finish the production and circulation within a relatively short time. These assumptions match Marasco’s (2008) suggestion about JIT. Moreover, SMEs must pay attention to building up its own logistics system because SMEs cannot be compared to large enterprises insofar as product quality is concerned and on a technological level, but SMEs can utilize the advanced logistics management mode on saving product cost, and make use of their own rapid, flexible, unique advantages. Peng (2009) mentioned that TPL was an ideal selection and that manufacturing enterprise adopt TPL mode in the external logistics operation because of inherent characteristics. XINJIAHUA also adopt TPL as their logistics strategy which can be timely and accurate and which can shorten the delivery cycle. Working on the logistics information system is one plan of XINJIAHUA which could reduce the costs. As his example, if goods distribution cycle can be cut so that storage cost can be also reduced, then the loss will get lower due to preventing out of stock situations. All of these factors match the key benefits of logistics outsourcing, identified by Coyle et al. (1996), including operating cost reduction, service level improvement core competence prioritization, employee based reduction and capital cost reduction.
8. Conclusion

The main research question of this thesis is how an SME develops and implements its internationalization strategy in a developing country. And research what factors affect the SMEs internationalization strategy. The authors analyze the data of XINJIAHUA COMPANY through four categories which are related with the theory part. The conclusions are represented as follow.

SMEs residing in developing countries should understand their position in the niche market. XINJIAHUA Company tries to explore the niche market on an international level by utilizing its native advantages and concentrating on specialized markets in order to avoid the disadvantages and barriers. The selection of an appropriate entry strategy is extremely essential. XINJIAHUA Company realizes that direct export is key for the company’s success. In fact, flexible entry strategies are better suitable for SMEs. Therefore, letting the strategies be more multifaceted in order to fit the niche markets better, is a smart approach.

SMEs could realize more flexibility and innovation capabilities in production. In order to enhance the competition in the niche market, SMEs should consider a mix of generic strategies. Nevertheless, SMEs must be know their real performance in certain situations, and then decide to mix generic strategies accordingly.

Additionally, communication plays an important role in internationalization strategy of SMEs. Supplier-customer relationship is a win-win concept but in reality, only when suppliers and customers can get continuous benefit from this long-term cooperation, this relationship can be persistent. For example, XINJIAHUA Company establishes a set of customer profiles and analyzes customers’ trends and reacts to the customers’ change on time. This way, for the customers sales can be increased. SMEs also need to maintain the well supplier relationship. Otherwise it cannot get cheap priced raw materials.

Wholesale and retail are the main distribution channels in developing countries, particularly for SMEs. Normally, developing countries have not formed complete market-oriented mechanisms for distribution channels. Hence, in this case, XIAJIAHUA Company builds special distribution channels such as department stores and small franchisees could bring benefits on brand management, marketing strategy and future development.

At last, SMEs should pay more attention on building their own logistics system because they cannot compare with large enterprises on technology and product quality. TPL is an ideal selection and XINJIAHUA Company adopt TPL mode in logistics operation which can shorten the delivery cycle that TPL can help SMEs to save product cost, play their own rapid and be flexible.
8. Implications and further research

8.1 Theoretical Implications

Doole and Lowe (2004) indicate many methods and frameworks have been developed to analyze foreign markets and help companies identify opportunities and problems within a specific market, as well as provide a cross-country comparison. In this study, we utilized the theoretical models (e.g. 4Ps) to analyze this topic for the purpose of an integrated perspective. However, during the writing process, we found out that every factor in the model always has some connections with the others. Moreover, they can interact together to influence the models effects. To gain a competitive advantage could be seen as key in an internationalization strategy. In addition an internationalization strategy should be implemented step by step to make gradual and consistent progress.

8.2 Managerial Implications

When we turn back to the discussion on internationalization strategies of SMEs, we focus on the strategy development and implementation. It is difficult to grasp market orientation and the company's positioning with their product development without knowing the industry's trends and the focus of key competitors. Most SMEs, especially in developing countries, face at least some obstacles when going international. Problems are as mentioned above especially financial problems, lack of expertise and information on foreign markets as well as technical specifications. However, SMEs with a developing country background have several advantages over their competitors in established economies, and these are most of all the cheap labor and cheaper commodity prices. This means they can enter the market with lower prices so that cost leadership could be reached by SMES situated in developing countries. Furthermore, SMEs need to emphasize the significance of product features such as quality, design and value adding services to change the impression many consumers have today that the product is of poor quality and generic design while offering no service at all. The key for future development is to reach a consensus within the company regarding the productions standards for innovations and products to come.

8.3 Further Research

Developing countries of course force their social and economic growth on a lower level compared to the highly industrialized countries. But this makes for high growth rate and an unsaturated market that is yet to be conquered. In our research the term “developing countries” Usually refers to Asia, Africa, Latin America and other more than 130 countries, which inhabit more than 70% of the world's land mass and
account for the same percentage of the world’s population. Developing countries have vast territories and large populations, therefore having the opportunity to develop huge markets and make better use of abundant natural resources. There are as well underdeveloped strategic locations, in terms of economical growth, usage as trade hubs, or even for military purposes.

For further research, we can choose a bigger sample of SMEs in different developing regions which can give a better and more homogenous picture to be analyzed and used to infer innovative ways for the enhancement of internationalization strategies. Furthermore, the future research should be conducted in more detail with a special focus on tomorrow’s issues facing SMEs. It should also be taken into consideration to expand the research area across branches instead of only studying one industry. All of these perspectives could make future internationalization strategies more diverse and adaptable.
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Appendix

Interview Guide of XINJIAHUA Company

The following questions will be used as a guide to interview participants in a way to direct the conversation within the scope of this study.

Basic information:
1. What is your position and responsibility in the firm?
2. Any International experience?
3. How long have you been working for this firm?
4. What kinds of barriers block the company’s process of internationalization?
5. Which barrier is the biggest one to influence a company’s performance?
6. Do you think the barriers for internalization are the same as barriers in a domestic market?

Entry of mode
1. Do you think you have any other choice but to use direct export?
2. What is your company mainly entry mode? Why?
3. Why were you investing so much money to establish representative offices outside China?

Cost leadership
1. Can you briefly talk about your company’s basic strategy?
2. What is your competitive advantage in your strategy?
3. What is the achievement from your manufacturing department to help the company reduce its costs?

Differentiation
1. Basically speaking, you only have two product lines in your company. Why does the company not try to expand more work lines?
2. According the sales in 2003 and 2005, what kind of problem do company met on the overseas market? How does the company fix it?

Focus
1. Why does the company choose the European market as its biggest one?
2. What reasons force the company to only focus on one or two oversea markets?

Product:
1. Can you tell us the significance of your products?
2. How to ensure the quality of the product?
3. Do you think innovation is important for the product?
4. What is the main problem for SMEs to innovate?
5. What benefits can be gained through innovation?

**Price:**
1. How do you set product prices?
2. What is the core factor which influenced the product price?

**Promotion:**
1. What is the main purpose of marketing communication?
2. How important is marketing communication and information for your company?
3. What is your opinion on supplier-customer relationships?
4. How can one make supplier-customer relationships work better in reality?

**Place:**
1. Nowadays, what kind of retail conditions are Chinese clothing enterprises facing?
2. What’s the difference between Chinese distribution channels and foreign ones?
3. And how about your distribution channels?
4. Do you adopt third-party logistics (TPL) mode in your logistics operation? If yes, what benefits does TPL bring you?