Master Thesis

The Business Model of Chinese Manufacturing Born Global Companies

Report in the course Master thesis 15 ECTS
1 February 2011

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Acknowledgements

We would like to express our gratitude towards our supervisors Mr. Jonas Rundquist and Mr. Christer.Norr as well as our examinaor Mr. Mike Danilovic, for their supervision and support during the whole process of working on the thesis. Without their help, we would have never conducted this research successfully.

Through our research, we are moved by the hard working and characters of Chinese manufacturing workers who mostly originate from Chinese farmers. Here, we would like to express our gratitude and appreciation to their contributions to both China and world economies.

Halmstad, May 20, 2012
Hanjun Huang and Ran Shen
Dedication

Dedicated to our parents, Liju Chen and Xinmin Huang (Hanjun’s) and Yunlong Shen, Lili Liu(Ran’s) for their support, both moral and financial.
Abstract

Regarding that the business model is widely used in e-business, we consider that every business should have its own business model which helps a company to evaluate the business and also create a dynamic business. In addition, the emphasis of this research is combined with another element – Born Global, which caters the globalization trend in recent decades. In fact, there are more and more Born Globals setting up in emerging market countries such as China, especially most of them are involved in manufacturing industry. In this case, the focus of this research is on the business model of Chinese manufacturing Born Globals. We investigate deeply through the interaction of each component of the business model to see how Chinese manufacturing Born Globals design and manage their business to achieve successful internationalization within China’s particular political and social background.

After reviewing abundant literatures about business model components, we conclude them into 11 components categories. Furthermore, we combine the critical success factors of Chinese Born Globals with the business model components we summarized together to find what elements may more important to Chinese Born Globals’ internationalization. Based on these, we build a new framework which includes all the 11 elements, 3 interfaces, 2 frames and 1 external environment factor to investigate how these elements interact with each, what is the logic behind the business model generally and how the external environment influence the business model. At the end, we give out a probable evaluation method for the business model.

Qualitative case study is adopted in this paper. We choose a Chinese manufacturing Born Global as case company. Both secondary and primary data are used in this research. We gather primary data through questionnaire survey and 4 times interviews. Due to the wide range of our topic and large size of our case company, we use a lot secondary data to get more comprehensive understandings of the case company.

Through the analysis of case company, we get the main picture of how Chinese manufacturing Born Global’s business model look like. In the conclusion, firstly we give out a brief description of what is Chinese manufacturing Born Globals’ business model. Moreover, we find the human resources within the business model cause Chinese Born Globals’ production ability, innovation ability and finally contribute to its important OEM production. As a result, we actually use the Chinese manufacturing Born Global’s business model to explain their rapid international success. Besides that, we also get some new findings of Chinese manufacturing Born Globals from the aspects of internationalization motivation, process and success factors. According to the evaluation of Chinese manufacturing Born Globals’ business model, we find some crucial problems for example the lost brand value, the low profit and poor sustainability. These conclusions actually provide some managerial suggestions for Chinese manufacturing companies who aim to go abroad or reform their business models.
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1. Introduction

In this chapter, firstly we will give out a general explanation of the special international companies—Born Globals, as well some characteristics of them. Since our topic is the Chinese manufacturing Born Globals, next we will introduce the different types of Born Globals under the contexts of Chinese political and economic backgrounds. After that, as a popular topic, “business model” will be presented and its importance will be emphasized. Start from the Chinese Born Global context, the business model of these Chinese manufacturing Born Globals arouses our interests. It also can be seen as our production discussion. At the end, research purpose, research question as well as the structure of the whole thesis will be clarified.

1.1 Background

In today’s globalization, we can see international companies as the outcomes of this phenomenon and at the same time they also accelerate the globalization process. Among the various types of international companies, multinational enterprises (MNEs) who possess rich resources are known by many people. However, there was actually a special kind of international company—“Born Global” which was arousing the interests of both academy and practice since 70s.

According to Andersson and Wictor (2003), Born Global is the company that achieves foreign sales volume at least 25% of its total sales within 3 years of its inception and that seeks to derive significant competitive advantage from the use of resource and the sales of outputs in multiple countries. From this definition, we can see the most obvious character of this kind of international company is its fast and great international achievement in a short term since its inception. It is against the wide-accepted “Uppsala Internationalization Model” (Johanson and Vahlne, 1977) which sees the internationalization as a slow and step by step international knowledge accumulation process. From the definition, we can also find the Born Global has international vision at the beginning and seeks, utilizes all the possible domestic and international resources. The Born Globals we can find in current research mostly concentrate in the high-tech small or medium companies who focus on niche product markets.

Though advanced by Western scholars, it does not mean Born Globals only exist in Western countries. Actually, with the development of research in this area, we can also find Born Globals in developing country for example Malaysia (Andersson, Eriksson and Lundmark, 2006) and emerging market countries for example China. A
little different, there are two main different kinds of Born Globals in China. In Zhang’s (2011) dissertation, she studied four Born Globals cases which came from the industries: IT service, silicon wafers, bio-pharmaceutical and 3C telecom. Almost all the characters of Born Globals which are described in the Western research can be found on these cases. However, these high-tech industries in China are still in their emerging and growing stages. More importantly, as the “World Factory”, the manufacturing industries are the main driving force of China’s economy currently. According to Zhang (2009), there are abundant Born Globals can be found in mature craft industries and traditional manufacturing industries.

Actually the Chinese manufacturing Born Globals came out in late 80s which were earlier than the Chinese high-tech Born Globals. After the “Reform and Opening-Up Policies”\(^1\) in the end of 70s, the foreign trade system had changed a lot. In the 80s, the rights of foreign trade were still controlled by the government and limited in the stated-owned enterprises. With the reform of for example increasing the opening port (areas or cities), decentralizing the foreign trade rights to local government, the foreign trade amount grew very fast in the late 80s. The golden age of Chinese foreign trade came in the 90s: more and more areas became the pilot regions of foreign trade; the import quota was canceled and the export quota was increased; private enterprises and foreign direct investment were encouraged; the foreign trade rights were decentralized from state-owned or local government-owned enterprises to the private enterprises; the audit system of foreign trade right application was simplified; the foreign exchange sales and purchase system of commercial bank was established; export tax rebate policy was implemented. Under the trend, the pilot opening areas such as Guangdong Province and Zhejiang Province who have long business culture as well as the foreign trade tradition in our history, caught the opportunities (Yu and Han, 2008). With the advantages of policies, resources, many private enterprises or re-born private enterprise (changed from state-owned enterprises or collective enterprises) started to manufacture products and export abroad. Coincidentally, due to the OEM production, the rapid internationalization speed made them become the special Born Globals- Chinese manufacturing Born Globals. Besides that, the the “Socialist Market Economy” makes the Chinese government has great influence on business environment. In China the entrepreneur’s personal relationship- “Guanxi” with family, friends and even governors play critical roles in business (Fang, 1999).

The special political and social backgrounds combined with economic environment make the Chinese manufacturing Born Globals differ from the Born Globals in general in the aspects of internationalization motivation, process and success factors (Huang and Zeng, 2011). It also arouses our interest on how these Chinese manufacturing Born Globals organize their business under such backgrounds and

\(^1\) The program of economic reforms called “Socialism with Chinese characteristics” in the People's Republic of China (PRC) that were started in December 1978 by reformists within the Communist Party of China (CPC) led by Deng Xiaoping.
achieve successful internationalization.

1.2 Problem Discussion

Drucker and MacLariello (2004) said that today’s business competition is not the competition between products but the competition between business models. In recent years, the concept “business model” is becoming more and more popular in both academic and business practice (Zott, Amit and Massa, 2011). According to Debelak (2006), in general, a business model is a way for investors to evaluate whether a business will success or not and it is also a tool for entrepreneurs to create dynamic business. In detail, business model can be used to answer the questions such as: how enterprises work, who is the customers, what does the customer value, how do we make money in the business and what is the underlying economic logics that explain how we deliver value to the customer at appropriate cost (Magretta, 2002).

Though originally came from the e-business boom (Zott, Amit and Massa, 2011), the applications of business model were not only limited in this area. As Debelak (2006) stated, every business had its own model no matter it was chosen directly or steamed from the result of how the business was set up. Profitable businesses, no matter they are small family businesses or large multinational corporations, include the contents of business models. Even the simplest business model contains the most common essence-creating and capturing values (Zeng, 2006). As a result, in briefly, business model explains the internal business logic of every business.

Moreover, the functions of business model can be described as: business model helps company to identify the potential market segment; business model helps to characterize the value chain trough the activities and information within the value chain; business model helps to create unique competitive advantage of a company; business model helps to connect company’s strategy, organizational structure and technology together; business model helps to evaluate and update company’s business logic; business model helps enhancing the leader’s ability to understand complex processing information; business model helps to communicated and share the information within company and its value network; business model helps to improve the decision-making ability of management team (Chesbrough and Rosenbloom, 2000; Osterwalder, 2004). Based on the argument above, we agree with Osterwalder, Pigneur and Tucci’s (2005) opinion that business model could be used by managers to capture, understand, communicate, design, analyze and change the business logic of the firms.

After reviewing a lot of research in this field, we find these research can be divided into several different areas such as the classification of business model (Timmer, 1998; Bambury, 1998), the components of business model (Hamel, 2000; Linder, 2005), the
design or renewal of business model (Giesen, Berman, Bell and Blitz, 2007) and the applications of business model (Zott, Amit and Massa, 2011). However, there is seldom research about the business model of specific industries or specific company types for example the special international companies- Born Globals. Since we have already get some achievements in concluding business model in general (Osterwalder and Pigneur, 2010), it is necessary to deepen the research in discovering the business model of some specific companies. As we mentioned above, we are quite interested in the Chinese manufacturing Born Globals. We believe they may have their special business models which make them so different from Western Born Globals.

Furthermore, business model plays an important role in explaining firm’s performance in the aspects of competitive advantage (Afuah and Tucci, 2001) or firm’s value creation potential and the ability to appropriate the value creation (Zott and Amit, 2007). However, there is no explicit explanation about the specific content of performance, or whether internationalization and its speed are included in firm’s performance. Amazed by the fast internationalization and success of Chinese manufacturing Born Globals in late 80s and 90s, we wonder whether their business model can explain that. From the essence and functions of business model, we think business model could be a powerful tool to explain Chinese manufacturing Born Globals’ successful internationalization. Some factors such as entrepreneurs, market entry strategy, competitive advantage, unique resources and international network are concluded as the critical successful factors of Chinese manufacturing Born Globals (Huang and Zeng, 2011). However, these factors are discussed separately. With the help of business model, we think we can investigate the successful factors under the business logics which enables us to discover the relationship between these factors, how they interact with each other and how the Chinese manufacturing Born Globals to use these factors. Overall, on the base of these considerations, we decide to focus on the business model of Chinese manufacturing Born Global companies.

1.3 Research Purpose

Having a clear business model is crucial for achieving success and long-term profitability so that it is important for no matter designing a new business or reforming an established business. However, in practice, many enterprises still have problems to describe what exactly their business models are. The research presented in this paper aims to find out the specific business model of Chinese manufacturing Born Globals. In detail, we try to conclude the components of their business model and then build a comprehensive business model framework based on our literature review and empirical data. Moreover, since our target companies are Chinese manufacturing Born Globals such special international companies which are quite different from the Born Globals in general, we also aim to investigate whether and how their business model contribute their fast and successful internationalizations. At
the end, we consider no business model is perfect but needs to improve according to the changes inside and outside the enterprises. As a result, we also try to evaluate the business model of these Chinese manufacturing Born Globals we find to see whether there is any problem for them to solve or space for them to improve.

1.4 Research Question

What is Chinese manufacturing Born Global companies’ business model?

How this business model contributes to Chinese manufacturing Born Global companies’ internationalization?

What are the problems of the business model of Chinese manufacturing Born Global companies?

1.5 Structure of the Thesis

We use the conventional and typical way to structure the thesis, which includes the introduction, theoretical framework, methodology, empirical finding, analysis and then conclusion and discussion. In the introduction part, we illustrate the empirical relevance and our motivation of the chosen topic as well as our research purpose and research question. Based on abundant previous research, we firstly introduce our topic Chinese Born Global a little from the perspective of the definition, internationalization process and internationalization success factors. Later, we pointed out the essential elements of business model and establish our own business model framework with these elements. We mainly introduce how we do the research especially how we get the first and secondary empirical data in methodology part. The structure of empirical finding part does not follow the structure of theory part but we organize it into various aspects of our case company’s operation as well as some history of it in the form of small stories. In the analysis part, in order to make the thesis clear, we apply the structure of theoretical part and try to combine it empirical findings. After that, an evaluation of our case company’s business model will be given out. At the end, we state our conclusion in the form of brief points. After that, theoretical, empirical implications as well as limitation and future research will be presented in the discussion part.

We try to present this thesis with a more accessible but explicit way to the audience so that they could know what this research is about, how it goes and what has been achieved. Additionally, this thesis is not only following above structure step by step, but also proceed in circles to make the whole thesis more logical and compact.
2. Theoretical Framework

2.1 Introduction of Chinese Born Global Companies

Here, the concept of Born Global will be explained and we will choose one definition applied in our thesis. Based on that, the special properties of Chinese Born Global companies will be illustrated and compared to born global in general.

2.1.1 The Concept of Born Global

The prototype concept of Born Global appeared in the earlier 90s. At that time, depending on the high-tech products, which could cross market boundaries and penetrate into international market very fast, some companies achieved internationalization even at the beginning of their business. These special international companies were called High Technology Start-Ups (Jolly et al., 1992). Almost at the same time when the item Born Global came out, there was another item International New Venture which could also describe the essence of born global companies. Oviatt and McDougall (1994) defined International New Ventures as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”. This definition highlights Born Globals’ most obvious trait from the other international companies who follow the Uppsala International Model-seeking internationalization from its inception. Meanwhile, it also emphasizes Born Global’s sales and use of resource from a world-wide range.

In McKinsey and Co.’s report (1993), they firstly used the item Born Global. Different from Oviatt and McDougall’s (1994) qualitative definition, from a more quantitative perspective, Knight and Cavusgil (1996) consider Born Globals as the firms established after 1976, with foreign sales accounting for 25% or more, after having started export activities within three years of their inception. It uses the time limitations “25%” and “three years” to specify Born Globals’ international performance and speed.

Combining both the qualitative and quantitative definitions, Andersson and Wictor (2003) define Born Globals as follow: “a company that has achieved a foreign sales volume of at least 25% within 3 years of its inception and that seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries”. We think this definition is more comprehensive and decide use it in our context. In Chinese born global articles, most of the research refers either Oviatt and McDougall’s (1994) definition about Born Globals or Knight and
2.1.2 The Characteristics of Chinese Born Globals

We firstly talk about the characteristics of Born Globals in a general sense. McKinsey and Co. (1993) concludes some traits of these special international companies: they see the world as their market at the beginning; they start with exporting products, they are small size manufacturers who achieve breakthrough in either technology or process; they are founded by active entrepreneurs; their products are value added and for industrial use; they focus on niche market in which competition is not so fierce.

Similarly, some Chinese Born Globals also have international vision in their inceptions. They are small or media manufacturers established by active and ambitious entrepreneurs (Chu, 2010). They sell their products abroad mainly through exportation. However, except a minority of high-tech Chinese Born Globals, the rest are more found in traditional manufacturing and export enterprises (Zhou, Wu and Luo, 2007). These manufacturing Born Globals are also presented in Andersson, Eriksson and Lundmark’s (2006) investigation of Malaysian furniture manufacturing Born Globals. We predict that, due to the technology disadvantages and resources price advantage, many Born Globals in developing countries are in the form of traditional manufacturing enterprises.

Here, we give out a table to generally illustrate the differences between Western Born Globals and Chinese Born Globals from four perspectives. After it, detail explanations of the differences in Born Global’s internationalization motivations, process and critical factors will be presented.

Table 1 Difference between Western BG and Chinese BG

<table>
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<tr>
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<th>Western BG</th>
<th>Chinese BG</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industries</strong></td>
<td>1. More founded in high-tech industries</td>
<td>1. More founded in traditional manufacturing industries</td>
</tr>
<tr>
<td></td>
<td>2. Focus on niche markets</td>
<td>2. Not only in niche markets</td>
</tr>
<tr>
<td><strong>Internationalization Motivations</strong></td>
<td>1. Limited by domestic market</td>
<td>1. Avoid domestic market</td>
</tr>
<tr>
<td></td>
<td>2. Avoid domestic competition</td>
<td>2. Chase higher profit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Seek global resources</td>
</tr>
<tr>
<td><strong>Internationalization Process</strong></td>
<td>1. Different from “Uppsala Model”</td>
<td>1. Follow slower “Uppsala Model” no matter high-tech or manufacturing BG</td>
</tr>
<tr>
<td></td>
<td>2. No specific path to follow</td>
<td>2. Faster international learning process</td>
</tr>
<tr>
<td></td>
<td>3. Take over local companies</td>
<td>3. OEM(^2) production and exportation</td>
</tr>
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</table>

\(^2\) Original equipment manufacturer (OEM) means a company that supplied equipment to other companies to resell or incorporate into another product using the reseller’s brand name.
### Internationalization Motivations

Rutihinda (1996) points out that the bigger domestic demand provides enterprises bigger market and more potential to get benefits from economics scale. On one hand, as Andersson and Wictor (2003) stated, firms in nations with small domestic markets have a higher propensity to go outside than the firms in nations with bigger domestic markets. One the other hand, Born Globals are more involved in niche products manufacturing. It means their products naturally have narrow market segment. Going aboard to seek bigger international market is one of the main motivations of Born Global’s internationalization. However, a little different from the general Born Globals, the Chinese Born Globals face quite big domestic market which makes the market scale limitation theory does not work on them.

Another motivation mentioned by researchers is the domestic competition. According to Oviatt and McDougall (1994), high efficiently developed international market speeds up the competition process. In order to compete with the companies in local market who have already gone abroad, the Born Globals decide to internationalize at their inceptions. Furthermore, to the new start up, they need low-resource required channel to distribute their products. In other words, they have to rely on these distributors and at the same time, compete with the existed companies who also use these channels. In order to avoid the domestic path dependence, some companies try to establish ventures which coordinate multinational resources and target customers in several geographic places (Oviatt and McDougall, 1994). Finally, it makes them become Born Globals companies. In the Chinese literatures, Li and Zhou (2009) find the same internationalization motivation in Chinese manufacturing Born Globals. Due to the existence of a lot similar firms in the industry of home country, these Born Global companies decide export directly to avoid fierce competition in domestic market.

However, we find some other Born Global’s motivations are more emphasized in Chinese research but rare in Western research. Only in Andersson, Eriksson and Lundmark’s (2006) article, they point out that the lower cost in Malaysia makes their furniture in great demand in European countries. More clearly, Huang and Zeng (2011) also find, the cost advantage which brings Chinese Born Globals more profit in

<table>
<thead>
<tr>
<th>Critical Success Factors</th>
<th>4. Agent-based entry path</th>
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<tbody>
<tr>
<td>1. Entrepreneurial factors</td>
<td>1. Entrepreneurial factors</td>
</tr>
<tr>
<td>2. Financial condition</td>
<td>2. Market entry strategy</td>
</tr>
<tr>
<td>3. Innovation culture</td>
<td>3. Geographic location</td>
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<td>competitive strategies</td>
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<td>5. Industrial conditions</td>
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<td>6. Geographic location</td>
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international market is one of their internationalization motivation. Li and Zhou’s (2009) therefore call these Chinese Born Globals are profit-orientated.

In addition, the motivation of seeking global resources is only found in Chinese Born Global research. The resources here mainly include the technology, information and international capital Zheng (2003). Some high-tech Chinese Born Globals hope to keep pace with the Western technology trends, to corporate with Western companies or institutions in R&D, to get financial support such as international venture capital (Zhu, 2008). Zou and Ghauri (2010) also mentioned that international learning is one of the motivations of Chinese high-tech Born Global companies to go abroad.

**Internationalization Process**

Obviously, due to the particularity of Born Globals, their internationalization processes are quite different from the current theories. Most of the Born Globals start to export at the beginning of their inceptions which against the classic “Uppsala Model”. At the same time, when they decide to go abroad, they have no or little internationalization experience. According to Johanson and Vahlne (1977), they see internationalization as an incremental process with the accumulation of international knowledge and experience. Simply, the internationalization process is also an organizational learning process. Based on this, the two authors give out an “Establishment Chain” to describe the step-by-step internationalization stages: no regular export activities, export via independent representatives (agents), sales subsidiary, production or manufacturing in foreign markets. Besides the “Uppsala Model”, Born Globals’ internationalization process does not fit other theory approach such as “innovation-related internationalization model” (Bilkey and Tesar, 1977; Cavusgil, 1980) either.

Consequently, in order to fill the theory gap of Born Globals internationalization process, Rialp et al. (2005) suggested that a single theoretical framework is inadequate for explaining the acceleration of international operation. Instead, rich and robust theoretical explanations which stem from the combination of multiple core theories and modern framework are supposed to be used. Axinn and MatthysSENS (2002) point out the trend now is the mixture of complex learning process, cross-boarding knowledge and resource, net-work and cross-culture perspectives.

Though no formalized internationalization process models for Born Globals are found in this area, there are many research based on case studies and try to illustrate the process. Quite interesting, some Chinese research goes back to the approach of “Uppsala Model” which is not normal in western research. After the cross case studies of three Chinese high-tech Born Global companies, Zou and Ghauri (2010) find the gradual internationalization model is still valid while the process is much faster. They conclude the essence of these Chinese Born Globals’ internationalization process is a
process with increasing knowledge exploited, acquired, internalized and applied in firms’ subsequent international market entries. Similarly, Huang and Zeng (2011) also find, except the last step- overseas manufacturing or production, Chinese manufacturing Born Global companies’ internationalization process also follows the “Establishment Chain” which is one part of “Uppsala Model”. The only big difference is that the internationalization process speed is rapider than “Uppsala Model”.

The first step of Born Global’s internationalization process is entering the international market so that the entry strategies should also be taken into consideration. Most of the Western research mention the internationalization path “through export”. However, they do not point out how these Born Globals export. We find in Madsen and Servais’s (1997) article, they mentioned they had six case studies on Danish Born Globals before. In the case studies, there are two companies who entry foreign markets through “takeovers”. It means these Born Globals get contacts on local markets via taking over local companies and then start to export to these markets. However, we find another entry strategy-OEM production is almost mentioned only in Chinese research. Lin (2003), Huang and Zeng (2011) find Chinese manufacturing Born Globals start exporting through OEM production for foreign customers. Zhang (2011) explains the reasons of why these Chinese Born Globals choose OEM entry strategy: on one hand, these Born Globals do not have enough international resources and experience, relying on the foreign companies with well-known brands and mature sales channels could greatly reduce the cost and barriers of entering international markets; on the other hand, from the experience of production, these Born Globals can also learn the advanced technology and marketing experience from OEM customers and finally improve their own innovation ability.

Critical Success Factors
In both Western and Chinese Born Globals research, the critical success internationalization factors are emphasized by scholars. Huang and Zeng (2011) find, generally these success factors can be divided into four categories: entrepreneurial perspective, organizational perspective, strategies choices and external environment. Through the review of numerous articles, we find many common factors in Western and Chinese research.

As new start-ups, entrepreneurs play a key role in the internationalization of Born Globals. Entrepreneurs’ international vision makes them see the whole world as their market but not restrict themselves in domestic markets (Oviatt and McDougall, 1995; Zhao, 2009). Entrepreneurs’ international knowledge such as cross-border conduct, risks of exchange rate, communication skills, how to get and use international relationship and how to deal with the culture conflicts enable Born Globals reduce the risks of entering new markets and increase the efficiency (Oviatt and McDougall, 1995; Knight and Cavusgil, 2004; Zhu 2010). Chen, Hu and Zhao (2009) find
entrepreneurs’ international working or life experience make them know more about the foreign market and facilitate their later internationalization. Beside these factors, entrepreneurs’ cognition and abilities are also mentioned a lot by scholars. More precisely, the cognition includes entrepreneurs’ international orientation, proactivity and tolerance to ambiguity (Acedo and Jones, 2007) as well as desire to success, the sensitivity of opportunities and the courage to overcome difficulties (Chu, 2010). Moreover, if the Born Global entrepreneurs with the abilities such as taking risk, identifying and catching international opportunities, combining resources, then the internationalization of Born Global will be more success (Chu, 2010; Persinger, Civi and Vostina, 2007).

Among the organizational success factors, unique resources and international business network are highlighted by both Western and Chinese scholars. The unique resources such as the intangible knowledge or even brands bring Born Globals competitive advantages that can’t be imitated (Oviatt and McDougall’s, 1995; Xue and Zhou, 2007). The international business network made up of trusted financiers, suppliers and distributors (Oviatt and McDougall, 1995), enables Born Globals to share the international knowledge, information with their partners and finally reduce the uncertainty and risks they face in international markets (Zucchella, Palamara and Denicolai, 2007; Chen, Hu and Zhao, 2009).

As one of the external environment factors, the industrial condition Born Globals in actually affects their internationalization. For example, the high-tech industrials which are characterized by knowledge intensity have more international opportunities ((Oviatt and McDougall, 1997; Xue and Zhou, 2007). Fernhaber, Oviatt and McDougall (2007) also find Born Globals more exist in industry’s growth stage. Moreover, the competition and the internationalization of industries positively influence the Born Globals’ internationalization speed and performance. The geographic location especially the industrial cluster provides Born Globals better environment with equipped infrastructures, human resource movement and shared information through networks (Fernhaber, Gilbert and McDougall, 2008; Ye, 2009).

However, there are also some different places between Western and Chinese Born Globals’ success factors. We find the organizational factors are more emphasized in Western research. Knight and Cavusgil (2004) get the conclusion that strongly innovative culture of Born Global firms supports business by developing particular knowledge. The particular knowledge supports Born Globals earlier internationalization. Differently, Huang and Zeng (2011) find though innovation culture starts to get Chinese manufacturing Born Globals’ attention, it is not their critical success factor. When it comes to Chinese high-tech Born Globals, Zhang’s (2011) research supports the Western research. She finds innovation culture especially the recruiting and training of talents play an important role. Similarly, when talk about
the product or service of Born Globals, the Chinese high-tech Born Globals are more close to Born Globals in general. The knowledge intensive products which seek the international niche markets is critical to Born Globals’ successful internationalization (Knight and Cavusgil, 2004; Zhang, 2011).

Furthermore, the influences of some factors are much more obvious in Chinese Born Globals no matter they are in traditional manufacturing industries or in high-tech industries like the Western Born Globals in general sense. Though Burgel and Murray et al. (1998) suggests Born Globals should take the low-resource requirement entry strategy, they do not specify the exact entry strategies. In Chinese research, these strategies are illustrated more clearly. Huang and Zeng (2011) find the agent-based strategy is Chinese manufacturing Born Globals’ main entry strategy. Zhang (2011) finds even in the Chinese high-tech Born Globals, the OEM production for famous foreign brand is still the primary choice of entering international market smoothly. When Andersson and Evangelista (2006) talk the entrepreneur’s personal network, they find entrepreneurs with industry experience could use the contact to expand their own business and it is also helpful to find financial support and find strategic partners in foreign markets. In China, the home-based personal network named “Guanxi” is more like a cultural characteristic. Based on trust, Guanxi is a more utilitarian principle than emotional which provides unlimited exchange of favors (Helgesson, 1996). In Huang and Zeng’s (2011) two case studies, they find both the two entrepreneurs use their personal network inside or outside China to entry international market or even establish the company. In Chinese high-tech Born Globals, Zhou, Wu and Luo (2007) use statistical analysis proved the positive relationship between entrepreneurs’ “Guanxi” and the companies’ internationalization performance. Another factor which is only mentioned in Chinese research is the government policies. In order to encourage companies go abroad, Chinese government gives many manufacturing and high-tech industries high export tax rebate or subsidies (Li and Zhou, 2009; Zhang, 2011).

To sum up, most of success factors (entrepreneurial factors and external environment factors) of Born Globals can be found in both Western and Chinese research. Meanwhile, the performances of organizational factors such as innovation culture and products depend on the industries: Chinese high-tech Born Globals are similar to Western Globals while Chinese manufacturing Born Globals are quite different. Other factors such as entry strategies, personal network and government policies play more special role in Chinese Born Globals no matter what industries they are in.


### Table 2 Different Critical Success Factors between Western BG and Chinese BG

<table>
<thead>
<tr>
<th>Critical Success Factors</th>
<th>Western BG</th>
<th>Chinese High-tech BG</th>
<th>Chinese Manufacturing BG</th>
</tr>
</thead>
</table>
| **Entrepreneurial Factors** | 1. Entrepreneur’s international vision, experience, knowledge, background, cognition  
2. Entrepreneur’s abilities  
3. Entrepreneur’s personal networks | All | All (Updated personal network—“Guanxi”) | All (Updated personal network—“Guanxi”) |
| **Organizational Factors** | 1. Financial condition  
2. Innovation culture  
3. Unique resource  
4. Products or service  
5. International business network | All | All | Unique resources; International business network |
| **Strategic Factors** | 1. Competitive strategy  
2. Market-entry strategy | All | All | Market-entry strategy |
| **External Environment Factors** | 1. Industry condition  
2. Geographic location  
3. Government policies | Industry condition; Geographic location | All | All |

### 2.2 Introduction of Business Model

In this part, we will introduce business model’s various definitions and give out our choice to be presented in this dissertation. How to clarify the different types of business model is also included.

#### 2.2.1 The Definition of Business Model

Steams from e-business, the earlier definitions of business model emerged in this research area. Timmers (1998) considers the business model as an architecture for the product, service and information flows which contains the description of various business actors and their roles, the description of potential benefits for these actors and the description of revenue resources. This definition is not limited to e-business. More importantly, it points out some basic elements of business models’ definition for example “architecture”, “business actors”, “benefits” and “revenue” which provide some clues for the future research. Develop the component “business actor” in
e-business, from a business value chain perspective, Weill and Vitale (2001) define the business model as “a description of the roles and relationships among a firm’s consumers, customers, allies and suppliers that identify the major flows of product, information and money and the major benefits to participants”.

Skipping the e-business model definition, more and more research try to define and apply business model from a border sense. Linder and Cantrell (2000) simplified business model as organization’s core logic for creating values. Since then, more and more attention is paid to the concept “value creating” but not only benefits or revenue. However, Linder and Cantrell do not clarify what the value means and to whom. Similarly, Zott and Amit (2001) define business model as the “content, structure and the governance of transactions designed so as to create value through the exploitation of business opportunities”. Here, they point out the value shared among the exchange partners in transactions which covers from shareholders to end customers. However, only emphasizing the value creation is not enough. Value creating and value capturing should be balanced in a value network (Hamel, 2000). Wang and Li (2005) stated that the value creating explains company’s ability to use their resource while value capturing displays the ability to compete in market. Besides the balance between value creating and value capturing, another obvious trend in defining business model is the notion of talking this concept holistically and systematically. Morris, Schindehutte and Allen (2005) suggest sum up the various elements to capture the essence of business model. They think a business model is “a concise representation of how an internal set of decision variables in the areas of venture strategy, architecture and economics are addressed to create sustainable competitive advantages in defined market.”

Obviously, there is no wide and fully accepted business model definition in business community. Shafer, Smith and Linder (2005) predict it is because that these research is interested in the concept from a wide range of disciplines while each one tries to find a connection to the concept from specific perspectives such as e-business or strategy. According to Weill et al.’s (2005) four criterions of business model typology: intuitively sensible, comprehensive, clearly defined and conceptually elegant, we decide to choose Shafer, Smith and Linder’s (2005) definition about business model - “business model is a representation of a firm’s underlying core logic and strategic choice for creating and capturing value within a value network” in our dissertation. On one hand, it integrates and synthesizes the earlier work in this area. It catches the internal essence of business model -the “core logic” of operation; it also emphasizes the external manifestation of business model- “strategic choice”; it illustrates business model from a holistic and systematical perspective but not only focuses on elements; it contains both “value creating” and “value capturing”; it discusses the “value creating” and “value capturing” in “value network” which highlights the interactions of players in value chain. On the other hand, it is easy enough to understand and
2.2.2 The Difference between Business Model and Strategy

Generally speaking, to understand and distinct the terms between “business model” and “business strategy” is difficult because of its ambiguous circumscription. Just as Yip (2004) mentioned, the distinction between “business model” and “strategy” is more than one of semantics. There are two different concepts that need to be distinguished by managers. Using one term – “strategy” – for both has served to create confusion for the last 40 years. Although these two terms are proposed simultaneously by many academics, most of the explications are still too broad. About similarity, both Shafer et al. (2005) and Casadesus-Masanell and Ricart (2010) regarded the business model as a reflection of a firm’s realized strategy. According to Richardson (2008), the business model explains how the activities of the firm work together to execute its strategy, thus bridging strategy formulation and implementation. Conversely, Magretta (2002) specified that business model isn’t the same thing as a strategy, even though many people use the terms interchangeably today. Business models describe, as a system, how the pieces of a business fit together. But they don’t factor in one critical dimension of performance: competition. Sooner or later- and it is usually sooner-every enterprise runs into competitors. Dealing with that reality is strategy’s job. Certainly, the relevance is also put forward in prime research. According to Porter (1985), the business model construct builds upon central ideas in business strategy and its associated theoretical traditions. Most directly, it builds upon the value chain concept. The function of the strategy is to give meaning and direction to the development of the company’s business model. In other words, we see strategy as the comprehensive pattern of a company’s actions and intents, binding together all the components of the business model (Mintzberg and Waters, 1982).

2.2.3 Business Model Types

Besides the research of defining business models, another trend within the conceptual business model research is the classification of business models. Due to the origin of business model, some types concluded by earlier research are tightly related to e-business or e-commerce. Timmer (1998) thinks that the approach to identify the architectures of business model should be on the value chain de-construction and re-construction. Here the value chain de-construction means identifying the elements of value chain. After analyzing the interaction of these elements, he thinks the information across the whole value chain should be integrated. Through identifying the e-business value chain elements and the possible way to integrate information along the chain, he divides e-business models into 10 categories such as E-shop, E-procurement and E-auction. We notice that the value chain based business model
approach can also be found in real business world.

Almost at the same time Bambury (1998) divides Internet Commerce into two wide categories: transplanted real-world business models and native internet business models. The later one means the business activities involved in Internet environment and are native to it. A little different, the previous business model types naturally occur in real-world and have been transplanted onto Internet. In order to avoid the duplication, here we only introduce some samples of the transplanted real-world business model types. For example, he describes the “Free Trial Model” as follow “Software or service that is free for a limited period and the small fee is charged later.” He considers this E-business model transplants from the real-world business model like “Physical products are offered to customers for free in a limited period and be charged in a discounted price if customers want to buy”.

Apparently, the taxonomies of business model types not only limited in e-business area but also take business models in real world into consideration. However, compare to Timmer’s (1998) classification, Bambury (1998) did not clarify what theories he used for the taxonomies. In addition, the descriptions he gives out are more like examples but not theoretical explanations.

Furthermore, both of them summarize the phenomenon in e-business and conclude them into different business model types. We think these taxonomies are not really scientific because of the lack of solid theoretical supports. Meanwhile, they still stand in the position of e-business which makes the taxonomies are not so comprehensive and systematic.

Weill et al. (2005) point out that he heart of business is what it sells. In their research, firstly they list four legal rights businesses are selling: Firstly, ownership of assets is the most obvious right a business can sell. Customers who get the ownership of assets can use the assets when they want and dispose the assets freely. The second right can be sold is the right to use an asset in certain ways and in certain period for example the hotel room. A business can also sell the right to be matched with potential suppliers and buyers which can be characterized by for example broker.

From the three basic rights traded in businesses, we can find four basic business player categories: creator, distributor, landlord and broker (Weill et al., 2005). In the business of selling ownership rights, the creator start from purchasing materials or components from suppliers and then manufacture or assemble them into products for selling. Sometimes, the products creators sell do not go to final customers directly but via the distributors. Though distributor may provide additional value, they buy products from creators and resell them to customers. The difference between creators and distributors is obvious: creators design or manufacture products but distributors do not. Though creators sometimes outsource all the manufacture to others, as long as they design products themselves, they can be ranked as creators. In the business of renting the use right of assets, the owners of assets who sell the rights to use assets are
landlords. They include not only the physical landlords who rent physical assets but also the financial landlords who provide financial assets. Special landlords such as concluding companies, they provide service or we can say temporary human assets. The function of broker is quite clear. Having no ownership of the products makes brokers different from distributors.

Based on the four basic business model archetypes, Weill et al. (2005) divide the assets sold or rented in business into physical asset, financial asset, intangible asset and human asset. Here, physical assets include the durable infrastructure and nondurable materials used in production. Financial asset means cash or other asset such as stock or bond which can bring future cash flow. The intellectual properties such as patents, copyrights and brands are ranked as intangible assets. Human assets contain human’s time and effort. Finally, combine the basic business model archetypes and different assets forms, the authors get 16 detailed business model types as showed in the table.

Table 3 Sixteen Detailed Business Model Archetypes by Weill et al. (2005)

<table>
<thead>
<tr>
<th>Basic Business Model Archetype</th>
<th>Assets Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creator</td>
<td>Financial</td>
</tr>
<tr>
<td></td>
<td>Entrepreneur</td>
</tr>
<tr>
<td>Distributor</td>
<td>Financial</td>
</tr>
<tr>
<td></td>
<td>Trader</td>
</tr>
<tr>
<td>Landlord</td>
<td>Financial</td>
</tr>
<tr>
<td></td>
<td>Landlord</td>
</tr>
<tr>
<td>Broker</td>
<td>Financial</td>
</tr>
<tr>
<td></td>
<td>Broker</td>
</tr>
</tbody>
</table>

Note: Human Creator and Human Distributor are illegal in most countries nowadays

In the paper, the authors also give out brief descriptions of these business model types:

1. **Entrepreneur** creates and sells financial assets for example a serial entrepreneur who creates a company and then sells it to other companies in its early stage. However, it does not mean all the entrepreneur would like to sell their companies.
2. **Manufacturer**, easily to understand from its literal meaning, creates and sells physical assets. They are also the most common type of creators.
3. **Inventor** such as some technology companies or labs, create and sell intangible assets such as patents and copyright. They do not own these intangible assets but sell them instead.
(4) **Human Creator** creates and sells human assets. However, it’s illegal and do not exist in real world now.

(5) **Financial Trader**, like banks or investment companies, buys and sells financial assets without significant transforming these assets.

(6) **Wholesaler or Retailer** is the most common types of distributor. They buy and sell physical products.

(7) **Intellectual Property Trader** buys and sells intangible assets.

(8) **Human Distributor**, buys and sells human assets form a literal meaning. Similar to human creator, it’s illegal.

(9) **Financial Landlord** allows others use their financial assets under certain condition in return for a fee. For example the loan companies or insurer who provides financial service when customer get lose.

(10) **Physical Landlord** sells the right to use physical assets such as real estate or equipment.

(11) **Intellectual Landlord** licenses or gets paid for limited use of intangible assets. Publisher provides limited use of information asset such as software and database; Company that provides the use of its trademark to some franchisers; attractor (mostly media) gets people’s attention and then provides it to advertisers.

(12) **Contractor** sells human service such as delivery or healthcare. These services are primarily provided by other people.

(13) **Financial Broker** matches buyers and suppliers of financial assets for example stock broker.

(14) **Physical Broker** matches buyers and suppliers of physical assets for example real estate broker.

(15) **Intellectual Property Broker** matches the buyers and suppliers of intellectual assets.

(16) **Human Resource Broker** matches the buyers and suppliers of human resource such as labor broker.

After studying on about 100 big American companies based on the business model typology, Weill et al. (2005) find some business model types do work better than others according to their financial performances (profitability and market value). Both brokers and Landlords have significant higher operating income and market capitalization than Creators and Distributors. Similarly, business model based on the three non-physical types of assets (financial, intangible and human) also have significantly higher operating income and market capitalization than the business model based on physical asset such as Creator (Weill et al., 2005). The conclusion they got was that most of the US big companies are involved in the business model Creator or Distributor while their business models perform less well than business model in which customers use—but don’t buy-assets (for example landlords, lenders, publishers and contractors).
According to Scott (1992), the typology of organizations should be intuitively sensible, comprehensive, clearly defined and conceptually elegant. We think Weill et al.’s (2005) typologies of business models meet the criteria above. Through grouping the different business models, they capture the common intuitive sense of business model’s meaning; they do not only talk about e-business which makes the typologies more comprehensive; every detailed business model is clearly defined; they use as few concepts as possible to generalize every business model type.

### 2.3 Business Model’s Components

Over about two decades, the research of business model is more and more mature. It is not only limited in the phase of defining and clarifying business models but also starts to distinguish business model’s elements, structure and application. According to Osterwalder, Pigneur, and Tucci, (2005), the evolution of business model through passes five phases as follow:

Graph 1 Business Model Research Evolution

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In order to achieve to get a common understanding of business model, concepts and the classification of business models are not enough. More importantly, we need to dig deeper to see what elements are belonged to business models. Only based on this, it is possible to develop a scientific modeling approach of business model. The theoretical framework of business model in our paper also follows this research evolution stream. Due to our topic, we expand our literature review range by including some Chinese research in this area.

### 2.3.1 Review of Business Model’s Components

Depends on the various research of business model definitions, the components of these business models are also different from each other. The arrangement of business model components decides the structure of business model design and their interaction with each other directly affects how the business model works. As Petrovic and Kittl et al. (2001) stated, business model components are included in company’s essence logic- how to create value. As a result, different business model components may cause one company’s business model looks dramatically different from others. We think it is important to start from analyzing the different approaches of business
Here, we firstly list these components mentioned in the research we reviewed. We do not only choose the articles with the key words “business model components” or “modeling business model”. Instead, besides the highly formatted articles, we also review some articles from a general sense. Some research, they do not have clear conceptualized framework of business model. However, they may give out their own understandings, descriptions or definitions of business models. It means that as long as the article mentions business model and its critical factors, in some terms, we still see these factors as components.

When we choose the literatures, we try to involve the articles from a board and comprehensive range. Besides the e-business, we more emphasize the business model components from a general sense. In order to differ from the previous business components reviews (Osterwalder, Pigneur and Tucci, 2005; Morris, Schindehutte and Allen, 2005) and highlight our Chinese Born Global topic, we also put the Chinese literatures in our literature pool.
<table>
<thead>
<tr>
<th>Authors</th>
<th>Business Model Components</th>
<th>Number of Components</th>
<th>Applied Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linder and Cantrell (2000)</td>
<td>Pricing model; Revenue model; Channel model; Commerce process model; Internet-enabled commerce relationship; Organizational form; Value proposition</td>
<td>7</td>
<td>General</td>
</tr>
<tr>
<td>Hamel (2000)</td>
<td>Core strategy (business mission, product or market scope, basis for differentiation); Strategic resource (core competence, strategic asset, core process); Customer interface (fulfillment and support, information &amp; insight, relationship dynamics, pricing structure); Value network (supplier, partner, coalition)</td>
<td>4</td>
<td>General</td>
</tr>
<tr>
<td>Chesbrough and Rosenbloom (2000)</td>
<td>Value proposition; Market segment; Value chain structure; Value creation; Cost structure; Position within value network</td>
<td>6</td>
<td>General</td>
</tr>
<tr>
<td>Petrovic and Kittl et al. (2001)</td>
<td>Value model; Resource model; Production model; Customer relations model; Revenue model; Capital model; Market model</td>
<td>7</td>
<td>General</td>
</tr>
<tr>
<td>Afuah and Tucci (2001)</td>
<td>Customer value (distinctive offering or low cost); Scope (customers and products/ Services); Price; Revenue sources; Connected activities; Implementation (required resources); Capabilities (required skills), and Sustainability</td>
<td>7</td>
<td>E-business</td>
</tr>
<tr>
<td>Weill and Vitale et al. (2001)</td>
<td>Customer segment; Channels; Strategic objectives; Sources of revenue; Value proposition; Core competence; IT infrastructure; Organizational form or structure; Profit share; Business process; Value chain</td>
<td>11</td>
<td>E-business</td>
</tr>
<tr>
<td>Zott and Amit (2001; 2007)</td>
<td>Transaction content; Transaction structure; Transaction governance</td>
<td>3</td>
<td>E-business</td>
</tr>
<tr>
<td>Magretta (2002)</td>
<td>Who is the customer; What does the customer value; How to make money in business; How deliver value to customer; How to deliver value to customer under an appropriate cost; Value chain activities</td>
<td>6</td>
<td>General</td>
</tr>
<tr>
<td>Gordijn and Akkermans (2003)</td>
<td>Actor and composite actor; Value objective; Value exchange; Market segment</td>
<td>4</td>
<td>E-business</td>
</tr>
<tr>
<td>Hedman and Kaling (2003)</td>
<td>Customers; Competitor; Offering; Activities and organization; Resource; Supply of factor and production input; Scope of management</td>
<td>7</td>
<td>Product Market</td>
</tr>
<tr>
<td>Authors (Year)</td>
<td>Overview</td>
<td>References</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>----------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td>Osterwalder (2004; 2005)</td>
<td>Product (Value proposition); Customer interface (Target customer, Distribution channel, Relationship); Infrastructure management (Value configuration, Capability, Partnership); Financial aspect (Cost structure, Revenue model)</td>
<td>9 General</td>
<td></td>
</tr>
<tr>
<td>Tikkanen et al. (2005)</td>
<td>Strategy and structure; Business network; Operations; Finance and accounting</td>
<td>4 General</td>
<td></td>
</tr>
<tr>
<td>Johnson, Christensen and Kagermann (2008)</td>
<td>Customer value proposition; Profit formula; Key resources; Key processes</td>
<td>4 General</td>
<td></td>
</tr>
<tr>
<td>Zott and Amit (2010)</td>
<td>Activity system content; Activity system structure; Activity system governance; Value proposition; Revenue model</td>
<td>6 General</td>
<td></td>
</tr>
<tr>
<td>Osterwalder and Pigneur (2010)</td>
<td>Value proposition; Customer segments; Customer relationships; Channels; Key activities; Key resources; Key partners; Cost structure; Revenue stream</td>
<td>9 General</td>
<td></td>
</tr>
<tr>
<td>Wang, Huang and Ji (2002)</td>
<td>Revenue; Operation; Resource; Customer; Channel; Key partners</td>
<td>6 Manufacturing Industries</td>
<td></td>
</tr>
<tr>
<td>Wang (2005)</td>
<td>Profit model; Customer interface; Key resources; Value network</td>
<td>4 General</td>
<td></td>
</tr>
<tr>
<td>Wang (2006)</td>
<td>Core competence; Organization structure; Execution model</td>
<td>3 General</td>
<td></td>
</tr>
<tr>
<td>Zeng (2006)</td>
<td>Value object; Value proposition; Value fulfillment; Internal organizational structure; Resource allocation; Profitability</td>
<td>6 General</td>
<td></td>
</tr>
<tr>
<td>Shang (2007)</td>
<td>Value proposition; Value creation and deliver; Organizational learning ability; Organizational structure and operation process; Core strategy; Key resources; Management and Leadership; Value chain and cost</td>
<td>8 General</td>
<td></td>
</tr>
<tr>
<td>Yuan (2008)</td>
<td>Value proposition (target customer, value content); Value network (Web structure, activities); Value maintenance (partner relationship, protect mechanism); Value fulfillment (revenue model, cost management)</td>
<td>8 General</td>
<td></td>
</tr>
</tbody>
</table>
Research Category
From the table above, we see many different business model components according to different authors. All these researcher’s opinions from different perspectives look quite complex, but we find they can be divided into three main categories: simply listed components, explained in detail components and modelized components.

In the listing components stage, most authors only give out these business model components but without detail explanations. From the publish time, we predict that in the earlier research stage, these authors try to use these components to illustrate business model’s essence clearly. For example, Linder and Cantrell (2000) put a table in their article to show the components. However, they do not give out explanations of these components. Instead, they use some examples in real business world to describe components. Similarly, the research of such as Chesbrough and Rosenbloom (2000), Magretta (2002), Wang, Huang and Ji (2002), Wang (2005) and Wang (2006) can also be put in this category.

Many research (Hamel, 2000; Weill and Vitale et al., 2001; Petrovic and Kittl et al. (2001); Afuah and Tucci, 2001; , 2001, 2007; Gordijn and Akkermans, 2003; Osterwalder, 2004, 2005; Tikkanen et al., 2005; Yuan, 2008) belong to the second category which describes the business model components in detail. Besides explanations, more importantly, they point out what should be taken into consideration when companies use these components. No matter from academic or practice sense, it deepens the understanding of business model. Osterwalder’s (2004) nine components could be a good example. He firstly gives out four components pillars: product, customer interface, infrastructure management and financial aspects. Then, under the four pillars, he describes nine business model building blocks which we understand as business model components. Later, he explained these blocks respectively. For example, he defines value proposition as giving an overall view of a company’s bundle of products or service and value configuration as arrangement of activities and resources. In Yuan’s (2008) paper, he argues there are four units of business model: value proposition, value network, value maintenance and value fulfillment. Under each unit, there are two components. Take an example, he explains the protect mechanism under value maintenance as the mechanism to protect the value creation from the imitators or the negative external environment. As connection interfaces, customer value, partner value and company value connect the four units. Though the two authors give detail and clear explanations of business model components, they do not clarify the relationships between components and how they interact with each other.

With the research development in this area, some scholars start to business model modeling which requires putting business model components in a framework. In this stage, the research beyond the simple description of business model components but
focus on investigating the logical relationships between internal components and external components, between components and company performance. It’s a higher level of business model research. Compared to other two categories, the accomplishments in modeling stage are not so many. Johnson, Christensen and Kagermann(2008), Zott and Amit (2010), Osterwalder and Pigneur (2010) establish relatively mature business model framework with sound theories bases. For example, based on the conclusion of 9 business model components, Osterwalder and Pigneur (2010) update the components concepts to: value proposition, customer segments, customer relationships, channels, key activities, key resources, key partners, cost structure and revenue stream. These components cover both the internal and external operation activities of a company. They create a nine-canvas business model framework to arrange these components. Through the interaction of these components, the nine-canvas framework becomes a designing tool for entrepreneurial companies to decide their business model before they start up. At the same time, it can also be used to analyze the existed business model.

**Special Business Model Components**

Among the review articles, we also find some special business model components- sub models. When Linder and Cantrell (2000), Petrovic and Kittl et al. (2001) talk about the business model, they think the whole business model is made up of several sub-models and each sub-model displays one aspect of the business for example the revenue model. Though Weill and Vitale et al. (2001) do not conclude the specific sub-models as business model components, they point out that there are a finite number of atomic e-business models which are building blocks of more complex business models. According to Linder and Cantrell (2000), there is no really complete business model at all but just pieces. Business model components range from revenue models, pricing model and value proposition to organization structure. Each of them may be one part of business model but not the whole. Similarly, Petrovic and Kittl et al. (2001) think the business model should be divided into seven sub-models and these sub-models connected with enterprise’s environment make up the entire business system. All these authors mention that sub-models describe the logic behind the corresponding process for example the production model explains the reason why a certain production process is chosen. Furthermore, they also emphasize the mixed using of sub-models.

Gordijn and Akkermans (2003) use a special way to present the business model components. According to his theory, business model is made up of actor, value object, value port, value interface, value exchange, market segment and composite actor. Actor is defined as an independent economic entity and composite actors refer partners. In our understanding, the actor here means the enterprise itself. Value object is the product, service or even experience exchanged between actors. A little different from other articles use “value proposition” to describe the value enterprise
can bring to customers, the component here expands the targets of value propositions. Specially, the two authors also give out a component named value port which is used by actor to show its environment that it wants to provide or request value objects. Actors have one or more interfaces in which they want to show their willing to exchange value objects with each other. Again, many other research mentions the customer interface while here Gordijn and Akkermans (2003) do not limit the interface in customer sense. The value exchange could happen between enterprise and customers, between enterprise and suppliers, between enterprise and partners. With similar design thoughts, Zott and Amit (2001; 2007) see transaction content and transaction structure and transaction governance (later in 2010, they use key activities instead of transaction). Transaction structure means what is exchanged by actors and what resources or ability are required in the exchange; transaction structure refers the actors participate in the exchange and the way they are linked; transaction governance is the way how actor control transaction content and the channel they achieve exchange.

What we want to say here is that we think these articles jump out the box normally we think about business model components. The former kind sees business model as the choices and combination of different sub-models. The later kind sees business model from an architecture perspective. Enterprise, customers, suppliers and partners are in the same level. These actors interact with each other in the way of exchanging their value propositions to each other. The different interactions refer to the different value exchange interfaces they play in. Unfortunately, all these authors do not establish framework to put these special business model components.

Specialty of Chinese Research

From the time scope, we can see that Chinese research about business components are a little behind the Western research. More review articles are found in Chinese research. About the categories, Chinese research is more concentrated in the simple listing stage and modeling stage. Here comes the problem. We think the business model framework must be based on the deep and fully understandings of each component. Due to the lack of this, we think the business model frameworks presented by Chinese research have no very sound theories basis compared to Western research and the illustrations of frameworks are not powerful either. It can be seen as a research gap in Chinese research.

In addition, from the Chinese business model frameworks, we see the resemblances between them and Western research. An obvious example is Yuan’s (2008) “3-4-8” business model framework as we talked above: 3 connection interfaces, 4 business model units and 8 business model components. In 2000, Hanmel has already posed a similar framework. In his book, he mentions 3 “bridge components”: customer benefits, configuration of activities, company boundaries which connect 4 major
business model components: core strategy, strategic resources, customer interface and value network. Under each major component, there are more sub components. Though the contents of these two frameworks are different, the design thoughts are quite similar.

Furthermore, we also notice the Chinese research prefer dividing the business model components into different layers. For example, in Yuan (2008)’s framework, he clarifies three connection interfaces: customer value, partner value and enterprise value. They connect four units of business model: value proposition, value network, value maintenance and value fulfillment. Similarly, Zeng (2006) also gives out three interfaces: customer, supplier and stakeholders. Meanwhile, he thinks there is a structure dimension that contains many aspects of the company itself. Under the structure dimension, the business components include value object, value proposition, value fulfillment, internal organizational structure, resource allocation and profitability. The value exchange activities happen between the external interfaces and the internal structure dimensions. Here we can see the design idea is that they divide the business components into external and internal two layers and focus on the interaction of two layers. It is a little different from most of the Western research which mix all the components together.

However, we also notice some business model components that are only emphasized by Chinese research. As some Western scholars, Wang (2006), Zeng (2006) and Shang (2007) also see organization structure as one component. They think the organizational structure is affected by the scope of the company, the industry the company exists in, the technology factors and environment around the company (Wang, 2006). The organizational structure therefore decides the degree of specialization, the information deliver channel, leadership and decision made mechanism. Both Wang (2006) and Shang (2007) mentioned the component leadership or management. It is rarely seen in Western research. However, the do not explain more about the special aspects under the component organizational structure. It could be another gap of no matter Western and Chinese business model research. When we look into Yuan’s (2008) article, besides the well-accepted model components such as value proposition and value network, he poses a novel component- value maintenance. Among the value maintenance, he mentions the protect mechanism which means the mechanism to protect the value creation from the imitators or the negative external environment. Though Shang (2007) does not see it as a component, he also emphasizes the importance of profit protect mechanism. Through the ways such as improving the industrial barrier, protecting patent or technology, establishing special distribution channels or unique corporate culture, enterprises can in some terms protect their profit generating mechanism (Shang, 2007). In our research, we need to investigate these special components.
Business Model Components Grouping

After analyzing these business model components, we start grouping these various components because we find they have many common places. Some components have almost the same meanings according to authors’ explanations while they use different concepts. We try to put these similar components together and use well-accepted, easily understood concepts to describe them. The result of the first grouping is as follow:

Table 5 First Business Model Components Grouping

<table>
<thead>
<tr>
<th>Categories</th>
<th>No. of Times</th>
<th>Categories</th>
<th>No. of Times</th>
<th>Categories</th>
<th>No. of Times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value proposition</td>
<td>19</td>
<td>Core competence</td>
<td>9</td>
<td>Financing</td>
<td>2</td>
</tr>
<tr>
<td>Customer segment</td>
<td>19</td>
<td>Cost structure</td>
<td>9</td>
<td>Management and leadership</td>
<td>2</td>
</tr>
<tr>
<td>Value network</td>
<td>17</td>
<td>Organizational structure</td>
<td>6</td>
<td>Sustainability</td>
<td>1</td>
</tr>
<tr>
<td>Core process</td>
<td>15</td>
<td>Pricing</td>
<td>5</td>
<td>Value maintenance</td>
<td>1</td>
</tr>
<tr>
<td>Channel</td>
<td>13</td>
<td>Information flow</td>
<td>4</td>
<td>External environment</td>
<td>1</td>
</tr>
<tr>
<td>Strategic resources</td>
<td>13</td>
<td>Customer relationship</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Model</td>
<td>11</td>
<td>Profitability</td>
<td>3</td>
<td></td>
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</tbody>
</table>

Here we get 19 components categories. We think we still have the possibility to narrow them down. Keeping the high frequently mentioned business model components, we find some lower frequency components can be put in other categories.

Table 6 Second Business Model Components Grouping

<table>
<thead>
<tr>
<th>Value Proposition</th>
<th>Channel</th>
<th>External Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Segment</td>
<td>Cost Structure</td>
<td></td>
</tr>
<tr>
<td>Customer Relationship</td>
<td>Organizational Structure</td>
<td></td>
</tr>
<tr>
<td>Revenue Model</td>
<td>(Pricing is included)</td>
<td></td>
</tr>
<tr>
<td>Value Network</td>
<td>(Information Flow is partly included)</td>
<td></td>
</tr>
<tr>
<td>Core Process</td>
<td>(Management is included)</td>
<td></td>
</tr>
<tr>
<td>Strategic Resources</td>
<td>(Financing is included, Information Flow is partly included)</td>
<td></td>
</tr>
<tr>
<td>Core Competence</td>
<td>(Profitability, Sustainability, Leadership and Value Maintenance are included)</td>
<td></td>
</tr>
</tbody>
</table>

We consider environment as an external factor which influences the business model but it is not exact a business model component. Now we get 12 business model components categories in total (external environment is exclusive). Next we will explain these components one by one. Meanwhile, during the explanations, we also aim to present the theories basis of our grouping.
1. Value Proposition
Value proposition (he uses “business mission”) is what the business model is designed to accomplish or deliver (Hamel, 2000). In the E-business area, Chesbrough and Rosenbloom (2000) define it as the value created for users by the offering based on the technology. Some research specifies the value as the product or service provided by firms. Osterwalder (2005) thinks value proposition gives an overall view of a company’s bundle of products or service. Most research, when they talk about the value proposition, they mean the value that enterprise can bring to their customers. Petrovic and Kittl et al. (2001) describe the value proposition (they use “value model”) as the logic of what core products, service, experience and other value-added service are delivered to customers. In Johnson, Christensen and Kagermann (2008)’s article, they use the use the item “customer value proposition” and see it as a way to help customers get an important job done. Customers would buy a product from a firm only if the product offers them something that competitor’s product do not (Afuah and Tucci, 2001). Consequently, value proposition is important to companies and the differentiated or lower cost product/services are emphasized by companies. However, there are also other research consider value proposition not only towards customer but also to other actors in value network. Gordijn and Akkermans (2003) use “value object” to express the meaning of value proposition. The value object which includes products, service, money or even consumer experience is exchanged by actors. The point here is that value proposition is not unilaterally provided from company to customers but it bilaterally happens between different actors in the value network. For example, company and its partners can bring value (money or service) to each other in their collaboration. In our dissertation, we prefer the wider sense (among different actors) bilateral value proposition.

2. Customer Segment
Actually, there are several different concepts proposed by previous academic research about customer aspect, such as “customer segment” (Weill et al., 2001; Osterwalder and Pigneur, 2010), “customer interface” (Hamel, 2000; Osterwalder, 2004) or even just “customer(s) (Afuah and Tucci, 2001; Hedman and Kaling, 2003)”. In this case, “customer segment”, which was proposed by Osterwalder (2004) in his Business Model Canvas, is more appropriate and explicit. About the definition of customer segment, Osterwalder (2004) suggested that a company must identify which customers it tries to serve before it builds a business model. Various set of customers can be segmented base on the different needs and attributes to ensure appropriate implementation of corporate strategy meets the characteristic of selected group of clients. Furthermore, he also thinks market segments should be involved in customer segment. Simultaneously, Chesbrough and Rosenbloom (2000) identify market segment as the uses to whom the technology is useful; and for what purpose, and specify the revenue generation mechanism(s) for firm. It is obvious to recognize the
relations between customer segment and market segment. Since the market is guided by customers, the market segments should also follow different customers’ needs. Consequently, here we see market segment as part of customer segment. Therefore, as Magretta (2002) described, the business model was straightforward for customers, and able to answer who is the customers.

3. Customer Relationship
Customer relationship describes the types of relationships a company establishes with specific customer segments (Osterwalder and Pigneur, 2010). Driven by the motivations such as customer acquisition, customer retention and boosting sales, the customer relationships can range from personal to automated. The examples of customer relationships such as personal assistance, self-service and communities are given out. The importance of customer relationship to a company’s business model is reflected in the influence on the overall customer experiences (Osterwalder and Pigneur, 2010). In Hamle’s (2000) book, he uses the concept “relationship dynamics” which partly explains customer relationship. Relationship dynamics of business model refers to the nature of interaction between the producer and customers. The relationship dynamics in the forms of emotional interaction, transactional interaction between producers and customers can be the basis for a highly differentiated business concept (Hamel, 2000). In detail, the ways, frequency, emotional feeling and loyalty of interactions should be taken into consideration. The difference of the research is that the former emphasizes specifying the different customer relationships according to customer segments while the later highlights the dynamic interaction between company and their customers.

4. Value Network
The value network that surrounds the firm also complements and amplifies the firm’s resources (Hamel, 2000). Within the value chain, offering are created, resources are distributed and complementary assets are provided by different players (Chesbrough and Rosenbloom, 2000). We partly put information flow under the component value network because information flow is also one of the subjects exchanged by value network players (Weill et al., 2001; Gordijn and Akkermans, 2003; Zott and Amit, 2001, 2007; Yuan, 2008). Value network needs to be managed. The core logic behinds it is how the firm’s value-adding activities fit with those of other players in the value chain (Weill et al., 2001)

The elements of value network mostly mentioned by research are suppliers, partners and coalitions. Relationship with supplier, who is in the upper position of value chain, is critical to company’s production inputs. Suppliers could be one source of company’s business model innovation. They can improve the production efficiency and bring competitive advantages such as lower material cost and production process innovation to companies (Wang, 2005, Tikkanen et al., 2005). Besides the
supplier, partner is another important player in value network. Partner is the provider of complementary resources so that the relationship with partners is more horizontal while with supplier is more vertical (Hamel, 2000). The relationship with partners is characterized by the cooperative agreements which are necessary to efficiently offer and commercialize value (Osterwalder, 2004). When company decide to collaborate with partners, it should consider these questions: what resources patterns have are what we need; how to combine these resource with our own to create better value to our customers; how to use this relationship to compete our competitors (Wang, 2005). When the investment for example the technology investment is high found requirement and risky, the company needs to join together with others to form a coalitions. The relationship between coalition members is deeper than partnership because they directly share the risks and rewards together.

5. Core Process
Core process can be simply described as what people in the firm actually do. According to Hamel (2000), core processes are methodologies and routines that used to transform input into output. In other words, core processes are activities to translate competence, assets and other inputs to the value for customers. Similarly, Johnson et al. (2008) use the item “key process”. They think the operational process and managerial process are necessary for company to deliver value and achieve repeat, increasing sales. Company’s training, developing, manufacturing, budgeting, planning, sales and service are included in the key process. In addition, the company’s rules, metrics and norms are also the parts of key process. The daily operation of the company, the design as well as the implementation of the rules, metrics and norms require management so that we put the component “management” under the concept core process. Instead, Osterwalder and Pigneur (2010) use key activities directly. They define it as the most important things a company must do to make its business model work. These key activities are required to create and offer value proposition, reach market and maintain customer relationship. Some other research (Petrovic and Kittl et al., 2001; Hedman and Kalling, 2003) use “production model” or “production” directly, but they only mention the manufacturing part. Wang (2005) points out that in a certain industry, the contents of key process are quite similar but the ways companies to implement the process could be different. We think Johnson et al.’s (2008) illustration of the key process is better because it includes both the operational and managerial activities which make it more comprehensive.

6. Channel
According to the definition of channel which is put forward by Osterwalder and Pigneur (2010), a company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company’s value proposition in ways that are fast, efficient and cost effective. Additionally, Magretta
(2002) also mentioned “how to deliver value to customers at an appropriate cost?” to emphasize the importance of channel. Consequently, channel can be regarded as an independent component of business model. Different customer segments will choose different channel combinations that fit their needs best. A powerful channel that offers broad flexibility in the types of strategies should be implemented (Weill et al., 2001). Differently, Johnson et al. (2008) defined channel as one element of resources. The key resources include assets such as the people, technology, products, facilities, equipment, channels, and brand are required to deliver the value proposition to the targeted customer. However, we think the problem of this opinion is that it only uses channel to answer the question “through what to deliver value proposition to customer”. Compare to treating channel as an independent component, it does not answer the question “how to deliver value proposition to customer”. Furthermore, most of the academics only mentioned the unilateral channel between channels and customers. However, as we argued above, the value proposition happens not only between company and customers but also between different players within value network. As a result, we consider the channel used to deliver value proposition also exist between company and its suppliers or partners.

7. Strategic Resources

Key resources describe the most important assets required to make a business model work (Osterwalder and Pigneur, 2010). When Hamel (2000) talk about the strategic resources, he uses the item strategic assets and excludes the “know-how” but only emphasizes the things owned by companies such as brands, patents, infrastructure, proprietary standards, customer data and anything else that is both rare and valuable. In addition, both Johnson et al. (2008) and Osterwalder &Pigneur (2010) expand the range of strategic resources to physical (facilities, equipment and product), financial (fund), intellectual (technology) and human resources. Every business model needs strategic resources to create value proposition (Johnson et al., 2008; Hamel, 2000; Petrovic and Kittl et al., 2001; Tikkanen et al., 2005; Wang, 2005; Zeng, 2006), reach markets, maintain relationship with customer segments and earn revenues (Osterwalder and Pigneur, 2010). Besides the functions of strategic resources, the focuses also concentrated in how to get these resources (Petrovic and Kittl et al., 2001), how to use and protect these resources (Wang, 2005) as well as understanding how they interact with each other (Johnson et al., 2008). According to Osterwalder and Pigneur (2010), business model calls for financial resources such as cash, bonds, credit and stocks. Financing (the author uses “capital model”) explains the logic of how financial sourcing occurs (Petrovic and Kittl et al., 2001). Since how to get and use strategic resources is also an important aspect of the research, we consider financing as one part under the component strategic resources. Similarly, we see information as one kind of information so that we partly include information flow in strategic resources.
8. Revenue Model
Revenue is the "bottom line" of a business model (Alt and Zimmermann, 2001), and the main source of revenue is usually the direct sales to customers (Weill et al., 2001). There are three high-frequented items of revenue in relevant research: revenue sources, revenue stream and revenue model. Simply, revenue sources answer the question where company can get revenue (through products selling or service providing) (Afuah and Tucci, 2001). According to Osterwalder and Pigneur (2004), revenue model describes the way a company makes money through a variety of revenue flows. Petrovic et al. (2001) defined revenue model as the logic of what, when, why and how the company receives compensation in return for the products. In addition, Osterwalder (2004) indicated that the revenue model measures the ability of a firm to translate the value it offers its customers into money and incoming revenue streams. A firm’s revenue model can be composed of different revenue streams that can all have different pricing mechanisms such as fixed list prices or bargaining. Osterwalder & Pigneur (2010) think the revenue stream represents the cash a company gets from each customer segment. Clearly, both revenue sources and revenue streams only explain the channel company generate revenue while revenue model tells the inside logic of how company makes money. Hence we choose the concept revenue model.

About the content of revenue stream, Johnson et al. (2008) suggested that it should include pricing, the staging of payments, and sales volume. According to this, we can put pricing as one part of revenue model. Pricing can be simply described as how do we price (Linder and Cantrell, 2000). Pricing structure presented by Hamel (2000) means the different choice in what company charges their customers. There are many different pricing choices between product and service, between charging customer directly or through a third party, between charging bundle components and charging components respectively. As Afuah and Tucci (2001) said, an important part of profiting from the value that firms offer customers is to price it properly. Pricing not only directly affects the market share (whether accepted by customers) and the potentials of products or service but also finally influences company’s revenue.

9. Core Competence
Core competence is what the firm knows and it encompasses skills and unique capabilities (Hamel, 2000). According to Weill et al. (2001), core competences are the relatively few resources of intellectual and service strength that are distinctive and create long-term competitive advantages. The capabilities such as collective learning ability, integrating multiple streams of skills, technologies and the fast response to the changing opportunities are included in the core competence. Wang (2005) see core competence as the combination of relevant technology, knowledge and capabilities. There are three characteristics of core competence: providing
channels for products to entry different market segments, contributing to the value proposition to customer and difficult to be imitated. Afuah and Tucci (2001) point out the relationship between core competence and strategic resources. They think only the strategic resources is not enough because these resources do not make value and profit themself. The ability or capacity of a company to turn its strategic resources into customer value and profits is competence. According to Wang (2006), the company’s innovation ability, marketing ability, strategic management ability, production and operation ability as well as culture should be included in the component of core competence.

More importantly, Weill et al. (2000) also mention that core competence requires the envision, investment, protection and nurture from leadership. When we talk about the business model, it’s rare to put the subjective factor leadership into the framework. Here, we think leadership is one kind of intellectual resource therefore it can be regarded as one of the company’s ability to ensure the long-term competitive advantage. It is different from Wang (2006) and Shang (2007)’s opinion that leadership is under the component organizational structure. Zeng (2006) states that the profitability is one of the measurements to see whether the business model is successful or not. Under the given expected volume and cost structure, the contribution from each value transaction need to achieve the profit margin. This is the revenue model in Johnson et al.’s (2008) article. We think the ability of a company to earn more profit margins and keep a long-term profitability is also one aspects of the core competence. Sustainability, as Afuah and Tucci (2001) said, is the ability for company to maintain its competitive advantage. The maintenance of competitive advantages calls for the companies’ capabilities, technology and appropriate environment. Use a similar concept “value maintenance”, Yuan (2008) aim to describe the mechanism to protect company’s core competence from imitation. Overall, both the sustainability and value maintenance are the company’s ability so that we put them under core competence.

10. Cost Structure
Cost structure measures all the costs the firm incurs in order to create market and deliver value to its customers. It sets a price tag on all the resources, assets, activities and partner network relationships and exchanges that cost the company money (Osterwalder, A., 2004). On the basis of definition of the cost structure, Osterwalder and Pigneur (2010) suggested that costs should be minimized in every business model. Moreover, they also introduced the characteristics of cost structure: fixed costs, variable costs, economics of scale, and economies of scope. Similarly but more implicitly, Weil et al. (2001) put the point that the cost structure is relative to the current way of doing business, how important for reducing costs in creating and delivering products to your customers. In addition, Johnson (2008) thought that the cost structure should include added sales development and contract management
costs. From a different perspective, Chesbrough and Rosenbloom (2000) indicated that one of the functions of a business model is to estimate the cost structure. Having some sense of what the market will bear helps to inform what cost structure is indicated, indeed mandated, by the value proposition. Therefore, no matter think in a logical or reversed way, cost structure’s function and influence is definitely important in business model indubitably.

11. Organizational Structure
Organization structure is one of the aspects to understand a business model. According to Weill and Vitale et al. (2001), organizational structure includes: the arrangement of organizational subunits and the hierarchy of authority, the allocation of labor across the organization and network of organization, the layout of the management team and how managers balance their rights, responsibilities as well as the conflicts, the decision making mechanism. Organizational structure decides the boundary of company’s strategic resources and value network (Hamel, 2000). Based on this, Zeng (2006) point out that company should adjust the organizational structure to adapt to the business model it chooses. The company needs to think about the question: how to rely on its organizational structure to change their strategic resources into the value proposition with other actors in the value network. Many factors could affect the company’s organizational structure. From a business model perspective, the company’s strategies, process and external environment have influence on its organizational structure (Tikkanen et al., 2005). The authors highlight that the strategic choices and thereby the strategic actions do change the company’s organizational structure. Similar to Zeng’s (2006) opinion, due to the strategic choice, if the current organizational structure does not fit the choice then it’s necessary for company to change their organizational structure (Tikkanen et al., 2005). At the same time, they also consider organizational structure as a key determinant of decision making.

2.3.2 The Probable Components of Chinese Born Globals’ Business Model
In this stage, we need to compare the business model components with the Chinese BG’s critical success factors we discussed above. From that, we aim to find the common parts of these elements and conclude the probable business models components which are essential to Chinese BG. Though the critical success factors of Chinese high-tech BG and Chinese manufacturing BG are a little different, we choose the success factors from a general sense which include both BG types.
<table>
<thead>
<tr>
<th>Chinese BG Critical Success Factors</th>
<th>Business Model Components</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Customer Segment</td>
</tr>
<tr>
<td>Entrepreneurial Factors</td>
<td>Entrepreneur’s international vision, experience, knowledge, background and cognition</td>
</tr>
<tr>
<td></td>
<td>Entrepreneur’s ability</td>
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<tr>
<td></td>
<td>Entrepreneur’s personal network</td>
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<tr>
<td>Organizational Factors</td>
<td>Financial condition</td>
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<td></td>
<td>Innovation culture</td>
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<td></td>
<td>Unique resources</td>
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<td></td>
<td>Products or service</td>
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<td></td>
<td>International business network</td>
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<td>Strategic Factors</td>
<td>Competitive strategies</td>
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<td>Market-entry strategies</td>
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<td>External Environment Factors</td>
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<td></td>
<td>Geographic location</td>
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<td></td>
<td>Government policies</td>
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</tbody>
</table>

Table 7 Intersection of Business Model and Chinese BG Success Factors
<table>
<thead>
<tr>
<th>Chinese BG Critical Success Factors</th>
<th>Business Model Components</th>
</tr>
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<tbody>
<tr>
<td>Entrepreneurial Factors</td>
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<td>Revenue Model</td>
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<td>Value network</td>
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<td></td>
<td>External environment</td>
</tr>
<tr>
<td>Entrepreneur’s international vision, experience, knowledge, background and cognition</td>
<td>✔️</td>
</tr>
<tr>
<td>Entrepreneur’s ability</td>
<td>✔️</td>
</tr>
<tr>
<td>Entrepreneur’s personal network</td>
<td>✔️</td>
</tr>
<tr>
<td>Financial condition</td>
<td>✔️</td>
</tr>
<tr>
<td>Innovation culture</td>
<td>✔️</td>
</tr>
<tr>
<td>Unique resources</td>
<td>✔️</td>
</tr>
<tr>
<td>Products or service</td>
<td>✔️</td>
</tr>
<tr>
<td>International business network</td>
<td>✔️</td>
</tr>
<tr>
<td>Strategic Factors</td>
<td>Competitive strategies</td>
</tr>
<tr>
<td></td>
<td>Market-entry strategies</td>
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<tr>
<td>External Environment Factors</td>
<td>Industrial condition</td>
</tr>
<tr>
<td></td>
<td>Geographic location</td>
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<td></td>
<td>Government policies</td>
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</tbody>
</table>
Firstly, we pick out the elements which do not have intersection with others. From horizontal direction, only “competitive strategy” belongs to Chinese BG’s strategic success factors is found. In the Born Global’s research, competitive strategy usually means such as low-cost strategy or first-to-market strategy which could bring sustained competitive advantages (Oviatt and McDougall, 1995; Zahra and George, 2002). However, from the business model sense, as the difference between business model and strategies we talked before, business model is the reflection of a firm’s realized strategy (Shafer et al., 2005; Casadesus-Masanell and Ricart, 2010). Mintzberg and Waters (1982, cited by Tikkanen et al., 2005) also argue that strategy is the comprehensive pattern of a company’s action and intents, binding together all the components of the business model. It’s quite hard to put strategy especially competitive strategy (can’t be embodied to some specific aspects) under the components of business model.

Form a vertical direction, we notice the business model components “customer segments”, “customer relationship” and “organizational structure” have no intersections with Chinese BG’s success factors. We predict that’s because on one hand, they focus on niche market so that they don’t have so many different customer segments. On the other hand, some Chinese Born Globals work as OEM manufacturers which also results in narrow customer range-OEM customers. Organizational structure is also neglect in Chinese BG’s research. We predict it’s partly due to the small or medium scale of BG companies which makes the organizational structure not so important. How to find customer is always emphasized by BG companies while the maintenance of the customer relationship is neglected too. Overall, though the influences of the three business model components in Chinese BG’s success are not obvious, we consider them as important aspects of business that should be investigated in Chinese BG’s research.

In addition, the intersections of the two stream elements concentrate under the business model components: channel, core competence, value network and external elements. It means these components play more important in Chinese Born Global’s success which require us pay more attention in the analysis part.

Next, we explain the intersection part of these elements.
1. As an organizational factor, the range of financial condition is quite wide. Both of the financial income and the expenditure of the company as well as the source of founding are regarded as the aspects of financial condition. Consequently, it is easy to connect the critical success factor financial condition with the business model components revenue model and cost structure. Revenue model explains the logic of what, when, how and why the company can get return from providing products or service (Petrovic et al., 2001). It is the inflow of fund. Opposite to it, cost structure is the expenditure company use to provide and deliver value to
customers (Osterwalder, A., 2004). It is the outflow of fund. The only way to improve condition is to increase the revenue and reduce the cost.

2. Some intersections between the two streams elements are very obvious. Product or service which belongs to the success organizational factors is the main manifestation of the value proposition. Similarly, the strategic resource can be seen as the same concept as unique resource here.

3. According to most of the business model explanations about the channel, it refers the distribution channels to deliver the value proposition to customers. When we talk about the market-entry strategy under the sense of Born Globals, it mainly focuses on how to find and use the distribution channels in international market for example relying on the agents or establishing own sales team in local markets. Therefore, we there is a link between channel and market-entry strategy. Furthermore, in Chinese Born Globals, the entrepreneur’s personal network plays an important role in finding strategic resources especially the channel when the company goes abroad. In addition, as we argued, we think the value proposition does not only happen between company and its customers but also happen between company and their suppliers or partners. The value deliver between the players in value chain also calls for channels. This partly combines the function of the company’s international business network when the company’s suppliers, partners or distributors are abroad. Overall, we consider both the entrepreneur’s personal network and the international business network are connected with the business model component channel.

4. Some research defines core competence as the skills, knowledge and unique capabilities of the company. However, it does not specific the skills, knowledge and capabilities should be organizational or personal. Weill et al. (2000) mention that core competence requires the envision, investment, protection and nurture from leadership. We think Born Global entrepreneur’s international vision, experience, knowledge, background, cognition as well as the ability could become the core competences of Born Globals. They are also the parts of the company’s skills, knowledge and ability and they play key roles at the inception stage of Born Global companies. Innovation culture, which results in innovation ability, could also bring core competence to the company.

5. Various operational and managerial activities can be put under the concept core process. We do not find the highly mentioned activities such as production but only distribution in Chinese Born Global’s critical success factors. With the help of local agents, Chinese Born Globals enter international market quite fast. So we can connect the core process component with the agent-based market entry strategy.
6. Quite similar to channel, the business model component value network also has interactions with the Chinese Born Global’s success factors entrepreneur’s personal network, international business network and market-entry strategy. Obviously, the international business network is the value network in the international sense. Through the entrepreneur’s personal network, the Chinese Born Gobals can find some partners or even investors which also belong to the elements of value network. The reason why we put market-entry strategy here is that because the agents we can say distributors in the market-entry strategy are an important player in value network.

7. Though Petrovic et al. (2001) see the market environment the company chooses as one component of business model, we think the external environment is the influential factor to business that the company can’t control itself. Therefore, it should not be included in the business component sense. However, the effect of external environment should not be neglected when we talk about business model. Zott and Amit (2007) find a positive relationship between the company’s business model design and its performance. However, according to McArthur and Nyström (1991, cited by Zott and Amit, 2007), environmental conditions are important moderators of the relationship between business model design and entrepreneurial performance. Resource munificence, entry dynamism and complexity are the three main dimensions of the environmental condition (Zott and Amit, 2007). Besides that, in order to fit the dynamic business model environment, the design of business model should also follow the environmental changes (Gordijn and Akkermans, 2003; Osterwalder, Pigneur and Tucci, 2005). It is because that in certain environment, the importance of some certain business model components is different (Hedman and Kalling, 2003). Firms do not formulate and execute their business models in a vacuum but in both competitive and macro environment (Afuah and Tucci, 2001). Competitive environment is made up of competitors while the macro environment includes government policies, natural environment, national boundaries, regulations and technology changes. There is apparent external environment intersection between Chinese Born Global’s success factors and business model components. Industrial conditions contain the competition among the industry and the technology update speed, together with the geographic location and government policies, exactly fit the explanation of external environment factor under the sense of business model.

2.4 Business Model’s Framework

2.4.1 Review of Business Model’s Framework

Due to the variety of business model components, it is difficult to discuss the
relationship and the mechanism how they work with separated components. It is the trend in the research field that divides the components into different interfaces and then put them in a framework. Here we introduce two classic business model frameworks which show the development of business model modeling.

Hamel (2000) is one of the earliest scholars who establish business model framework with different component groups. He divides the components into four interfaces: customer interface, core strategy, core resource and value network. The bridge components customer benefits, configuration and company boundaries connect the four interfaces. The whole business model should be efficient, profitable and at the same time internally consistent.

Graph 2 Unpacking the Business Model

<table>
<thead>
<tr>
<th>Customer Interface</th>
<th>Core Strategy</th>
<th>Strategic Resource</th>
<th>Value Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fulfillment and support</td>
<td>• Business mission</td>
<td>• Core competence</td>
<td>• Suppliers</td>
</tr>
<tr>
<td>• Information and insight</td>
<td>• Product/Market scope</td>
<td>• Strategic assets</td>
<td>• Partners</td>
</tr>
<tr>
<td>• Relationship dynamics</td>
<td>• Basis of differentiation</td>
<td>• Core process</td>
<td>• Coalitions</td>
</tr>
<tr>
<td>• Pricing structure</td>
<td>Efficiency / Fit / Profit Boosters</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Hamel (2000). Leading the Revolution

Among the four interfaces, core strategy and strategic resources are discussed from company’s own perspective. Customer interface and value network interface emphasize the value exchange with the roles outside the company. Customer benefits link the core strategy to the needs of customer; Configuration refers the linkages between strategic resources components and the way they are managed with the help of core strategies; Company boundaries refer to the decision that have been made about what the firm does and what it contracts out to the value network.

However, we also find the disadvantage of this business model design is that it neglects the relationships between sub-components under each component interfaces. Moreover, how to make these components work to make profits is also missing. Next, we introduce another design which remedies the defects.

According to Osterwalder and Pigneur (2010), a business model describes the rationale of how an organization creates, delivers and captures value. The nine business model builds blocks form the basis for a handy tool, which is called Business
Model Canvas. Furthermore, they mentioned that the nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability.

Graph 3 Business Model Canvas

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Resources</td>
<td>Channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Structure</td>
<td>Revenue Streams</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


About the four main areas, which are mentioned above, they could be filled in with nine blocks: customers (customer segments, customer relationship, channels), offer (value proposition), infrastructure (key partners, key activities, key resources), and then financial viability (cost structure, revenue streams).

In addition, the business model canvas reflects the roles of each component and also the relations between them. For example, value proposition, which describes the bundle of products and services that create value for a specific customer segment (Osterwalder and Pigneur, 2010). It needs channels to deliver to customers with helping of the customer relationships, which are established by companies with specific customer segments. More importantly, it explains the essence of business - how to make money. Through the revenue streams and cost structure, how a company earns profit from the gap of revenue and cost is presented. Just as Langley (1999) describes, the Business Model Canvas is a highly effective visual representation, which is simpler than using pure narrative and more generalizable. The disadvantage of this business model framework we find is that it does not explain the relationships between different interfaces very clearly.

2.4.2 The Probable Conceptual Framework of Chinese Born Globals’ Business Model

Chinese research prefers dividing business components into different interfaces and then establishes business model framework based on that. Zeng (2006) gave out three interfaces: customer, supplier and stakeholder. A little border, Yuan (2008) used customer value, partner value and enterprise value as main interfaces. We consider it is an appropriate path to grouping the interfaces because it clears the different roles
company itself, customers and partners (includes suppliers) play in the business circle. More importantly, it makes the analysis of their relationships between each other more easily. We decide to follow the path. Meanwhile, we also absorb the advantages of the business model framework of both Hamel (2000) and Osterwalder & Pigneur (2010): bridge component (connection component) and financial viability (cost structure, revenue streams). Here we give out our business model framework (see Graph 4) which is based on the 11 business model elements which we illustrated in the theoretical framework.
Graph 4 Business Model Framework
In our model, we also set three interfaces: customer, enterprise and value network. Under the customer interface, customer segment and customer relationship are included.

**Customer Interface**
A company needs to think about for whom they are creating value at the beginning to make sure their target customers. Later, on one hand, company should settle its customers into different segment because they may require a distinct offer, they are maybe reached through different distribution channels, they may require different types of relationship, and they may be willing to pay for different aspects of the offer (Osterwalder and Pigneur, 2010). On the other hand, the good relationship between company and different customers calls for building and maintaining. In this process, company should clarify what different customer relationships to be establish and maintain according to the different customer segments. How to design the interactions with customers, whether it is easy for customer to interact with company, what are customers feelings involved in the interaction, is it possible to build loyalty among customers during the interaction, all these questions should be considered by company (Hamel, 2000). Only in this way, customer loyalty can be created and the long-term profit business could be achieved.

**Company Interface**
We choose the business model components: core process, core competence, strategic resources, organization structure, cost structure, revenue model. Besides what are the strategic resources the company has, it also needs to think about how to exploit them in new ways to bring new values to its customers, customer relationships, distribution channels and revenue stream, whether the strategic resources are valuable in other industrial setting, whether the strategic resources have other alternative uses (Hamel, 2000; Osterwalder and Pigneur, 2010).

As Afuah and Tucci (2001) said, core competence enables the company the ability or capacity to turn its strategic resources into customer value and gain long-term profitability. When company talks about their core competence, it is better if they can ask themselves (Hamel, 2000; Afuah and Tucci, 2001): what do we know that is valuable to customers and transferable to new opportunities? What are the deep benefits that steam from core competence we can deliver to customers? How we deploy these benefits in new ways or new setting? Is there something distinctive about our core competence that allows us offer the value better than other competitors and make them difficult to imitate us? Are there any skills we don’t currently possess that crucial to the future? What new core competence should we add in our business concept? Moreover, the sustainability issues such as what is about the firm that makes it difficult for others to imitate, how does the firm keep making money and how does the firm sustain its competitive advantage (Afuah and Tucci, 2001) also can be seen as one aspect of core competence.

Only with the core competence is not enough, the value creation also requires relevant activities. Core process is the activity to translate core competence, strategic resources and other inputs to the value creation for customer. There are many aspects included in the core process (Hamel, 2000; Afuah and Tucci, 2001; Wang, 2005): what set of activities does the firm have to perform to offer the value and when? What activities are most competitively unique and create the most value for customers? How to
connect (in cross time and section) different activities and improve the efficiency and performance of the process? Is it possible to borrow some process ideas from other industries?

The organization structure is an important aspect of a company because it decides the boundary of company’s strategic resources and value network (Hamel, 2000). How to design the organizational structure to enable the value proposition is one of the most important questions of business concept (Zeng, 2006). Weill and et al. (2001) concluded the questions company needs to answer about their organizational structure: what is the arrangement of organizational subunits and the accompanying hierarchy of authorities? What are the reporting relationships between managers, the “shape” of the organization and the division of labor across the organization, the network of the organization? How do managers balance the collection of rights, obligations and responsibilities through incentives, conflicts and conflicts solutions? Furthermore, the company’s strategy, resources and even the external environment also influence the organizational structure (Tikkanen et al., 2005).

In addition, all the activities for value creation and delivering bring both revenue and cost. Afuah and Tucci (2001) and Osterwalder and Pigneur (2010) pointed out the questions related to the revenue model about a company’s business model: where do the revenue come from? Who pays for what value and when? For what values customers are willing to pay? For what do they currently pay? How we charge them or how do we price the value? How do customers currently pay? How do would they prefer to pay? What are the margins in each customer segment and what drives them? How much does each revenue stream contributes to the overall revenue? Correspondingly, the cost also exists. How costs are allocated is the main question which includes the cost of key resources, direct costs, indirect costs and economies of scales (Johnson, Christensen and Kagermann, 2008). Osterwalder and Pigneur (2010) stated that company needs to distinguish what are the most important costs inherent in the business model? What key strategic resources are the most expensive? What key activities are most expensive?

Value Network Interface
Value network is quite clear. Suppliers, partners and coalitions are the three main players in this interface. A deep relationship with supplier could be a central element of a novel business model. When company chooses suppliers and establishes relationship with them, it needs to ask itself (Hamel, 2000): how efficiently suppliers could be used as a source of innovation? Is it possible to regard supplier as the integral to business model? What competitive advantages could be gained from the managing of the linkages with suppliers (fast deliver speed or reduced inventory cost)? How to align the business goals with those of supplier? The partnerships with other companies or institutions are becoming a cornerstone of many business models. Besides the questions such as who are our key partners, what resources we can get from partners and what key activities do our partners perform (Osterwalder and Pigneur, 2010), a company also needs to think about (Hamel, 2000): can we look the world as a global reservoir of competence? What opportunities may available to us if we can use the resources of other company and marry them with ours? Focusing on our own core competence, how can we use partner to gain more flexibility, to build first-mover advantage or provide more valuable solutions to customers? When the company decides to join a coalition, it is necessary for it to consider how to use the
co-operative companies’ resources to alter the competitive dynamics of an industry and how to use the coalition to attack the entrenched position of an industry incumbent (Hamel, 2000).

We also gather these interfaces into frames.

Customer and Company Frame
The value exchange happens between company and customers. Company’s main mission is to provide value proposition to customers. The customer value proposition includes what value does the company deliver to customers, what customer’s problem it helps to solve, what customer’s needs are required to satisfy and what bundles of products and service are offered to each customer segment (Osterwalder and Pigneur, 2010). Through the channel, value proposition is delivered to customers. The questions such as through which channel do the customer segments want to be reached, how does the company reach the customers, how the channels to be integrated, which channel works best and which one is the most efficient, how does the company integrate the channels with the customer routines need to be taken into consideration. During this process, company costs their resources and gets revenue from customer at the end.

Company and Value Network Frame
Similarly, value exchange also happens between company and its value networks. Company needs materials from its suppliers when they start production. Partners provided company necessary complementary resources. A little different here, the value proposition in most research is limited between company and its customers. However, as we argued in the business model component part, we think the value proposition also exists between company and its customers. Due to the common profit basis, company and its value network players provide value proposition to each other. For example, to the suppliers, the company is their customers and they provide production materials to it. During the collaboration with partners for example joint R&D, the company and its partners profit from each other. Cost and revenue also happen in this kind value exchange. At the end, we feel the external environment (social environment, government, culture and technology) does affect the business model from an external sense though it’s not business model component.

External Environment
Among all the literatures we reviewed, we only found in Petrovic and Kittl et al’s (2001) they treated market model or we can say market environment as one business model component. Though we don’t agree with this opinion because external environment (includes market environment) could not be controlled by company itself, we think external environment could be factors that influence the conformation and performance. Firstly, through our research on Chinese Born global, we find the government policy plays an important role in its internationalization. This government influence may be also obvious in Chinese Born Global’s business model. Secondly, we believe that we can’t talk about business model in the isolated situation. All the company as well as its business model must be survive within certain environment which may include political environment, macroeconomic environment and social culture environment. As a result, here we aim to find the influence from these environment factors on Chinese Born global business model.
2.5 Business Model Evaluation

According to Debelak (2006), the GEL factors (they stand for Great Customers, Easy Sales and Long Life) are the three main characteristics for producing success. The GEL factor evaluation is to determine what is wrong with business approach so that companies can modify it.

2.5.1 Find a Great Group

Great customers are the most important element for a highly profitable business. They allow firms to make strong profits and enjoy steady sales increases. More importantly, they are the customers who will keep buying from you repeatedly and their purchases are significant.

- **Number**
  Business need a large enough customer base to cover their cost of running the business, meet income expectation, and have enough funds to keep sales momentum going with promotions and business expansions.

- **Ease of Finding**
  Companies need to either easily locate customers or be easy for them to locate companies. If it is hard to find customers, companies need to spend to find them and that cost might prohibit the success.

- **Spending Pattern**
  Some customer groups buy primarily on emotion and they will spend freely. Companies that want to be perceived as being leading-edge typically will spend money to protect their image.

- **Value of Sale**
  A high-dollar sale automatically creates a high-value customer. That means a company can afford to devote resources to the customer, knowing that the sale will result in a profit.

- **Repeat Sales**
  Regular repeat sales are where companies can find really big profits. Companies can spend lots of money to get customers who will buy repeatedly and they can spend money to develop a strong relationship with those customers.

- **Ongoing Sales Support**
  Sometimes support costs can eliminate all the profits from a sale. Customers can represent high value to the company when they require little or no support, even if the profit margin per sale is low.

2.5.2 Making the Easy Sale

The fact that customers can choose from many products or services makes entrepreneurs understand and realize that they have to have better value than their competition. Hence, firms need to do more than just deliver better value than competitors, and also need to deliver better value than other companies supplying radically different products.

- **How Important**
Customers determine value by their standards. The marketing reality is that buying is dominated by what buyers feel are their top priorities.

- **Competitive Advantage**
  If a company is going to succeed, it must have a strong reason for people to buy its product or service over competing products or services.

- **Price/Value Relationship**
  People have a strong sense of what something is worth to them, a value that is determined by their own criteria. It only matters what the target customer perceives the value of product or service to be.

- **Entry Points**
  Entry points apply to all businesses. How many ways can people start to buy from this company? Those are your entry points. Have more points, the easier to find and sell to customers.

- **Sales Support Required**
  Sales support presents two problems for companies: 1. it requires a big and expensive sales organization; 2. sales support costs can end up being 25–40 percent of revenue.

- **Promotional Activities**
  Promotional activities are another item that can be a prohibitive expense. High promotion costs result in more overhead, higher prices, and generally a riskier business concept.

### 2.5.3 Building a long future

The most important factor is probably profits from every sale, but even profitable companies can be waylaid if they need too much investment. A business can also find itself faced with unexpected investments required to meet a competitive market. A business ideally set up for long life has margins high enough to absorb unexpected costs and requires just modest investments to adjust to market and competitive changes.

- **Margins**
  Healthy margins with adequate sales are by far the number one indicator of a healthy company. Controlling margins is one of the most effective ways to determine just how successful a company will be.

- **Up-Selling and Cross-Selling**
  Building customer trust is time-consuming and expensive. Businesses that can cross-sell or up-sell have a much better chance of improving their profits per customer.

- **Ongoing Product Costs**
  Supplier may need to provide service at no change to the customer, but the service is certainly not free to the supplier. Too many ongoing costs per sale can certainly kill a company’s profits.

- **To Enter Business**
  Start-up costs include manufacturing cost, setting up the company and launching a marketing and sales campaign.

- **To Keep Market Share**
  Buying market share with lower prices is typically a short-lived strategy because competitors will respond with their won low prices. The competitors can match the company and then its only recourse is to try and outspend its rivals.
To Stay on the Cutting Low Edge
The demand for the product brings you the promotional recognition you need without having to pay for it.
3. Methodology

3.1 Research Approach

There are two basic approaches to research: inductive and deductive. The inductive research usually starts from empirical data collection and analysis, which can then be used to compare with the existed theories in earlier research. This may lead to the formation of new theories (Jacobsen, 2002; Saunders, Lewis & Thornhill, 2007). Differently, the deductive approach tries to explain the certain phenomenon by using the existed theories (Patel and Davidsson, 1994). More precisely, Bryman and Bell (2007) pointed out that deductive theory represents the more common view of the relationship between theory and empirical observation. It is used when a hypothesis is deduced.

In our case, a deductive approach is chosen to be the research approach of this study. At the beginning of a deductive approach, it is very import to build a broad and solid literature review and have a full understanding of the theoretical considerations concerning the specific research field (Bryman and Bell, 2007). After reviewing abundant previous research in business model field, we realize the importance of business model components. According to that, we analyze and list all the components presented by scholars in their articles. Combining the critical success factors of Chinese Born Globals, we pick out the business model components that fit the Chinese Born Global and classify them into new categories. Applied these components in business model architecture, we establish our conceptual framework. At the same time, the conceptual framework is also our proposition. Next step is to collect empirical data based on the theoretical framework. Finally, through the analysis, we test the framework to see whether the empirical data support our propositions or not. In this process, we also try to use our conclusion to complete or further the future research.

3.2 Research Strategy

According to Bryman and Bell (2007), it is crucial to choose suitable research methods, which would directly influence the results and decide whether researcher could find an answer to the research question. And there are two different kinds of methods we can choose that they are quantitative and qualitative methods. Saunders, Lewis and Thornhill (2007) presented the differences between these two methods: the quantitative method stands for collecting measurable data that can be calculated and that can undergo statistical analyses. On the contrary, the qualitative method collects data through observations and interviews. Consequently, compared with quantitative method, qualitative research method is more flexible because during the process we can change our problem, design of the study, data collection and analysis (Jacobsen, 2002).

Qualitative research method will be conducted in this paper because this approach can
study social phenomena more deeply and to gain more understanding of a particular subject (Bryman & Bell, 2007). Hence, it is necessary to acquire in-depth information to support this study. In this case we only use one typical case company to complete our qualitative research. Our research is to evaluate case company’s business model to see whether there is any space to improve their business models. As Bryman and Bell (2007) mentioned, qualitative research is considered to generate and develop new theories which meet our paper’s strategy, instead of aiming to verify and test previous theories as a quantitative research. We use existed theories to build a general framework of Business Model, and then collect primary and secondary data with a Chinese Born Global firm which has Chinese characteristic background (policy, economy, demography, culture, etc.) to rebuild the Business Model, particularly for Chinese manufacturing Born Global.

3.3 Research Design

3.3.1 Case study

A case study is a strategy of research that takes into consideration a phenomenon in a certain context, thus not isolating the environment from the phenomenon but on the contrary taking it into consideration (Saunders, Lewis & Thornhill, 2007). There are single case study, multiple case studies, descriptive studies and exploratory studies (Yin, 2003). Soy (1997) also mentioned that case study can bring us to a better understanding of a complex issue or object and also can add strength or extend experience to what is already known through previous research. In addition, the basic case study entails the detailed and intensive analysis of a single case, which can be a single business, a single factory/department of a business, a single event or a single individual. The single case study represents one way to test, confirm, challenge or extent former evolved theories (Yin, 2003).

Though Chinese manufacturing Born Globals have existed for many years, due to the information isolation, this kind of Born Globals do not arouse high interest in academic research. We see them as a special phenomenon which only occurs in emerging market countries such as China. As a result we decide to use case study in our dissertation to consider this phenomenon in a certain environment – the Chinese social and economic context. Furthermore, we think business model is a good tool to describe the overview of the Chinese manufacturing Born Global phenomenon since it includes almost all the aspects of a company’s operation. We believe, through the case study, we can get a better understanding of the Chinese manufacturing Born Globals phenomenon as well as their business model to enrich the current studies on Born Globals and Business Models.

Moreover, we decide to use single case study. We think focusing on one company and depicting the details of the company would help us to understand the phenomenon more deeply. Meanwhile, it is also a path to test, confirm, challenge or even extent the former theories in both Western and Chinese academic areas. We found some differences between Western Born Globals and Chinese manufacturing Born Globals in the literature, and we hope to find support for these differences through our single case study. Furthermore, we also establish our own business model framework which
we think may fit the Chinese manufacturing Born Globals. Based on this, we aim to use the business model framework to explain the success of Chinese manufacturing Born Globals. Due to the complexity and lots of details of a business model, we think the single case study is enough to get these empirical data while multiple-case study will make the study shallower due to the limited time frame. However, we also realize the disadvantages of single case study. According to Bryman and Bell (20070, a single-case study is essentially a way to gain detail by sacrificing reliability, replicability and validity.

Since we talk about the Chinese manufacturing Born Globals’ business model based on one single case study, it is important and also difficult for us to get the whole picture from one specific company. Taking this into consideration, on one hand, we decide to find one leading Born Global company of specific industry because we think the leading company in some terms may represent the development of the whole industry. It not only increases the reliability, replicability and validity of our research but also enhances the general applicability of our conclusion when we need to give some suggestion to the other companies in this industry. On the other hand, when we choose the specific industry, we skip for example the traditional and low-end costume manufacturing industry but try to find the Born Globals involved in the middle or high-end manufacturing industries. We consider companies in these industries fit the characters of Born Globals better.

3.3.2 Data Collection

Both secondary and primary data are required to be used in research and the ways to collect the two kinds of data are different.

Secondary Data Collection
The secondary data represents all the available information, such as statistical reports from government and other agencies, books, articles and many others (Riley et al, 2000). The secondary data we used in the theoretical framework part is gained from the library and electronic academic database (Halmstad University) in the form of books, e-books (Googlebooks) and articles. Due to our Chinese Born Global topic, we also used some articles, master thesis and PhD thesis from some Chinese academic databases which belong to Fudan University and East China University of Science and Technology.

Firstly, in order to get the best qualities articles with high quotation in both the research of Born Globals and business model, we decided use the database “ISI” which only provides A or B qualities articles. Our searching keywords in the field of Born Globals were “Born Global”, “Born Global Internationalization”, “International new venture internationalization”, “SMEs internationalization”, “Internationalization Process”, “Chinese Born Global” and “Chinese International New Venture” in both English and Chinese. For example, when we input the key word “Born Global” and choose the search range “topic”, then we get about 6184 hits. Meanwhile, we also want to get read some review articles as a guide to the research area, we choose the documents type “review” and then got about 555 review articles. Among them, we chose the order of articles sort by “times cited-highest to lowest” and only picked the
articles cited over 100 times. Later we read the abstracts of these articles to see whether they are qualified or not. Due to the limitation of resources types and resource quality of “ISI” database, we backed to a normal and more efficient way to search secondary data- Google scholar. Similarly, we also choose the articles with higher cited times. Relying on these databases, we use the searching keywords “Business Model”, “E-business Model”, “Business Operation Model”, “Chinese Business Model”, “Chinese Born Global, Business Model”, “Chinese, Manufacturing, Business Model” to in the same ways to find most of the valuable articles. Finally, we downloaded about 75 articles or dissertations (6 books or e-books are exclusive) about Born Globals or Chinese Born Globals in total and 19 of them are in Chinese. About the topic business model, we get 53 articles or dissertations (32 articles in English and 19 articles in Chinese, 6 books or e-books are exclusive). At the end, we cited about 70 articles, dissertations and books in our paper.

Besides the secondary data in the forms of academic materials, we also use the secondary data about our case company. On one hand, both the main topics of our paper-Chinese Born Globals and business model cover really wide range of almost all the aspects of one company. Due to it, if we only rely on the interview to get the primary data about the company, there will be a big amount of interview questions which cost much interviewee’s time. On the other hand, our case company is a very big and famous company in China so that there is abundant secondary data about it in the forms of news reports or academic case study. Taking these into consideration, we decide to use the secondary data we get from Internet to answer some of our survey or interview questions. In this way, we not only save the precious working time of interviewees but also enrich the channels we know this company. The main secondary data we use in our case study come from news report, article and several books about our case company. One of these books talks about the entrepreneurial story and the later development of the company which follows the corporate history. In this book, we find a lot of information about the Chinese political and economic environment from 70s to 80s and the relevant stories about the founder of the company who contributes a lot to the establishment and development of the company, to the formation of the corporate culture. From these data, we get the probable influences from entrepreneur and external environment on the company’s business model. Differently, another two books focus on the detail operation of this company in the aspects of such as purchasing, production, sales, organizations and human resource management. There is also one book describes the how our case company becomes the leader in its industry and achieves great international success. They give us a full picture of how the case company organizes its domestic and international businesses and at the same time facilitate our data collection about all the business model components of this company. We predict the results we get would greatly help us to get rich information about this company which at the same time resolves the information amount limitation we get through only interview.

**Primary Data Collection**

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). Due to the sensibility of our topic, we spent a long time to find a case company. Finally, through our relatives in China, we got an overseas (European market) sales manager in the case company who would like to accept our survey and interview. He worked in G since 2005. From his occupations,
we predict he knows much about the company’s international markets and internationalization. Furthermore, we also find a B to B customer of that company to know more about this company from a customer’s perspective. The second interviewee is a purchasing manager in a branch company in China which belongs to a Swedish company.

Two different tools – questionnaire and interview are used in the collecting of primary empirical data. On one hand, since our target company is Born Globals, we need to know the general especially the internationalization information about the case company. On the other hand, when we build the theoretical framework, we find that compared to the business model, the theories about Born Globals are easier to understand and the range is narrower. As a result, we decide to send the case company a questionnaire by E-mail which covers the aspects of general information of the company, their internationalization process and their opinions to their success factors.

The design of our questionnaire (questions and relevant options) is based on the theories about Born Globals. Through this, we get a clear overview of the Born Global companies and their internationalization efficiently. It overcomes the disadvantage of losing some important information due to the short interview time and the nervous tension of interviewee. However, the disadvantage here is also obvious. It in some terms guides and affects the interviewee’s thoughts a little. After we get the response and look through it, we also find some questions which are not clear while others could be asked further. We decide to put these questions in an extra interview guide which focuses on Born Global questions.

Interview is the main tool we use for getting the information of the case company’s business model. Through the literature review, we find it is a little difficult to transform the business model theories into questionnaire. The relevant questions we represent in the business model framework explanations are quite abstract and deep. We consider that semi-structured interview guide which uses the open questions “How” or “What” is more suitable to get interviewee’s opinions and attitudes especially when the questions are more abstract. In addition, semi-interview guide provides more flexibility for interviewer to add new more questions and allow the interviewee to further explain their answers during the interview (Bryman and Bell, 2007). Consequently, interview is mainly used in collecting the empirical data of case company’s business model issues. Firstly, we sent our designed interview guide about the questions of the company’s business model elements to our main interviewee one or two weeks earlier to let them be familiar with the questions and do some necessary preparation for the interview. Later, we booked a time with that interviewee to do the interview with the help of instant messaging tools such as Skype and other software to record the interview conversation. It may lose some information because we do not have the face-to-face communication with interviewees. However, due to the geographic distance, we do not have any better choices. After we the first interview gets done, through analyzing combined the first-hand and the secondary data, we find some probable problems of the case company’s business model. Taking that into consideration, we decide to do the second interview on our main interviewee to get deep understanding of the company. Besides that, we also did an interview with the case company’s business to business customers to know the feedback and impression of the case company’s business model from a customer’s perspective.
3.3.3 Case analysis

According to Ghauri and Gronhaug (2005) the first step of qualitative data analyses is to try to understand the data by applying different methods. Constructing a preliminary related theory prior to empirical data collection is helpful in finding the answer of a research question. Examining, categorizing and recombining the evidences in order to figure out the purpose of the study is what data analysis consist of (Yin, 1994).

We utilize above theoretical framework as a base for our case analysis. Besides, we make use of the data we collected by interviews and also secondary data in the process of analyzing. The approach that we adopt to analyze this research is firstly transcribing the interviews. Since we have completed the interviews, we start to transcribe them by the record, and then analyze them with the theoretical part. According to the research questions of this thesis, we try to discover the typical characteristics of Chinese manufacturing Born Global companies’ business model. Then according to the data from interviews and also the secondary sources, we try to generalize about the components from all the data we collect, and then put into the framework we build at the end of theoretical part to see whether these components are match. At last, we can summarize the results of comparison to see what the business model of Chinese manufacturing born global companies is.
4. Empirical Finding

In this part, we will introduce the overview information of our case company as well as its earlier history. Later, the detail aspects of this company’s operation (production and management) will be presented.

4.1 Introduction of G Group

G Group is a world-class white goods producer with the target of building “a centennial enterprise and global brand”. It is one of the most influential white goods producers in China and famous of their microwave oven products in the whole world. Through extensive economic exchanges and trading with more than 100 countries and regions in the world, G Group has about 40000 employees, about 18 billion RMB³'s total output, and import and export amount was about USD1 billion in 2006. Currently, it has 13 subsidiaries in headquarter, 52 sales offices across the country and branches in H.K, Seoul and North America (G Group, 2012a).

Located in Shunde and Zhongshan (Guangdong Province), G Group’s products cover microwave ovens, home air conditioners, central air conditioners, refrigerators, washing machines and small household appliances such as rice cookers, induction cookers, electric pressure cookers, toasters, dishwashers, dryer machines, wine coolers and heaters. Besides the whole machines mentioned above, they also make accessories for example magnetrons and transformers for microwave oven, air conditioner compressors, motors, relays, PC boards, wires and models (G Group, 2012a).

As one of the outstanding representatives of Chinese private manufacturing enterprise, the almost 30 years’ history of G Group’s growth and development fits the history of China’s “Reform and Opening Up” policies. It can be seen as the label of the success reform happened in China: In the first decade, G enterprise was still a township feather product plant created by several farmers in a wasteland and it developed to a textile company with the income about 10 million RMB; Stepping into the second decade, G enterprise decided to move from textile industry to a totally unfamiliar industry-household appliance industry and started with producing microwave ovens. It became one of the earliest enterprises, which transformed into private owned enterprises instead of township owned enterprises, and established the modern enterprise system in China; in the third decade, G Group began to build a multinational white goods manufacturing group which focused on microwave ovens, air conditioners, refrigerators, washing machines and small household appliances (G Group, 2012b).

³ The Renminbi (RMB, sign: ¥; code: CNY) is the official currency of China. The current exchange rate is about 1 USD: 6.3 RMB)
4.2 Earlier History of G Group

In 1978, exactly the same year as China’s “Reform and Opening Up” policies implemented, like many first generation of township and village enterprises at that time, Enterprise G was established by 7 farmers under very difficult condition-no money, no technology and no sales channel.

The founder of Company G L was a normal officer of Guizhou town and he noticed the trend of “Reform and Opening Up”. Out of the desire to let the local poor farmers earn more money, he decided to apply to the town government to establish a feather product plant. The material feather was easily to get in countryside and the demand of down coats was increasing so that they decided to do this business. At that year, L was 42 years old and only with primary school education background. In that age, in the Chinese farmer’s mind, entrepreneurship was none of their business but controlled by government. As a result, not so many people were willing to follow the funder L. No other way, L had to persuade 6 colleagues in his department to join him. Though they were officers in the town government, all of them actually were farmers and only one had the highest education background middle school. After calculating, they found out that to start the enterprise, they need approximately one million, while the town government could only provide about 300 thousand (Deng, Zi and Wang, 2006).

Nothing could stop their desire to establish the feather processing plant. They had to use all their personal networks as well as the network of the town government to borrow money. Under the guarantee of town government, they also got some loans from bank. Finally, they raised enough money. They chose the site besides a big river because the feather required to be washed. In order to save some money, these seven people decided to make the workshop themselves. After two months’ hard work, very simple workshop was built. Too expensive to buy the whole machines, they bought parts and accessories and assembled the machines themselves through the attempts again and again. At the same time, due to the lack of skilled workers, these farmers started to learn how to use these machines themselves and then taught other workers. Most of the workers were local rural women. Their products developed from the processed feather to various feather products such as feather coat and feather rag. At that time, 95% of the products were sold to state-owned export company and then exported. From then on, the feather processing plant started to profit and greatly increased the income of local farmers (Deng, Zi and Wang, 2006).

Though the speed of development of this enterprise was fast, L realized the advanced and talented people were urgent to them otherwise finally they would be eliminated by the changeable market. At the beginning of 80s, there were not so many university students, and most of them preferred working at large state-owned enterprises but not the township enterprise such as G. Have no choice, they sent some members of leadership team who had relatively higher education background to spare-time universities to learn professional management knowledge and English. Besides that, they also sent some workers to the state-owned enterprises to learn skills because at that time only these enterprises had the ability to buy advanced production lines from abroad and trained their workers to use these machines. When these people came back, they became the teachers of other workers. In the middle of 80s, G enterprise took out all the profits and imported an advanced wool production line from Japan to expand
their product categories. When the Japanese engineers came to G and saw the rough workshops and workers of production line who had almost no education, they couldn’t understand how such an enterprise would dare to introduce their production line. Though looking down these farmers, the Japanese engineers helped them to build the production line and trained the workers for about one month. After the Japanese engineers left, they tried the line but the rate of the qualified products was only 30%. Facing the challenge, they relied on themselves again. L, together with their won “engineers”, worked on adjusting and improving the machines and processes for about one month. Finally, they increased the rate of qualified products up to 90%. Later, they installed central air conditioners in the workshop to cool down the machines and create a better working environment for workers. It was rare in township enterprises in China at that time. Later, when the Japanese company wanted to sell the production line to other Chinese enterprises, what surprised them was the advanced awareness of G that it had already applied a patent for their line they imported (Deng, Zi and Wang, 2006).

In the 80s, feather and wool products were still too luxury for normal Chinese to consume. Due to the higher international market prices and huge abroad demand, most of G’s products were exported. However, at that time, the export and import of feather and textile industries were controlled by government and only the state-owned trade company had the export and import quotas of these products. Consequently, G had to sell their products to these trade companies first. The changeable international market price was a big problem to G. Compared to other state-owned enterprises which had financial support from government, the township enterprise G had to take greater risks. To solve this problem, they introduced Hong Kong and American capitals to establish two sub-companies because these joint ventures had more independent export rights (Deng, Zi and Wang, 2006).

Until 1992, G had become the biggest company in this area and its income was about 100 million. It greatly absorbed the local labors, increased the local people’s income and contributed to local economy. Growing up in local area, created by local people, hiring local people, linked by emotions, G never forget its mission- enriching local people. The salary provided by G was much higher than state-owned enterprises or other similar enterprises. Besides that, in order to improve the workers’ and their families’ accommodation, G built apartment buildings and sold them to workers with very low price (Deng, Zi and Wang, 2006).

### 4.3 The Conversion of Industry and Ownership

The Conversion of Industry
From textile industry to microwave, this change was dramatic especially when G Group was so successful at that time. To reduce the operation risk, diversification was the tradition of G Group. At the beginning of 90s, the whole textile industry met the bottleneck (anti-dumping from international markets) so that L started to think about doing some other business. Since they started to export their products, L always paid attention to the international market information. In 1992, one time when they had a business trip in Japan, L was attracted by a novel machine in the shopping mall – microwave oven. After knowing the function of microwave, he felt microwave would have really good market potential in China. On the planet back, he discussed with a
textile engineer that he wanted to change their business to make microwave. The
crazy idea scared the engineer. Firstly, microwave oven was still too new to Chinese
family. Secondly, at that time, microwave oven technology was high tech to them so
that it required huge investment to produce. Thirdly, they started their business with
feather and textile which means it was so difficult to change to produce high-tech
microwave oven, especially for the workers of production line who had extremely low
education background (Deng, Zi and Wang, 2006).

After a detailed investigation, they found the high-tech machine was normal
household appliance in developed countries and Japan was the main microwave oven
producer at that time. The first microwave oven in China was born in 1982 and there
were only four companies produced microwave oven with the total yield 100
thousand from 1982 to the beginning of 90s. L was convinced that: with improving of
Chinese people’s living standard, microwave ovens would enter more and more
families; the production cost in China was much lower such as Japan so that the high
value-added machine would have big space to reduce the price; there were only four
companies producing microwave ovens, which means it was such a good time for
them to enter this industry with good product price. He wanted to reduce the
microwave oven price below 1000 RMB in order to be consumable for normal
Chinese families (Deng, Zi and Wang, 2006).

However, this idea was considered as too risky and rejected by many members of
leadership team as well as the town government. L had to try to persuade these
objectors again and again. At the end, out of the trust to L, the management team
passed the strategy transition plan: the group would focus on microwave oven but at
the same time keep the two sub-companies to continue the feather and textile
production; changed the group name to “G Group” which was used until now.

The challenge they faced was that high-end human resources. The labor quality of the
whole company was too low. In addition, there were only several university students
and none of them was familiar with the microwave technology. At that time, L
recalled his son who graduated from university and worked in Hong Kong to help him.
Though being a little reluctant, L's son had to come back to this small town because it
was tradition to obey parents in China. A state-owned radio enterprise in Shanghai
was one of the earliest enterprises who entered the microwave oven industry. G
decided to persuade some engineers from that enterprise to join them. Being an
engineer in a big state-owned enterprise was a really good job at that time and
Shanghai was the best city in China. It was difficult to make these engineers to jump
out of these advantages to join G. L and his son visited these engineers again and
again, finally they persuaded one engineer successfully. What moved that engineer
was not the salary but the determination of G that they want to exploit the core
technology of microwave oven and let more Chinese families can afford their
products. Actually that state-owned enterprise only assembled microwave without
having its own core technology which made it greatly affected by foreign companies
who had the technology. The determination of G aroused the engineer’s sense of
national pride (Deng, Zi and Wang, 2006).

Only some engineers were not enough, they needed advanced production lines also.
They chose to buy it from Toshiba which was one of the best microwave
manufacturers at that time. Several years’ profits from feather and textile companies
were taken to buy the line no matter how high the price Toshiba charged them. When the Toshiba engineers came to Shunde, exactly like 10 years ago, they alleged that G did not have ability to produce microwave oven because of low educated labors, even though buying their production line. In order to prove that G had the ability, they took out a microwave oven made they selves to show in front of these Toshiba engineers. Though it was not something that could be proud of, Chinese manufacturing enterprises had really strong ability to imitate. G bought some microwave ovens as well as the parts and accessories from Japan. Through decomposing these models and assembling these accessories, they made the microwave oven manually. At the end, Toshiba agreed to sell the production line to G (Deng, Zi and Wang, 2006).

Next step was training workers of the production line. When they installed the production line, they chose some workers from feather and textile companies who had relatively higher education to help mechanics and engineers. During this process, these workers started to be familiar with microwave oven. Beside this, these workers also got training from Toshiba’s engineers. Later they become the backbones to teach other workers. L encouraged these workers that nothing is impossible and they should keep learning all the time.

From deciding enter microwave oven industry to recruiting professional engineers, buying Toshiba’s production, training workers, purchasing accessories and producing microwave ovens, G only spent 7 months. Facing the competition with big multinational companies such as LG, Panasonic and Whirlpool, G decided to withdraw from feather and textile industries gradually but gather more resources to focus on microwave oven.

The Conversion of Ownership
Also in 1992, Deng Xiaoping, who was the designer of China’s “Reform and Opening-Up” Policy inspected Guangdong Province. He noticed that compared to the state-owned enterprises township enterprises were more independent on government so that they had more vitality. Seeing this potential, Deng said we could try to release these township enterprises to give them total freedom in the way of changing ownership to private. According to this speech, Guangdong became the first place to start the enterprise ownership reform. This trend changed the fate and nature of G.

Many state-owned enterprises and township enterprises in Shunde started the reform except G. All members of G’s management team grew up under socialist environment and believed in that. To them, becoming the owners made no difference from becoming capitalists. The town government still kept the 30% stock share but no one in G even L himself dared to buy the left 70% stock share. At last, they decided to divide the 70% within the management team made up of about 60 persons. Under the pressure of town government, L said that he could take the “political risk”: all shareholders gave money to him and he bought all the shares with his name. He made an agreement with these shareholders that he would sell the shares back to them when ownership reform was promoted in the nationwide. Finally, they finished the ownership reform in 1994. Later with the conversion getting deeper and deeper, the town government retreated from G gradually and G became a total private company in 2000. There was no dispute among the workers because they knew how much these shareholders contributed to the company (Deng, Zi and Wang, 2006).
4.4 Market Success of G

At the end of 2000, the production capacity of G was 12 million and its sales amount in 2002 was 10 million which accounted one third of the global market sales amount. In other worlds, among every three microwave ovens sold in the world, one was produced by G. In 2005, the sales of G achieved 50% of the global market share and 70% of the Chinese market. However, the market success of G does not achieve easily, but through a long tough time.

At the beginning of 90s, most of Chinese people didn’t know what microwave oven was. G decided to open their market in Shanghai, the relatively open city in China with higher incomes. The department stores were operated by government and counters inside were limited. After convincing a manager, they borrowed one temporary counter for only three days and they had to sell products by themselves. In these three days, the salesman of G sold out their first microwave oven to a housewife through explaining what microwave oven was, what its advantages were, with showing how to use it. This piece of good news greatly encouraged the whole company. Later, G developed this sales model that when they rented the counters in department stores, firstly they used their own sales men to promote microwave ovens and then trained the promoters belonged to department stores to help them sell products. It ensured that all the promoters had enough knowledge of G’s microwave oven so that they could explain to customers (Deng, Zi and Wang, 2006).

Meanwhile, on one hand, G realized it was necessary to popularize public’s understanding and the knowledge of microwave oven. On the other hand, commercial advertisements were more and more accepted by Chinese. The old way G used was not efficient and influential: sales men brought microwave ovens to shopping malls or department stores to promote. Different from most of the enterprises at that time which put a lot of money on advertising or hired celebrities to endorse products, G chose another channel – newspaper. To G, the money was from the hard work by feather and textile workers so that they did not want to use this money on gambling on the uncertain advertising effect. They started to write articles about how microwave oven was invented, how it developed and how people used it in developed countries to send to many newspaper offices. The diffusion speed was slow and effects of this marketing channel were not fast enough to see, but it brought great and long-term value afterwards. Actually it was a tender way to educate customers and they not only promoted their products but also the knowledge of microwave oven. Later, the low cost marketing tool was used by G again and again. When they promoted their hit-tech product-convection microwave oven, they still chose newspapers and magazines because they predicted that people with good education background usually had the reading habits. If they could convince these people to become their customers first, then it was possible for these people to introduce the new products to other people through their networks (Yin, Wang and Yu, 2009).

Besides the newspaper articles, G company also used other ways. Microwave oven recipe book was a good example. G called a lot of top chiefs together to investigate how to use microwave oven to make different dishes. Consequently, they introduced about 900 recipes in the book and presented to customers as attached gifts with sales of products. Later, they collaborated with TV station and launched a microwave
cooking program which aimed to promote the use of microwave as well as their products. As a result, after so many years’ “soft” marketing, G has become the label of microwave oven in Chinese consumers’ minds. Currently, they plan to open totally about 3000 “G’s showroom” in both domestic and foreign markets. They aim to show their household products in the room and let customers to experience their products directly. It provides customers a comfortable environment to shopping. As a good channel, these showrooms also deliver G’s idea of modern life style to customers and help to build G’s brand (Yin, Wang and Yu, 2009).

G was very sensitive to market demand which also contributed their market success. During the period of SARS (a kind of infectious disease originated in Guangdong Province), the requirement of sterilization products increased a lot. G only spent 7 days to upgrade their microwave oven with the additional sterilization function and released them to the markets. In the earlier years, G had already noticed that usually people used high temperature to kill bacteria, for example using boiled water. They combined this with the heating function of microwave and made a prototype with sterilization function in their laboratory. When it was needed, they just took it out and mass produced on line.

Though many ways had been used to expand its market, what made G’s microwave oven so successful was still the low price. The production capacity of the production line they introduced in 1992 was 3 million but they only sold about 10 thousand in 2 years. Until 1995, G had become one of the top producers of microwave oven. Even though, microwave oven was still a new industry in China at that time, and the potential was quite big, the barrier to enter was not so high compared to television and refrigerator. Many big household appliance manufacturers had already noticed it so that the future competition would be tough for G. In the middle of 1996, they decided to reduce 40% of the main products’ prices which shocked the whole market. Through this price war, they surpassed their main competitor about 20% market shares. Obviously, it was the low price strategy which aimed to gain more market share. Another more important purpose was to beat the small scale manufacturers and reduce the profit of the whole industry which made potential entrants lose the interest of this industry. G’s low price strategy made the microwave oven became a low value-added industry. In the later several years, even when G became the leader of microwave oven in Chinese market, it still adhered to low-price strategy to confirm its position. G’s market share in China always keeps between 50% and 70% percent.

After 2003, the prices of raw materials in China increased a lot. In 2004, the export tax rebate rate of household appliance industry of the government declined from 17% to 13%. The pressure of RMB appreciation became heavier after 2005. All these bring the whole industry to a severe condition. Moreover, recent years, with the development of China’s economy, the preference of Chinese customers had changed. Customers did not only care about the price but also started to pay attention on other factors, for example the design, the technology and the environmental protection (Zhu and Shen, 2008).

On one hand, G’s low price strategy was almost close to the baseline. On the other hand, G also noticed the change market trend. After 2008, G mainly focused on the high-end markets with promoting their high-tech conversion microwave oven. At the same time, they started to open the huge undeveloped rural market with low-end
products. Same strategy was also used with air conditioner. As a new entrant of air conditioner industry, it faced the competition from the existed players in the market. Some domestic air conditioner manufacturers and some international brands had already controlled more than 50% of the whole market share. However, no matter the high-end microwave oven or air conditioner, G still set the prices a little bit than its competitors even though the cost or technology of these products was at the same level as competitors. Differently, it was not easy for G to launch price war like they did on microwave oven, because of the cost pressure and customer preferences. Unfortunately, the earlier price war also brought G some negative influences. The challenge G is facing now is how to change customers’ low-price impression of G, when they aim to enter high-end market. It affects G’s product strategy transition (Zhu and Shen, 2008).

4.5 Cost Leadership Strategy

If we only see G’s price war as a phenomenon, then we need to think: what is behind it? It is more about the three values that G believes in: 1. reduce the high profits of the industry but in pursuit of low profit; 2. provide customers good quality products but with low price; and 3. the same quality but lower prices than competitors or the same price but better quality than competitors.

4.5.1 Economies of Scales

Economy of Production Scale
High profit is emphasized by most companies. But why G chases low profit and what supports its long-term expansion? In the entrepreneur L’s opinion, the direct purpose of gaining low profit is to expand both market scale and production scale.

The logic inside this opinion is simple. If G can start the price war and reduce the price level of the whole industry, then more and more customers have the ability to buy microwave ovens. Relying on the position G gains in the price war, the expansion of the whole market will bring them increasing market share. Only when the market share grows, the huge sales quantity can share both the production cost and the innovation cost. If the company is keen on only the short-term high profit it is difficult for it to expand the market and the business scale (Zhu and Shen, 2008).

When G’s production capacity achieved 1.5 million, it set the price around the cost with the cost about 0.8 million and when it has 300 million capacity, it set the price around the cost with the capacity 200 million. Consequently, to the smaller manufacturers whose capacity was lower than 200 million and without technology advantages, when they produce one microwave oven, they lose money on it. Some manufacturers reduce the price in the cost of sacrificing the quality for example use the cheaper accessories. However, G provides customers high quality products and low price. Using its market position and brand influence, G’s price war would not bring the vicious circle of price and quality but at the same time removes the unqualified manufacturers from the market (Zhu and Shen, 2008). Here, G actually follows the rule:
The question here is how G implemented cost leadership strategy. The most important reason is the economies of scale of production and innovation. Actually, between 1996 and 1997, G has already achieved the minimum scale of microwave oven industry 1 million. The economies of scale reduced the average production cost and innovation cost on every product therefore enabled G to reduce the price but still kept low profit. At the end of 2000, the production capacity of G achieved 12 million which was 8 times of Panasonic and with the sales quantity 10 million.

**Economies of Innovation and Management Scales**

The economies of scale do not only show in the production but also in innovation and purchase and management. For example, G inputs 400 to 500 million on R&D but when the cost shared by the huge productivity, only 10 to 20 RMB is cost in every product. If the scale of other manufacturers is smaller than G, then if they want to achieve the same technology level as G, they must lose money on every product (Yin, Wang and Yu, 2009). Relying on the advantage of big capacity, G has great bargaining power when they purchased the core accessories of microwave oven in earlier years. In order to achieve the economy of management scale, G introduced the insider competition system, increased the collaboration with other companies and reduced the management layer. Compare to other similar scale companies, the management cost of G was 5% to 10% percent lower (Zhu and Shen, 2008).

**4.5.2 Lower Labor Cost**

Besides the economies of scale, other factors also contributed to its cost-leadership strategy. In the global scope, G’s cost advantage mostly came from the lower labor cost in China. Furthermore, the low price labor resources create more value than similar companies in Western countries. In G, they have three shifts every working day and every shift works 8 hours which means the factory manufactures products the whole day. The accumulated producing time is about 3 or 4 times more than that in France so that the productivity of each G’s production line equals 6 lines in France. In addition, compared to some Western companies, the other production cost of G such as land, electricity and water are also lower. The low labor cost advantage is only relative to the competitors in international markets while the salary level in G actually is higher than the similar companies in that area.

**4.5.3 Free Production Line**

There are two main core components of microwave oven: magnetron and transformer. Actually the production line G bought from Toshiba was only an assembling line and they had to buy these two components from other suppliers. L started to think about since the good products of big international companies were produced by advanced production line, which means if they got the same production line, then they could also have the same products. At the beginning of 1997, though G had achieved some
success in domestic market, it lacked the money to import the transformer production line. That year, L went to Europe to negotiate with some transformer manufacturers. At that time, the cost of every transformer was about 20 dollars in Japan and 30 dollars in Europe. L proposed that they could provide these companies transformer with the cost only 10 dollars. But the attached request was that these companies needed to pay are giving G the right to use the production line for free. G actually used the labor cost to exchange advanced production line.

More preciously, G got the production lines for free and purchased the materials to produce transformers for these European production line owners with much lower cost than average. Hence, in fact, G lost money on that. However, due to the high efficiency of Chinese workers, they finished the planned production amount for European manufacturers very fast. Consequently, making use of the rest of time, they got a chance to produce the transformers for themselves. This greatly affects the market share of Japanese transformer manufacturers. At the end, L negotiated with the Japanese manufacturers and brought their production lines with the same way. Later, the same strategy was used on many products for example other components of microwave oven, air conditioner and small household appliances until G controlled the production of many core components on the market (Yin, Wang and Yu, 2009).

4.5.4 Saving All Unnecessary Cost

Additionally, G applied the most advanced energy-conserving technologies in the factory workshops. As a result of these energy-saving technologies, the workshops of G do not need lamps in the day time. G has already become one of the biggest private companies in China with very good income every year. However, they still kept simple style for saving all unnecessary cost which can be seen from their factories and office buildings. G Company has its own cost-control system. It sets the strict measures in every production segment which makes the concept of reducing waste and decreasing cost is deep rooted in everyone’s mind.

In the product’s quality, G also tried to reduce the unnecessary cost. In G’s opinion, the high quality requirement could reduce the scrapes, accelerate the production turnaround and improve the production confidence. Ensuring the quality of products is also to reduce the cost and lost and thereby to reduce the total cost. As one aspect of quality, the products pass rates not only affect the market feedback but directly affects the production cost. G requires their pass rate achieves at least 99%. Besides the emphasis of quality, they also aim to reduce the surplus of quality. For example, when G designed the load-bearing of the microwave oven grill, they set the lord-bearing at 4 kg. Later, they realized usually when the customers use microwave oven to roast chicken, the weight of chicken which can be put in microwave was about 2 kg. As a result, they decided to reduce the lord-bearing to 2kg which reduced the half of the grill cost (Yin, Wang and Yu, 2009).

4.5.5 Economic Inventory and “Zero” Inventory

Economic Inventory
During the long-term interaction and collaboration with different players in supply
chain, G develops an economic inventory management. It does not only aim to balance the demand prediction and supply but also focuses on the co-operation among all the supply chain segments to achieve the high efficient resource allocation. Through the economic inventory, G gains the better service from and suppliers and maximized the profits. The household appliance industry in China has entered the low-profit age (kind of overcapacity), whether the companies can control the inventory efficiently in some terms decides whether they can reduce operation cost, and fulfill long-term profit. However, the old supply chain, every independent segment has its own inventory and operates according to its own situation which leads the repeated inventory building. The result of that is the increased cost and reduced efficient of the whole supply chain. The longer the supply chain is, the worse the distortion between the required inventory amount and real inventory amount. In order to break the segment of these independent inventory management, G implemented the economic inventory strategy (Yin, Wang and Yu, 2009).

Firstly, they installed the customer information system to catch the information of customers’ demand. Later the information was sent to suppliers’ system to finish the materials demand prediction and analysis. Secondly, they established its sales network management system. They applied the ID code and bar code on their products to make sure the readability and uniqueness. It solved the standardizations of products classifying and coding. Meanwhile, it also solved the identification problem during the inventory and transportation process and thereby helps to facilitate the whole sales network management system. Thirdly, G achieved some agreements with its suppliers and agents on the collaboration of inventory management. The collaboration plan they made included the process of dealing with orders, the relevant parameters of inventory control such as reorder point and minimum inventory level and the ways to deliver the inventory information. At the end, they changed the organization structure at the purchasing department. In the past, the issues with suppliers and agents were controlled by the accounting manager. After they introduced the economic inventory, they set a new segment in the purchasing department to take responsibilities of inventory control, inventory replenishment and inventory service. In addition, due to fluctuations of raw materials, they also created “option sales” in China. In detail, G pays its big agents option margins and set an exercise price and an experience schedule. When it comes to the exercise time, if G’s cost is higher than the exercise price, it gives up the right to sell products to agents. If the cost is equal or lower than the experience price, then G will sell the products. The option sales are risky to its agents. However, based on the good quality and reputation of G, still there are many agents would like to cooperate with G. The option sales help G to control production, logistic and inventory better and efficiently reduce the supply chain operation cost (Yin, Wang and Yu, 2009).

“Zero” Inventory
The core of G’s “zero” inventory is to purchase best materials, produce products and deliver to customers in the highest speed. If the economic inventory pays attention to the supply chain management, then the “zero” inventory is from G’s own perspective to control the inventory. G aims to manage the materials and products inventory flexibly and achieve appropriate inventory. G establishes the daily inventory review system. For example, the average period of production and delivery circle of international order is about 10 days. If there are products still in the inventory which are supposed to be delivered, then the review system will trance back to for example
which sales man gets the order, why the products are not delivered in time, which department head is responsible for it and how to avoid this problem later.

Some of the components G chooses to produce itself while some other components they decides to buy from outside suppliers. For its self-produced components, it’s more easily for them to control the inventory and even reduce to zero inventory. For the outside-purchased components, G requires its suppliers to deliver the components in the shortest period. Usually, G chooses the suppliers who are close to them or the far-away suppliers but have warehouses around G. It makes these suppliers to meet to G’s demand more flexibly. Based on the application of ERP\textsuperscript{4} system, G can achieve digital management of inventory. Relying on it, G can easily know the inventory of specific products in specific factory, how many products in the agent’s warehouse and the product inventory turns of every specific period. It brings the reduced capital turnover rate and operation risks (Zhu and Shen, 2008).

In order to balance the production and sales, G always adheres to the principle that production depends on the demand. It is easy to understand this principle when we talk about the foreign sales because G produces according to the orders they get abroad. However, it is difficult to implement in domestic market. The accurate estimate of production amount depends on the abundant market research data and the good communication with agents. In 2001, G built a dispatch management center to coordinate the production and sales. The relationship between the dispatch center and production department is ordering and execution. On one hand, the center really emphasized the importance the production plan and does not allow all segments to change it freely. On the other hand, the center focuses on the dynamic plan management of production, deliver and sales. For example, they divide the production monthly plan into weekly plan and daily plan. The daily plan need to be made 4 days ahead and makes sure that the plan will not change in 2 days. The weekly plan also calls for being made ahead.

More importantly, due to the advantage huge domestic and abroad markets demand, G also tries to balance the production between these two markets. When the domestic market is in busy-season, then G will improve a little bit of the foreign sales prices while when domestic market is in off-season, then G will make every effort to get more foreign orders even the prices are lower than its competitors. The balance of the two markets avoids the waste of productivity and facilitates G’s zero inventory strategy (Yin, Wang and Yu, 2009).

\textbf{4.5.6 Lower Purchasing Cost}

The total cost if G is mainly made up of materials cost, production cost and sales cost. For example, the sales cost includes the maintenance cost of sales channel, sales management cost, transportation cost, the construction of maintenance and service and promotional cost. Among these detail cost, promotional cost accounts the biggest part of sales cost. When it comes the total cost, usually the materials cost occupies 60\% to 70\% of the total cost. Consequently, how to reduce the purchasing cost through

\textsuperscript{4} ERP (Enterprise Resource Planning) systems integrate internal and external management information across an entire organization, embracing finance (or accounting), manufacturing, sales and service, customer relationship management, etc.
establish good relationship with suppliers becomes the key of reducing total cost (Zhu and Shen, 2008). Relying on the huge purchasing amount, G usually can get good price from suppliers. Though the sell prices lower, suppliers are willing to collaborate with G also because of G’s good reputation and integrity in this industry.

4.6 Focus and Diversification Strategies

Besides the cost-leadership strategy, the simple and stable focus strategy also greatly contributes to G’s success.

4.6.1 Focus on Microwave Oven

Started microwave oven business in 1992, until 2002, G became the biggest microwave oven manufacturer in the world and its production accounted almost one thirds of the global microwave oven sales. In the 10 years, G only focused on microwave because they knew they must maximize the use of their limited resources. As early as year 1992, G had already set their aim: become the biggest microwave oven manufacturer in the world. It sounded absurd to a small township enterprise at that time. However, G achieved this target. When their production capacity was 70 thousand in 1993, they aimed to produce 1 million and two years later they did it. During this process, any useless things that would not help G to achieve the final goal were all canceled from the plan or agenda directly. G just focuses on manufacturing and becoming the world microwave oven factory.

4.6.2 Focus on Manufacturing

When other companies started to put a lot of resources on brand building or sales channel building, G was absorbed in expanding their production capacity and achieving economies of scales. When other companies were busy on being listed, G was busy on importing advanced production line from abroad and R&D (Zhu and Shen, 2008). What G believes is that since they started the manufacturing business, their main mission is to have the best productivity. If the products do not have good technology and quality, in their opinion, no matter how much resource is put in branding or marketing, it is meaningless. G noticed that the trend of the manufacturing industries in China is the higher and higher cost and the lower and lower profits. Under this situation, without the strong productivity, innovation ability, organizational learning ability, sales ability, management ability and enterprise culture, only the branding is not the solution. Toyota is seen as the model company by G and what G wants to learn is Toyota’s lean production. For example, the components of G need to be checked randomly before they are put in production line while all the components in Toyota can keep “zero” inventory and be used in production directly. Compared to the world-class manufacturing company Toyota, G knows they still have a long way to go and they still have a lot of space to improve their production ability. In G, innovation and sales are usually seen as the complementary abilities which service the production ability (Yin, Wang and Yu, 2009).

In order to optimize their productivity, production in time is an important principle in
G’s workshops. It means producing the demand products with appropriate materials when needed. It aims to make every production line worker and transport worker understand the essence of the production in time to achieve the low inventory or “zero” inventory production system. Production rapidly is another principle. The current production capacity of G’s microwave oven is 20 million which means the average yield of every worker every day is 3. The high speed comes from the optimized production line and allocation of resources. Most of the time, G also gets small amount orders. If G still uses the whole production line to meet the small demand, it in some terms waste the capacity of the line. Therefore, G decides to cut the whole production line into small units. Every unit has the ability to produce some products independently. When the big amount order comes, these small units can be integrated together in one or two days. It greatly improves the efficiency of labors and avoids the resource wasting. It also enables the worker’s ability of working on both lean production line and short small production line which makes G’s arrangement of labor more flexible.

In G’s assemble workshops, in order to facilitate the reach of components, all the workers on production line stand to work. The design of their production line is based on the human engineering theories. Workers in G do not need to stoop or move a lot to get the components. Every component is in the range that workers can easily to reach which improves the efficiency. Through integrating and reforming some processes, they speed up the transportation time between two processes. They also change the linear production line into semi-elliptical (Yin, Wang and Yu, 2009). It leaves some time for workers to add or decompound some components and therefore increases the flexibility of production line. Every time, when G changes the production line design or process, it always spends a lot of time of training workers to adapt to the change.

4.6.3 Focus on “Made in China”

The focus strategy was not only presented in the microwave oven manufacturing, but also in G’s OEM production. G admitted that the Chinese manufacturing industries were at the low-end position of the global industrial chain. The biggest advantage, which was labor resource with low price, was losing gradually in these years. The increasing price of raw materials, land and even RMB exchange rate brought Chinese manufacturing industries huge pressure. However, even these manufacturing industries sacrificed with the cheap labor resources, rapid depletion of nature resources and serious environmental pollution, provide the world cheap products, but they did not get the goodwill from most of the developed countries. Instead, they got more and more scolding and anti-dumping proceedings. Actually, the impression of Chinese manufacturing industries gives to the world even Chinese self is quite low-end (Yin, Wang and Yu, 2009). Facing the reality of the situation of Chinese manufacturing industries, G still adhered on “Made in China” no matter how other companies think about G.

In G’s opinion, focusing on “Made in China” is the best choice according to the situation of China now. However, with the loss of advantage, it is time for Chinese manufacturing industries change. From a macro perspective, it is necessary to adjust the industrial structure: move to high-end manufacturing gradually and improve the industries which service the manufacturing industries, change the low value-added
manufacturing. It is a long way to go. Currently, G considers being involved in OEM manufacturing is wise. China’s industrialization started later compared to developed countries and the base of the industrialization is also weak which can be seen from no matter technology or the productivity and management. Chinese manufacturing industries can’t skip the process of imitating, learning, improving and finally creating. From a micro perspective, G thinks it is no need to complain the situation of Chinese manufacturing industries. What they can do is learning the technology, lean production and management from the OEM production and then actively looking for the opportunities to improve its innovation, brand building and personal training to increase its competence (Yin, Wang and Yu, 2009).

4.6.4 Products Diversification

After 10 years focusing on microwave oven, G started to expand their products to air conditioner and small household appliance in 2002. After the Asian financial crisis in 1998, many Japanese and Korean air conditioner manufacturers sold their products even the production line very cheap which gave American and European manufacturers much pressure. G caught this chance. On one hand, they bought some production lines from Korean with good prices. On the other hand, they use the same strategy as production line of microwave transformer, they made a deal with European manufacturers to exchange the labor source with air conditioner production line. Usually, Chinese companies spent a lot of money on importing the equipment from abroad. And sometimes, these equipment, what they actually bought were actually out of date or overpriced. Compared to these companies, G’s strategy avoided these problems because they got the most advanced production lines for air conditioner and small household appliance without paying.

In 2003, G aimed to build the biggest air conditioner production base in the world. They invested more than 200million and established a 2 million square meters’ production base. Still different from many manufacturers, G emphasized the innovating of air conditioner’s core technology. As mentioned above, the target market of their air conditioner is middle or high-end markets. The small household appliance follows the similar development way as air conditioner. Between 2005 and 2006, the sales of small household appliance achieved about 0.74 billion RMB with the growth rate 800%.

The diversification strategy expanded G’s business fields, reduced the operation risks through providing different products to different customers. More importantly, it brings G operation flexibility. It can allocate their finance, technology and human resources flexibly to respond to the change of outside industrial environment and finally reach the balance of cost and revenue from different businesses. During this process, G can also achieve economies of scope. The different business can share the same resources such as the production ability, sales, logistic and service system, R&D system as well as some invisible resources such as company’s brand, reputation and management skills (Li, 2005). According to the sales manager, many of their existed resources were used in the diversification strategy. For example, some of the R&D resources (engineers) in their microwave oven laboratory were shared in the development of air conditioner and small household appliance. They retrained some
parts of their workers involve in the production line of air conditioner and small household appliance.

However, according to the foreign sales manager and G’s customer we interviewed, the global market’s feedback of their air conditioner and small household products is not as good as their microwave oven, or we can say just normal. The main reason is that compared to many other companies, G entered these two markets a little bit earlier so that they lack the production experience which made the quality of these new products were not so outstanding as the microwave oven. In addition, the speed of technological upgrading of air conditioner is much faster than microwave oven which makes G a little difficult to follow or lead the technology trend. Whether G can repeat the success of microwave oven on their air conditioner and small household appliance, let’s wait and see.

4.7 Innovation Ability of G Group

As early as in 1996, G had already started the research on magnetron. At that stage, most of the magnetrons that Chinese companies used were imported from Japan. In order to keep the secret from its supplier, most of the workers in G didn’t know there was a magnetron laboratory in the company. In 1997, when G had already accumulated some experience, besides the local laboratory, they took out the whole profit of last year to set up a magnetron research center in America and collaborate with some local research institutions there. They did not only focus on magnetron but also other advanced technology of microwave such as intelligent control, new materials and so on. Nowadays, G input almost 3% to 5% of their total sales on the R&D. Due to the high-end position that Japan and Korea in the household appliance industries, G now established another two research centers in these two countries. The mission of all these research centers are recruiting international experts, digesting and integrating the technologies from Europe, Japan, South Korea and America. Based on the knowledge, G develops its own technology and also improves innovation ability (Yin, Wang and Yu, 2009).

Currently, G has held about 900 and 200 microwave oven and air conditioner core technologies respectively. Among these technologies, G controlled about 500 patents on microwave oven and 50 patents on air conditioner. The fruitful innovation outcomes also contributed to G’s strategic shift. In 2005, when G launched their own patented products light-wave microwave oven, convection microwave oven and light-wave air conditioner, the sales of all these high-end products occupied 95% of the total sales. G changed the situation that Chinese companies imitated the technologies from Japanese or Korean companies. On the contrary, these companies started to learn from G. As the manager said, nowadays they were in the technologies export stage to Europe, Japan and South Korea. The exported products included magnetron, compressor, motor and PC control board. He also mentioned that the innovation ability was one of the most important of G’s success in international market. What G differs from other OEM manufacturers is that they do not only assemble products but also produce the world-class qualified components which meets the demand of international OEM customers.
4.8 The Most Important Capital of G Group – Human Capital

During the growth of G, human capital is always regarded as the most important capital to G. They believe if the initiative, potential and value of human are motivated, they can overcome any problem. In the past, G’s success more relied on the intensive labor. In the future, the success will more depend on the knowledge, efficiency and internationalization of human capital. How to attract, train and use human capital is essential to G (Zhu and Shen, 2008).

R&D Personnel
At earlier stage, it was difficult for G to recruit university graduates due to the nature of township and the scale of G. However, the way G used these university graduates was different from most of the enterprises at that time. It did not put these graduates at the important positions that fit their education backgrounds. On the contrary, these graduates were required to start from the grass-roots jobs such as production liner workers or sales men. Some students could not accept that and resigned, while some others chose to stay in G. After several years, they grew up to leaders or engineer groups or regional sales managers. Combined with their education advantage and rich practice experiences, they became more capable for these positions. This human resource strategy is lasted until now. In G’s opinion, the university graduates now have too high expectations to themselves while they don’t realize that actually they are not competent enough to take most jobs because of the lack of practice experience. The most important thing is letting them to realize the limitation and put them at the grass-root positions to exercise them. (Zhu and Shen, 2008).

G noticed that though many famous brands were good at producing microwave oven, air conditioner or refrigerator, but they did not produce the production lines by themselves, just simply bought it from other companies instead. What G wanted to know was who made these production lines and they aimed to get these talented people or experts from these companies. During the industrial transformation of some developed countries, G decided to change the strategy of only introducing equipment and technology to recruiting the experts. Relying on the help of international headhunting companies, G builds an international R&D team in Shunde. At that time, many household appliance manufacturers in China shifted businesses to other industries which left G rich human resources. However, G also met some problems. For example, G hired an export from Korea with the annual salary 15 million RMB. When the expert worked in G, he lacked the necessary assistance of the whole team which resulted in not so many technology achievements. G realized that and asked headhunting companies to find some other researchers at the aspects of structure, electronic control, quality management and process management to make up a team to support the chef expert’s work. About the use of these talented people whom G gets from other companies, it has its experience. It is difficult for these R&D personnel to start a new project immediately so that G requires them to start from investigating the shortcomings of the existed technology and patents. After modifying the shortcomings, most of original patents become G’s new patents. Later, when the members of “imported” team are familiar with each other, they start to focus on new project, especially they have more working experience. (Yin, Wang and Yu, 2009).

G feels the pressure which came from the growing land cost, operation cost and sees
the future trend of shifting the production to cheaper countries. How to keep the most important core resources—human capital needs to be taken into consideration. The living conditions and next generation’s education are mostly concerned by Chinese people. Noticing that, G builds very good apartment buildings and community facilities in Shunde around G’s location so that the talented people could have better living condition. In addition, G sponsors the schools in Shunde to hire good teachers to ensure the good education of these talented people’s children (Yin, Wang and Yu, 2009).

Manufacturing Personnel
Besides the talent human resources, G never neglects the production line workers. According to G, the education and skill level of these workers are still much lower than professional blue-collar workers in the high-end manufacturing industries in developed countries. In the future, blue-collar workers will not only be required the professional manufacturing skills but also the industrial design and management. However, it is still too far from Chinese manufacturing labor’s reality now. It’s not the problem only to G but also to all the Chinese manufacturing industries (Yin, Wang and Yu, 2009).

Due to the gap between the rich and poor as well as the unbalanced allocation of education resources, many children from poor families can’t go to university but become workers instead. The situation of university education in China now is overcapacity while the vocational education is lack. G noticed some young workers are very smart and have good potentials. Nowadays, G invested and built about 8 vocational education schools in backward regions to train young workers. Later, the graduates from these schools enter G directly (Zhu and Shen, 2008). After training and a period of working practice, the efficiency of these workers get improved a lot. For example in the modeling mould factory, the average productivity of a skilled worker per hours is 700-800 units. The number passes the productivity of the complete automatic production line which is about 600 per hour (Global Entrepreneurs, 2006).

Personnel Training
The main purpose of the personnel training in G is to improve employees’ skills. 98% of the employees will get the training from G every year. G invested to build a 400 thousand square meters’ training base which is located beside G. Take the example of sales personnel training. It can be divided into three parts. The first part is the corporate culture. G uses a lot of vivid stories during its whole development to illustrate the corporate culture. The second part is the basic knowledge of all the products and the skills of sales and promotions. It includes the characters, advantages and disadvantages of every product, the future market trend and so on. The last part is the simulation of sales. Through the sales scenario and the communication between sales personnel, the sales skills of these personnel get improved (Yin, Wang and Yu, 2009).

After the first training, every new employee should set a career goal. When they start to work, they will have teachers who are older and skilled personnel in their positions. These teachers are responsible for reporting the performance of new employees. G notices that the first, second and third month are the points of time that new employees are very emotional. According to that, the human resource department and
the relevant department heads need to talk to those new employees during the emotional period to help them. The working positions of employees are not fixed. Usually, after several years, when they are killed at the current job, they will change to new positions. As a result, every employee in G can handle 2 to 3 different positions. If employees want to resign from G, G will organize a conversation to know the reason why they want to leave. Even after resignation, the human resource department will try to keep contact with these employees. (Zhu and Shen, 2008).

**Salary and Treatment**

In G, the salaries of senior managers are actually a little bit lower than the average amount in this industry. The middle managers get equal or a little higher than the industrial average. The gap between the salaries of senior and middle level managers is not big. Based on this, the salary will be modified lightly every period. Differently, the grass-root workers’ salaries are higher than the average. G knows these workers take the hardest work in the company. Three-shifts are not so frequent only when the production is in busy season. If workers work at night, the canteen of G will provide workers free food. Middle and senior management team is the core of the organization management. It decides the results and efficiency of the strategies’ implementations. In G’s opinion, money is not the only incentive. Instead, G more emphasizes the incentives such as emotional involvement, professional ethics and the value of work (Zhu and Shen, 2008). However, according to the sales manager we interviewed, the management efficiency is becoming a big problem in G now.

### 4.9 Customers of G Group

The widest range of customer group of G is the end customers. In Chinese customer’s mind, G has become the label of good quality and cheap price. L once said, though we could not bring more income to our customer, we could give our customer more value with our low price. Standing at customer’s point of view, G aimed to destroy the high add-value which they thought was unnecessary. The 40% reduced price in 1996 brought microwave oven to Chinese families 10 years earlier compared to the normal diffusion speed of microwave oven in developed countries. It greatly benefited the end customers. In recently years, the products with the label of energy-saving are usually connected with high-tech and high price. However, G thinks though the energy-saving products contain more innovation and material cost, the real value is exaggerated. For example, the universal problem of air conditioner’s heating function is that low efficiency of changing electricity energy to heat energy. G creatively innovated improve the conversion efficiency through light energy (electricity energy to light energy and then to heat energy). It saves about 30% of the electricity energy. However, G set the price of this product lower than other brands. When the raw materials’ price increase and other manufacturers thereby mark up prices, though G actually have the power to set higher prices for the industry, it insists on not raising the prices and leave the benefit to customers. In order to respond to national government’s support policy “Household Appliance Entering Countryside” to rural areas, G sold their low-end but good quality microwave ovens with the price even lower than its cost. Nowadays, it’s normal to see G’s microwave ovens about 200 or 300 RBM in farmers’ families (Yin, Wang and Yu, 2009).

The sales of G in China rely on the agents or big supermarkets and household
appliance markets. As a result, except G’s showrooms, G does not contact with the end customers directly. However, G does not neglect the service of end customers. Besides the propaganda of microwave oven knowledge and recipes, G’s after-sales service has good reputation among customers. There are many small microwave oven manufacturers collapsed but leave many products which do not have the after-sales service. G not only provides service to its own products but also these products. Currently, G has about 3000 professional after-sales service teams in China and only charge the basic cost as service fee. No profits earned from these teams but their main mission is serving customers (Yin, Wang and Yu, 2009).

G’s B2B customer mainly means its OEM customers. In earlier years, when G was not famous, it was difficult for them to find these customers. At the beginning of 90s, the salesmen of G even went to various embassies to find some customers resource. Later, the household appliance exhibition became their main way to get OEM customers and orders. Nowadays, with the development of Internet and E-business as well as G’s brand popularity, more and more OEM customers find G initiative through the platform of B2B agents. Besides these two channels, there is another channel for customers to find G. Many international companies set their branch trading companies in China. The task of these trading companies is to find qualified OEM manufacturers and order products from them. At the end, they tag the products with their own brands and export. According to the purchasing manager of the Swedish company, when they started purchasing microwave, they knew G had really good reputation in China. As a result, they contacted with G to seek the cooperation. Afterwards, they went to G’s workshop to see whether G met the requirement of ISO 9000 standards.

Besides sales managers, G also sets a department to deal with the B2B customers’ relationship. G aims to establish a long-term and stable relationship with these customers. The sales manager of G said, among G’s customers, they mainly focus on the big customers especially the world famous household appliance brands. Every year, G invites these customers to China to attend some activities, for example the household appliance forum and discuss some deeper cooperation plans on R&D, production and sales. Sometimes, G also arranges that G’s own researchers, engineers and sales managers go to these customers to communicate and learn new knowledge. To the other customers with small order amount, the interactivities are not so many but G still ensures the in-time production, good quality products and service. The purchasing manager’s words also proved that.

4.10 Value network of G Group

4.10.1 Supplier

There are two different kinds of suppliers of G. According to the sales manager, besides some components for example magnetron, compressor, transformer and some wires G can produce by the branch companies under the group, other components they need to buy from suppliers. Most of the time, the domestic suppliers are good enough to meet the demand. Sometimes, when for example OEM customers have special requirement on components or materials which can’t be purchased in China,
then they will import from international suppliers. To the components companies belong to G, their material suppliers are also G’s suppliers. Material purchasing cost occupies about 60% to 70% of the total cost so that the relationship with suppliers is very important to G.

When G chooses their suppliers, it has its very strict standards especially for the domestic suppliers. The material amount supplier can provide to G must accounts at least 25% of its total output. On one hand, G chooses the component supplier who is close to G or the far-away supplier but has its warehouse around G so that G could shorten the transportation time. On the other hand, besides the supply, G also really emphasizes the service or collaboration that supplier can provides to G. For example, G hopes the supplier can give some processed help on the design of G’s product so that G could ensure the competitive advantage of its product in the market. G also prefers the supplier who can provide it the latest information in the market to facilitate G to optimize the product design and reduce the cost (Zhu and Shen, 2008). Meanwhile, G will also help suppliers to reduce their cost from the perspective of inventory management or information system. G aims to establish the long-term, mutually beneficial and strategic relationships with suppliers to solve the problems such as information blocking, market risks during the purchasing process (Yang and Pu, 2008).

The purchasing department firstly investigates whether the suppliers meet the basic demand as we mentioned above or not. They mainly want to know the suppliers’ experience of developing new market and the maturity degree of their products. Later G will make a list of some detail requirements to the candidate suppliers to let them fit the data. At the end, the qualified suppliers are asked to provide some samples to G to make the final decision. Usually, G will take some components or materials to make small amount products, if the quality is ok then it will sign long-term and large quantity supply agreement with suppliers (Zhu and Shen, 2008). In order to reduce the cost, G tries to lower the purchasing prices of components and materials. However, it does not affect its relationships with suppliers because: G’s huge amount and stable purchasing absorbs these suppliers; becoming G’s suppliers also means these suppliers enter the wider world-wide market; G has really good reputation of its honesty and credit which is shown in the promise of 45 days’ payment term (Zhu and Shen, 2008).

G’s management of suppliers ensures the transparency of purchasing and keeps the quality as well as the efficiency of purchasing. For example the “sunlight purchasing system” calls for the high transparency. G sets internal auditor to investigate the purchasing manager, the markets prices of the materials and cost structure of purchasing to prevent some purchasing managers collude with suppliers to higher the prices. Furthermore, for the big purchasing program, they use the public bidding to choose the suppliers to prevent some purchasing managers charge suppliers to recommend them to G or these managers and suppliers have secret deals. In addition, the senior management team will visit G’s suppliers frequently to communicate with each other to prevent the purchasing problem mentioned above (Yin, Wang and Yu, 2009). G also knows how to use the “Catfish Effect” among its suppliers. After some time, G will claim to or introduce new suppliers to the existed suppliers to force these suppliers compete with each and provide lower price or better products to it (Zhu and Shen, 2008).
G forms many strategic coalitions with its suppliers to integrate each other’s resources and share the cost risks together. For example, G and its biggest competitor in China signed strategic coalition agreement with Baogang Group who was the biggest high-end iron and steel company. The coalition mainly focuses on the materials purchasing, developing, R&D and value-added service. According to the agreement, G would help Baogang to promote the application of its new steel products on G’s products and Baogang will ensure the stable and good prices material providing. Moreover, Baogang and G hasten the collaboration on the R&D of new household appliance materials as well as on the value-added service in the whole supply chain to achieve the low cost together.

4.10.2 Partner

G has many different partners who cover the production, sales, R&D, logistic, human resources and financial areas. The good relationships with these partners keep G’s competence and success. In the production especially the OEM production, many of G’s OEM customers become its partners now. In the earlier year’s competition, G’s beat many international famous brands in Chinese markets which makes G left deep impression as well as respect to these brands. Later, these brands found G to seek OEM production. When they found G was the biggest microwave oven magnetron, transformer and motor manufacturer, they started to buy these components from G. With the deepening of cooperation, these OEM customers and G even collaborate on the R&D of new microwave oven technology and air conditioner in the form of joint venture laboratories. As a result, these famous brands are now G’s competitors, customers and also partners. From the collaboration, G virtually learns a lot for example production and management experience from these partners. More importantly, G also realizes it is a good way to use the international sales network of these famous brands to promote its own brand (Yin, Wang and Yu, 2009).

G’s sales in China rely on the network of agents or the normal supermarket and household appliance supermarket. It promises that it will never establish its own network to compete with these partners. Usually, the collaboration between mainly seen in the sales promotions. Recent years, with the organizational structure reform of G group, the collaboration with sales partners become deeper. G established sales company with its agents. For example, some bosses of G’s old regional agents became the managers of the new joint venture sales companies. Though according to the sales management structure, the markets scales of these agents shrink a little bit, the communication between G and the sales companies is smoother and more efficient now (Zhu and Shen, 2008). In the international sales, G is the biggest partner in Asia of one Japanese famous electronic product brand. When G entered Japanese market with its own brand, it used the supermarkets under that Japanese company. Relying on that sales and logistic network, G achieved market success in Japan. Later, they collaborate on the R&D of inverter air conditioner. The Japanese company is good at electronic board while G is good at compressor and manufacturing.

Logistic is regarded very important in G. to most of the Chinese manufacturing companies, 90% of the time is spent on logistic while only 10% sent on producing. Moreover, the logistic inventory cost usually occupies 30% of the total sales cost. Logistic companies are important partners of G. After 2006, when the demand of G’s
air conditioner and small household appliance increases, the existed logistic lines couldn’t meet the transportation mount anymore, G launched the national public biddings of microwave oven, air conditioner and small household appliance respectively. At the end, they got the good logistic service with good prices. More importantly, G collaborates with the logistic partners to establish the joint venture logistic companies to service its own transportation. It greatly reduces the cost and at the same time stronger G’s ability to control the market (Yin, Wang and Yu, 2009).

As a big group not being listed, G introduces some other capital sources. After the conversion of ownership in 1994, G gradually introduced some foreign capitals. Later, when G got the transformer or air conditioner production line for free from Europe and Japan, these lines were calculated as capital into the group. All the working capital comes from G’s working balancing. The operation becomes tough especially when the raw materials prices are raising. From 2007, G got some investment from Europe and until now the foreign capital accounts about 30% of G’s total capital (Zhu and Shen, 2008). In 1998, only one year’s after its microwave oven’s international business, G hired one the world-famous consulting company A as its financial adviser to help it to make and implement the financial strategies (G Group, 2012b). Besides the international financial partners, G also has international human resource partner. Compared to the world-wide famous brands, G still lacks the ability to attract the good experts to work with it. As a result, G found some famous international headhunting companies to help them recruit professional experts from Japanese, Korean and European companies (Zhu and Shen, 2008).

4.11 The Reform of Organization Structure and Management

4.11.1 The Reform of Organization Structure

G had two times big reforms of organization structure from 2004 to 2006 when L’s son took the chair of CEO. In 2004, the senior management team felt it was necessary to reorganize the company since old the factory-style management structure couldn’t follow the fast development of the company. They split the company into 6 branch companies and built them up into a group company. Under the group, there are microwave oven manufacturing company, sales company, 2 household appliance companies, electronic product company and a metal profile company. This reform aimed to solve the problem that the right was too concentrated in the high senior management team while the middle and grassroots level lacked of the enthusiasm (Zhu and Shen, 2008).

Only two years later, according to its strategy of integrating components manufacturing, whole machine manufacturing and sales together, it expanded the whole group into 16 branch companies. The components branch companies included the accessory company, motor company, electronic component company, model company and wire company. The manufacturing of microwave oven, air conditioner and small household appliance were separated. Two big sales companies- China (domestic) sales company and international sales company took the responsibilities of the sales of all products. One of our interviewee comes from the international sales branch company. The new structure helped G to build almost the whole industrial
chain within the group and greatly improved the efficiency of using resources. In the group, there is a board of directors, CEO and a president who master the whole group. In every branch company, there is a general manager who is under the management of the group CEO and president.

Take an example of a Chinese sales company. Under the sales company, there are planning, sales, customer-end and operation four functional departments which take responsibilities of microwave oven, air conditioner and small household appliance. The specialization avoids the problem of resource decentralization and wasting. In addition, G sets 52 branch sales companies which allocated all the areas of China under the China sales company. Among these 52 branch sales companies, there are 8 which are joint venture companies with old regional agents. Usually they choose the agents as the general managers of these companies. Guided by the China sales company, all the branch companies have the right to allocate some human, financial resources to strengthen the ability of self-operation. The independence of branch sales companies saves the sales cost, improves the efficiency of sales, service and management in order to improve the ability of G to adapt to the market changes. (Zhu and Shen, 2008). For example, G will give some gifts to customers when they sell the microwave ovens. Once, all these gifts were sent from Shunde and transported to all the areas. But nowadays, the branch sales companies have the right to decide what gifts are more popular in the local areas and then purchase and deliver in local areas. It greatly reduces G’s cost on that and catches customers’ needs more accurately. According to the sales manager, G also aims to build their own sale channels based on these sales companies to change the situation that G relies on agents too much. Some powerful agents usually use their monopoly advantage to lower the purchasing price from G. From 2007, G set a target that they wanted to build about 1000 sales points and 1000 franchise stores.

The international sales company has several functional departments to deal with the documentation, customs clearance and goods storage and transportation. The sales department is also divided by the regions into Hong Kong and Macao market, European and American market, Africa market and Asian market. A little different from the domestic market, the international sales are more independent on the foreign agent’s channel. It is difficult for G to establish its own channel abroad no matter from the perspectives of finance or information (Zhu and Shen, 2008).

The reform of organization structure was success. However, as the sales manager pointed out, there were also disadvantages of so frequent organizational changes. Firstly, the problem that power is highly centralized in the hand of CEO still exists which makes the management structure more hierarchy. The top to bottom decision making mechanism is obvious. The only company in the group that takes more flat management structure may be the sales companies. In addition, he said, during the reform, many middle or senior managers left the company. One probable reason is that the reform hurt some people’s interest. For example, the settings of new department and merges of departments will weaken some managers’ authorities. Some of them couldn’t adapt to the change left G. At that time, the biggest competitor of G also came to poach some managers from G.
4.11.2 The Reform of Management

In G’s opinion, the economy scale of management depends on the managerial capacity of company and the way to implement. Through introducing the competition system, strengthening the collaboration with other companies, reducing the layers of management teams and building corporate culture, G could reduce the internal transaction cost. Compared to other companies, G’s management cost is about 50% lower while the labor productivity is 50% higher.

No matter the production or the management, G seeks the flexibility. Every production line of G can produce at least two types of products in one day; the production line can change to small production units directly to adapt to the small demand; all the workers are required to learn the skills of at least three working positions to make the production flexible; the number of the management team members is limited which requires these personnel can handle several management jobs (Yin, Wang and Yu, 2009).

The “big company with management style of small company” came from L’s leadership period. Later, when L’s son took charge of G, he changed it into a “reverse traction management style”. The essence of this management style is that inside the company, the next process asks for high requirement from the last the process. It means the last production process sees the next process as its customer and improves the satisfaction of “customer” through improving the quality and efficiency. In this way, all the segments are pushed but motivated in order to keep fast development.

In the mature market environment, the degree of industrial specialization, the structure of the suppliers and customers greatly limit the development of a company. With the rapid development of G, it realizes some B to B customers do not fit the growth pace of G any more. Under this situation, G introduces the competition system in its customers. On one hand, it tries to update the old customers’ business ideology and strategies. On the other hand, it develops new customers who have more enthusiasm and competitive advantages. The competition system is also used in G’s agents. When the agent’s sales channel is not long enough to penetrate into the small cities and countryside, G will find small local agents to develop these markets. Some sales promotions will start from these small cities and countryside around big cities. It virtually gives pressure to big agents who focus on big cities markets.

In the past, the understanding of the relationships between many companies and their agents still stays at the stage of sellers and buyers, not the partnership relationship. G realizes it is necessary to build agents’ loyalty. Furthermore, the agents contact directly with G’s end customers, the ways these agents use in sales directly affect the impression that G leaves to its customers. As a result, G will help its agents to train their employees especially the sales personnel, in order to let them understand the corporate culture of G and then deliver it to end customers. (Zhu and Shen, 2008).
4.12 Corporate Culture of G Group

Through about 30 years’ development, G grew from small township feather factory on wasteland to the biggest microwave oven manufacturer in the world. It has its special corporate culture to support and continue this success. L used four Chinese words to describe G’s corporate culture: loyalty, sincerity, credit and down-to-earth. (Zhu and Shen, 2008).

The meanings of the four words are easily to understand while it is better to use examples to illustrate the culture vividly. The flood happened in 1994 was a good example. Due to the geographic position (close to big river), every summer G had to prepare to prevent the flood. After a long-term of rainy season, the water level was very high. G realized it was more dangerous this year and then they used the sand bag to build a dyke besides the river to encircle the factory. With the water level getting higher and higher, the sand bag dyke was almost burst by flood. In this emergency, all the male workers volunteered to stand together to make a “body dyke” to defend the sand bag dyke. However, all the attempts could not prevent the disaster. Finally, the flood crushed into the factory. The 58 years old leader L stayed with all workers to fight with the flood. At this moment, he yelled to retreat all the people but give up transferring the assets. Three meters’ water submerged the first floor of microwave factory which had the imported production line from Japan. All the finished products of textile factory and the materials of dyeing factory were destroyed. It was disaster to G. The flood happened only two months after G finished its ownership conversion. Meanwhile, the investment of microwave oven production line did not get recovered so that it needed the support from textile business. What’s worse was that it still had 38 million bank loans for the production line (Deng, Zi and Wang, 2006).

Though L almost lost hope, what he concerned mostly were always the employees. He settled down the workers at a safe place firstly and then tried to buy food and clothes for them from outside. Regardless others objections, he decided to hand out three months’ salaries to every employee and told them they could go home first. If the company could survive he would ask them back. It was the only cash flow could be used to save the financial crisis. In L's mind, though it was tough time for the company, he knew the salary was more important to the workers and their families. However, no one wanted to take the money and leave, but stayed to overcome the challenge together. After the flood receded, the workers started to dig the machines from mud. In order to dig without damaging the equipment with tools such as spade, they had to use hands to dig the mud little by little. Fortunately, the warehouse on the third flood did not submerged by flood. The only way to save the company was sell as many products as they can. Every sales man went out to visit the regional agents to sell products. Due to the good reputation and credit, many agents helped G and some agents even gave G the money though they had not sold products yet. The saved machines needed to be repaired, the engineers and mechanics worked on that day and night without breaking. Miraculously, they only used three days to restart the production (Deng, Zi and Wang, 2006). From the story, we can see the loyalty, sincerity and credit.

OEM manufacturing lies in the low position of world industrial chain with the margin between 1% and 5%. It can be seen as selling labors but G still insisted on OEM. G
also knows the disadvantage of OEM production but G is a down-to-earth company. In G’s opinion, the whole industrial structure in China is limited by the technology and labor force quality. Currently, OEM production is a wise strategy before the industrial structure transformation happens because at least it can create jobs for the society. G pulled the economy of whole Shunde town. Many local people and even their next generation work in G. In fact, around 90s, many workers from poor areas of China went to Guangdong province to find jobs. Though the salary was much lower compared to work in big cities, the salary supported many families at that time. Moreover, the down-to-earth culture also makes G believes that hard working is the only way to create wealth. G had the capability to be listed in stock market very early. However, in L’s opinion, the money came from stock market was too fast and unstable so that it might hurt the development of company. The listed companies are required high performance by the stockholders and have to distribute bonus. In G, short-term performance and profit were not the most important concerns but the long-term development. In addition, the shareholders in G usually agree with keeping the profits and putting it into operation, which means going public does not fit G (Zhao and Rao, 2008).

4.13 Industrial Cluster

From a township enterprise to a private group, G virtually did not get much special policy support such as the lower commercial bank loan rates from government compared to the state-owned companies except the export tax rebate. The export tax rebate also reduced from 17% to 13% after 2004. However, the industrial cluster causes the affect in Shunde obviously. From the 80s, Guangdong Province was famous for producing clothes, sanitary equipment and household appliance. Especially in Shunde, there are many household appliance companies. The local government saw this trend and planned to make Shunde become a household manufacturing base in China or even in the world. Following the plan, the government invested in the construction of infrastructure firstly. Later, it used the preferential policies for example lower tax rate, lower land price, lower bank loan rate and consulting service to attract not only the household appliance companies but also the suppliers and industrial service companies to invest in this area (Yin, Wang and Yu, 2009). When the industrial cluster became more and more mature, the government also helped the local companies to launch for example the world-class household appliance exhibition or forum.

Now, Shunde has become the biggest household appliance industrial cluster in China. The gross output value of this industry in Shunde accounts about 15% of China’s total household appliance output value. At the same time, it also becomes the world biggest manufacturing base of whole machines and components of household appliance. In this area, there are about 3000 household appliance manufacturers and the relevant suppliers. Almost all the components from the magnetron to simple hard ware fittings can be purchased in the range less than 50 km. G has already built a purchasing circle with the radius about 30 km around it. It can get any components in about half hour (Yin, Wang and Yu, 2009). The specialization of the companies in this cluster is very clear and they rely on each other. The free flows of materials, human resource, capital and information inside the cluster greatly support G’s success (Zhu and Shen, 2008). Under this background, the National Development and Reform Commission of
China is planning to build a wide economic circle which includes 9 provinces and Hong Kong as well as Macao. These areas are complementary to each other on resources, industrial structure and markets. Rely on that, G can expand their source of labor force and shift the production of some products to other areas in this circle.

4.14 Internationalization of G Group

4.14.1 Global Vision

As L said, “the internationalization of G starts with the internationalization of vision and later the technology, management and finance”. When G decided to change to microwave oven industry in 1992, one important reason was that the export right of the product would not be limited by government. Later, after G imported the first production line from Toshiba, it set the target to be the world biggest microwave oven manufacturer. It sounded absurd at that time, but D did. Moreover, the higher profit of exportation was one important driving force of G’s internationalization.

From 1992 to 1996, G prepared for its internationalization. It established international department in 1995. Lacking the customer resource, at the beginning, they even went to the various embassies in China to get help. Through picking up the wastepaper from the trash cans from these embassies to try to find some contact information of potential customers. Nothing was gotten and later they changed their strategy. International household appliance exhibitions became the main channel to find customer resources. Usually, the team was made up of one sales man, one engineer and several microwave ovens. Afraid that the products would be crushed, they took them as hand luggage. In order to save money, these people lived in the cheapest hotel sometimes even had to sleep at airport, ate instant noodles brought from China. At the exhibition, compared to some famous brands’ luxurious booths, G only had a simple desk with several products on it. Even the display panel was made by themselves manually (Deng, Zi and Wang, 2006). G failed on the exhibition again and again but it did not give up and continued to attend.

On one hand, G went abroad to find customers actively. One the other hand, G did realize it was important to make their products to meet the international quality requirements. From 1996, G gradually got the certifications of ISO9001\(^5\), CE certification of EU, UL certification of America, DEMKL certification of Demark and NEMKO certification of Norway. G saw these certifications as the “passports” to go abroad (Zhu and Shen, 2008). Many Chinese manufacturing companies lacked the awareness of getting international certification and sometimes resulted in big loss due to the products quality.

Finally, in 1997, G got the first international order from France through an exhibition. According to the sales manager, the overseas sales of that year accounted for more than 25% of its total sales. Only 5 years later, it developed to the world biggest microwave oven manufacturer. Step by step, after fulfilling the first target, G aimed to become the world biggest air conditioner manufacturer. In the Chinese market, most

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\(^5\) ISO 9001 is one of the standards in the ISO 9000 family. It is the internationally recognized standard for the quality management of businesses.
of the air conditioner products still centralize in the low-end while in the international market, the space and scope of high-end products are quite big. It aroused G’s ambitious to enter this huge new market (Zhu and Shen, 2008).

4.14.2 The Internationalization Process of G

G opened its international market in Western Europe and then Nordic areas, Japan, South Korea, North America as well as the later emerging markets and Africa. Like many Chinese manufacturing companies, the earlier internationalization relied on the OEM production for famous international brands. Via some agents, G sold the finished products according to the order to these international companies. Taking the advantages of these world-class companies’ brands awareness, sales channels, G avoided many problems during the internationalization process such as the sales, the quality problem and the anti-dumping problem. Mainly via the OEM production, G also exported products with their own brand (Zhu and Shen, 2008).

Only one year after its first exportation of microwave oven, G set its first branch company in Europe in 1998. Nowadays, G has about 48 branch companies or offices allocated the whole world. Its target is building branches or offices in about 200 countries in the future years. According to the sales manager, the tasks of these abroad institutions of G include: finding OEM customers in local areas through all the possible channels; contacting and communicating with these OEM customers to meet their demand; negotiating with the local sales agents to persuade them agent G’s own brand products; dealing with the issues of establishing G’s stores in local areas.

In G’s opinion, internationalization is not only about where to export the products or where to establish branch offices, but also more about the strategic layout. After controlling the core technology of magnetron, it has the ability to outsourcing its production. Moreover, the increasing labor cost in China becomes an urgent problem to G’s future development. Taking these into consideration, G decided to establish assemble companies in other emerging markets such as Russia, India and Vietnam. G exported the components and accessories to these areas and then the branch companies sell the assembled products to the international markets. G has to pay 16% of the tariff and 18% of the value-added tax for every complete set product in China. However, if they export the components and accessories, then they don’t need to pay the tariff. In these emerging markets, as foreign direct investment, G also enjoys the preferential tax policies. As a result, even accounting without the lower labor price, the cost of G’s production abroad is 30% which is lower than producing in China. The lower cost is not the only factor G concerns, it more emphasizes the strategic function of these abroad assemble companies. For example, when G set the assemble company in Russia, the position of Russia which between Asia and Europe was the most important factor. Europe is G’ biggest international market so that the purpose of the assemble company in Russia is to service the European market and get information more efficiently (Zhu and Shen, 2008). In the future, the internationalization strategy of G will be “Innovation in Japan and Korea, Made in India and Sales in Europe and America”.
4.14.3 OEM Production and the Development of Own Brand

Special OEM Road
OEM is quite normal in today’s Chinese manufacturing industries. However, G’s OEM rode is different that it controls the core technology of microwave oven. For example, the normal price for an air conditioner assemble line is approximately $0.3 ~ 0.4 billion. In this case, G invested $2 billion when it entered this industry. It more focuses on the production of core components but not purchase from outside. The huge investment needs a long time to recover the cost but G insists on that. It believes that only the big production scale is not enough, the key point is to achieve professional production in this area (Zhu and Shen, 2008).

At the beginning, G imported or even moved its OEM customers’ production lines to China and produced for these customers relying on the advantages such as low labor cost and high productivity. Afterwards, during the OEM production, G learnt the management experience from its customers, and developed the core technology of microwave actively. Nowadays, G’s big economy scale as well as the low price, high efficiency production and good product quality make it become the biggest microwave oven manufacturer in the world and attract about 200 OEM customers (80 famous brands) to collaborate with it. More importantly, the strong innovation ability of G supports its OEM strategy a lot. However, the truth that G has to face up to is the increasing raw materials price and Chinese labor price. The profit space of OEM is shrinking all the time which makes the situation of G becomes tough.

Besides the complete setting of OEM production, G also exports core components and accessories of microwave oven to these customers. It finds its position in the specialization of global industrial chain. In some terms, G has beyond the stage of rare OEM and enters the stage of ODM⁶. The power what pulls G to the road of ODM is the strength of innovation ability and technology. There are more and more ODM customers confirm G’s products no matter from the design or the technology. In the future, OBM⁷ is the G’s direction. (Zhu and Shen, 2008).

The Development of Own Brand
Though involved in OEM production, G never gives up developing its own brand. From 1997 to 1999, the export proportion between OEM products and own brand products reduced from 9:1 to 7:3 and then 6:4. After 2007, among all the products not only microwave oven, G exported more than 50% of their own brand products. With the growing market share of G, the quality, service and price are more and more acceptable to the international agents. Due to the huge customer cluster of G in the world, the influence of G is growing. Many OEM customers or sales agents would like to mention that the products are made by the world biggest microwave oven manufacturer – G, during the advertising or promotion. Gradually, some agents want to sell G’s products with its own brand. In order to highlight its brand, G has some requirements to the agents: 1) sell more than one kind of G’s product; 2) sell middle

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⁶ ODM (original design manufacturer) stands for a company which designs and manufactures a product which is specified and eventually branded by another firm for sale.

⁷ OBM (Own Branding & Manufacturing) is typically a company that sells an entire product made by a second company or including a component thereof from a second company sources as its own branded product. Selling the product of the second company under its own brand just adds a virtual extrinsic value to the product.
and high-end of G’s products; and 3) put the products beside other famous brands. However, sometimes the powerful agents will try to lower the price of G’s products regardless of the fact of rising production cost. After 2001, G paid more attention on the emerging markets for example East Europe, South America and Middle East. In these markets, the penetration of other famous brands is not so deep. G uses its own brand and provides the products through the big agents’ network such as supermarket or household appliance market. (Zhu and Shen, 2008).

At the end of 2004, another Chinese household appliance manufacturer had a conflict with its biggest international agents and stopped the collaboration. It resulted in that this Chinese company failed and carried a lot of loss. It shocked G and made it realized that only relying on agents was dangerous. The best way to avoid this problem was building sales channels by itself. G decided to open its stores in international market. Until 2007, it had already established about 80 stores in France. The next plan is to build another 100 stores worldwide.

Inevitably, G also meets some problems during this process. The biggest challenge for G is how to find the balance between the whole group’s strategy and the brand strategy. Currently, the finance ability and the brand management ability of G are limited. G needs to balance the short-term profits and the long-term profits which brought by brand building. The sales manager stated his own understanding about this balance. One of G’s advantages in international market is its low price so that if without the protection of OEM production, G will probably get the problem of anti-dumping punishment. Similarly, since G’s products have very high market share in the world, if G give up OEM strategy but use its own brand, anti-trust regulation will become another problem to G. He also said developing his own brand somehow conflicts with G OEM production strategy. G’s cheaper price but almost same technology content and quality will threat its OEM’s products in international market. If G differs from these OEM customers’ products to focus on low-end international market, then it will deviate from its brand strategy, which is becoming a Chinese high-end brand with more added-value.

4.14.4 Internationalized Technology and Human Resource

Internationalized Technology
When G entered the household appliance industry, like many Chinese companies at that time, it was greatly limited by the resources such as finance and technology. Even the imported technology was eliminated by other countries. Consequently, the Chinese products were the low-end while the middle and high-end market was controlled by American, European and Japanese brands. G realized that without the core technology, the company would be in a passive position all the time, in contrast handling the core technology was the only way to compete in international market (Yin, Wang and Yu, 2009).

In 1997, when G accumulated some experience of producing microwave oven, it collaborates with some research institutions in America to start the research on magnetron. The “G American Research Center” recruited a lot international experts to work on the sophisticated electronic technology, new materials and intelligent applied research. In 2005, G set up “Post-doctoral Center” in China and “G Korean
Innovation Center” in Seoul. The internationalized layout of these research centers and R&D personnel help G to keep the pace with the technology trend in this area (Yin, Wang and Yu, 2009).

Internationalized Human Resource
The internationalization of R&D human resources in G is obvious. For example, Japan and Korea are in the leadership position of household appliance in the world. When G established the research center in Korea, it absorbed a lot of talent people from not only Korea and but also Japan. Even in the research center in China, there are several foreign experts who come from G’s OEM or ODM customers.

In the international sales, lacking of the international human resource, G only assigned some personnel at the beginning who could speak English. When these personnel got some experience, they took the responsibility of training the next generation. Gradually, G found that though these international sales men stay abroad for a long time, it was still difficult for them to know the local culture and penetrate into the local market. In this case, G decided to change the strategy that employing the local personnel. Except the financial management personnel, G will hire local people to take the jobs such as developing and maintaining sales network. In America, all the salesmen of G are local Americans. The sales network in Europe is also built by the European employees. G gives these international branch companies and offices enough independency and freedom to develop the local market depending on the different situations of these markets (Yin, Wang and Yu, 2009).
5. Analysis

In the analysis part, we mainly follow the structure of the theoretical framework part. Firstly, we will use the Born Global theories to investigate the internationalization of the Born Global Company G. Later, the business model elements and the interactions between them which are illustrated in our business model conceptual framework will be applied in the analysis here to show the overview of the case company’s business model. At the end, we will try to evaluate the G’s business model briefly.

5.1 The Chinese Born Global Company-G

According to the definition we choose in our thesis, the Born Global is “a company that has achieved a foreign sales volume of at least 25% within 3 years of its inception and that seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries” (Andersson and Victor, 2003). Easily to see, the requirement of the definition about Born Global’s internationalization speed is quite high. It calls for at least 25% exportation of the total sales within the 3 years since Born Global’s inception. From the earlier history of G, we can regard it as a Born Global company because it started to export almost 95% of the feather products through the state-owned export company. It was a special way to export but normal in China during that age. From this sense, though G fits the definition of Born Global, we consider it as a special example of Born Global.

Later when it changed to household appliance industry and became the G group that we see now, it began to produce microwave oven in 1992. And according to the foreign sales manager, G got the first foreign OEM order from France in 1997 (5 years after its inception) and the whole export amount accounted for more than 25% of the total sales that year. With developing in subsequent 5~6 years, it became the world biggest microwave oven manufacturer, which produced and exported one thirds of microwave ovens in the world. Its internationalization speed was amazing. Actually, in the Born Global research field, there are some other voices about the time span between Born Global’s foundation and beginning of international activities: up to 2 years (Moen and Servais, 2002), up to 6 years (Zahra, Ireland and Hitt, 2000) and up to 8 years (McDougall, Shane and Oviatt, 1994). Later the common perception is that the time span of business operations tends shorter and the “3 years” time span (Knight and Cavusgil, 1996) is widely accepted.

More importantly, besides the quantitative measurement, the early international vision is also an important character of Born Global which differentiates it from other international companies. According to Oviatt and McDougall’s (1994) definition of International New Ventures (equal to the concept Born global) “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”, we see a different perspective. This definition more emphasizes the global vision- seeking global market and resources, at or before the foundation of Born Globals. One essential reason of G’s conversion to household appliance industry was that the
exportation right of microwave oven was limited by government which means G had the own right to export with the self-decided price. Just started the new business of microwave oven in 1992, the ambitious G aimed to became the world biggest microwave oven manufacturer. The founder L’s words “the internationalization of G starts with the internationalization of vision and later the technology, management and finance” also proved G’s international vision. From 1992, G started to prepare to go to international market actively. It set the international department in 1995. The sales personnel in that department tried many ways to get foreign customers resources for example attending the international household appliance exhibitions again and again. G realized the importance of following the international rules and prepared to get the various international quality certifications before its internationalization in 1996. G’s international vision was obvious no matter before or from its inception so that we consider G as a Born Global company from a border sense.

5.2 The Internationalization of G

5.2.1 Internationalization Motivation of G

Firms in nations with smaller domestic markets have a higher propensity to go outside than the firms in nations with bigger domestic markets (Andersson and Wictor, 2003). The domestic market scope does not only mean the sheer market capacity but also depends on the products. For example, the niche products may have small market demand in big domestic market. To G, when it started the feather and textile business, the domestic demand of the feather products was low because of low income of Chinese people at that time. As a result, it sold products to state-owned export company to seek foreign markets which could be understood as having the motivation of avoiding limited domestic market.

The fierce competition in domestic market makes small companies hard to survive without enough resources. In order to avoid the competition and the independency on powerful agents, some companies also prefer to go abroad in order to open new markets (Oviatt and McDougall, 1994; Li and Zhou, 2009). However, when it comes to G, this motivation is not obvious. At the beginning of 90s in China, there are only 4 companies could produce microwave ovens with the total productivity about 100 thousand (Deng, Zi and Wang, 2006). As a new entrant, G had a big market with huge potential. The only problem was that most Chinese people were unfamiliar with microwave oven and could not afford the price. As a result, the limited current domestic market demand became the motivation of G’s internationalization again.

Because of the lower cost in China, to have higher profit is an important motivation for Chinese Born Globals’ internationalization (Huang and Zeng, 2011). Though in the first decade, G’s foreign sales of feather products were limited by government, with about 14 years’ exporting experience, it knew the profit margin of going abroad was high. From the answer of the questionnaire, we see that compared to domestic sales, the profit of microwave oven OEM production was much higher than domestic sales in the earlier years which made it become the main motivation of G’s internationalization.
Differently, the motivation of seeking global resources such as technology, information and capital which is found in Chinese manufacturing Born Globals (Zheng, 2003; Zhu, 2008) is not obvious here. However, in one book, the authors Deng, Zi and Wang (2006) mentioned the national complex of G. Growing in a socialism society, most of the founders did not only see the business as their profitable career but also see it as the business to contribute to the society. In these people’s mind, it was their responsibilities to guide Chinese people to strive together for a better life. When the Japanese engineers looked down upon their poor facilities, low-educated workers, and when manufacturers of famous brands laughed at their products at the exhibitions, a strong sense of nationality was aroused. Entering international market and showing the strength of Chinese products therefore became another internationalization motivation. Theoretically, it is rarely seen in the literatures about the Born Global’s internationalization motivation.

5.2.2 Internationalization Process of G

According to the culture distance theory, when companies go abroad, they prefer to enter the markets with shorter culture distance firstly. However, G preferentially entered Western Europe and Nordic areas, and then Japan, South Korea, North America as well as the later emerging markets and Africa. From G’s target markets, we can’t see the culture distance from it. In earlier days, the main way of G to get OEM orders was through the household appliance exhibitions, and even without choosing the customers. Afterwards, when it had some reputation and popularity, many customers came to find G themselves. As a result, in some terms, the choice of G’s markets depends on the international customers’ demand. Differently, when G started to promote their own brands, the target markets’ geographic and economic factors were taken into consideration. In emerging markets, the influences of international famous brands are not so strong so that it leaves G the space to develop its brands. In addition, the low-end good quality products with good price are more easily accepted by these markets.

The “Establishment Chain” which included in the “Uppsala Internationalization Model” describes the step by step internationalization process: no regular export activities, export via independent representatives (agents), sales subsidiary, production or manufacturing in foreign markets (Johanson and Vahlne, 1977). What differentiates Born Global from other internationalization companies was its irregular internationalization process and faster internationalization speed. As a result, the “Uppsala Internationalization Model” was considered did not fit the Born Global phenomenon (Billkey and Tesar, 1977; Cavusgil, 1980). However, Zhou and Ghauri (2010) find the gradual internationalization model is still valid in the Chinese high-tech Born Globals. Similarly, Huang and Zeng (2011) also find the similar conclusion within the Chinese manufacturing Born Globals. Again, through the case study, we can even see the whole “Establishment Chain” process from company G. Let’s take their microwave oven business as example. Before 1997, it only produced and sold microwave ovens in domestic markets but without exportation. Later, when it entered international markets, it sold the OEM products to its customers directly but the products with own brands relied on some local agents abroad. With the growth of its business, it gradually established branch companies and offices overseas to take
charge of the sales. Its first overseas branch company set in France in 1998 and nowadays, it has about 48 branch companies or offices allocated the whole world. These branches and offices take the responsibilities of seeking and communicating with OEM customers, dealing with the local agents and developing their own stores. From 2007, due to the lower operation cost, lower tariff and tax incentives from local governments, G started to shift some production and assembling business to Russia, India and Vietnam. On one hand, it greatly reduced the cost. On the other hand, the localized production could meet the markets demand better and at the same time catch the market trend rapidly. For example the Russian assembling company service the Russian and Eastern European markets and facilitate G’s Western European business by shortening the delivery period and gathering the information. The step by step internationalization process exactly fits the “Uppsala Model” like many big multi-national companies do. The whole process from its inception to the internationalized production spent about 15 years. We think it could be considered as finishing the “Establishment Chain” fast.

According to the “Uppsala Model”, the internationalization is an incremental process with the accumulation of international knowledge and experience (Johanson and Vahlne, 1977). Organizational learning ability is one of G’s important competences. It sees this ability as a driving force of its surviving, innovation and development. In order to enter international market more smoothly, G started to learn the rules in international markets and gained the various quality certifications. In order to improve its production ability, it took Toyota as its model and learned some lean manufacturing from Toyota. During the OEM production, G started to learn the technology of the products. Later, when it realized the importance of controlling core technology, it established some international research centers and recruited international experts to develop the technology, or even tried to exceed its strong competitors in international market. Through visiting its customers, it learnt the management experience and marketing skills. The overseas employees acquaint themselves with the local culture, consumer psychology and they way to do business in local areas. When it was not enough, G hired the local employees to develop markets. It moved some business to other countries when it saw the cost advantage of “Made in China” would not last in the future.

As L said, “I did not have any idea or experience of how to do business in international markets. All these came from the daily operating experience, the business with foreigners, the operating pressure and international environment. From 1993 to 2003, I spent at least half years abroad. If we didn’t know our customers, how could we have business with them? At least we needed to learn their management, their markets demand and consumer preferences” (Zhu and Shen, 2008). Every year, G will attend the international exhibitions and send their sales teams go abroad to learn the sales channels, products prices, competitors information.

5.2.3 Critical Success Factors of G’s Internationalization

As presented in the part 2.3.2 “Probable Components of Chinese Born Global’s Business Model”, we compared the critical success factors of Chinese Born Globals with the business model components and found the intersections between them. In order to avoid the problem of repeating, we will analyze the critical success factors of
G’s internationalization briefly here. However, we also find that different from other success factors categories that can be found in business model, the entrepreneurial factors are rarely appear in business model. Based on that, we will more focus on the entrepreneurial success factors here.

**Entrepreneurial Factors**

In the Born Global theories, we consider that entrepreneur plays a very important role in Born Global’s internationalization. Entrepreneurs’ international vision makes them see the whole world as their market but not restrict themselves in domestic market (Oviatt and McDougall, 1995; Zhao, 2009). L is an entrepreneur who has this international vision. Since the feather business that sold most of the products abroad, international markets were in L’s mind. During his trip to Japan in 1992, when he saw the small machine in the store at first time, he made a big decision – switching to microwave oven industry. Besides the market potential, having the rights to export microwave oven was another important concern. According to these facts we mentioned above, we can see L’s international vision. No matter what business he is involved in, international market is always his target. Later, with the expanding of G’s international market, the technology and human resources are becoming more and more international. L’s vision can be explained like this: he does not only see the market as the place to sell products but also see it as the place where G can get more resources.

Only with the primary school education, L did not have any international knowledge such as English language, communication skills and international finance knowledge which are considered as important elements to reduce the risks of entering new markets (Oviatt and McDougall, 1995; Knight and Cavusgil, 2004; Zhu, 2010). International working or life experience is another factor of entrepreneur that being regard can facilitate Born Global’s internationalization. However, we can’t see any of these factors on L before his entrepreneurial activity in reality. He was only a normal farmer who also worked in the town government. Even before he started the microwave oven business, we still could not imagine that he could become a successful entrepreneur without these typical necessary factors such as international knowledge and experience. Though G exported feather products, it did not do that itself but sold to state-owned export company instead. Therefore, there was no chance for L to get the international knowledge and experience indeed. As we mentioned in last part, the process of G’s internationalization was also the process L as well as G learnt and accumulated international knowledge and experience. The succeeded entrepreneur – the son of L is definitely different from his father. He has university education background and worked in Hong Kong for several years. As we all know, Hong Kong is different from the mainland China, but more international. Therefore, L’s son opened his mind within this open phenomenon. His background and experience affect G’s development later. As a result, the influences of these entrepreneurial success factors are not obvious in the inception of G but in the internationalization process latterly.

Entrepreneur’s cognition such as international orientation, proactivity and tolerance to ambiguity as well as the desires to success, the sensitivity of opportunities and the courage to overcome difficulties can be found in L. L once said, “*Neither not to do, if we start, we must be the best in this area.*” After the great success of microwave oven which made G become the world biggest manufacturer in this field, G began its new
business on the new air conditioner and small household appliance. No matter what products G manufactured, L’s strong desire of success never changes. The example that he decided to shift to microwave oven business from textile can also be used to illustrate L’s sensitivity of market opportunities. The courage of overcome difficulties is the most obvious entrepreneurial cognition on L. According to the history of G, we see many stories that L leads G to overcome various difficulties: L persuaded the town government to agree with his idea to establish the enterprise; lacking money, L used his personal network to raise funds; L persuaded the microwave engineer who worked in state-owned enterprise to join them; L encouraged the team to learn to use the advanced production line when the Japanese engineers looked down their workers; L leaded the company through the crisis because of the flood in 1994.

If the Born Global entrepreneur with the abilities such as taking risks, identifying and catching international opportunities, combining resources, then the internationalization of Born Global will be more success (Chu, 2010; Persinger, Civia and Vosina, 2007). Changing to a totally unfamiliar high-tech industry, especially under the situation without any relevant knowledge and skills was a big risk for L to take. Later, L even decided to sell the textile business with lower price to support the microwave oven production. When L went to Europe, relying on his wisdom and negotiability, he got the advanced production lines from G’s customers for free that G used their production lines to produce with an extremely low price. During the Southeast Asian financial crisis in 1998, he caught the chance that many Japanese and Korean companies could not afford the high cost anymore so that they planned to move their production line to G for free or with low price. At the same time, G also got some household appliance experts from Japan and South Korea.

Entrepreneur’s personal network could be a source of finding financial support and strategic partners, expanding Born Global’s business in foreign market (Andersson and Evangelista, 2006) especially at the beginning of Born Global’s internationalization (Li and Zhou, 2009). From the primary and secondary data we get, we can’t find the example that L and his son used their personal network during G’s internationalization. We suspect that it is because both of G’s entrepreneurs do not have enough support of international background and interpersonal contacts before their entrepreneurial activities. In Huang and Zeng’s (2011) dissertation, there are two Chinese manufacturing Born Global case companies. The one whose entrepreneur has international background and life experience abroad spent only 2 years from its inception to establishing overseas offices. However, another case company whose entrepreneur did not have international background at the beginning but developed in business latterly finished this process in 8 years. Similarly, G used 15 years. Consequently, we predict the whether entrepreneur has international personal network before the inception does not only decide the Born Global can achieve internationalization successfully or not but also decides its internationalization speed directly. However, we think L’s personal network does contribute G’s internationalization. This influence is mainly found inside the management team and inside G. Different from many Chinese private entrepreneurs, L treats every employee sincerely which greatly contributes to the G’s family corporate culture. The good personal network with employees within G makes the whole company more united and face to the challenges during the internationalization.
Organizational Factors

Usually, the organizational success factor innovation culture is more found in Western Born Globals and Chinese high-tech Born Globals but not in Chinese manufacturing Born Globals. Differently, we find the influence of this factor is obvious in G’s case. As we mentioned in the empirical part, G had the awareness to control the core technology in the household appliance industry. G invested a lot in innovation to establish research centers in China, South Korea and America. Nowadays, its innovation ability is recognized by the international market. This also makes G differentiates from other OEM assembling manufacturers. Though G is not listed in stock market, its financial statement is robust all the time which facilitate its internationalization. Due to the limited resources, it was difficult for G to entry international markets with its own brand so that it started with OEM production. This production requires the good quality products but with low price. G has OEM production business with most of the famous household appliance brands in the world. All the OEM products G provides are high-end products which derived from its cost and technology advantages. As Knight and Cavusgil (2004) said, technology competence, unique product development and product quality focus provide organizational activities related to R&D, knowledge development, play an important role in positioning Born Globals for international success. Though about 20 years, G has built its brand with good reputation in the world. The good quality, low price and in-time production attract customers in the world come to G. This could be regarded as unique resource of G. Technologies could be imitated, production ability could be surpassed, but the reputation is unique. In addition, we also think the corporate culture is also G’s unique resource. The down-to-earth style is atypical spirit could be found in the Chinese farmers, the family corporate culture of G comes from G’s nature of township enterprise at the beginning. Corporate culture is the spirit of G that sustains its long-term development and success. Currently, the international suppliers, customers, sales agents, R&D partners, investors and heading hunter companies make up the G’s international business network. It greatly helps G’s internationalization.

Strategic Factors

Market entry strategy directly decides Born Global’s internationalization performance and speed. Burgel and Murray (1998) suggest that Born Globals should take the low-resource requirement market entry strategies. Usually, due to the lack of resources and the information of international markets, Born Globals will choose the entry strategy such as relying on agents’ sales channel to penetrate local markets. OEM production is a more efficient way to enter international markets because the products manufacturers don’t need to worry about how to establish sales channel or how to find agents but sell products to trade companies or OEM customers directly. Moreover, it also solves the problem of anti-dumping regulation. As a result, many Chinese manufacturing Born Globals for example G and even high-tech Born Globals (Zhang, 2011) use this entry strategy. G’s cost-leadership strategy can be seen as its biggest competitive strategy in international market. Together with its innovation competences compared to other Chinese manufacturers, it has today’s success in international markets.

External Environment Factors

Only found in Chinese Born Globals, the government policies affect the companies’ internationalization (Huang and Zeng, 2011). Obviously, G is a good example. From its history, we can see it: encouraged by the “Reform and Opening-Up” policy, it was
generated as a township enterprise; limited by the exportation regulation policies, it sold feather products to state-owned export companies; in order to escape the restraint of this policy partly, it shifted to another industry; influenced by reform policies again, it became a private company. Later, it enjoys the export tax rebate policies but the rebate rate was declining all the time. Under the pressure of high export value-added tax, it exports components instead and assembles products in other countries. The industrial cluster effect which led by the local government in Shunde is obvious. It supports G’s internationalization from the material purchasing, human resource and industry propaganda aspects. It proves Fernhaber, Gilbert and McDougall’s (2008) opinion that industrial cluster positively affect international new venture (Born Global)’s internationalization. According to the sales manager in G, the technology in microwave oven field is tending to mature while the technology update speed in air conditioner area in international market is still fast. G felt the pressure of that so it increases the innovation input to keep the pace with international trend.

After this analysis here, we back to the Table 2 we presented in the theory part. Compared G and the table, we notice that almost all the critical success factors of Born Global’s internationalization can be found in G’s case. For example, it is influenced by the government policy which is rare in Western Born Globals. The strong financial statement and innovation ability make it different from most of the traditional Chinese manufacturing Born Globals. More precisely, it’s closer to the Chinese high-tech Born Globals which we introduced before. We predict it is because G is a large-scale company involved in household appliance manufacturing which is not so low-end compared to for example garment manufacturing industry. This kind manufacturing industry somehow requires innovation ability.

### 5.3 The Business Model Type of G

According to Table 3 (Weil et al., 2005), it contains four basic business player categories from basic rights traded in businesses, which are creator, distributor, landlord and broker; and also four categories of assets, which are physical asset, financial asset, intangible asset and human asset.

In this case, G is a manufacturer, who is easily to understand from its literal meaning, creates and sells physical assets. It means G is a role of a Creator with physical asset. As a Creator, G itself starts from purchasing materials, components, or accessories from suppliers and then conducts and manufactures or assembles them into products to provide to the market. Simultaneously, G also owns physical assets, which include the durable infrastructure and nondurable materials used in production. As the story about G’s background state, G got its free production line because of its wise idea that G provided companies transformer with half price, while the attached request was that these companies needed to pay are giving G the right to use the production line for free.

Weill et al. (2005) find some business model types do work better than others according to their financial performances (profitability and market value), based on studying on about 100 big American companies with business model typology. As this research’s result, Creator with physical asset, or call it directly manufacturer, have the lowest operating income among all these different business model types. However, as
mentioned above, G is exactly this business model type. As we all know, being profitable is the most crucial point in a business, no matter for sustained running or even future development. The producing income or profit of G is lower than normal manufacturers because of its focus on OEM. G’s average margin rate of OEM production is lower than 5% and sometimes even becomes minus. Abundant Chinese workers’ hard working with lower price is the main source of the little margin.

However, the whole situation just becomes more severe that the biggest advantage of G – low price labor resources, was losing during these years. The increasing raw materials prices, land price and RMB exchange rate, all these factors bring G a huge pressure. Meanwhile, the agents also try to squeeze the already low profit. For example, having the strong channels and therefore bargaining power, Wal-Mart rejected G’s request to raise the products price in its supermarkets when the raw materials price increases a lot. The pressures from both upstream and downstream narrows down the profit margin of G. Undeniable, the production cost will continue to grow and the weakness will last if G has no its own sales channel and brands. Currently, this manufacturing business model which focuses on OEM still has not high but sustained profitability. However, in the future, the challenge will more and more obvious and force G to think about to change. In brief, G’s business model is easier to bring it into this kind of dilemma that it has to deal with both internal (such as value chain, structure of management etc.) and external (such as economics, society etc.) problems at the same time. Currently, the OEM production is essential to many Chinese manufacturing Born Globals’ fast international success. As a result, the dilemma G faces to is also a big challenge to other similar Chinese manufacturing Born Global companies.

5.4 Business Model of G

According to the definition of business model we choose in our thesis, it is a representation of a firm’s underlying core logic and strategic choice for creating and capturing value within a value network (Shafer, Smith and Linder, 2005). The business model is a huge concept which includes almost all the aspects of a company's operation. More importantly, in order to find the “core logic and strategic choice” of the company’s “value creating and capturing”, it is necessary to analyze every component of business model in detail. We can’t discuss about the business model in an isolated situation but have to put it into a value network with its customers, suppliers and partners. As a result, we think it is better to follow the structure of business model framework which we presented in the Graph 4.

In this framework, all the components of business model are divided into customer, company and value network interfaces. In the company interfaces, the company’s strategic resources, core competence, core process and organizational structure are included. Besides these, any business should have revenue and relevant cost so that the cost structure and revenue model are another two important components at the company’s interface. The customer interface contains the customer segment and customer relationship. Company’s supplier, partner and coalition are regarded as the value network of a company.

Here, we introduce main structure of the business model analysis part briefly. We
consider that if we want to discuss about business model, it is better to follow the process from inside to outside. That is to say, we will start from the company itself to see the internal logic of a company’s business. After that, we try to investigate the relationships a company has with the outside customers and value network as well the influences these outside components bring to company. As a result, we will discuss relationships in different frames: company and customer frame, company and value network frame through the value propositions and value delivery channels. In addition, we also think the customer is a main source of a company’s revenue while the material purchasing is the main part of a manufacturing company’s cost. Subsequently, we discuss about the components revenue model and cost structure in the two frames respectively. At the end, the effect from external environment such as social culture, government policies on company G’s business model will be taken into consideration. In the Table 7, we compared the Chinese Born Global’s success factors with the business model components and find out the intersections between them. However, we didn’t find the components which are customer segment, customer relationship and organizational structure have intersection with the success factors. It may mean these components do not have strong relationship with Born Global’s successful internationalization. Hence, we will pay more attention to other components in the analysis part without neglecting these three components.

5.4.1 Company Interface of G

Strategic Resources

Key resources are the most important assets required to make a business model work (Osterwalder and Pigneur, 2010). The strategic resources include physical (facilities, equipment and product), financial (fund), intellectual (technology) and human resources (Johnson et al., 2008; Osterwalder and Pigneur, 2010). Almost all the strategic resources can be found in G’s case. They have advanced production lines for microwave oven, air conditioner and small household appliance; they have adequate fund from its operation and outside investment; they have skilled production workers, sales personnel and professional R&D personnel; they have abundant patents of various products; they have a famous brand and good reputation among both customers and industry.

Among these resources, human resource is regarded as the most important strategic resource by G. In the past, when G was still a township enterprise, it had a tough period due to the lack of the necessary technology, personnel skills and funds to continue the business. Facing these difficulties, they tried their best to solve the problems. Gradually, G had the tradition that relying on their own and believed that if the initiative, potential and value of human are motivated, they can overcome any difficulties. In the earlier “Made in China” age, G more relies on the intensive labor source involved in the high efficiency production. Nowadays, when “Made in China” is attempting to change to “Created in China”, G paid more and more attention in improving the labor quality and skills, recruiting and using the talented R&D personnel and training their sales team to be more internationalization. G realizes In the future, the success will more depend on the knowledge, efficiency and internationalization of human capital.
Besides the functions of strategic resources, the focus should also concentrate on how to get these resources (Petrovic and Kittl et al., 2001). Here, we use the recruitment of human resource as an example to illustrate the question how G gets the resource. Most of the production workers of G are from the local area or other provinces. During the urbanization of China, many farmers entered cities to sell labors in factories and get higher income than in countryside. They were the first generation of “farmer worker”, what we called in China. Meanwhile, due to the gap between rich and poor as well as the allocation of unbalanced education resources, the young generations who were in the poor areas or countryside without chances to go to university, continue to take the labor intensive jobs. These workers mainly contributed the “Made in China”. The “Reform and Opening-Up” policies were firstly implemented in the south part of China so that many manufacturing companies involved in clothing, household appliance, electronic products appeared in this area exported their products abroad. A large number of labor force from the middle and central areas of China migrated to the south areas to find jobs. Shunde and G took advantage of this labor force migration to get a lot labor source. Gradually, G also realized the labor’s quality and skills directly decide whether the low-end Chinese manufacturing industry could change to high-end or not. In order to train these labor sources into blue-collar who are not only be required the professional manufacturing skills but also the industrial design and management skill, G invested and built about 8 vocational education schools in backward regions to train young workers. Later, the graduates from these schools enter G directly.

The recruitment of R&D personnel is more important to G. In the earlier 90s, L and his son went to Shanghai to visite a microwave engineer angina and angina and finally they persuaded that engineer to give up good job in state-owned enterprise to join them. He became the first engineer of G. Later, with the development of G, it got not only more and more university graduates but also many experts abroad. For example, it hired the international head hunting company to help it find the experts who involved in the R&D of advanced production lines. Catching the chance of industrial transfer in developed countries, G recruited many engineers and experts from Japan and South Korea. G’s international research centers in South Korea, America, together with the center in China form a strong international research team to support G’s innovation.

Only getting resources in not enough, how to use and protect these resources is also important (Wang, 2005). G has its own way to use personnel. G trains its employees every year especially the new workers and sales personnel from the aspects of corporate culture, production or sales skills and the knowledge of the products. When G recruits university graduates, it allocates them to the grass-roots positions. Looks like G is wasting human resource. However, G notices these graduates with knowledge from the books but lack practice experience. The best way to exercise them is letting them begin with the simplest jobs. Gradually, these graduates grow into talent personnel with knowledge from both school and practice. When G hires core experts from other companies, G tries to get other assistants from the same company to make a team for the experts to facilitate the R&D work. The R&D teams in G are usually required to start from finding and modifying the problems on existed patents and then move to new projects after the team members get used to each other and accumulate some experience.
Here, how to protect company’s advantage of human resource is more about how a company treats and manages the human resource. Inevitably, the “Made in China” workers have to take the hard work with low salary and contribute to the world economy a lot. As a farmer by origin, L knows the hardships of these workers deeply. The sincere understanding and sympathy makes G a different company in Shunde. Though having three shifts production, the workers’ salaries in G are higher than other similar companies, as well as welfare. For example, the free dessert for the night shift workers, the basic medical insurance and the rewards at the end of year make workers feel the company is like a family. The flood in 1994 left deep impression to many older workers. When the disaster came, L cared about the workers mostly instead of the company. Gradually, the emotion becomes the important connection between companies and employees. G makes use of this tight but invisible connection not only on the R&D but also management personnel.

As we have mentioned, many production lines G got for free by a wise tactic. Later, G bought these lines or absorbed them as the foreign investment. It this way, it accumulates capital gradually and makes them become its resources. Without being listed, most of the fund comes from the hard working so that G cherishes every cent but not waste it. The optimal allocation of resources is a problem G needs to concern. The product diversification strategy makes use of resources more flexible. The different products segments can share the resources such as production ability, human resources, sales and after-sales service channels, R&D development and system innovation as well as some intangible resources for example brand, reputation and management skills. According to the market situation, G can change its focus on different products to reduce the business risks. What we can see from here is the access and use of G’s resources are various and flexible which enables its operation more efficient and flexible.

Among these resources, the internationalized human resources and technology are beneficial to G’s internationalization. The technology of the products is one of G’s competitive capacities in the international market. However, the innovation ability is always the weakness of Chinese manufacturing industries. G’s innovation strategies is that setting research centers abroad, recruiting international R&D personnel greatly increases its innovation ability and makes sure the technology flows or even leads the international trends. If the internationalized technology brings by the internationalized R&D personnel then the use of international sales personnel facilitates G’s international marketing. G Sends its sales personnel to go abroad to learn marketing skills, international market environment, customer habit and local cultures. When it is not enough, G tries to hire local people to open and develop markets.

Overall, from the analysis here, we can say G has all the necessary resources it needs. However, what makes it success is that it catches the most initiative resource, which is the human resource. All the other resources can be gained or created by the attempts of human resource. The recruitment and the way of using human resource as well as other resources bring G the irreplaceable competence and the success in its internationalization. The sincere emotion used to combine human resource and company ensures the persistence of G’s competence. Similarly, the human resources also play an important role in many other Chinese manufacturing Born Globals especially the low-end manufacturing companies which rely on manufacturing resource labor resource a lot. The low costs of these Chinese manufacturing
companies mainly due to the low labor price. However, the problem these companies face is the increasing salary in China. Many of them can’t recruit enough workers with the same salary as before. Meanwhile, Chinese government started to pay attention on improving the incomes of farmers with a lot preferential policies which makes many farmers prefer staying at home but not working in developed areas. It causes the shrink of population movements from the east and middle areas of China to the south and east areas. Moreover, with the expanding recruitment scope of universities in China, more and more young people go to university but not sell their labors. All these bring the manufacturing human resource shortage in the areas such as Guangdong Province. The losing cost advantage of manufacturing human resource is the problem most of the Chinese manufacturing Born Globals includes need to solve and seeking other competence sources is the challenge to these companies.

Besides these common problems, we still think the human resources strategy of G could be good example to other similar Chinese manufacturing Born Globals. G does not only recruits the manufacturing human resource but also tries to cultivate and trained these workers based on Chinese economic and social situations. It also realizes the key of Chinese manufacturing industries in the future is to improve the quality and skills of human resources. At the same time, G’s awareness of recruiting, managing and utilizing R&D human resources points out a right way for the other Chinese manufacturing Born Globals in the future because technology and innovation are the only ways to change the low-end Chinese manufacturing industries to the high-end like in many developed countries nowadays.

**Core Competence**

Strategic resources do not negate value and profit but needs the company’s ability to turn them into customer value and create profits (Afuah and Tucci, 2001). Core competence includes not only what the company knows but also the unique skills or capabilities such as innovation ability, marketing ability, strategic management ability production ability (Wang, 2005), organizational ability and fast response to the change (Weil. et al., 2001). Many examples of G can be used to demonstrate G’s core competence. For example, G has really strong organizational ability which can be seen from its internationalization. In the analysis of G’s internationalization process we have already proved that. Starting with a small township enterprise and then developed step by step, finally it achieves internationalization successfully. The learning desire and ability plays an important role. It responds to the market change very fast. Different products models are made in laboratory. When the market demands change, it takes out new products and put on production line directly. The microwave oven with the function disinfection and sterilization during the SARS was a good example. When G enters international markets, it changes some cooking functions of its microwave oven to adapt to the local people’s cooking habits.

Besides providing channels for products to entry different market segments, contributing to the value proposition, difficult to be imitated is another character of core competence (Wang, 2005). Currently, we think the production ability is the most obvious core competence which is difficulty be copied or exceeded. G believes its main mission is to focus on manufacturing and they aim to achieve lean production like Toyota. In-time production and rapid production are two main principles of their production activities. In order to improve its production efficiency, it modified the design of the production line and workers’ working process. In order to adapt to both
mass and small amount orders, it divided production lines to small units which can finish whole product independently but also can put them together into large pipelining. Every worker is required to have the ability working in at least 2 to 3 different process positions. Supported by such as the economic inventory and information system applied in the production, the current production capacity of G’s microwave oven is between 20 to 35 million per year. The average yield of a worker per day is at least 3. The workers’ efficiency of the modeling company is even higher than the complete automatic production system. The large production scale and high production efficiency bring the low average cost on every product. It is also the core of G’s cost-leadership strategy. This core competence is currently difficult for competitors to exceed.

In G, innovation and marketing are regarded as the supports to facilitate the production. However, we do not totally agree with this opinion. Other core competence such as sustainability (Afuah and Tucci, 2001) is the key to maintain company’s competitive advantage and long-term profitability (Zeng, 2006; Johnson et al, 2008) is one of the measurements of the business model’s success. We think innovation ability could result in the sustainability and long-term profitability. On one hand, relying on the production ability and therefore the economy of sale, the innovation investment could be shared and the cost on innovation is relatively reduced. It encourages G increases the investment on innovation so that the innovation ability get improved continually. The strengthened innovation ability accelerates the enhancement of production ability and the expansion of production scale. In some terms, innovation ability benefits the lasting of G’s production ability. On the other hand, though G’s production ability is hard for competitor to beyond, the production ability based on the high-intensity manufacturing, low price labor and huge fixed assets investment could not keep for a long time in the future. There is always some competitors may have more capital or have lower cost than G to involve in the manufacturing. Recent years, other emerging market countries such as India are becoming strong competitors to “Made in China”. Currently, manufacturing could bring G not high but continued profit and job opportunities. However, the bigger profit is always controlled by the companies who have core technology or well-known brands.

From G’s case, we also think, to a similar Chinese manufacturing Born Global, only the competence production ability is not enough. In the future, the competition in international markets is more about the innovation ability. Though in many high-end manufacturing industries in developed countries the lean production is important, what makes their outstanding is still the innovation ability or creativity which we can see from for example Toyota or BMW.

**Core Process**

Core process is the most important thing that a company must have to make the business model work (Osterwalder and Pigneur, 2010). Many activities can be regarded as core processes such as training, developing, manufacturing, budgeting, planning, sales, service and management (Johnson et al, 2008). These activities play the roles of translating competence, assets and other inputs to the value of customers (Hamel, 2000). As we analyzed above, the business model type of G is manufacturer. Consequently, the most important core process of G is manufacturing. As Wang (2005) stated, in a certain industry, the contents of the core processes are quite similar but the
ways companies to implement the core process are different. Here, we will investigate G’s core process from the perspectives of purchasing, manufacturing, logistic, management and innovation to illustrate how G implement these activities to achieve success.

In-time production and rapid production are the most obvious advantages of G’s manufacturing. Many factors contribute to its rapid production: the training of the workers which makes their speed even faster than the complete automatic machines; the optimization of the production for example change the design of the production lines to save time of production; the application of industrial information system improved the efficiency of production; the dynamic inventory management greatly support the fast production. The rapid production ensures G’s ability of in-time production. The in-time production brings G good reputation among B2B customers.

As a manufacturing company, the material purchasing is also important in the core process. The purchasing directly decides the price of material therefore the cost of the company, the quality of materials and the relationships between company and suppliers. Generally, in Chinese manufacturing companies, many problems are resulted from the purchasing process due to the collusion between purchasing personnel and suppliers. It makes the company not only lose money to buy materials with higher prices but also lose good supplier sources. More importantly, it’s not good for establishing a good long-term relationship with suppliers. Today’s competition is not only between companies’ own business, but also connected with the whole value chain. Through the management of value chain, the company can make its supplier’s or partners’ advantages belong to its own. Under G’s “sunlight purchasing system”, there are stringent purchasing monitoring rules to control the purchasing behaviors. The process of choosing suppliers and purchasing ensures the strength of suppliers as well the quality or materials. The visits and communication between G and suppliers enables the transparency of purchasing and also benefits the relationships.

Compared to other core process, G outsources more part of logistic to outside logistic companies. In China, the average cost of inventory and logistic account for about 30% to 40% of the whole sales cost. As a result, logistic is important for saving both time and fund costs. Every year, G makes public of logistic bids to logistic companies to get optimized service. Later, in order to increase the logistic efficiency further, it established some joint venture logistic companies with its old service suppliers. The sales activities of G in China relied on agents before. G only needs to pay attention to manufacturing and innovation. Afterwards, it sets its own sales companies and joint venture companies with its agents, which seems like the logistics to take charge of sales activities gradually.

The innovation activity is another important core process besides manufacturing. The more and more international research centers are established since 1997 with the international research personnel brings G the control of core technology of microwave oven for example the magnetron. Nowadays, it has about 900 patents on microwave oven and 200 patents on air conditioner. The innovation ability facilitates the production in the aspect of economy of scales.

Every core process activity requires the scientific management. The economy of scale in management depends on the management method and management ability. G’s
management activities mainly focus on manufacturing. The diversity of orders calls for the diversified production. Usually, 2 to 3 products can be manufactured on the same line in G. Therefore, the management aims to facilitate the flexibility and efficiency of the production line. In G, every production process treats the next process as its customers and satisfying the customer is the mission. Through the step by step monitoring, the product quality and production efficiency are ensured. The electronic information management system optimizes the scientific production planning, inventory management and supplier management.

According to the analysis we discussed above, we can find that the core process concentrates on the production activities. Even other core processes such as purchasing, logistic, innovation and management are actually meaning to service the manufacturing. Among the core process, we can notice that the sales or marketing are not included in. At the beginning when G entered the market, relying on agents’ sales channels was a fast way to penetrate into market. However, with the growth of G, it feels the potential risk of depending on agents too much. Setting the sales company is the first step of building its own channels. Different from the core competence and strategic resource, channels are more about what a company has internally. When it comes to the core process, we can see many activities can’t be isolated from the outside players for example G’s suppliers in purchasing activity and partners in logistic service. It also means dealing the relationships with these suppliers and partners becomes necessary in the core process. In addition, G’s activities abroad contain some parts of manufacturing (in Russia and India), product innovation and mostly the sales. However, the sales are more about finding OEM customers, dealing with agents. From both the domestic and overseas core process, sales are the obstacle of G that requires it pays more attention.

Since the core competence of G is the production ability so that G pays a lot attention on its production activities. From the analysis, we can say in some terms G achieves the ultimate level of many Chinese manufacturing Born Globals’ production ability currently from the optimization of production efficiency, capacity and the control of production cost. There may be still some space to improve the production ability or reduce the cost through the reform of production activities. To some Chinese manufacturing Born Globals, though production ability is easier for them to gain due to the current resources they have, we still believe they should put more attempts on the innovation activities. Some famous high-end manufacturing companies in Asia such as Sony and Samsung input about 20% to 30% of their total income to innovation every year. Compared to them, G’s 5% is not enough. Seeing G as an example, other similar Chinese manufacturing Born Globals should prepare the strategy change from focusing on production to innovation earlier.

Organizational Structure
The organizational structure includes arrangements of organizational subunits and the hierarchy of authority, the allocation of labor across the organization and network of organization, the layout of the management team and how managers balance their rights, responsibilities as well as the conflicts, the decision making mechanism (Weill and Vitale et al., 2001). Before 2004, the organizational structure with factory style had been keeping for a long time because when its scale was not big, the simple organizational structure was easily for managing. Furthermore, it chose manufacturer as its business model type so that the organizational structure was designed to fit the
business model type. After L’s retirement, his son becomes the CEO of the whole group with the board made up of major entrepreneurs with L at the beginning. Under the leadership of L's son, in order to solve the problem of bloated organization size, low efficient and the lack of management team’s enthusiasm, G divided the company into 6 branch companies which contains the both the whole machine and components manufacturing companies. In other words, it becomes a group company.

Two years later, it reformed its organizational again. Tikkanen et al., (2005) highlighted that the strategic choices and thereby the strategic actions do change the company’s organizational structure. From the organizational reform, we can notice the strategic choice of G. The most obvious changes exist in the sales companies. It finished the situation that separating sales business into microwave oven, air conditioner and small household appliance. Instead, it integrated them together but divided the China sales company from foreign sales company. The explanation from G shows its aim of optimizing the resource allocation and using in the sales business. Separating the sales companies according to the products types resulted in the problem of resource wasting. It indicates the increasing attention G pays in sales. Besides the regular business with agents, the sales company also takes responsibilities of establishing G’s own sales channel gradually. The joint venture sales companies collaborated with its former agents also serve for that purpose. After that, G almost builds the whole industrial chain except the raw materials supplement within the group. It is also the preparation for being listed in stock market. This is also big strategic change since L’s son becomes the group CEO.

The organizational reform does enhance the efficiency through increasing the dependency of the two sales companies as well as the branch companies under them. Domestic branch sales companies have more rights to decide the sales resources in local areas. The foreign sales company gain more freedom to develop the international market. The independency of it shortens the decision making process which facilitate its fast respond to the international market change. Even the hierarchy in sales companies is less than other companies in the group.

As Zeng (2006) pointed out that company should adjust the organizational structure to adapt to the business model it chooses. From the analysis above, the switch of strategies is apparent. Here, we predict that maybe G is also changing its business model. Started from manufacturing and succeed in manufacturing, it is still G’s focus. However, G also realizes the low margin rate in manufacturing and when it facing the reducing-price pressure from powerful agent, it has the ambitious to operate the sales itself. Actually, in both domestic and international markets, G has already started the attempts. In the future, its business mode may develop to the mix of both manufacturer and wholesaler/retailer as we discussed in the business model types.

However, we think the limitation here is that not all the Chinese manufacturing Born Globals have as big scale and power as G has to build its own sales channels. It requires huge financial investment, strong influences and brand reputation in the industry which are not gained in a short term. In order to solve the low profit margin problem, we think the special niche products or the high added-value could be better solutions. The situation of many Chinese manufacturing Born Globals is that they compete in the markets with many competitors and the added value in their products is quite low. Overall, we think it is not necessary for Chinese Born Globals to take
sales themselves but necessary for them to think about how to increase the profit margin from inside the companies.

**Relationship between Components under Company Interface**

The components under the company interface are not isolated but connected to each other. According to Afuah and Tucci (2001), core competence enables the company the ability or capacity to turn its strategic resources into customer value and gain long-term profitability. Moreover, the value creation requires the support of the core process. In other words, core processes are the activities that translate competence, assets and other inputs into outputs. Obviously, we can describe the relationship between them like: strategic resources are the important assets a company needs to make the business model works which is like the basic materials; core competence is the ability the company has to translate the strategic resources into the value proposition; while core competence is intangible but not the real actions a company can take so that the core processes are the implementation activities to change the strategic resources to value creation; though core processes connect to strategic resources directly, it could not function without the guiding of core competence; the core processes will result in relevant revenue and cost.

In G’s case, the most obvious strategic resource is human resource and other resources such as fixed assets, R&D outcomes could be created by human resource’s attempts. G’s production ability and innovation ability are its core competences which are also the key to transfer the human resources in manufacturing and R&D department into the value creation. Consequently, the core process is more concentrated in production and the relatively important innovation activities. However, we also notice its shifting focus to sales. As we discussed above, the production ability as the core competence may not support its long-term development and profitability. Besides the production and innovation ability G has possessed, the sales ability or we can say the branding ability is what G lacks and going to gain. In the future, we predict more and more G’s core process will be seen at the sales or branding activities.

**5.4.2 Customer and Company Frame**

In this part, customer interface contains the customer segment and customer relationship will be analyzed firstly. Later we’ll focus on the relationship between customer interface and company interface in the forms of value proposition and channel. At the end, we decide put the analysis of G’s revenue model in this part because we consider that G’s revenue mainly comes from the customers.

**Customer Segment and Customer Relationship**

Customer segment decides what customers company aims to provide value proposition to (Osterwalder and Pigneur, 2010). Sometimes, a company has various customer segments. Currently, G G’s customers can be divided into end-customers and business to business customers, domestic customers and foreign customers. In domestic market, G has abundant end-customers that in their mind G is the label of good quality and cheap price household appliance. However, due to the long-term independency on agents, G does not have so much direct contact with its end-customers. The sales agents as well as some big retailers as G’s main business partners are their B2B customers in some terms. In foreign market, the situation is
similar. G’s product has great market share while it is far away from its end-customers. Because of the OEM production, most of the end-customers even don’t know the products they buy are actually come from G. As a result, the OEM customers are the main foreign B2B customers of G. Recent years, G’s stores in Europe especially in France open the new channel for G to reach its foreign end-customers.

Different customers can be segmented based on the different needs and attributes to ensure appropriate implementation of corporate strategy meets the characteristic of selected group of clients (Osterwalder, 2004). The end-customers of G no matter domestic or overseas, are easily to understand that their needs are more about the products include the price, quality and design or after-sales service. The only difference is that in Chinese market G can directly decide all these factors end-customers concern about. While in the foreign market, most of the time G’s OEM customers decide these. To G’s agent or retailer customers, the adequate, rapid supply and the stable relationship is the most important issue. G’s OEM customers prefer choosing the manufacturers who can provide them qualified products in-time with good price. Starting from the various needs, we can investigate whether the value propositions G provides could satisfy the different customers’ needs.

After the analysis of customer segment, we also find out that G needs to build and maintain on its different customer relationships. The emotional interaction and transaction interaction between customer and company (Hamel, 2000) in the forms of personal assistance, self-service and communications (Osterwalder and Pigneur, 2010) are important in customer relationship building and maintaining. In this process, a company needs to think about the questions such as how to interact with customers, whether it is easy for customers to reach company, how do customer feel in the interactions and how to build customer’s loyalty (Hamel, 2000). Most of the time, G could not interact with customers directly because the sales channel is controlled by agents or retailers and the sales personnel who contact directly with customer do not belong to G. Therefore, there is rare chance for G to interact with customers before the sales. After the sales, the main interactions showed in the after-sales service. When G set its household appliance showroom in China, it had a chance to develop customer relationship directly. However, we consider the customer relationship especially the customer loyalty forms gradually and spontaneously during G’s almost 20 year’s business based on its good price and quality products and good after-sales service. In Chinese customers’ mind, G is the synonym of microwave oven.

G seeks for the stable and long-term relationship with its B2B customers. Besides the normal business, the regular visits and communications with OEM also contribute to the customer relationship. However, there is an unavoidable problem that G needs to solve in the future relationship with its OEM customers. Most of G’s OEM customers provide middle or high products in international market. Since G decide to develop its own brand, it means G needs to focus on the same market orientation as its customer then there must be conflicts and then affects G’s OEM manufacturing. If G chooses the low-end market, then the profit margins are small and it violates G’s brand strategy in the future.

Even G is a Born Global company, it does not only focus on the international market but try to balance both the domestic and international market. We consider it is a good strategy that could be applied by other Chinese manufacturing Born Globals. If some
of them are not involved in OEM production then the changeable international market which includes the macroeconomic environment, customer demand and the relationship with the local agents will greatly affect the international business of these companies. Due to the lack of resources for example the information, it is risky for them to compete in international market. Meanwhile, in domestic market, it is easier for them to catch the market information, collaborate with partners, or even bargain with suppliers. More importantly, these companies can conduct different market strategies in different market segments or customer segments according to different market conditions to achieve sales balance. About the customer relationship, G could also be a good sample. Actually all the companies no matter Chinese manufacturing Born Globals or not should build different customer relationships due to the different customer characters.

Value Proposition to Customers

The value proposition to customers can be simply described as the value (mostly the products or service, experience and other value-added service) company can provide and bring to its customers (Hamel, 2000; Osterwalder, 2005; Petrovic band Kittl et al, 2001). However, many companies may provide the similar value propositions so that what distinguish a company could be its differentiated or lower cost products or service (Afuah and Tucci, 2001). Here, we mainly want to find out the special value propositions G provides its various customers and the reason why G’s value propositions are attractive.

We can say the biggest value proposition that G brings to Chinese customers is the low price. As a private company, G does not have the ability to enrich Chinese people, but it gives customer more value with lower prices. The low price strategy advanced the time microwave oven entering normal Chinese families for at least 10 years. Besides the market strategy concerns, it also comes from G’s principle: satisfying the customers with sincerity. In G’s opinion, the added value of microwave oven is too high and the only way for normal Chinese customers to afford it is cutting the added value. In the earlier years, low price but good quality products were its value proposition which delivered to customers. Later, with the growing of Chinese people’s income, customers concern more about the technology, design and environmental friendly factors of products but not only price. At this time, G also changes the product strategy to middle and high-end segment to but still keeps the price a little bit lower than similar brands. Meanwhile, G does not neglect the low-income customers. It does not stopping the production of low-end products and mainly sell in country-side markets. Moreover, good after-sales service of G shows its responsibilities to customers. It has maintenance point in almost every city and it even provides service for the customers of the some bankrupt brands.

Like many Chinese manufacturing companies, their cheap “Made in China” products benefit the whole world. In developed countries, the materials especially the labor force prices are much higher than in China. Consequently the production cost is higher than in China which makes the outsourcing manufacturing beneficial. Foreign customers therefore enjoy the low price bought by the shifting of manufacturing industries. Same as the value proposition to Chinese customers, G provides cheap but good quality products to foreign end-customers. Due to the reality that G does not use own brand on most of the exported products, in some terms, we can say that foreign customers gain this value proposition from the “Made in China” but not only G.
OEM customers usually emphasize the production ability of the OEM manufacturers, which is exactly G’s advantage. The world biggest microwave oven production ability brings the economy of scales which makes G has the capacity to provide cheap products. Sometimes, even the OEM prices are lower than the cost, G still accepts the order. To G, the expanded production capacity is more important for the future development. The rapid production speed and in-time production promise convince OEM customers that G is a good choice. G’s flexible production to divide its production line into small units and integrate them again in a short time meets the both the OEM customers with small or big orders. What makes G differ from other OEM manufacturers is its innovation ability. Controlling the core technology such as magnetron makes OEM customers treat G not as an assembling manufacturer. Customers can order the whole products from G without worrying the purchasing cost of core components because G has the ability to produce all these components and provide them with the whole machine in a good price. Sometimes, OEM customers buy the core components from G directly to use in its own production. The innovation ability together with the fast respond to market demand is also what OEM customers concern about. G’s laboratory stores many products which can be put on production line rapidly when it is needed by markets. It enables G the ODM ability that not only meeting but also creating OEM customers’ need. The fast change on products to adapt to different market demands is also important to OEM customers.

Here, we find the biggest value proposition G gives to end-customers is the cheap and good quality products. Though in some certain period it is attractive to customers, it is difficult to keep low price all the time especially when the customers’ demands are changing as well. There is always cheaper price than G in the future. As a result, we consider this kind of value proposition will not last for a long term. In the future, we think the good quality should be the basic requirement of Chinese manufacturing Born Globals’ value propositions. More importantly, they should seek and deliver special or added value propositions to customers. We can see the success of Apple’s products do not only come from the high-tech and good design products but also the service in the form of iTunes; the success of Toyota is not only because of the relatively lower prices compared to European cars but also because of its good electronic system. Our point here is that only these special or added value propositions to customers could bring these specific Chinese manufacturing Born Globals sustainable competitive advantage. OEM customers always look for the manufacturers who have the production ability but may not have the core competences can compete with them in innovation or marketing in international market. The nature of the value proposition for example G provides to its OEM customers decides the loyalties of OEM customers are also not high when there are cheaper manufacturers with better prices and similar production abilities. Furthermore, from the low profit margin in the industry chain, we also think the OEM production may bring some Chinese manufacturing Born Globals fast profits but they should try to move from this business when they have certain abilities. The problem goes back to changing or developing the core competence of these companies from focusing on for example production ability to innovation ability.

**Channels**

Generally, the channel answers the question through what company delivers its value proposition to its targeted customers (Osterwalder and Pigneur, 2010). However, it is not enough, the more important question is how to deliver value proposition to
customers efficiently at appropriate cost (Magretta, 2002). In domestic market, as we discussed a lot, the sales channels of agents and retailers are the main channel for delivering G’s value propositions to customers. Building sales channel by itself requires huge investment in both funds and human resource. It also takes a long time finish it which may affect G’s market penetration. As a result, relying on agents is a fast and economical channel to deliver value proposition to customers when G lacks of the necessary resources at the beginning. The disadvantage of this channel is also obvious. Later when G wants to develop its own channel which hurts the agent’s interest, the conflicts and obstacle also come. Different customer segment will choose different channel combinations to fit their needs (Weill et al, 2001). In international market, the influence of OEM customers’ brand and sales channels become G’s channel to deliver value propositions. Without brand promotion, channel building, market research, G enters international market easily and does not need to worry anti-dumping or anti-trust problems. It is efficient and low cost channel but with the sacrifice of G’s brand and long-term profitability.

We do not think the channel only means the way deliver value proposition to customers but also the ways for company to deliver information to customer, the ways for company to get customers and vice versa. G does not spend money on the most general and popular marketing tool – TV commercials, but use some other ways for example newspaper and magazines or even recipe books. These make up the G’s channel to deliver its product information to customers. More importantly, G does not promote its products directly but in the form of popularizing the microwave knowledge and how to use it instead. This channel is much closer to customer’s daily life and also functions as the customer education. It also helps G to build good customer relationship between G and its end-customers. G finds its OEM customers through various channels for example the international household appliance exhibitions and its own abroad branches. Later, with the growing of its influence in this industry, many customers find G through their branch companies in China or through the Internet directly. The various channels provide G more opportunities in international market.

**Revenue Model**

We put the revenue model in the customer and company frame because according to Weill et al (2001), the main source of revenue is usually the direct sales to customers. The revenue model explains describes the way company can make money through a variety of revenue flow (Osterwalder and Pingneur, 2010). A firm’s revenue model can be composed of different revenue streams (flows) (Osterwalder, 2004). Since G sells different products, the revenue streams can be also created from customers who purchase the microwave oven, air conditioner, small household appliance or even the components. From the customer segment’s perspective, we can also see the different revenue streams in G. The revenue of G comes from the domestic sales and also the international sales but no matter from end-customers or business to business customers. The various revenue streams enable G the ability to balance different market and finally optimize the total revenue. If the profit of one product segment or customer segment is low then G has the chance to make up from other product or customer segment. As we said in the empirical, G actually uses this strategy in domestic sales and international sales. What more, G even encourages the domestic and international sales companies to compete with each other and finally increases the total revenue.
Actually, the revenue stream itself is made up of pricing, staging of payment and sales volume (Johnson et al., 2008). Pricing is very important in the revenue model. Pricing not only affects the market share (whether accepted by customers or not) and the potentials of the products or service but also finally influence company’s revenue (Afuah and Tucci, 2001). Charging low price was G’s marketing strategy for a long time. In 1994, it cut 40% of the add-value of microwave oven and therefore increased its market share a lot. It greatly benefited the domestic customers as we discussed before. More importantly, it makes G the absolute leader in microwave oven industry in China and whereas it also sets the industrial barrier to new entrants.

Only the low price does not explain the logic of how company makes money. Moreover, the low price will inevitably bring the low profit so that the question is how G ensures its profitability to support its long-term development. From the empirical data, we can easily find the answer. The economy of scale which is presented in the “cost-price-scale-price” circle explains the essence of G’s revenue model. Firstly, based on the low cost advantage, G greatly reduced the price regardless the low profits. The low prices contributed to G’s market share and therefore the expanding of its production scale. With the expansion of production scale, the economy of scale gives G the ability to reduce the cost and keep the low price strategy. In other words, G doesn’t care about the low profit from every products but it wins at the huge sales amount. As a result, the average low profit multiply the sales volume keeps the total revenue quite well. The expanded production scale enables G’s production ability to prevent other entrants from the industrial. If these new entrants could not reduce their cost as low as G, they will lose money in every product’s sale.

Now, we start to analyze another revenue stream which comes from abroad customers. Price is still a key of this revenue stream. What for sure is that the profit from international sales even for the OEM production is still a little bit higher than the domestic sales. Compared to the companies produce and sell products themselves, G’s profit is much lower. It only earns about or less than 5% profit of the whole added value of every product in international market.

What we can discover here is that the revenue model of both the domestic and international market is low profit but big sales amount. The production scale and ability support this revenue model. However, we assume this is a revenue model which cannot last in future with long-term perspective. Firstly, Chinese customers are not only attracted by product’s low price which makes G’s strategy to expand market share with low price become difficult now. Secondly, the sales of microwave oven in most of the Chinese cities are close to saturation. Besides developing the countryside market, how to dig the market segment deeply is more important to G. Thirdly, the implementation of low price strategy also calls for the support of other factors such as the macroeconomic, customer demand. As we mentioned before, when the customer is not so sensitive to the price, G’s huge investment in air conditioner industry may have risks because it could not rely on the former price strategy any more. Because of entering this industry a little bit late, focusing on the technology, design and service of the product is the only way for G to win in air conditioner market. Fourthly, the trend that the China is losing the advantage of OEM production gradually and the profit is also getting decline all the time. Finally, as we see in the empirical data, G’s former low price strategy has already left a low-end impression to customers that affect its
strategic change to middle and high-end markets.

5.4.3 Value Network and Company Frame

Value Network Interface
Suppliers, who are in the upper stream of the value chain, can improve the production efficiency and bring competitive advantage such as lower cost and production process innovation to companies (Wang, 2005; Tikkanen et al, 2005). As a manufacturing company but not an assembling company, the most important suppliers to G are the material suppliers. Besides some components that G needs to purchase, many components of G’s products can be produced by the branch companies which belong to G. Chinese material suppliers can meet most of G’s demand while sometimes it also has to import some components or materials from abroad if the OEM customers have some special requirements. Nowadays, Chinese suppliers have the ability to provide the components and materials that G needs. The relatively cheaper purchasing cost in domestic market is also a source of G’s cost-leadership strategy. The core logic of the network management is how the firm’s value-adding activities to fit those players in the value chain (Weill et al, 2001). G introduces its suppliers into its purchasing and inventory management system. The information of suppliers’ warehouse, transportation as well as G’s are shared through the information system. It improves G’s production and management efficiency and also facilitates the collaboration with suppliers.

Partners provide a company the complementary resource (Hamel, 2000). When a company choose and collaborate with partners, it should think about what resource the partner have that it needs, how to combine partners’ resources with its own and what kind relationship it aims to establish with partners (Wang, 2005). For sure, G’s partners have the resources that G lacks of or not so good at. In the domestic market, the main partners of G are the sales agents, retailers and the logistic companies. Lacking of the capital and channel resources at the beginning, G focused on only manufacturing and R&D but gave its sales to agents. This strategy greatly helped G to expand its market share with low resource input. Through the national public bidding, G finds some very good logistic partners. Nowadays, the joint venture logistic companies G sets with its former logistic partners provide better service to G. In international market, some OEM customers are in some terms become G’s partners in the aspects of component supply and R&D. The agents of G in international market play almost the same function as the agents in China. Here is a little different, compared to the domestic market, it is more difficult for G take the sales job due to the geographic distance, culture distance, information and fund shortcoming. It turns out that the function of agents in international market is more important. G also has some international investors who invest in G in the form of production lines or the direct capital. The various partners who locate in both domestic market and international market provide the necessary resources G needs. They greatly facilitate G’s growth especially its internationalization as we analyzed in the internationalization part.

Moreover, in order to reduce the purchasing risk, G also has many coalitions with its suppliers. The strategic assignment with suppliers ensures the stable purchasing price of G but also benefits the suppliers with the collaboration on new materials research
applied in household appliance. However, we do not find that G joins any price control coalition with other manufacturers in the household appliance industry. Normally, some leader companies in one industry in China could have secret price coalition to control the market price and seek high profits together. In this case, we consider the reasons why G does not join this kind of coalition are: high profit brought by high added value is not what G seeks which can be seen from the 40% reduced price of its microwave oven; G is an absolute leader in the microwave oven market in China, it actually has the ability to influence the market price itself so that the coalition is unnecessary to G. More importantly, the controlling price behavior deviates from G’s belief of satisfying customers with sincerity.

Value Propositions and Channels
As we discussed in the theory part, we consider the value propositions in the form of products, service and even experience do not only exist between company and its customers. Actually, we believe the value propositions are also very important to company and its value network players. For example, to G’s suppliers, G is their customers so that the value propositions indeed happen between them. The essence of the partner relationship is to benefit from each other through the collaboration. Consequently, there must be value proposition or more precisely we can say value exchange between company and its partners to sustain the relationship. We can find these value propositions in G’s case. The value propositions between G and its investors are obvious. No matter the production line or the direct capital, the investment helped G when it lacked of the necessary capital. Then G returned these investors with profits. Here, we mainly analyze the value propositions between G and its suppliers, G and its agent partners.

Let’s start from G and its suppliers. The basic requirements such as the quality and price are not the only factors G concerns. G prefers the suppliers who close to it so that the delivery time could be shorten; G prefers the suppliers who can provide it latest information of the industry, the supports on product designing and process; G prefers the suppliers who can help G to reduce the cost; G prefers the suppliers whose production ability and market development experience could fit G. These requirements indicate that G does not only regard suppliers as from whom it can purchase materials and components but also takes its relationship with suppliers to a strategic consideration. At this point, we can see the value propositions G gains from suppliers are: the big amount and stable supply, the good supply price, the fast deliver speed, the production support, the cost control and the information flow. However the value propositions are not unilateral but bilateral. The profits brought by G’s huge and continue purchasing demands are the biggest value propositions to its suppliers. In addition, since G provides products for most of the famous household appliance brands in the world, G’s suppliers become these customers’ suppliers indirectly and go to international market. More importantly, G’s purchasing system ensures the long-term collaboration with these suppliers. Suppliers do not need to worry about being replaced by other suppliers who bribe purchasing personnel with money because of G’s “sunlight purchasing system”. G’s 45 days payment promise ensures supplier’s flexible cash flow and makes suppliers feel safe to collaborate with G. Overall, the value exchange between G and its suppliers brings the win-win situation.

Actually, we have already talked a lot about the value propositions brought by G’s agent partners. Channel resource and market information are the main representations
of value propositions. As we know, if the manufacturing company does not take the sales itself then the added-value of the products is shared among manufacturer and agents in different levels. Easily to understand, the biggest value proposition that G gives to the agent partners is the chance to share the profit. However, this kind of relationship is not so stable because of the conflicts on profit share. With the growth of the manufacturing company, it is a nature to chase more profit. When it has the ability to take charge of sales, the manufacturing company will start to think about keeping the profit itself instead of sharing it. Especially when some agents use their bargaining power to lower the purchasing price from the manufacturing company, the desire becomes stronger. We can’t neglect the truth that G is establishing its own sales channels right now. The new domestic and international sales companies, the expanding stores in European market and the joint venture sales companies with its former agents are the best evidence. All of these decisions are implemented, since L’s son takes the CEO position. It breaches the G’s promise in early days that it will never set own channels to contest profits with agents.

The channels that G exchange value proposition with its suppliers and partners are not obvious but exist in the activities such as purchasing, collaborating on sales, logistic and R&D. As a result, we do not use an independent part to describe the channels.

**Cost Structure**

Cost structure measures all the cost of a firm which incurs in order to create market and deliver value to its customers. It sets the price tag on all the resources, assets, activities and partner network relationship that cost the company money (Osterwalder, 2004). We put the cost structure in the value network and company frame because as a manufacturing company, G spent the most of money on the purchasing and production or the value exchange within the value network so that we consider that it is better to analyze the cost structure within the value network. As Osterwalder and Pigneur (2010) pointed out, the characteristics of cost structure are fixed cost, variable costs, economies of scales and economies of scope. One important way to increase the profit is to reduce the cost so that the cost should be minimized in every business model. G’s cost control ability is also its competence which greatly contributes to its success.

The fixed cost of G is the purchasing and depreciation of the production equipment, facility and workshops. As we can see in the empirical data, the structure and design of G’s workshop are very simple compared to other companies. The fixed capital investment does not cost so much. Take a repeated example, G exchanged its free production for free production lines with European companies. Later some of these companies become G’s investor with the equipment as investment. During the financial crisis, G bought cheaper equipment from Japan and Korea. We can say G saves a lot of money on the fixed cost.

The variable costs cover many aspects of G’s business. Usually the purchasing cost especially the material cost occupies 60% to 70% of the total cost in G. As a result, it is important to control the purchasing cost. G always requires the lowest price from its suppliers. Though the profit margin of suppliers is not high, G’s huge and stable purchasing demands as well as the reputation attract suppliers. After the purchasing, G realizes a problem that the inventory becomes a main source of cost. The economic inventory management system of G balances the demand prediction and supply, coordinates the different segments in value chain to achieve high efficient resource
allocation: the customer information shared by both G’s and suppliers’ system solves the problem of the gap between required and real inventory amount and therefore saves the unnecessary inventory cost; the inventory management agreement with the suppliers contains the process of dealing with orders, the relevant parameters of inventory control such as reorder point and minimum inventory level; the organization reform for facilitating the inventory control, inventory replenishment and inventory service; the “option sales” agreements with agents for dealing with the raw materials price fluctuations. More importantly, from G’s own perspective, except the value network perspective, the accurate “zero” inventory principle makes the inventory cost control achieve a higher level. The inventory review system ensures there are no unnecessary inventory in the warehouse and therefore avoid the cost. The application of ERP system enhances G’s ability to control the inventory inside the company. The establishment of dispatch department greatly coordinates the production plan and the deliver as well as the agent’s sales plan. All of these make sure that G can purchase materials, produce and deliver products with appropriate inventory. In the mature household appliance market in China, the competition depends whether the companies can control the cost better. G’s inventory cost control can be regarded as model in this industry.

There is no doubt that economies of scale are the key of G’s low cost. Reducing the price more, G gains more market share and then produces more until achieves the maximum production ability so that finally G achieves economy of scale on production and has the ability to reduce price again. This cycle has been discussed by us repeatedly. The economy of scale on production is obvious in G. More than that, G’s economies of scale also exist in both management and innovation cost. The abundant innovation cost every year on average product is only about 10 to 20 RMB.

Besides the economies of scale, actually G’s low cost also partly comes from its economies of scope. Usually the economies of scope means the cost of producing more than one kind of products at the same time is lower than producing them respectively. The product diversification strategy enables the resources such as human resource and R&D resources shared by different product segments. Moreover, even in the same product segment, there are at least two product models producing in one production line in G. The workers are required to have the abilities at least working in two working positions. All these made up G’s economies of scope and therefore help G to reduce the total cost.

We think the pressures from small profit margin of Chinese household appliance market, G’s low price strategy, low profit margin of international OEM production, growing raw materials and labor prices, agents lowing price behaviors, all these facts force G has to save cost from all the aspects. We recognize G achieves in controlling cost especially G’s cost control because of its value network through the management on various network players. However, we also consider that the space of cost control is limited. The main value proposition G provides to suppliers is the huge demand and G gets lower purchasing price as return. Though G also provides some other value to suppliers for example in the aspect of inventory management, when G loses the leading position in domestic and international market, the preferential purchasing price from suppliers is also difficult to continue. From the structure of the cost, we can also find some problem. G should pay more attention on innovation and sales. G inputs at least 5% of its total revenue to innovation while it is still far behind some
leading household appliance manufacturers in some developed countries. Besides the production, the sales actually decide the revenue of the cost more directly. Both the economies of scale and scope may become its obstacles when the sales decline because the waste of production equipment and human resources. From the opposite perspective, there are infinitive possibilities to increase the revenue or income. G should start to pay more attention on that.

5.4.4 External Environment Influence

In this part, we shift our perspective to the external environment factors which affect G’s business model’s conformation and performance though they are not the components of business model.

Government Policies
It’s seldom to find government policies’ influence in both the Western Born Global and the business model literatures. However, the positive effect of government policies is proved in some Chinese Born Global research (Huang and Zeng, 2011; Li and Zhou, 2009). Similar as the analysis in the G’s internationalization success factors part, we find the influence form government policies does not only function in the earlier stage of G’s business but also all the time. In order to differentiate the analysis here from what we have done before, we mainly focus on the government policies’ influence on the whole business model of G not only the internationalization.

From the earlier history of G, we can see the strong influence of government policies. Encouraged by the “Reform and Opening-up Policies”, G is generated as a township enterprise (even can’t call it company at that time). In the entrepreneurs’ opinion, the township enterprise belonged to the town government therefore it was all the people in town who owned the enterprise. This collectivism opinion attributes to G’s “family culture” even when it transferred to private company. This corporate culture combines the human sources in G with more strong emotion than the pure interests. With the emotion combination, the potential of human resource is easily to be motivated to face to the problems they meet during the operation. That’s also why G always sees the human resource as the most important strategic resource in it. Limited by the export right policy in the 80s, G had to sell its feather products to state-owned export company. The long-term limitation made G had strong desire to go abroad freely which we can see from its conversion to microwave oven industry as well as the internationalization preparation since its industrial conversion. The ambitious and desire of competing in international markets greatly affects its business model from no matter G’s strategic resources, core process, organizational structure or customer segment and partners perspectives.

Again, in 90s, with the further implementation of the “Reform and Opening-Up Policies”, many township enterprises were encouraged to change to private company avoid inappropriate intervention and gain more independency in operation. Under this trend, G also became a private company though it met some problems during this process. The influence is profound. G’s business model becomes more flexible which can be seen from the examples such as using the free production to exchange the production line, introducing international investor in the form of getting free equipment and deciding to cut most of the added value of microwave oven product.
As many companies export to abroad, G also enjoyed the export tax rebate policy. However the rate of the report tax rebate was declining all the time from 17% to 13%. It affected G’s profit of exporting so that it also pushed G to pay more attention on how to control the cost to increase the profit. A little different, G is not state-owned company or foreign-funded company, besides the export tax rebate policy, G does not have other tax incentives. Private companies’ situations in China are a little tough especially in the financing aspects. Difficult for them to get loans from commercial banks and also the lending rates is high. As a result, many private companies seek to being listed in stock market or even the private lending. It makes G the company which emphasizes the financial soundness very much and attempts to balance the profit and reduce cost. Together with the reduced export tax rebate policy, the high added value export tax forced G to seek other opportunities. Compared to exporting the complete machines, the tax of exporting components is much lower. In addition, the other emerging market countries treat G as foreign-funded company who can enjoy the tax incentives. As a result, the Chinese government’s tax limitation and the tax incentives from other countries attract G moves its production especially the assembling to for example India and Russia. It’s a big change of G’s core process and also affects its strategic resources abroad.

**Geographic Location**

The south part of China especially the Guangdong Province is one of the first pilot areas of the “Reform and Opening-Up Policies”. From the history perspective, many Hong Kong people originally came from Guangdong Province and still have family there. The blood combination closed the communication between the isolated socialist main land and capitalist Hong Kong which made the people in Guangdong Province were more open-mind. Due to this geographic location, many success companies in China now like G actually grew in Guangdong at that age. The big environment enables G the international vision at very early time.

The influence from the industrial cluster on G’s business model is also obvious. Some research has pointed out the positive relationship between Born Global’s internationalization performance and the industrial cluster they are in (Fernhaber, Gilbert and McDougall, 2008; Ye, 2009). The various companies distributed in different positions of the same industry concentrated in the same area so that the production resources and information can be delivered and shared within the value network. G was not the first household appliance company in Shunde. Earlier than G, there were already some famous companies who produced small household appliance, fans and refrigerators. The prototype of industrial cluster had formed a little bit when G entered this industry. The formation of industrial cluster could be spontaneously and gradually. However, in G’s case, we consider government played an essential role in this process. The advantage of socialist market economy is that government could use the macroeconomic regulation and control tools to affect the economy. When the government saw the trend in Shunde, more policies were gave out to support the formation of Shunde as household appliance production base. The industrial cluster greatly supports G’s business model from the supplier network aspect. From the empirical data, we can see that the suppliers inside the industrial cluster can meet most of G’s demands and the geographic advantage shortens the deliver time. Furthermore, the information and human resources flows in the cluster also become one part of G’s business resources.
Macroeconomic Environment
As an international company, both the domestic and international macroeconomic environment affect G’s business model. Starting from the international macroeconomic environment, the most obvious example is the OEM production G involved in. During the third round of international industrial transfer, the developed countries shifted the industries which they didn’t have competitive advantages for example the low-end manufacturing to emerging countries for example China. Either investing in China to continue the production or buying products from China directly, this industrial transfer brought the well-known “Made in China”. In this shift, like many Chinese manufacturing companies, G caught the opportunities to involve in OEM production. OEM is really important to G that it is a key for G’s rapid internationalization. At the same time, it shows G’s production ability, innovation ability as well as the cost control ability. More importantly, it is actually a channel for G to get more resources and experience through collaboration of OEM production with famous international companies.

The two serious financial crisis brought G both the opportunities and challenges. After the Southeast Asian financial crisis in 1998, many household appliance manufacturers of Japanese and South Korean could not afford the high cost any more. While, G got advanced production equipment at the price of free production or bought them with low price. More importantly, G also recruited many experts from these two countries. The capital and human resources were captured by this chance increased G’s innovation ability and innovation ability. If this crisis was chance to G then the subprime mortgage crisis in 2008 was more as challenge to G. The demand recession in international markets forced G to pay more attention to dig the domestic market as well as control the cost. Nowadays, G has really good competence to balance the domestic and international sales.

The raw materials price and exchange rate in international market are always concerned by G. Due to China does not have good quality iron ores to produce high-end iron and steel products, most of the high-end iron ores need to be imported from for example Australia and Brazil. The raw material prices are growing all the time in recent years which directly increase the production cost of G because even the iron and steel used in household appliance brought from China still use the imported raw materials. The pressure forces G to strive for other solutions for example joining the strategic coalition with its suppliers. RBM is not an international settlement currency so that the international exchange rate also directly affects G’s profit. Though the Chinese government tries to hold the pressure from international public that requires RMB should appreciate, the trend of RMB appreciation in future is apparent. Actually, during these years, the RBM is appreciating all the time which makes “Made in China” gradually loses profit. The outside pressure from international market together with the weakness of its business model (stuck in the middle of declined international demands and growing cost because of the OEM production) make G have to think about the strategic change of its business in future.

Besides the international macroeconomic environment, the domestic macroeconomic environment is also changing all the time. The growing national income changes the customers’ consumer preferences. Before, consumers concern more about the products price while they pay more attention to other aspects such as the technology, design, energy saving, environmental friendly of the products. It weakens the
performance of G’s low price strategy so that the success of microwave oven could not be copied by air conditioner. It requires G to change its marketing strategy and strengthen its innovation ability, which may also affect G’s business model in the future. Still due to the growing economic of China, the labor price is also increasing. It greatly threatens G’s biggest advantage-low cost which comes from the cheap labor force price. Therefore, the low price strategy can’t be implemented in both domestic and international markets. It also brings out another hidden problem- the sacrificed brand. The OEM production sacrifices G’s own brand in some terms, and if the OEM production can’t continue anymore, it would be difficult for G to survive with its own brand in international market. Maybe realizing this potential problem, G actually increases the amount of exporting products with its own brand and develops the sales channel abroad actively. Though the influence brought by the rising cost on G’s business model is not so clear currently, we think it will be more and more apparent in the future.

Social Culture
Through the analysis of G’s case, we more and more feel the Chinese farmer culture actually affects G via the leader and therefore the corporate culture of G. China is a country that has thousands years’ agricultural civilization and it started industrialization much later than Western countries. Before the “Reform and Opening-Up Policies”, the majority populations in China were farmers so that the farmer culture was a very important part of Chinese culture. In fact, it is quite hard to explain the farmer culture. Dealing with farmland and also income depends on the climates and weather, the lack of resources makes the Chinese farmers become very active when they have to seek or creative resources to survive. Working in the farm is tough so that the hard working also becomes one of typical Chinese farmer’s characters. Seeking stable and better life is the Chinese farmers’ simple desire so that Chinese farmers are not aggressive and even become very endurable to everything. As a result, Chinese farmers are regarded as a group of people who are easily to be controlled and guided. During 50s and 60s, the Chinese farmers sacrificed themselves to support China’s industrialization in the form of providing cheap materials. However the tough, creative and initiative parts of farmer culture are always being neglected. Moreover, honest, frugal and sincere are also Chinese farmers’ typical characteristics.

The Chinese township enterprises in 80s were mostly created by the farmers. At that time, all the important production materials were still controlled and regulated by state government. In the situation, the numerous township enterprises sought materials actively. We can see from G’s case. Before its inception, L thought that the feather from ducks was easily to get in countryside so that he decided to apply to the town government to establish a feather enterprise. The active and initiative spirits can be found in many aspects of its later business on finding necessary resources. Most of these township enterprises changed into private companies because of policy transform. Most of the private companies concentrate in Zhejiang, Jiangsu and Guangdong provinces and most of these private companies are created by farmers. Nowadays, private companies are the most active driving force of China’s national economy. In this case, we consider that the farmer culture plays an important role in it.

The three shifts production with the efficiency even higher than the complete
automatic production line only earns less than 5% profit of the products. Though in many people’s opinion, “Made in China” is low-end, cheap and bad quality, G enjoys the OEM production. The farmer culture mentioned above supports that and moreover, to Chinese farmers the work of selling labor force is totally endurable. Everything that is beneficial for making their life better is right and acceptable. It is also the down-to-earth culture. Here, we can find many similarities between G’s corporate culture and the Chinese farmer culture. Created by farmer with most of the workers originated from farmers, G treats every employee sincerely and makes the company like a big family. Its treatments to the employees and its behavior in the flood in 1994 are the examples for that. The farmers’ honest can be seen in G’s behavior as well. G cut the high added value in microwave oven to give the profit to customers. Though it was a little conservative, its opinion that it is not good to gather money from stock market without the real working was the embodiment of G’s honest. The farmer’s frugal character is obvious in many aspects of G’s cost control especially the saving of unnecessary cost. Overall, due to the natures of G and its entrepreneur, the Chinese farmer culture also affect G’s business model.

From the response of G to the external environment, what we can learn and apply to other similar Chinese manufacturing Born Global companies are: in China, the political and economic conditions decide the government have great influence on business so that it is important for companies to follow the government policies; these companies should take advantages of the policies that designed to facilitate their internationalization; these companies should not dependent on the preferential policies too much but increase its ability to adapt to the environment change when the policies disappear; they should cultivate the ability to response to the change of international macroeconomic environment and try to seek opportunities even during the crisis; every society has its own culture which affect how the companies operate their business virtually and companies may use this to build their special corporate culture.

### 5.4.5 Description of G’s Business Model

Based on the analysis above, we change our business model framework a little bit: we put the components “revenue model” and “cost structure” which under the “company interface” to the “customer and company frame” and “value network and company frame” respectively. At the end, we decide to use this new framework to describe the business model of G briefly to give out an overview of how G operates its business and why it is success.

We think that when we start to talk about G’s business model, it is better if we start from the G’s company interface because what resources G has, what abilities G possesses and what activities G has to create and deliver value propositions are included in this part. More importantly, we think the components under G’s company are the essential of its business model’s success.

The most important core competence of G is the production ability. Large production capacity and high production efficiency make up of this production ability. If we dig a little deeper, we can find the production ability actually comes from two aspects: the low price strategy greatly helps G to expand the market share which therefore brings G to achieve economies of scale and finally makes its production enters a virtuous
cycle; the high efficiency actually based on the hard work of abundant and cheap Chinese labor resources. Another core competence is the innovation ability. There is seldom Chinese manufacturing companies possess innovation ability as its core competence. The advanced awareness of G and its leader contributes to that. Exactly because of the innovation ability, it makes G differs from other Chinese manufacturing companies who do not control the core technology or only involved in assembling. Though G has various kinds of resources, we agree with G that human resources are the most important strategic resources to them. From G’s history and the later development, we can easily to see the roles of human’s creation, potential and enthusiasm play in in seeking other resources, overcoming difficulties. The labor resources who work on the production lines and the talent research personnel who bring rich R&D outcomes are the best examples of G’s human resources. Actually, here we can also find that the human resources contribute the formation of G’s core competences and at the same time, the core competences also enables G the abilities to use these human resources better. Due to the G’s nature of manufacturing company, the most important core process is production. It is also acknowledged by G itself. According to G, the purposes of other activities such as purchasing, management and innovation are supporting the production to reduce cost or increase efficiency. What neglected by G for a long time is the sales. The potential problems derive from the unbalance of production, innovation and sales may be more and more obvious in the future. The changes of organizational structure actually follow the change of G’s strategy. The focuses on sales companies shows the message that G starts to pay attention on the sales itself.

The exporting tradition and its international vision makes it does not only focus on domestic market but diversifies its customer segments. In the domestic market, though G does not contact with the end-customers itself but relies on agents instead, it delivers greatly value to these customers in the form of good quality products with cheap price. In the international market, other household appliance companies become its OEM customers. The value it delivers to these OEM customers is the profit because G only takes less than 5% of the total profit margin. Due to the OEM production, the international end-customers could also enjoy the benefit brought by G’s low price production. Through the channels such as agents and OEM customers, its production ability, innovation ability and cost control ability which presented on its products and prices benefit the customers all over the world. Besides the direct products provision, the customer education in the form of microwave oven knowledge and microwave oven recipes is channel to deliver value to customers. There is no doubt that the profit margin of G is quite low so that its revenue model is the “small profit but large volume”. The large volume depends on the production ability and the demands of its products again. The high-tech products with good prices are the main reasons attract customers.

Though there are components companies, manufacturing companies and sales companies under G’s group, G could not continue its business without the help from suppliers and partners. After rigorous selections, G chooses the suppliers not only can provide them good materials or components with good price but more emphasizes whether the suppliers can provide G added value in reducing the cost or gathering information. Some suppliers are also G’s allies. The strategic coalition between them stabilizes the raw materials price. The main partners of G are the agents in domestic market and logistic companies, international R&D partners and investors. The
domestic agents help G with sales and marketing which G is not good at before. Logistic companies deliver G’s products to agents efficiently. The international investor and R&D partners greatly enhance G’s internationalization ability in the aspects of finance and technology. The most important value proposition between G and its suppliers and partners are the profits they bring to each other. G’s large and stable demands give suppliers the long-term profits. The corporation between G and its suppliers on electronic procurement system and inventory management also helps suppliers to reduce their costs. Before, G took out the profit from products’ added value to share with agents. This profit value position is considered as unstable by us. The dispute on profits and the possibility that G start involving in sales itself increase the risk that the relationship as well the value proposition can’t continue. Purchasing cost accounts for big part of G’s cost so that G tries its best to reduce this cost through the design of purchasing system, the management of inventory and the application of ERP system. Though having the advantage of cheap labor sources, G uses all attempts to control the costs not only from itself but also through the management of the value chain.

The influence of external environment on G’s business model is also obvious. The government policies such as the “Reform and Opening-Up Policies” directly affects G’s inception, conversions of industrial and ownership. The influence from it is essential and lasts for a long term in G’s business. The tax policy for example the export tax rebate supports G’s exportation and the added value tax gives G the chance to expand its production to other countries. The geographic location advantage opened G’s mind and affected its internationalization. Industrial cluster which is mainly created by government policy supports G’s business from the purchasing and logistic aspects. The international macroeconomic environment gave G the change to get international capital and human resources but its changes in raw materials and exchange rate also affects G’s profit directly. The domestic macroeconomic environment which showed in the aspects of increasing labor resource price and changed customer preferences forces G to seek new channels to control cost and to change its low-price market strategy. Finally, the entrepreneur and most workers originated from farmers so that the Chinese farmer culture: seeking better life, working hard, endurable, honest, frugal and sincere affects the leadership style of G’s entrepreneur, G’s corporate culture and the way G deals with its business.
Graph 5 Modified Business Model Framework
5.5 Evaluation of G’s Business Model

Table 8 shows an initial assessment of a company’s concept (Debelak, 2006). Through the understanding and grasp of GEL factors, we evaluate each of them on the chart and then rate a grade. Besides, it is necessary to consider the compensating tactics with the item, which is rated a grade of “excellent”, “average” or “poor”. Afterwards, according to the result of final rating, it is easy to classify several distinct items into strong points and weak points of a business model.

Great Customer Evaluation
- **Number**
  G sells both its produces in domestic and international makes. Nowadays, the microwave oven and air conditioner are very normal in most Chinese cities and countryside is becoming the potential market. As a result, we think the customer number is high.
- **Ease of Finding**
  G’s customers locate almost all the cities in China and more than 200 countries in the world. It is easy for G to find no matter end-customers or OEM customers.
- **Spending Patterns**
  Families are the main customers of G. Usually the families do not spend money very freely so the sales effort and customer service are required to persuade the purchasing. However, at the same time, the household appliance is not a big purchase to the families’ incomes so that it’s not so difficult to customers to make the decision. As a result, we think the prolific of customers’ spending pattern is average.
- **Value of Sale**
  The values of household appliance sales are higher than the fast moving consumer goods while they are lower than luxury products or some other durable consumer goods such as cars. Consequently, we regard the value of sales as “average”.
- **Repeat Sales**
  As one kind of durable consumer goods, frequency of customer to buy the household appliance is low so that the repeat sales of G’s products are quite poor. Moreover, it is decided by the nature of the products which makes this weakness could not be compensated.
- **Ongoing Sales Support**
  The household appliances are machines so their customers actually require the ongoing support such as how to use it and how to take care of the product. Here, we think the on-going support from G’s customers is high so that we choose “poor” in Table 8. In order to meet customers’ needs, G will give customers the instructions of how to use and take care for example microwave oven, the microwave oven recipe book when they sell the products. We consider this kind of ongoing sales support will not cost a lot so that the grade of this item is “normal”.

Easy Sales Evaluation
- **How Important**
  Though the products G sells are not necessities of life, they are important to customers. Microwave oven, air conditioner and small household appliance make customers’ life convenient. In addition, in some terms, G has become the synonym of microwave
oven. It is the image that G establishes is important for customers when they purchase the products. Here, we choose the importance “excellent”.

- **Competitive Advantage**
  Providing the good quality products with cheap price is always the strategy of G. even later when G changes its market segment to middle and high-end markets, it still keeps its prices a little bit lower than its competitors. We consider this as G’s competitive advantage that widely-accepted by customers and give excellent grade.

- **Price/Value Relationship**
  The prices of G’s products are low but the values (good quality, long life cycle and good after-sales service) brought to customers are high. As a result, the ratio of price and value is very low which means the customers get more value than the prices worth.

- **Entry Points**
  With the help of agents, G’s products can be found in most of the supermarkets, household appliance market or stores so that we consider it’s easy for customers to get their products.

- **Sales Support Required**
  The sales supports include the presentation and demonstration of products, training of customers, the help of installing and answering repeated calls. Actually G’s agents take the responsibilities of showing customers how to use the products during the face-to-face sales and installing machines for customers when the purchase decisions are made. G pays little attention to the sales support.

- **Promotional Activities**
  Usually, in order to promote the sales, the agents of G will provide some discounts of G’s products. However, this is not enough. The promotional activities from G for example the advertising is also necessary. Though G does not spent money on advertising, it uses newspaper, magazines and TV program to launch the customer education. During this process, it also promotes its brands and products. Here, we think the promotional activities of G are only average.

**Long Life Evaluation**

- **Margins**
  Because of the low price strategy and OEM production, easily to find that the profit margins of G are quite low no matter in the domestic market or international market. In order to compensate this weakness, G changes its market strategy to middle and high-end market segments through the added value in technology or design. Meanwhile, in the international market, it develops its own brand actively to seek the added value brought by the brand.

- **Up-Selling and Cross-Selling**
  Entered household appliance industry for about 20 years, G has really good reputation in both domestic and international markets which facilitates its up-selling and cross-selling. Under this good brand effect, when G starts its products diversification strategy, their other products such as air conditioner and small household appliance are more easily accepted by customers to achieve cross-selling. Through the OEM production, some international agents start to know this Chinese manufacturer gradually and would like to sell G’s own brand products. As a result, we think the up-selling and cross-selling of G is quite good.

- **Ongoing Product Costs**
  When G’s products break down, most of the customers don’t know how to deal with that. They require the repair and the regular maintenance. Therefore, the costs of the
ongoing products of are actually high. Like the ongoing sales support, the ongoing product cost is also inevitable. G has the professional after-service team to take the responsibilities of products repair and maintenance so that it increases the cost. Outsourcing the after-sales service to other companies may can reduce the cost a little bit.

- **Cost to Enter Business**

Entering the household appliance industry requires huge investment in fixed assets such as the factory, production equipment and human resources. More importantly, in order to compete in this industry, innovation ability which ensures the long-term competitive advantage also needs large R&D investment. We can see that from G’s history: it sold all the textile business to support the household appliance business, lacking the fund to purchasing advanced equipment, it even used free production to change the fixed asset production line. Consequently, we think it’s difficult to entry this industry. The attempts of G to get necessary through various ways show the possibilities to compensate this weakness a little bit.

- **Cost to Keep Market Share**

G’s big market share comes from its low price strategy. Furthermore, the low price actually steams from its production ability or we can say economies of scale. In a short term, the production ability is difficult for other competitors to surpass. However, it is possible for its competitors to copy this strategy in a long term when they achieve the same or bigger economies of scales. Actually, G has new strong competitor in Chinese market recent years. Based on these, we consider the cost to keep market share for G is average.

- **Cost to Stay on the Cutting Edge**

There are always new competitors come out which makes the company difficult to keep its cutting edge position in product or service. To G, when the low price strategy does not work so well, the only way to compete in the market is optimized the product design and technology. This requires G continue to invest in R&D. Usually this investment accounts for 3% to 5% of its total sales and increases all the time. We think the cost for G to stay on the cutting edge is high. The customer’s preferences have already changed and they are not so sensitive to the price like before. As a result, the future competition does not only exist in prices anymore. The investment in R&D to keep the cutting edge is also inevitable.

**The Overall Evaluation**

From the result of Table 8, we can find G has many strong points: broad customer base, easy to find customers, products are important to customers, very obvious competitive advantage, high value to customers, easy for customers to but its products, little sales support cost, big potential of up-selling and cross-selling. Easily to see, these strong points mostly concentrate in the “Easy Sale” but rarely in “Great Customer” and “Long Life”. Opposite to that, the weak points include: low repeat sales, low profit margin, high ongoing product cost, high entry cost, high cost to stay on the cutting edge. The weak points are more found in the “Long Life” part. Most of the weak points G has the tactics to compensate: the low margins G can improve through the application of high value-added product strategy and value-added brand strategy; the ongoing product cost could be reduced a little if G chooses outsourcing its after-sales service; the high entry cost G actually has already solved through some strategies for example the free production line from Europe, Japan and Korea. However, due to the nature of the household appliance as endurable consumer products, the repeat sales frequency is low. Both the domestic and international
trends and demands are changing all the time. In the future, the competition in this industry is more about the technology and branding. Companies like G who do not have absolute competitive advantages which could not be imitated have to invest much to seek or stay on the cutting edge.

Now let’s have a look at the three aspects of “GEL” evaluation factors. From the points of “excellent”, “normal” and “poor”, we can see the customer groups of G are actually normal. Most of the end-customers are families who do not spend money freely and emotionally but taking price, quality, value into consideration. At the same time, due to nature of G’s products which are not expensive endurable consumer products or luxury products so that the value G can gain from customers are not so high.

However, G’s products are easy to sell. In developed countries, microwave oven and air conditioner are quite normal household appliances at home. In the developing

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<td><strong>Great Customers</strong></td>
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countries, with the growing incomes, these products are also becoming more and more popular. As a result, they are the products have good worldwide market potential. Furthermore, G’s tradition is providing high quality but low price products which catches customers’ consumer psychology. It makes its products more easily to be accepted by customers. In addition, relying on agents or OEM customers’ strong sales channels, G does not need to worry about how to reach customers.

At the end, the serious problem we find is the “Long Life”. Though it requires huge investment to enter this industry, G has already been in it for almost 20 years. In the earlier years, G used the low price strategy to reduce the profit margin of the whole microwave oven industry. However, nowadays, when the customer preferences change and G enters the air conditioner area a little bit late, it could not use the same strategy to set industrial barrier for other competitor to enter it. With enough investment, there could be new entrants to threaten G’s position. Some costs of this industry are necessary and the same to every company. What G can do is to control the costs. The most urgent problems G faces to may be the low profit margin and the keeping the position on cutting edge. In other words, G needs to solve the problems of profitability and sustainability. The strategic change from low-end to high-end therefore gaining the high added value is inevitable. The development of its own brand and sales channel to get the added value G lost before are also necessary. At the end, in order to have sustainable competitive advantages in the future, G needs to continue or increase the investment on R&D and start to build its brand. Otherwise, G’s business model will face big risks in the future.
6. Conclusion and Discussion

In this part, firstly we will give out our conclusions of the whole thesis based on the case study. We mainly focus on answering the research questions. At the same time, we will also conclude some new findings from our research as the complementarity. After that, according to our research, we will give out both the theoretical implication and managerial implication. At the end, we also point out the limitations of our research as well as the future research directions. All the conclusions here we get from our case we consider is valid for the specific type of Chinese manufacturing Born Globals who get involved in middle or high-end manufacturing and OEM production at the beginning.

6.1 Conclusion

The Internationalization of these specific Chinese Manufacturing Born Globals

1. Among the motivations of these specific Chinese manufacturing Born Global’s internationalization, the higher profit comes from the lower cost is still the main reason to go abroad. The limited domestic demand due to Chinese customers’ low consuming ability in early days is another motivation. Interestingly, the national complex which can be more found on old Chinese generations may also become a motivation.

2. These Chinese manufacturing Born Globals’ internationalization process fits the whole “Establishment Chain” of “Uppsala Model” from “no regular export activities” to “production abroad”. It is also conform to the conclusion of other research about these specific Chinese manufacturing Born Global’s internationalization process. Without the international background, the entrepreneur may learn gradually from the international business which also proves the basic assumption of “Uppsala Model” that internationalization is the process of accumulating international knowledge and experience. It illustrates again that there is no absolute insulation between “Uppsala Model” theory and Born Global theory.

3. We find the entrepreneurial factors play important role in these specific Chinese manufacturing Born Globals’ successful internationalization. However, the function “entrepreneur’s personal network” which is emphasized in other research is not obvious all the time. Instead, we find whether the entrepreneur has international personal network may influence the speed of Born Global’s internationalization more directly. Differently, the function of innovation culture which is more found in Western and Chinese high-tech Born Globals can also be seen in these specific Chinese manufacturing Born Globals. It may depend on what industry the Chinese manufacturing Born Globals involved in. OEM production is still the main reason for these Chinese manufacturing Born Globals to achieve internationalization rapidly. The Chinese government policies and industry cluster positively influence Chinese manufacturing Born Global’s internationalization. Overall, we find that except the government policies, these
middle or high-end Chinese manufacturing Born Globals may have all the success internationalization factors like the normal Western Born Globals.

**Business Model of these specific Chinese Manufacturing Born Globals**

1. If we briefly describe the business model of these specific Chinese manufacturing Born Globals’ business model based on our case study, it could be like this: the main core competence of them is the production ability which is made up of large production capacity and high production efficiency. The innovation ability is gradually becoming another core competence due to the awaking concern of product’s technology. Among the strategic resources, human resources which include both manufacturing labor resources and R&D resources are the most important strategic resources. The potential, creation and hard work of human resources contribute the formation of the core competences and at the same time the core competences directly enables these specific Chinese manufacturing Born Globals the ability to utilize the human resources to create competitive advantages. As manufacturing companies, the core process of them is the production and the purposes of other processes are to support the production. The fast changes of organizational structure and management are to adapt to the business model’s strategic changes. The biggest value proposition these specific Chinese manufacturing Born Globals deliver to their end-customers is the good quality products with cheap prices. The channels to deliver the values and information are various such as through the agents, OEM customers or marketing communication tools. Due to the low price, the revenue model of these specific Chinese manufacturing Born Globals is simple-small profit but large volume. So the profits depend on how many they can produce and how many they can sell. The suppliers (who are also their coalition allies) and partners in the aspects of sales, R&D, logistic, finance, make up their value chain. The main value propositions exchanged between these Born Globals and their value networks are the profits. Purchasing materials and components is the main cost of these specific Chinese manufacturing Born Globals so that it is necessary to reduce this cost not only from the companies itself but also within the value networks.

2. Chinese government policies include the “Reform and Opening-Up Polices”, export tax policies and industry cluster program affect these specific Chinese manufacturing Born Globals’ formations, ownership conversion, profits and even the business models. Their business models are also affected by the domestic and international macroeconomic environments in the aspects of seeking resources and profits. More importantly, we find the due to the nature of human resources in these specific Chinese manufacturing Born Globals, the Chinese farmer culture also becomes an external factor influences their business model.

3. We find the entrepreneurs play an important role in the formations and changes of these specific Chinese manufacturing Born Global’s business models: entrepreneur’s vision affects the choice of market segments; entrepreneur’s cognition and abilities affect the seeking and using of strategic resources; entrepreneur’s culture backgrounds and beliefs affect the attitudes to their employees and the value propositions to their customers, value networks. The functions of entrepreneurs could not be fixed in one certain part of business model but distributed everywhere.
4. We find there are direct connections between these specific Chinese manufacturing Born Globals’ business models and their successful internationalizations. The cheap production human resources and international R&D human resources bring the value propositions: cheap, high-tech and good quality products which meet the demands of international customers. The economies of scales and high production efficiency steam from their production abilities further reduce the costs and therefore the prices. All these factors come from their business model enable the OEM production for international customers. Without worrying the sales channels problems, anti-dumping problems and anti-trust problems, the internationalization of them are so fast and successful. These specific Born Global’s international networks provided the internationalized purchasing, production, sales, R&D and financing. These facilitate their internationalizations.

Problems of these Specific Chinese Manufacturing Born Globals’ Business Model
1. It is necessary for these specific Chinese manufacturing Born Globals to take careful consideration before they decide to involve in OEM productions or not. Though this kind of production could bring the fast internationalization and profits or even more job opportunities. However, the potential risk is that these companies may sacrifice their brands. Later, when they want to develop their own brands, the conflicts of interests will make their former OEM customers to hinder their development.

2. The low profit margin is big problem to these specific Chinese manufacturing Born Globals. The low price strategies will not work so well in the future due to the changes of customer preferences. The OEM production profit will become lower and lower due to the increasing production cost in China and the rising RMB exchange rate. The only way to solve this problem is increase the added value of products through for example developing own brands in international markets, shifting focus to high-end market segments and taking sales from agents, establish channels themselves.

3. The poor sustainability is another problem. Low price could not support long-term development of companies. What’s worse is that e. It is necessary for these Born Globals to find new sources of their sustainability. From the famous long-life manufacturing companies’ cases, we can find either they have very famous brands built in a really long time or they have the continued innovation culture and ability to make them stay in the cutting edge. It also points out the way for these specific Chinese manufacturing Born Globals to change the situation.

4. Our case company is a Chinese manufacturing Born Global company but it is also a family company at the same time. The problem we find here is that the strategies or even the business models under the two generations of leaders are different or we can say conflicts in the aspects of products diversification, market segment renewal, financing and sales channels. These aspects connected with the customer segment, value network, revenue model and cost structure directly. The same problems may also exist in other Chinese manufacturing Born Globals who change leaders. How to deal with the potential risks during the business model change is the question that these Born Globals need to think about.
6.2 Implications

Theoretical Implications
1. Our research about the these specific Chinese manufacturing Born Globals reduces the insulation between the Born Global theories and traditional “Uppsala Internationalization” theories. The primary and low-level combination of these two theories in our research provides a new view to do the research about Born Globals.

2. After analyzing the success factors of these specific Chinese manufacturing Born Globals, we find there is no difference with Western Born Globals’ success factors. It conflicts with the relevant research of Huang and Zeng (2011) who stated that the Chinese manufacturing Born Globals lack the innovation culture and entrepreneur’s personal network plays an important role in the internationalization. The conflicts deliver the information that the types of Chinese manufacturing Born Globals are various and the success factors may depends on the different industries they involved in. As a result, the later research should not only focus on one specific industry of Chinese manufacturing Born Globals but need to expand the research area to get more comprehensive understandings.

3. When we use the definition of Born Global to find the appropriate case companies, we find many Chinese international companies can be seen as Born Globals and many of them get involved in OEM production. It is the main reason of their fast internationalization. It is actually against the original meaning of Born Globals in our standing. The core character of Born Global is that it relies on something special for example good business idea, novel or niche products, high technology to achieve fast internationalization. However, when we look at these specific Chinese manufacturing Born Globals, without OEM production, it is difficult for them to have these abilities. We can’t say they are exactly the company types that the definition describes. Since the definition of Born Global has been created for almost 40 years, the business environment is changing all the time and enterprises types are increasing, it is necessary to look at the definition again.

4. Based on the abundant literature review, the business model components we concluded developed the business model theory. There are various business model components according to the different scholars. However, there are many components actually have the same meaning but with different concepts and some concepts have overlaps. Our summarizing job narrows down the scope of the business model components so that facilitates the later research in this area. In addition, we also developed some specific components such as value proposition and channel. We consider the value propositions are not only delivered by company to its customers but also happen between company and its value network. Similarly, channel is also required when company and value network exchange the value proposition and information. This change makes the theories more close to business practice.
5. More importantly, we established a complete business model framework which includes all the components we concluded. In this framework, we took the advantages from both Hamel (2000) and Osterwalder and Pigneur’s (2010) research. It not only divides the different components into different groups but also emphasizes the path how they interact with each other in different frames to get a complete overview of a company’s business model. In addition, we also take the influence from external environment into consideration. It could be contribution to this research area and provide a new view of the structure of business model framework and how to use it.

Managerial Implications

1. Firstly, we think the business model framework we build based on our case study can also be applied in many other companies who located in different industries. We consider the many basic components of many business model are quite similar: every business has its customers; every business has its core process to create value and deliver the value proposition to its customers through channels; every business model has its core competence which comes from the possessing and utilizing of its strategic resources; every business has its own organizational structure no matter big or small scale. The differences exist in the aspects such as: for manufacturing companies have suppliers, partners or only suppliers while for some service companies they may only have partners; the manufacturing companies separate the value creation and value deliver processes while service companies conduct the value creation and value deliver at the same time; manufacturing companies mainly spend cost on production while the cost of sales company may mainly happen in sales; some companies may have different customer segments while others only focus on some specific customers. The point of us here is that we provide a complete business model framework. When companies apply this model on their business, they need to think about: what components in the model they can use in business, what is the specific content of every component, what are the specific ways these components interact with each other and so on. Different business should use this business model framework in different ways.

2. As we mentioned a little bit in the conclusion part, when Chinese manufacturing companies aim to go abroad, they should clear what path they are going to take. If the companies choose to go abroad with their own brands, then maybe the process is a little difficult. They will probably face to the problems such as the lack of sales channels, brand awareness, market information and anti-dumping sue. In other word, it is more risky and the profit is not obvious in a short term. If they choose OEM production, they don’t need to worry about these problems and easily to enter international market with fast profit income. However, compared to the first path, they will lose the added value from brands and only take small part profit in the whole industry chain. What’s worse is that when they want to develop their own brands later, they will get not only the problems we mentioned above but also the conflicts with their former OEM customers.

3. If these specific Chinese manufacturing companies want to compete in international markets in the future, they should realize the key is not the production ability but the innovation ability. There are always some areas have lower cost and higher efficiency worker so that the production ability competence
is easily to copy. Only the innovation ability is difficult to be imitated. The trend is that the low-end manufacturing is having smaller and smaller space in China and the middle or high-end manufacturing is rising. During this transfer, the innovation ability as well as the labor force quality plays an important role. As a result, these specific Chinese manufacturing companies should pay more attention to the innovation.

1. In some terms, as a Chinese manufacturing company has such production ability and cost control ability, G actually represents the ceiling of these specific Chinese manufacturing industries. Nowadays, it meets the problems such as the lost brand value and profits due to the OEM productions, the poor profitability and long-term sustainability. In order to avoid the same problems as G has, other start-up manufacturing companies in China should choose appropriate strategies for domestic and international businesses carefully.

2. In the early days, when a manufacturing company is weak and without enough resources, choosing to rely on agents channels is an efficient way to reach the markets. However, when the manufacturing company grows into the leader with big market share and stays in cutting edge in the industry, it could think about to establishes its own sales channel to gain more profit margin. The action will definitely get against from agents so that it should take a moderate way for example starts with setting joint venture sales company with its former agent like G does.

3. When the market demands, domestic and international macroeconomic environments change, the companies should have fast respond to these changes and adjust their business model to adapt to these. Furthermore, due to the great influences from the Chinese government, companies should follow the policies of the government, should take advantages of the preferential policies and at the same time to increase its independency to adapt to the policy changes.

6.3 Limitation and Further Research

The first limitation of our research is the research method. In order to get detail and deep information of case company, we choose the qualitative research strategy. However, as we said in the conclusion part, there are various kinds of Chinese manufacturing Born Globals allocate in different industries in China. If we only choose one or two to have qualitative case studies, then the conclusion we get is not enough to explain all the Chinese manufacturing Born Globals’ business models. In addition, we use a lot of secondary data from the books, newspaper report or case studies about our case company. However, the secondary data may be not so reliable because these data may generate with some purposes for example propagating company G. Secondly, though we mentioned the business model of our case company changed a little bit and the relevant problems come from the change of leaders, we didn’t give out detail description of how the business model changed and the logic behind the change.

Based on the limitations, in the future, the research in this area could have some
changes in methodology. In order to embrace more different types Chinese manufacturing Born Globals in different industries into the research, the quantitative research strategy could be used. Then the conclusion gained from the research is more general. However, we also consider it is a little difficult to apply quantitative research strategy on the topic “business model” which requires very deep understandings of every aspect of a business. As a result, we can also change the way of gathering data to use more primary data through for example interviews and surveys.

About the research contents, since we think there are some problems of these specific Chinese manufacturing Born Globals’ business model and it needs to be changed a little bit, the future research could focus on this. The research should be in more detail to illustrate for example what strategic resources and core competences are need, how to get them, how to use them to create what values to customers, what’s the influence to core process and organizational structure or management, how to change its revenue model or cost structure and what’s the influence to its value network. In addition, we also find some other types of Chinese manufacturing Born Globals who go abroad directly with its own brands. After some attempts and overcoming some problems, finally these companies achieved successful internationalizations. It will be a good research if we compare these two Chinese manufacturing Born Globals business model and its internationalization to see which business model is better for facilitate the internationalization and which business model has better profitability and sustainability.
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[Accessed 12 March 2012]


International Business Studies. 38, P. 673-690.


Appendix I

The Questionnaire of Chinese Born Globals’ Internationalization

Dear Mr. / Miss,

We are doing the research on Chinese Born Global companies’ business model. During the research, we need to know the internationalization process and success factors of your companies. The information you provide is crucial to us. You can answer the questionnaire anonymously and we promise keep secret of your answers and only use it for academic research. Please fill it seriously. Thank you very much for your help and support.

Halmstad University    Strategic Management and Leadership
Huang Hanjun and Shenran

Please choose the number of the options or write down your answer after the questions:

Company Introduction:
1. What’s name of your company?

2. When was your company established? What industry you focus on?

3. Your company is (   )
   A. Private enterprise               B. Township enterprise
   B. State-owned enterprise           D. other

4. What’s the ownership structure of your company? (   )
   A. Domestic enterprise                     B. Foreign enterprise
   B. Joint Venture of Chinese and foreign capital  D. Others

5. Please briefly introduce the operation scale of your company (contains the amount of employees, the productivity and sales of recent years)

6. Where your company locates?

7. Are there many similar companies in the same area?
   A. Yes     B. No     C. Not so many

General Information of Internationalization:
1. When did you start internationalization (or export)? How long after the establishment of company?

2. The overseas sales account for how many percent of the total sales in three years after the establishment of company? (   )
   A. Under 25%  B. 25%-50%  C. 50%-100%  D. 100%

3. What are the motives of your internationalization or export? (   ) 3 options
   A. Our products have specific function or the price is very high so the domestic demand is inadequate.
B. Due to the quality or price, the market demand from foreign markets is great.
C. Surplus of similar products in domestic market, the competition is very fierce
D. Getting more information, advanced technology and capital through international market.
E. The export product has more profit than the products sold at domestic market
F. Seeking the international opportunities as soon as possible

4. Can you tell 3-5 of your export target markets?

Internationalization Process:
1. About the international vision (    )
   A. Our company had international vision at the beginning of the establishment and started our export business very fast.
   B. At the beginning of our establishment, we do not have very clear international vision, but because of some chances and then start internationalization
   C. Other reasons

2. Do you follow the order “close to far” when you choose the target markets?
   A. Yes      B. No
   If you choose “Yes”, can you introduce the general order of your export countries?

3. What is the initial channel you used to enter the international market?
   A. Through the representatives or agents
   B. Export by yourself directly
   C. Others

4. What’s the brand strategy of your company?
   A. OEM brand export
   B. Export the products with your own brand
   C. From OEM to export your own brand
   D. Others

5. Please pick the follow options and then order them to describe your company’s internationalization process (    )
   A. Only focus on domestic market, never think about go abroad
   B. Start irregular export to close countries
   C. Start irregular export to some countries without considering the geographic location
   D. Treat international markets as target at the beginning
   E. Start large scale export business
   F. Enter international markets through independent representatives or agents
   G. Establish your own overseas sales team, develop the sales channels yourself
   H. Establish abroad office or subsidiaries
   I. Establish abroad manufacturing base

6. What’s the main reason you choose the internationalization process above? (   )
   3 options
   A. The lack of international resources such as sales channels
   B. Inadequate capital
   C. The lack of international market information and knowledge
D. The strategic choices of entrepreneur
E. Others

7. What’s your basic opinion of internationalization process? (   )
   A. Internationalization is a long and slow process, it is based on the accumulation of international market knowledge and can follow some certain model
   B. If possess some specific resources such as the necessary resources, internationalization can be achieved rapidly, and there is no fixed model to follow.
   C. Others

Success Factors of Internationalization:
Entrepreneurial Perspective:
1. What’s your education background? (   )
   A. High school
   B. Vocational school
   C. Bachelor degree
   D. Master degree
   E. Others

2. Please describe the average education background of your management team (   )
   A. High school
   B. Vocational school
   C. Bachelor degree
   D. Master degree
   E. Others

3. Please describe your English level (   )
   A. Very good
   B. Normal
   C. Basic
   D. None
   E. Other foreign languages

4. Is your major related to your job now? (   )
   A. Yes     B. No

5. Do you have working experience related to the present industry or job? (   )
   A. Yes     B. No
   If you choose “Yes”, please describe it briefly

6. Do you have any international experience or international business background as follow? (   ) Multiple choices
   A. Studied abroad
   B. Working experience in foreign capital or joint venture company
   C. Others
   D. None

7. Do you have what kind of international knowledge? (   ) Multiple choices
   A. Exploit the international business relationship
B. Negotiate with the international business partners  
C. International financial knowledge for example the exchange rate  
D. International business language for example English  
E. Others  
F. None  

8. Does your entrepreneur have international vision? (  )  
A. Yes  
B. No  

Notes: Entrepreneur’s international vision means the entrepreneur see the international market as target market, and combine all kinds of resources to compete in international market. Furthermore, the entrepreneur has high sensitivity of identifying international businesses opportunities.

9. What entrepreneurial spirits does your entrepreneur have? (  ) Multiple choices  
A. Desire to be success  
B. Aggressive  
C. Be brave to take risk  
D. Be good at identifying market opportunities  
E. Be brave to overcome the difficulties  
F. Others

10. What kinds of capabilities does your entrepreneur possess? (  ) Multiple choices  
A. Innovative ability  
B. The ability to undertake risk  
C. The ability to identify and exploit the market opportunities  
D. The ability to adapt to the continue changing market environment  
E. The ability to integrate all kinds of resources  
F. The ability of organizing, communication and coordination  
G. Others

Organizational Perspective:  
1. Do you think the capital structure or financial condition affect the degree and speed of your internationalization process? (  )  
A. Yes  
B. No

2. Is innovation one of your corporate cultures? (  )  
A. Yes  
B. No

3. If you have innovation corporate cultures, in what aspects it can be showed? (  ) Multiple choices  
A. The innovation of products or service  
B. The innovation of organizational management  
C. The innovation of sales channels  
D. Others

4. If you have innovation corporate culture, what are the origins of this innovation culture? (  ) Multiple choices  
A. The internal knowledge accumulation (have your own innovation team)  
B. Imitate other companies’ innovation  
C. Get the external support (such as the research institutions or universities)  
D. Others
5. What kinds of unique resources do you possess? (  ) Multiple choices
   A. The advanced technology in this industry
   B. Adequate capital
   C. Special sales channels
   D. Special network of entrepreneur or enterprise
   E. Good reputation
   F. Outstanding entrepreneur

6. Can you describe the competitive advantages and feedback from international market of your products briefly?

7. Does your company have any international business partner?
   A. Yes       B. No

8. If you have, what international business partners are they? (  ) Multiple choices
   A. International investors
   B. Foreign material or components suppliers
   C. Foreign sales representatives or distributors
   D. Others

9. If you have, what’s the influence of these international business partners on your internationalization? (  ) Multiple choices
   A. Help you to get necessary overseas resources
   B. Share the international market information
   C. Get more international market knowledge or experience
   D. Reduce the risk of entering international markets
   E. Others

10. What’s your international competitive strategy? (  ) Multiple choices
    A. Low-cost strategy
    B. Product diversification strategy
    C. Products with high additional value because of high technology
    D. Special design or good quality of products
    E. Value chain strategy, low price and good quality
    F. Others

11. What’s your market entry strategy when enter a new international market? (  )
    A. Low-resource-requirement model (through representatives, agents or distributors)
    B. High-resources-requirement model (establish overseas sales team, office or subsidiaries)
    C. Others

External Environment Perspective:
1. How is the international level of your industry? (  )
   A. Very high   B. Normal   C. Low
   Note: the industry’s international level means the technology upgrade speed of the whole industry, the spread speed of information or technology among the industry, have international industry chain or not.

2. Is the competition of your industry fierce? (  )
3. Is your company located in industry cluster? (    )
   A. Yes    B. No
   Note: The industry cluster means some connected firms or other support institutions which located in a certain area from geographic perspective. Because of commonalities or complementarities, they combined together and then formulate the common competitive advantages. The institutions contain the similar firms, or material suppliers, distributors and some government institutions and banks, industry association.

4. If you are in industry cluster, what institutions are concluded in the cluster? (   )
   Multiple choices
   A. Similar companies
   B. Suppliers of raw materials or components
   C. Downstream distributors
   D. Government support departments
   E. Commercial banks
   F. Industry associations
   G. Others

5. If you are in industry cluster, what influence these institutions on your internationalization? (    )
   Multiple choices
   A. Rich information of industry help you know more about the industry trends
   B. More easily to get technology and communicate with other firms about technology
   C. More easily to get business opportunities
   D. Formulate the network between firms and in some terms share the resources
   E. Human resource flows in the industry cluster
   F. More easily to get financial support
   G. The government provides good infrastructures such as power supply, roads, Internet network and financial service.
   H. The government provides some capital and information for your internationalization
   I. The industry associations promote the internationalization

6. Have you got the support of government’s policies for example export tax rebate during your internationalization? (    )
   A. Yes    B. No
   If you choose “Yes”, can you describe it briefly?

7. Have the local government launched the exhibitions or advertisements for your industry?
   Yes    B. No
Appendix II

Interview Guide of G’s Internationalization (Extra Questions)

1. When did G start to entry the international market?

2. According to the secondary data, G got the first order from France in 1997, how did G get it? Was the exportation amount of that year accounted for at least or more than 25% of your whole production?

3. The products with G’s own brand target to the low or high-end international market?

4. What is the proportion of G’s exported products with OEM brands and own brand?

5. What is the main task of G’s overseas branches and offices?

6. How does G get OEM orders usually?

7. According to the secondary data, G shifts some production to India. Is it G’s branch company or G just gives the OEM orders to some local Indian companies? Since the production cost in India is lower than in China, does G meet the competition from Indian household appliance manufacturers in OEM production?
Appendix III

Interview Guide of Chinese Born Global’s Business Model

Dear Mr. /Miss,

This is our interview guide for the research “Business Model of Chinese Manufacturing Born Global Company”. We divide the interview questions into different segments according to the business model components. In the interview, we mainly want to know how these business model components work and interact with each other therefore bring fast and great success in the internationalization process of your company. The information you provide is very important for our research. We promise the content of interview conversation will be strictly confidential. Thank you for your participation and support of our research.

Customer Interface

1. Customer Segment
   a. What are the customer segments of your company? How to divide them?
      (Final customer, B2B customer, Local customer, Overseas customer, OEM customer, ODM customer, microwave customer, air conditioner customer, Small household appliance customer)

2. Customer Relationship
   a. What kind of customer relationship your company aims to build?
   b. How you establish and maintain the relationships with customers?
   c. Whether the different customers require various customer relationships? Can you give an example?
   d. Does the sales department take the responsibilities of establishing and maintaining customer relationships or there is another independent department (for example public relationship department) takes this job?
   e. Do the customer relationships with foreign customers differ from that with local customers? If it is, can you give an example?

Company Interface

1. Core Competence
   a. What is the core competence of your company? What is the core competence in the international market?
      (Production ability, Low cost, Good product quality, Innovation ability, Entrepreneurial ability, Organizational learning ability, Fast response to market demand, Ability of integrating resources, marketing ability, strategic management ability)
   b. In what products the core competence of your company could be represented? How the core competence works in your products diversification strategy?
c. Compare to the competitors (both domestic and abroad), what is your competitive advantages? Is your core competence hard to be imitated?

d. Does your company have the sustained profitability? If it has, what is source of this ability?

2. Strategic Resources
a. What kind of strategic resource does your company have? What strategic resources does your company have in international market? (Infrastructure such as equipment and production line, Adequate funding, Human resource such as entrepreneur’s talent, talent R&D researchers, skilled sales staff, Invisible assets such as brand value and patents)

b. Are these strategic resources used to exploit new industrial setting (from microwave to air conditioner and small household appliances)? How you use strategic resources to implement the product diversification strategy?

c. What strategic resources among them are more important during the internationalization process of your company?

3. Core Process
a. What production and business activities are included in the core process of your company? (Budgeting, Personnel training, Product R&D, Material procurement, Production, Sales, Logistic and transport, After-sales service, daily production management)

b. Among these core processes, what are more important to the value creation of your company?

c. What are the core processes which also happen abroad?

d. Among these core processes, what you choose do it yourself and what you choose to outsourcing?

e. In order to improve the production and management efficiency, have you had any reform of the management activities? Can you give an example?

4. Organizational Structure
a. Can you introduce the organizational layout of your company? (For example the domestic and foreign subsidiaries, branches and offices which belong to the group)

b. Can you introduce the management layout of your company?

c. Is the organizational structure of your company more horizontal or more hierarchy? Is the decision making mechanism from top to bottom?

d. Do the company’s strategic resources, strategies or external environment affect the organizational structure of the company? Can you give an example?
e. Do your subsidiaries, branches or offices abroad recruit the local employees? If they do, what’s the influence of it?

5. Revenue Model
   a. Among all the products, which one has the highest profit margin?
   
   b. What percent of the oversea sales accounts for the total sales?
   
   c. Can you explain how can you company still keep continued profitability and expansion under the low prices strategy?
   
   d. Besides the expanded market share brought by low price strategy, is there any negative influence on your company because of that strategy?

6. Cost Structure
   a. Which activity in the whole business process cost the most?
   
   b. Does the production of your company reach the economies of scale?
   
   c. How do you reduce your cost in both production and management activities?

Value Proposition and Deliver between Company and Customers
   1. Value Proposition
      a. What kinds of value propositions do you company provide the different customer segments? (What products, service or value-added service you provide customers or what problems you help customers to solve) Among these value propositions, whether the value proposition to the foreign customers is different from that to the domestic customers?

      b. What is the competitive advantage of your value proposition that your competitors can’t provide?

   2. Channel
      a. Through what channels, you get the current customer resources? Whether the different customers you get through different channels? Is the channel reaches foreign customers different from that reaches local customers?

      b. How you deliver the value proposition to your customers through the channel? Whether the value propositions to different customers you deliver through different channels?

      c. Through what channels, you deliver for example the production information to your customers and you exchange the information with your customers?

Value Network Interface
   1. Supplier
      a. What kind of suppliers do you have? Are there any foreign suppliers?
b. What is the standard when you choose suppliers?

c. Do you have strong bargaining power to suppliers? What is the source of this bargaining power?

d. Whether the suppliers or the management of suppliers brings you the competitive advantage? If it is, can you explain it?

e. Do you have any strategic agreement with the suppliers to reach the win-win situation?

2. Partner
a. What kind of partners does your company have? (for example from the R&D, production and sales perspectives) What kind of foreign partners does your company have?

b. Can you give two examples (domestic and abroad) to describe how does your company use the resources of partners or the relationships with partners to increase its competence?

c. During the collaboration with partners, does your company meet any difficulty or problem? Can you give an example?

3. Coalition
a. As one of the leader of white household appliance industry, does your company join any coalition? If it does, what kind of coalition it joins?

b. What’s the influence of the coalition on protecting the position of your company in the industry?

Value Exchange between Company and Value Network
1. Value Proposition
a. What value propositions do your suppliers provide your company? (high quality or low price materials) What value proposition does your company provide its suppliers?

b. What value propositions do the partners provide your company? Can you give some examples? (for example the valuable research resources, strong distribution networks or influential brand marketing) What value proposition does your company provide its partners? Can you give some examples?

c. What value proposition does the coalition provides to your company? What is the contribution of your company to the coalition?

2. Channel
a. How do you find these suppliers? Especially the foreign suppliers if you have.

b. Through what channel do you find the partners especially the foreign partners if
you have? Can you give an example?

External Environment
a. Did the political and economic environment affect the establishment, transformation (from clothing company to household appliance company) and restructuring (from collective company to private company) of your company? If it did, can you explain a little bit?

b. In the internationalization process of your company, besides the tax rebate policy, have you gotten any policies support from government? Can you give some examples?

c. Have you met some trade barriers such as the technology, quality or environment issue barriers when you enter international markets? What were the effects of trade barriers on your internationalization? How did you deal with these barriers?

d. Does the technology of your industry updates very fast? If it does, what is the influence on your company? How do you deal with the technology update?
Appendix IV

Interview Guide of Chinese Born Global’s Business Model (Extra Questions)

1. G is famous for productivity with three shifts of production lines. So do the bottom employees have high working pressure? And how about the welfare of them, which is compared with other companies?

2. G sets up the sales corporation in China, and there are 44 wholly-owned subsidiaries, 8 subsidiaries which have the joint venture with distributors. So what is the main business of these sales corporations? And does G have the intention to build its own sales network?

3. G sets up the sales corporation in China, and there are 44 wholly-owned subsidiaries, 8 subsidiaries which have the joint venture with distributors. So what is the main business of these sales corporations? And does G have the intention to build its own sales network?

4. According to the data, G had a strategic recombination around the year 2005 or 2006. Do you think this caused G losing some talented person?

5. In your opinion, are there some quite obvious problems about G’s management?

6. G is good at price war. However, the current situation is not allowed general price war, such as the higher cost of materials and human resources, consumers’ lower sensitivity of white appliances. Under these circumstances, how can G’s medium & high end product win?

7. Does G build up the price alliance with other white appliances corporations to establish an industry barrier?

8. Do you think G’s microwave has already reached the top (including techniques and also markets)? Is there any space to advance? And why does G satisfy with OEM, instead of building its own brand? Additionally, do you think it is necessary for Galanz to increase the investment on building brand?

9. Does G transfer to produce the air conditioner and also small household appliances because of encountering the bottleneck of microwave, such as low profit and saturation of microwave market, or just because of G’s strategy of multiplication?

10. Where is the profit space of G’s air conditioner? And where is the problem? How to deal with this aspect in the future?
Appendix V

**Interview Guide of G’s Business to Business Customer**

1. What kind of company do you work in and what is your position?
2. How did you start B2B business with G, did you find G or G find you?
3. Why do you choose G as your products supplier?
4. How long have you had business with G?
5. What do you think yours business relationship with G?
6. What do you think G’s customer relationship maintenance?
7. What products do you buy from G?
8. What do you think of G’s products? (includes the quality, design, technology)
9. How is the feedback from your customers of G’s products?
10. What advantages do you thin G has compared to its competitors?
11. How do you think G’s products diversification strategy?
12. What is the problem do you think G has in their products, sales or management?