Successful Entry Strategies on the Chinese Market

-A Case Study of a Swedish Industrial Company: SKF

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ACKNOWLEDGMENT

We would like to convey our deepest gratitude to all the people who helped us to accomplish the dissertation. Especially to our Professor Svante Andersson who gave the valuable advises and supports to our work.

In addition, we shall extend our thanks to the product manager of SKF, Goran Berg and Dan David Jiang. Without their kindness and enthusiastic help, we cannot finish our dissertation.

Last but not least, we would like to thank our oppositions and their constructive and supportive feedback provided tremendous help.

A great thank to Halmstad University, our classmates and families for being supportive.

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21, MAY 2013
ABSTRACT

Nowadays, the Chinese market is attracting more and more attention from foreign countries, which consider China as a potential partner. Making feasible decisions is the foundation of accessing success in the Chinese markets. Thus, it is important to take the first step as choosing the entry strategies, and then analyzing the variety of social environment and economic circumstance. According to different situations, companies are required to prepare alternative strategies for the changeable markets.

This is a case study of a Swedish industrial company- SKF, which entered into the Chinese market successfully. The purpose of this study is to analyze the strategies that SKF used during the process of entering the Chinese market, and find out the successful factors as well as the cause of failure. Our case study is aimed to provide an answer to the research questions and generate imitable entry strategies for western industrial companies who want to explore in the Chinese market.

Our research questions are: Q1: What strategies have adopted by SKF and how these strategies worked out to enter into the Chinese market? Q2: What are the successful factors of industrial companies to enter the Chinese market?

Two experienced product managers are invited to be the interviewee of our thesis. The collected data provided both Swedish and Chinese perspectives, which reflect the eastern western culture differences and concept differences.

The results show that SKF made the acquaintance with big customers through distributors, which built up the customers’ network and company’s foundation at the early age of the expansion. However, failing experience of joint venture gave a lesson to SKF and encouraged SKF to work with independent consultant firms, which occurred to be an alternative solution to replace the position of joint venture. Although there are different perspectives from Swedish side and Chinese side, the successful factors have been concluded as unique products, marketing demands, communication and customers.

The implication of this case study is to provide the strategies that contribute SKF to be the leaders in bearing industry, which is worth to be learned and imitated by other similar industrial companies.

Keywords: SKF, Entry strategy, Successful factor, Chinese market, Different perspective
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1 Introduction

The introduction chapter begins with presenting the background of the subject and previous comments, followed by then the authors discussing problems and the purpose of this study. Finally, the research questions will be presented. The limitations will be presented at the end of this chapter.

1.1 Background

With the globalization of economic development, the worldwide cooperation is playing a more and more significant role in the world economy. Some enterprises with a long-term vision have already recognized that domestic market will inevitably become saturated and on the long run the market will be penetrated. In order to form the scales of economies and make more profits, the companies with strong expending power and abundant resources start to explore international markets.

International marketing can be classified as one term of the different levels of marketing. According to Doole and Lowe (2001), marketing is composed of domestic marketing, international marketing and global marketing. Similarly, it can also be divided into a domestic market, a foreign market and a global market. It is indicated that common crossovers are shared by international, foreign and global marketing. However the study becomes comparative from the perspective of domestic and international marketing. At the complex level of explanation, international marketing includes the coordination strategies across the globe and oversea establishments, which present the enterprise’s decisions across national boundaries (Doole, Lowe, 2001).

Among various international markets, the Chinese market has been chosen to be the focus of this case study. Currently, it is widely agreed that China has the fastest growth of consumption and the development. The previous researches revealed that the Chinese market is anticipated to transcend others and become the world’s third biggest manufacturer, just follow the United States and Japan tightly. According to new research published by AMI, the growth rate of the Chinese market has been in excess of 20% per year over the last decades (Zhang, 2007). Schiffer (2005) confirmed that the Chinese market is essentially huge and attractive even to Europe. With the trend of developing overseas, European companies will put more efforts to help Chinese manufacturers that store up their power to export and distribute their products in a more efficient way.

Nowadays, the Chinese power generation industry wants to build up their own industrial base through license agreements, technology transfers, joint venture cooperation and European manufacturers. Among the European countries, Germany
and Sweden have a long history of building up a solid foundation of industrial companies as well as exploring the foreign markets for the internationalization. Most industrial companies have developed for a long time to become mature and international. And then they are confident to maintain the high level of growth based on strong management and association with leading international traders (Clancy, 2002).

In numerous studies, when and how to enter the market is one of the critical decisions that usually made by multinational enterprises and business managers. Due to the expansion of marketing, the companies’ performance and decisions will be strongly influenced by market entry barriers, such as government policy, legal and financial system, cultures, languages, distances, distribution channels, currency exchange rates and their vagaries (Czinkota, 1996). The barriers to entry new market have been considered as one of the key factors, which have an impact on the market entry decision (Karakaya and Stahl, 1989). Therefore, formulating feasible market entry strategies can efficiently enhance the validity of decision and the rate of success.

Researches on marketing entry strategy have received a large amount of attention. According to Bishop and Jacqui (2006), research in this area can generally be grouped into three categories: indirect exporting, direct exporting and direct investment. They regarded direct investment as the most expensive form of entry while indirect exporting as the cheapest strategy.

Anonymous (1991) studied in the area of export strategy and he recognized that to plan a successful strategy, meeting the needs of target market and satisfying the expectations of target customers is essentially necessary. To be more specific, market entry strategies that fit in the new export markets from surface level to deep penetration can be involved as finding cooperating partners, listing of potential candidates, selecting the best one, generating formal agreement with selected distributors and finally motivating the distributor. Yong, Hamill, Wheeler and Davies (1989) illustrated the market entry in a wider range, including exporting, licensing, franchising, management contract, turnkey contract, contact manufacturing, international subcontracting, industrial co-operation agreement, contractual joint venture, equity joint ventures and wholly owned subsidiaries. In 2004, Onkvisit and Shaw reconstructed the strategy concepts and supplied company acquisition and strategic alliances under the categories.

Although previous literature clarified entry strategies in different ways, the main contents are similar with each other. Therefore, under the basic categories, exporting, strategic alliance, joint venture, and wholly owned subsidiary are the most common and regular entry strategies into international markets, which have been chosen as the focus of this study.
Finally, from the perspective of the impact on market entry strategies, existing literature has focused on the characteristic of target companies, especially its capabilities and resources (Barney, 1991; Anand and Delios, 2002; Meyer, Estrin, Bhaumik and Peng, 2009). Moreover, Spulber and Daniel (2003) mentioned that one of the key strategic aspects of entry is the requirement of making irreversible investments in establishing new operations that is known as sunk costs, including previous research cost, production facility cost and marketing cost.

### 1.2 Problem Discussion

Since the financial meltdown happened in 2008, the current economic downturn has changed the structures of many markets and companies (Kaczor, 2009). In the last few decades, the domestic market has no longer been able to satisfy the need of powerful and ambitious companies. In this challenging time it is important to indelibly explore the potential market within global scales (Meyer & Estrin, 2001).

However, the existing entry barriers and risks became the obstacles that lead to the expansion failures. While monopoly and government restrictions are barriers to the establishment of new companies, transit and trade tariffs are the main barriers to the expansion of existing companies into new markets (McAfee, et al., 2003). The investment into the international markets is non-refundable and once it became the sunk costs, firms have nothing to do with the missing capital. Although making huge profits by occupying Chinese markets have enormous attraction to companies, most of them still hesitate because of the fear of strategy failure. As is well known that high risks always follow with high profits, and huge culture differences and geography distance brings uncertainty factors to the European industrial companies. In order to reduce the entry risks at the lowest level, firms are eager to search for the most viable and suitable market entry strategies before taking actions.

### 1.3 Purpose

The purpose of this research is to investigate the impact of market entry strategy on the establishing and entering the Chinese market within industrial companies. This study is expected to test entry strategies among exporting, strategic alliances, joint ventures, and wholly owned subsidiary to generate the successful factors when entering the Chinese market. This research can be a reference for industrial companies, which have the strength and willingness to expand in foreign markets.
1.4 Research Questions

Accordingly, our proposed research questions are as follows:

Q1: How does industrial companies’ entry strategy worked out to enter into the Chinese market?

Q2: What are the successful factors of industrial companies to enter the Chinese market?

1.5 Delimitations

There is no ideal market entry strategy or entry mode that might applicable for different firms. Even the strategies adopted by the same firm entering different markets and at the same market but by different firms are quiet various (Doole, Lowe, 2001). Therefore, the strategy the authors generated can only be presented in as general entry strategy to developed industrial companies.

Furthermore, the case study about entry strategies proved the famous Uppsala Model through using traditional distributors and gradually moves to using more intensive and demanding operation modes like manufactories and sales subsidiaries (Edward, 2003). However, the model is limited as it reflects the entry process among companies in similar countries, while this study focused on China and Sweden. Thus the model will not fully suit for this case.
2. Theories

In this chapter, the authors start by presenting the concepts about different entry decisions and the importance of making the markets entry decisions, and then outline the non-tariff barriers in international markets. This is followed by a discussion about different entry strategies, statement of the distributors, joint ventures, and a foreign direct investment in different situations. Finally, the authors discussed how the Uppsala Model utilized in the first stage of entering foreign markets.

2.1 Introduction

Research on international marketing strategy, the specific attributes of the strategic development during the firms into international markets, which is the firm transfers products and services, packages of tangible and intangible assets or resources, across national boundaries, entering into internationalization (Bradley, 1998). During the business process, strategy is the king of the world, especially when the companies have considerable willingness to enter target market (Bradley, 1998). In order to survive in the daedal environment, companies must alter different elastic international marketing strategies to achieve the goal of companies’ internationalization (Bradley, 1998).

2.2 The Importance of the Market Entry Decision

For most companies, the significant marketing decision they are required to solve is how they enter new markets, which will affect every aspect of their business for many years ahead (Doole & Lowe, 2004). Douglas and Craig (1997) noted that it shows the firms’ intention to key competitors and determines the basis of future battles (Douglas & Craig, 1997; Doole & Lowe, 2004).

Explorations of internationalization, which is consist of the perspectives of market-seeking sales activity, offshore sourcing production activity, and development of international network of business activity (Robert, Shannon & Cecilio, 2013).

To a great extent, companies’ decisions about entry strategies was impacted by firm’s targets and attitudes according to target market, and firms have confidence in the capability of the managers to face the problems in foreign markets (Doole & Lowe, 2004). Kwon and Konopa presented in 1993 that the risk, cost, control and return could be different advantages and disadvantages in each foreign market entry modes during long-term process (Kwon and Konopa, 1993; Chung & Enderwick, 2001). Agarwal and Ramaswami (1992) said, the most common enter modes that has been used among various firms are agent, distributor, joint venture and foreign direct
The perspectives of company strategic choices came from economic arguments, which showed that firms prefer organizational alliances between the different companies to increase competitive strength and market acquisitiveness. However, firms adjusted relationship of inter-organizational using lots of strategic reasons, which include short-term efficiency or resource-based rationales or any number of other factors (Kogut, 1988; Jarillo, 1989; Shan, 1990; Barringer & Harrison, 2000).

Regarding the difference of international markets and domestic markets, there are environmental analyses presented in Doole and Lowe’s book before company to make a decision enter into foreign markets. Doole and Lowe use the SLEPT (Social, Legal, Economic, Political and Technological) approach to examine the various aspects of international marketing. (Doole & Lowe, 2004)

![Environmental Influence on International Marketing](image)

**Figure 1. Environmental Influence on International Marketing**


After analyzing different market environment, Bradley (1998) mentioned in his book, one of the researcher Cannon (1993) proposed that here has four different sections of decision framework for foreign market entry choice: Marketing strategy, Organization, Industry and Target country (Gannon, 1993; Bradley, 1998). Decisions on international marketing channels influence the price that final users or consumers will pay. Entering into foreign markets choosing the mode is a vital part of the international marketing mix. Decisions on channels could give the company a correct way to active in different marketing mix, or at the very least enforce the tactical planning implementation of the other marketing variables (Albaum & Duerr, 2008).
2.3 Nontariff Barriers

As Onkvisit and Shaw (2004) mentioned, Marketing Barriers in International Trade, marketing barriers can be divided into two parts, one is Tariffs, and the other is Nontariff. Tariffs barriers are mentioned in tax, goods and so on. (Onkvisit & Shaw, 2004). However, during this case study, Nontariff barriers are authors’ focus on that could influence in the markets.

Nontariff barriers have become more prominent, which might have destructing impact during the international trade. There are three major categories researchers are interested in, including government participation in trade, customers and entry procedures, and product requirements (Onkvisit & Shaw, 2004). However, since this study is not about either production quality analysis or techniques analysis, so the authors focused on the government participation and customers.

Government participation in trade includes three types, which are administrative guidance, government procurement and state trading (Onkvisit & Shaw, 2004). Most governments regularly provide trade consultation to private companies. Make the company to cohere with the government’s guidance. In other words, government uses “carrot and stick” approaches via exerting the impact through “regulations, recommendations, encouragement, discouragement or prohibition” (Onkvisit & Shaw, 2004, P 63). The government procurement requires the target country to guarantee that they will provide suppliers from their country. The rule is who want to enter into the target country means that they need to provide their own suppliers (Onkvisit & Shaw, 2004). Also as Onkvisit and Shaw (2004) presented, technical specifications should not be viewed to make obstacles in international trades, the distributors and agencies must adopt descriptions in different performances rather than design and base the descriptions on international standards, or other technical standards, definitely appropriate adopt and combine is good. State trading, which is ultimately by government itself, is presenting the consumers or buyers who decide what, when, where, how, how much to buy (Onkvisit & Shaw, 2004). The commercial operation engages by state, no matter directly or indirectly, it is controlled and managed through the agencies (Onkvisit & Shaw, 2004).

2.4 Different Entry Strategies of International Markets

The rapid growth of international activities is one of the most considerable developments in business. Exporting, strategic alliances, foreign direct investment play important roles in internationalization process (Bradley, 1998). As soon as the company wants to achieve success in a long-term situation, choosing correct market entry strategy is a critical step and this decision could have an ongoing impact on the
firm’s international business performance (Anderson & Coughlan, 1987; Klein & Roth, 1990; Chung & Enderwick, 2001). Most companies choose direct exporting strategy via agents or distributors. However there are a number of options for the company to examine, according to different situations and different company targets. The companies that want to enter into the international markets could find out the suitable strategy to get significant success in different foreign markets (Taylor, 2011).

At an early age, Yip (1982) and Bradley (1998) suggested a successful foreign market entry strategy requires a superior performance on all aspects of marketing. He also presented, entering is one of the supreme tests of competitive ability, not only proving itself in the familiar markets, but also exploiting different competencies in new markets.

2.4.1 Using Distributors to Export

Exporting is one of the simplest and quickest ways to enter foreign markets, which might be the first stage when the companies into internationalization (Bradley, 1998). When the companies first step into the international markets, the lack of the resources and networking could limited the companies’ development, the simplest and lowest cost method of market entering is to have their products sold overseas by domestic intermediaries or a foreign agent (Doole & Lowe, 2004).

During the early stages of exporting, firms are more concentrated in the foreign markets, while increasing involvement in foreign markets encourage diversification to a wider range of markets (Dalli, 1994; Naidu & Prasad, 1994; Bradley, 1998). Many factors could explain these situations as firm’s resource foundation may increase with the extent of expansion (Naidu and Prasad, 1994). While diversifying minimizes risks and exploits opportunities is better than a concentrated strategy (Dalli, 1994; Bradley, 1998).

Especially in the emerging markets, exporting has rapidly growing and encouraging in these markets, such as China market. As Wirtz said, Europe is not lead of exporting businesses any more, there have many other burgeoning markets on the radar, China, South American, Asia become a larger export target, due to their dramatically development (Wirtz, 2011). Exporting plays a significant role in the company growing stage.

Doole and Lowe suggested that the determinants of export performance have not been researched so integrally as barriers, motivations and stages of internationalization (Doole & Lowe, 2004). There are some functions in contributing to successful exporting, and the firm’s exporting methods that emphasized the importance of augmenting and maintaining skills.

Direct exporting is a proactive approach to make it easier to exert more influence over
international activities, which is greater control over the selection of markets, greater control over the elements of the marketing mix, improving feedback about the performance of individual products, changing situations in individual markets and competitor activity, and exploring the opportunity to build up expertise in different international markets (Doole & Lowe, 2004). Distributors are like the mid agent of direct exporting. If the company wants to stable a more permanent long-term place in international markets, it must be more proactive (Doole & Lowe, 2004).

Distributors play significant role in the early stage of entering foreign markets, which means buying the products from the manufacturer, takes the market risk on unsold products as well as the profit. Thus, they usually anticipate a higher percentage to cover their costs and risks. Distributors usually explore exclusive rights for a specific sales district, while mostly represent the manufacturer in all aspects of sales and servicing in that area (Doole & Lowe, 2004).

Distributors are similar to agents but also need to be distinguished by agents. From the difference point of view, distributors always take the risks in purchase of the product, moreover taking responsibility for sales in markets. After-sales service is also required by distributors, the company must be considerable commitment of resources on the part of the foreign partner. From the similarity point of view, distributors know the local market structure customs and conventions. The lack of flexibility might be the significant disadvantage of distributors (Yong et al., 1989).

### 2.4.2 Strategic Alliances (Joint Venture)

*Strategic alliances* defined by Bronder and Pritzl in 1992, which in terms of at least two companies combining value chain activities for the purpose of competitive advantage (Bronder and Pritzl, 1992). After that, some researchers presented that strategic alliances are cooperative arrangements between two or more firms to improve their competitive position and performance by sharing resources (Jarillo, 1988; Hitt et al., 2000, Ireland et al., 2002)

During the economic activity, technology and globalization, strategic alliances make a significant role to changes the situation logically and timely (Doz and Hamel, 1998). Competitive alliances allow firms to earn assets, competencies, or capabilities that are not readily available in competitive factor markets, particularly specialized expertise (Oliver, 1997). Before cooperating with the partners, Bronder and Pritzl (1992) emphasized the need to consider carefully the approach adopted for the development of alliances (Bronder and Pritzl, 1992; Doole & Lowe, 2004). Hlavacek (1977) and Bradley both agree that the small companies provide products and technology while the large ones provide access to the market (Hlavacek, 1977; Bradley, 1998).

Joint venture is a company established by two or more companies. The partner company complementary for each other to get more expertise and resources use in the
joint venture. Joint ventures have to shared ownership and profit with the partner company (Doole & Lowe, 2004).

Joint venture has increased in its variety and form and has become strategic rather than tactical in nature (Harrigan, 1985; Bradley, 1998). In Root’s (1988) research, he categorized joint venture not only through core characteristics along the value-added chain but also by geographic scope and dominant mission, i.e. strategic orientation.

The major advantages of companies to choose joint ventures are they have more direct participation in the local market, and thus gain better understanding of how it works. Moreover, the other advantages are enabling the companies to finance and make profit from their activities as well as exert greater control over the operation of the joint venture (Doole & Lowe, 2004). Both Williamson and Bradley emphasized that joint venture could reduce inter-firm contracting, transactions and negotiations cost (Williamson, 1975; Bradley, 1998). After a few years Teece and Rugman (1981) supported the internalization of technological or administrative secret within a firm that minimizes the risk of dissipation of competitive advantage arising from these secrets, which is significant strengths for joint venture (Teece, 1981; Rugman, 1981; Bradley, 1998). In 1988, Contractor and Lorange (1988) found joint venture has the ability to implement technological changes in the different product, which will increase the companies to realize the internationalization (Contractor & Lorange, 1988; Bradley, 1998).

Joint ventures also have their inadequacy and limitations. When two individual organizations work together, there usually followed with bound of conflicts due to the cultural problems, dissimilative goals, marketing strategies, and weak contributions by one or the other partner. Another significant problem is the matter of control, joint ventures normally deal with double management from each organization. If one partner holds less than 50 percent ownership, they will lose the right of making decisions and also do not need to responsible for another partner. If they have 50-50 percent for each other, it is difficult to meet an agreement if any conflicts or arguments occurred because no one wants to concession (Onkvisit & Shaw, 2004).

2.4.3 Foreign Direct Investment

2.4.3.1 Wholly Owned Subsidiary

Moosa and Imad present the definition of Foreign Direct Investment in their book, “which is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country)”(Moosa & Imad A, 2002, p1).
Setting up wholly owned subsidiary is a traditional direct investment method, which offers the benefits of total incomes and full control over the foreign subsidiary (Chan, 1995). Also it is the most expensive strategy among markets entry mode like developing its own foreign subsidiary in unfamiliar markets. This strategy presents that the firm is taking a long-term development, especially if full manufacturing facilities are developed rather than simply setting up an assembly plant (Doole & Lowe, 2004).

Contractor found that transaction costs could be avoided if a firm invests in wholly owned subsidiary, therefore, wholly owned subsidiary is desired when transaction costs and international costs are high (Contractor, 1990; Chan, 1995). Transaction costs include the cost of negotiating and transferring information and capability to another firm, cost of personnel training, cost of losing the opportunity to having direct sales or getting the full amount of profit, and the threat of creating a competitor in markets beyond the purview of the agreement (Chan, 1995).

Chan (1995) mentioned in his article that Gomes-Cassers (1987) found that the stability rate of wholly owned subsidiary was higher than that of international joint ventures, which analysis based on Harvard Multinational Enterprise database. The company who uses the wholly owned subsidiary strategy enter into foreign markets tend to adapt their ownership policies and positions as they gain experience from the foreign markets.

### 2.4.3.2 Manufactories

“The manufacturing process may be employed as a strategy involving all or some manufacturing in a foreign country.” (Onkvisit & Shaw, 2004, p 254)

There are two reasons why a company wants to invest in manufacturing facilities abroad. One of reason is to take advantages of resources to benefit the company manufacturing operations. It’s more convenient to gain the raw materials from local market. Another reason is to make lower labor costs or other factors during the process of production (e.g. labor, energy, transport, and other costs). (Onkvisit & Shaw, 2004)

As long as the company interested in manufacturing abroad, they would consider a number of factors, such as product image, competition, labor cost, type of product, taxation and so on (Onkvisit & Shaw, 2004). Multinational corporations have been investing more and more overseas, especially put the Asia markets as their prime targets. Because of technology development in products and process, developing countries can successfully influence the target markets. The local plants could promote them skill from the foreign investment. (Onkvisit & Shaw, 2004)
2.5 The Uppsala Model

The Uppsala Model that is based on the process and order that several Swedish firms seemed to follow during their internationalization processes in the late sixties and seventies. The model is a theory that explains how firms gradually intensify their activities in foreign markets (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Edward, 2003). The findings suggested that if firms want to improve their existence as time passes and knowledge of the market grows, which means the firm in its internationalization processes incrementally enhances their commitment on a foreign market. Firms began extending to markets that were most similar to their domestic market (Johanson & Vahlne, 1977). These findings were contradiction with truth about internationalization at that time (Johanson & Vahlne 1977, Johanson & Vahlne, 2009). The main accomplishment of their research was that firms tend to enter a new market incrementally depending on their market knowledge.

The model has two basic aspects, one is state (market commitment, market knowledge) and other is change (Commitment decisions, current activities). Fundamental concepts of the Uppsala Model are knowledge, learning, uncertainty, risk and commitment. (Johanson & Vahlne, 2009; Daniel & Mikael, 2011)

The significant features of Uppsala model is, when firms start entering foreign markets they first gain experience from the domestic market; firms start their foreign operations from culturally and geographically similar countries and transfer step by step to culturally and geographically distant countries; firms start their foreign operations by using traditional exports and gradually move to using more intensive and demanding operation modes (sales subsidiaries etc.) both at the company and target country levels (Edward, 2003). [1] Uppsala model specifies that level of commitment may also decrease or increase if performance and prospect are not sufficiently met[1].

![Figure 2. The Uppsala Model](Source: Johanson and Vahlne, 1977; Ruzzier & Hisrich & Antonicic, 2006)
Johanson and Vahlne define commitment as the product of the size of the investment times its degree of inflexibility. However a large investment does not necessarily indicate a strong commitment, unwavering dedication to meeting the needs of customers. “Experience builds a firm’s knowledge of a market, and that body of knowledge influences decisions about the level of commitment and the activities that subsequently grow out of them: this leads to the next level of commitment, which engenders more learning still” (Figure 2). Therefore the model is dynamic (Johanson & Vahlne, 2009).

2.5.1 State Aspects

There are two state aspects in the Uppsala Model, which is market commitment and market knowledge.

2.5.1.1 Market Commitment

According to Johanson and Vahlne (1977), market commitment consists in two factors that are abundant of resources committed and the degree of commitment. The degree of commitment is higher than the resources in question, which combined with other parts of the firm and their value is received from these integrated activities. However, resources come from the home country and employed in development and production of products for an independent market also establish a commitment to that market (Johanson and Vahlne, 1977). The more specialized of resources are to the specific market that could get greater is the degree of commitment. Resources committed that could be depict as the size of investment in the market, including investment in marketing, organization, personnel, and other aspects (Johanson and Vahlne, 1977).

2.5.1.2 Market Knowledge

As Johanson and Vahlne (1977) said, in Uppsala model commitment decisions are based on different kinds of knowledge. Knowledge of opportunities or problems are affected to initiate decisions. A kind of knowledge, which is useful for us, is based on the way in which knowledge is acquired (Johanson & Vahlne, 1977, p 28). Johanson and Vahlne also believed that the experiential knowledge is the crucial kind of knowledge in the context (Johanson & Vahlne, 1977, p 28). The important part of experiential knowledge is that it provides the framework for perceiving and creating opportunities, experiential knowledge makes it possible to perceive effective opportunities to let them to make certain about how they adapt to the present and future activities. (Johanson & Vahlne, 1977, p 28) There are also have the general knowledge and market-specific knowledge mentioned in Johanson and Vahlne’s
article. They think establishment and performance of some kind of operation or activity in a country require these two knowledges. (Johanson & Vahlne, 1977)

Market knowledge and market commitment have some direct relationship between each other. Knowledge could help to consider all the kinds of resources, it is much better for the market, more valuable resources, a stronger commitment to the market. (Johanson & Vahlne, 1977)

2.5.2 Change Aspects

There are two change aspects Johanson and Vahlne have considered, which are current activities and commitment decision.

2.5.2.1 Current Activities

During the current activities, the biggest problem is a lag between current activities and their consequences (Johanson & Vahlne, 1977). Time lag might be considerable, and it represents that marketing investment is an important and mounting commitment (Johanson & Vahlne, 1977). Current activity is the major source of experience. It could be debated that experience could become a reason for hiring employee, either through the hiring of personnel who has different experiences or through advice from persons with experience. (Johanson & Vahlne, 1977) So it may be possible to hire personnel with market experience and to use them favorably in the marketing activities (Johanson & Vahlne, 1977). The best way to obtain and utilize market experience is to hire typical sales manager or salesman, or occupied of firm (Johanson & Vahlne, 1977).

2.5.2.2 Commitment Decisions

The second change aspect is commitment decisions for foreign operations. Johanson and Vahlne (1977) assume that such decisions due to what determines of choice and how there are chosen (Johanson & Vahlne, 1977). On the first aspect, current activities assume that the decisions are make in response to forecast the problem and opportunities on the foreign market. Johanson and Vahlne conclude the discussion of commitment decision through observing the additional commitments. Only if the firm has huge resources or the conditions of market are stable and homogeneous, or the firm has a lot of experience from other different foreign markets which has similar terms and conditions (Johanson & Vahlne, 1977). If they do not have, market experience will lead to a step by step to increase in the scale of the operations. Based on the market environment to correct imbalance in the different risk situation during the foreign market. And market will increase speed in this process. (Johanson & Vahlne, 1977)
3 Methodologies

In this chapter the authors provided detail information about the methodologies used in the study in order to achieve the purpose, including research types, research methods, data collection and all other work in different stages of the research process. And this chapter will also cover the limitation of the research methodology that the authors used in this study.

3.1 Types of Research

According to Yin’s (1994) research, there are three ways of research to attempt to a study, exploratory, descriptive and explanatory. An exploratory study aims to provide some significant insight to a given research subject as “why” and “how” and assess the situation of the given subject. On the contrary, an explanatory study aims to create a deeper understanding to the research subject and get a clearer relationship between variables (Saunders, et al., 2009). And the third type of research, descriptive study is attempted to descriptive the given research subject, but a descriptive study cannot be used to describe a causal relationship between the variable and the situation (Gummesson, 1991).

This study is based on the descriptive study and exploratory study, due to the purpose of this study. The authors use the exploratory study research on the topic at the first stages, when it comes to the description of the empirical data and the analysis the authors jumped to a descriptive research design. For the descriptive research study, it is normal to have a theoretical base, and moreover clear statements in order to achieve the studies aim and ultimately answer the research questions. The primary research is not enough to describe the case of a Swedish bearing company-Svenska Kullagerfabriken (SKF) entering in the Chinese market, and the authors also chose exploratory study to provide a significant insight of this study. Descriptive study combine with exploratory study will be more comprehensive and helpful to this study.

For this thesis, starting with the introducing the currently situation of Swedish company in the Chinese market, going over to the theoretical part, the empirical data and findings, and the analysis, were structured and combined to follow and evaluate the research questions in the most appropriate way. Compared with the theoretical part of the thesis, the empirical part could deal with a case study to examine the different perspectives of individual viewpoint by responsible from SKF to question the researched field.
3.2 Research Method

Choosing the data collection is vital during the work the thesis. The two main research methods are qualitative method and quantitative method, which available to researchers contributed to study (Bryman and Bell, 2007). Qualitative method and quantitative method can also be mixed to do study as the third research method (Johnson, Onwuegbuzie and Turner, 2007).

Quantitative method is using numbers and statistical methods to study a given subject (Neill, 2007). The main strategies associated to quantitative method are experimental and survey (Saunders, M., Lewis, P. & Thornhill, A. 2012). Moreover, quantitative method more emphasizes to use the data collection and analysis to test the theory of given subject (Bryman & Bell, 2011).

On the other hand, qualitative method is to have a deep and detail study of the given subject (Patton, 1980). The main strategies associated to qualitative method are case study, ethnography, action research, grounded theory and archival research (Saunders et al. 2009). Additionally, qualitative method more emphasizes to use words to study the given subject rather than the numbers (Bryman & Bell, 2011). Qualitative method is more based on figures, facts to identify causal effects and consequences through statistics, is more need to use the words to understand the phenomenon (Bryman & Bell, 2011).

For this paper a qualitative method is adopted. The authors tried to use the case of SKF figure out what kind of strategy used when the Swedish company entered China and the successful factors impact the Swedish company to enter the Chinese market. In order to have a deep and detail study, the authors gathered the relevant information in the empirical data conduct a case study. Furthermore, SKF is a representative and typical case, and this thesis will based on the case study to expand the limited knowledge in this area.

3.3 Research Strategy

According to Saunders, et al. (2009), there are seven main types of research strategy: experimental, survey, case study, ethnography, action research, grounded theory and archival research.

As mentioned, the authors chose single case study to expand the knowledge. Bryman and Bell (2011) presented in their book, single need a more detail and intensive analysis for the study. In this study, the authors chose SKF as the target company, which is a representative and typical case to present the Swedish company entering
the Chinese market. The reasons why the authors choose this famous Swedish Bearing Company-SKF is one of the author’s friends have tight relationship with a manager in SKF, therefore they helped the authors to contact the product manager in China.

The case study always used in the qualitative methods, such as participant observation and unstructured interviewing (Bryman and Bell, 2007). The authors choose the qualitative method as the research method of this study, so the sample of this case study is qualitative sample. And the authors choose purposive sample method which enable authors to gather the best answer to the research questions for the study (Saunders, et al, 2009).

“The issues raised in connection with sampling in ethnographic research apply more or less equally to sampling in qualitative interviewing.” (Bryman and Bell, 2007, p 497) In general, the lack of transparency that is a feature of qualitative research particularly apparent in relation to sampling. But qualitative researchers usually claimed about their samples as convenience or opportunistic ones (Bryman and Bell, 2007). The authors get deep discussion in one case which will give the better answer of the research questions and study purpose.

3.4 Data Collection

As it is a qualitative study, two types of data collection methods had been chosen in order to achieve the purpose of this research: secondary data collection and primary data collection.

3.4.1 Primary Data

In order to expand the knowledge of the given subject, secondary data is not enough to support, so primary data is necessary. According to Saunders et al. (2009), primary data is the specifically data used for the given subject. The most common primary data collection methods are questionnaires, interviews observations and experiments (Christensen & Engdahl, 2001; Svensson & Starrin, 1999). Interview is a common method to collect the primary data. Those primary data were collected specifically for the research project being undertaken. Actually using interview method is the better choice for the data collection, through the interview the authors are enable to collect valid and reliable data relevant to the purpose of this study.

For this thesis, the authors choose the primary data to be a major data collection. Primary data is needed to answer the research questions (Bendant and Piersol, 2000). The primary data of this case study was collected through the following two respondents: Goran Berg, who is the product manager of Asia self-aligning bearings
of SKF and Dan David Jiang, the product manager of self-aligning bearing. Mr. Berg responsible for self-aligning bearings in Asian market and he supports setting up the factory, deciding what should be produced and for whom it should be produced, and then to find the balance between this two problems. He has worked for SKF over thirty years and collected rich experience during his early years. This is one of the reasons that why he was chose to be the interviewee who can present the overview of SKF’s entry process thirty years ago. Mr. Jiang responsible for the same product but only in the Chinese market, which is a part of the Asian market.

**Interview**

In order to make the interview, firstly the authors created a certain amount of orders (Bryman & Bell, 2011), which is relevant to the research purpose-find the actual factor that will impact the entry strategy of Swedish company entry Chinese market. And depending on the definition and findings from the used materials, the authors formulated the interview questions with comprehensible and relevant language (English) to the interviewee (Bryman and Bell, 2011).

The research questions outlines included several forms of questions to insure better understanding of the research topic and to collect appropriate answers that helped to answer the research questions (Bryman & Bell 2011). After formulating the interview questions the authors did a pilot study with one marketing director by reviewing the language and the construction of the questions. This marketing director is a friend of the authors.

To collect enough information from the answer of interview questions, the authors used several types of questions: introduction questions, follow-up questions, probing questions as using some direct questions to follow up, and some interpreting questions in case of giving a specific answer (Bryman & Bell, 2011).

Recording and transcribing is also important for the interview. “This procedure is important for the detailed analysis required in qualitative research and to ensure that the interviewees’ answers are captured in their own term.” (Bryman & Bell, 2011, p.484) Based on this recommendation, the authors recorded all the interviews conversation after inform the interviewee. Finally, the authors transcribed the entire recorded interviews to find out the main useful portions to answer research questions of this study (Bryman and Bell, 2011).

Depends on the knowledge about the Primary data of interview, the authors connect with Goran Berg, deciding a suitable time to conducting interviews. The authors decided 4th of April in 2013, 9:30 am at SKF Group’s headquarter in Gothenburg, Sweden to start this interview. The interview continued for 3 hours, taking free communicate with Mr. Berg, asking the questions that the authors prepare before. The task distribution is one of the interviewers asking questions meanwhile the other one responsible for recording and taking notes.
Another interview with Mr. Jiang was limited by both the time lag and distance. Since Mr. Jiang was in Shanghai but the authors were in Sweden, the author decided to arrange a phone interview on the 8th of May at 9:00 am (Swedish time). The interview lasted more than one hour. Through the phone interview, authors also saved the records and the notes as precious data. The questions were translated into Chinese and the responses got from Mr. Jiang were translated back into English. Since the authors are both Chinese, the language obstacles are easily to be solved.

3.4.2 Secondary Data

According to Bryman and Bell (2007), secondary data refers to make a basic knowledge of the given subject, collected from the different sorts of literature which usually comprehend textbooks, journals, reviews and online resource. Therefore, data was collected from scientific books, articles basically from databases and on the other hand research from the Internet, which was from special times, gathering some information about the SKF.

In order to get a deep understanding of this study area, secondary data collection is chosen by the authors. Secondary data used in this study was collected from a variety of databases, including books, journals, report and student thesis from Internet databases and Halmstad University Library. During finding the secondary data from the Internet, the authors used one of the most popular methods to attach the web references according to Backman (2008). Through using this method, the b references are listed in order from the beginning to the end of this paper, which is more clear and easier for reading. In order to ensure this study is reliable, it is important to evaluate these secondary data and ensure that it is correct (Christensen & Engdahl, 2001).

Based on the access to databases provided by the Halmstad University Library intranet and recommendation from the professor and the personal experience in previous study, the authors frequently used Halmstad University Library and Google Scholar to collect data.

3.5 Validity and Reliability

According to McBurney and White (2010) a scientific study must have both reliability and validity. Validity and reliability are two research criteria, which can used to guarantee the value of the study (Bryman & Bell, 2007). For this study authenticity and trustworthiness are also very important to the authors.
3.5.1 Validity

Validity is the one of the research criteria, it is relative to the study reflects or assesses the given subject accurately, also it reflects the accuracy and trustworthiness of the findings in the research (Bryman and Bell, 2007). According to Yin’s (2003) research, there are three types of validity: Construct validity, internal validity and external validity.

Internal validity is related to the casual relationship between the variables in the given study (Yin, 2003). However, this study is a qualitative case study, thus the internal validity was not concerned with it.

“External validity represents a problem for qualitative researchers because of their tendency to employ case studies and small samples.” (Bryman and Bell, 2007, p 410)

The results of this study can be applied to a larger population, and it can be achieved through selecting a representative company in this area. Due to the limitation of the time and the sources, the chosen company for this study may be not representative to this study area, so this will be the weakness of this study.

In this study, construct validity is more related to the questions that used in the interview. Construct validity encouraged the researcher to deduce hypotheses from the theory related to the concept (Bryman and Bell, 2007). In order to ensure the construct validity, the authors using primary knowledge and information from the published article and thesis to formulate the interview questions and do the pilot study with the expert in the research area.

3.5.2 Reliability

Reliability refers to the consistency of the research operation, in brief, it means whether the study can be repeat with a same or similar result (Yin, 2003). Bryman and Bell motioned reliability is a measure that fundamentally concerned with issues of consistency during the period that the authors collected the empirical data (Bryman and Bell, 2007). There are three major factors involved when considering a measure is the reliable, stability, internal reliability and inter-observer consistency.

First, the stability should consider entails asking whether or not a measure is stable over time, which means the authors can be confident in the results relating to the sample of respondents do not fluctuate (Bryman and Bell, 2007). Second, internal reliability, the key point is whether or not the respondents’ give you the answer on any one indicator, the authors need to be sure all the design question and answer should be related to each other (Bryman and Bell, 2007). Third, inter-observer consistency, the authors should control the consistency in the respondents’ decision. Do not allow a great number of subjective judgments during the data collection (Bryman and Bell, 2007)
For this study, in order to guarantee the reliability of this study, all the primary knowledge used in the study had been noted detail as the reference. The authors could be sure the interview questions are related to each other. But the answers are changeable, so it is impossible to ensure the interview that can be resemble and get the similar answer of the interview questions although the whole interview had been recorded and transcribed. This is another weakness of this study.
4. Empirical Data

In this chapter, the authors introduced the brief information and historical background of Swedish industrial company—SKF. The whole process of entering Chinese market was described specifically according to the findings of interviews. Then the empirical data section was separated in several dimensions: strategic, legal, economic and cultural perspectives.

4.1 SKF in Brief

SKF founded successfully in 1907 by a young maintenance Swedish engineer named Sven Wingvist, who invented the first self-aligning ball bearings. [2] As a world leader in bearing technology for over a century, SKF has developed an unique table of products, bearing, units, housings, seals, coupling systems, mechatronics imbrication systems and services [2].

[2] Around the whole world, SKF is represented more than 130 countries and settled in 32 countries for selling, producing products and services. The numbers of employees reached 46000 approximately, and SKF owned nearly 15000 distributors and dealers worldwide [2]. [3] With the expansion of global distribution system and e-business markets, the annual sales of SKF were 64575 million in 2012. Here is a line chart below, which illustrated the net sales from 2011 to 2012[3].

![SKF's net sales fell by 2.5% in 2012, to SEK 64,575 million from SEK 66,216 million.]

Figure 3. SKF Annual Report 2012[3]

There is a slight deduction on the sales because of weaker demands and lower manufacturing, which impacted the result negatively. However, SKF still leads the sales in bearing industry all over the world.
When looked back into SKF’s history, the increase of the turnover in last ninety years is dramatic. Especially from the year of 1959 to 1999 when SKF expanded quickly all over the world. It is obvious to see that now the developing speed slow down since most of the markets has already become mature. However, the development of SKF shows its great success in bearing industry.

4.2 SKF in Chinese Market

Only five years after SKF founded, it set up first commercial agent in Shanghai in 1912 and then established a sales office. However, SKF moved out of China in 1951 because of some political reasons. From 1986, SKF came back to China with full power both in Shanghai and Hong Kong. Since then SKF always plays an essential role as the market leader in Chinese market within bearing industry. [2] Today SKF owns more than 6500 employees in China, 18 manufacturing units, several service units and sales office. Moreover, about 300 distributor sites were set up in order to work closer with Chinese customers [2].

[5] During the past two decades, SKF participated in many state-level projects such as the Beijing Olympics, the Three Gorges Hydroelectric Power Station and Chinese Railway High-speed Multiple Unit, which shows the power of SKF as well as the irreplaceable status as a leader partner in this area [5].
4.3 Findings of Company Interview with SKF

4.3.1 Development of SKF in China

Our interviewee Goran Berg (product manager of Asian self aligning bearing) and Dan David Jiang (product manager of self aligning bearings) were very impressed after five years of SKF’s establishment in 1907. They said that SKF had established sales office in entire Europe within 6 years. Sven Wingvist, the guy who was one of the organizers of SKF, only saw the positive possibilities and never saw any shadows. He was a smart businessman and unique combination with engineer, with high degree of entrepreneurship and knew what to do at that time. On the other hand, he had a strong financing partner, who trusted and supported him with full power.

There were a lot of risks at that time, for example thousands of risk capital companies occurred in our modern life to share the risks of firms, while hundred years ago these agencies did not even exist. The only thing SKF could do to reduce the risk was to confirm the concept and confidence.

In 1951, SKF moved out because everything confiscated by the government. The situation was complicated at that moment, all foreign companies were asked to leave china. However the situation got better since Xiaoping Deng, the chief leader of China at that era, opened up the attractive Chinese market at the beginning of 1980s.

“Everything was started in Hong Kong when we reentered Chinese market, and we reentered through distribution network.” ——Goran Berg

There are different kinds of distributors as SKF has clear expectations about them. The distributors should have core competences, skills, knowledge, and know how to display their products and services. Choosing the distributors, which was with very small risk, however, small effort as well. At the beginning of entering a new market, there are a lot of risks. Investment, hiring people, buying office cost enormously that force SKF to start up with some partners. Nowadays, SKF still has huge distributor networks and using continually.

“Everything should be big,” said Goran Berg confidently, “Now we are here, with full power, full support with full message about product lines, service, knowledge, anything and it worked very well.”

SKF started up with sales office in Shanghai at the beginning of the 90th.Now in Gothenburg, they are producing 3000 basic types of bearings while operating other factories producing other products. Each product is responsible by a product manager as least. More from the commercial perspective, each manager contribute to decide
“what is the next generation of bearing look like, how much actually should it cost, where should it be manufactured” to full fill the demand of different markets.

SKF began with the development in Chinese green zone, where can directly get all the supports including the facilities from the government. Nowadays, the main manufactories we have are in the industrial green zones, which dedicate to international companies to set up. The advantage was that huge amount of international companies live door to door to get support from each other. Communication with local government went more smoothly because big companies built up together to form an alliance.

4.3.2 Entry Strategies and “Win-Win” Policy with Distributors

In this case, at the beginning of entering foreign markets, SKF worked with distributors and direct customers. In some markets, SKF only has one sales office, but utilize huge amount of distributors to deal with the daily business with scattered customers. Therefore, it is possible to operate a quite big market just with a small office.

There are three major types of customers as listed below according to Goran Berg.

- Orient customers, who order the products directly.
- Consuming customers, who run the big industry or power firms, such as paper firms, mine firms and so on.
- Small customers, who cannot be handled by SKF itself. Even SKF is a big company, they still need distributor networks to deal with hundred thousands of small customers.

Take the Chinese market for instance; SKF has tight relationship with powerful distributors in China. There were fewer risks to work with the distributors and let them to retail the products to small customers, which was very important at the beginning of entering new market with a lot of uncertainty.

The first step is stepping in with small risk to figure out what is the potential opportunity and how it develops. When the business growing into a certain size, SKF stepped in and opened up sales offices, and subsidiaries afterwards. A tricky step that Mr. Berg mentioned is taking over the biggest customers from distributors and then organizing the customer base of SKF itself. In other words, SKF works with the big customers directly instead of through distributors.

From the perspective of distributors, they lost their biggest important customers, which definitely reduced their profits. However, from the other perspective, the distributors’ intentions are to grow new business and new customers. At the
beginning of cooperation, SKF has already made huge profits for the distributors, which can be seen as some compensation. As a consequence, it should be a win-win situation in a long run. From Goran Berg’s point of view, he said SKF would like to win with the winners, which means that they would like to work with the other market leaders. Take for instance; wind power is quite a new market for human beings and everyone realize the opportunity and energy. “Our strategy is, who will be the leaders of the potential customers, and then we will work with them.” as Goran said proudly, “we are doing investment, which spend money, time and costs, of course we want to generate revenue as soon as possible.” This is the reason why to select the most important key customers who will be biggest in the future, like a gamble.

Mr. Berg also concluded the entry process that SKF did with most of the foreign market, which can be understood clearly below.

![Figure 5. Entry Process of SKF](image)

SKF did a lot of acquisitions on the global base, in USA but necessary not in China. After establishing the base with distributors, next thing is to set up the presented office or sales office and then to move in the manufactories. SKF do have factories in approximately 30 different countries, but they only have manufactories in big markets, such as Sweden, China, England, France, Italy, Germany, Austrian, USA, Brazil and India. Both Goran Berg and Dan David Jiang confirmed proudly that China is the gigantic market and biggest market.

From their perspectives, SKF needs local manufactories as well in the big market from several reasons below:

- SKF is independent on currency fluctuations
- Producing with the local cost
- Training educated people to operate factories
- Communicating with local suppliers to generate a long chain

Generally, the technology is mainly from Sweden. SKF utilized the local material and
local labor resources as much as possible, simply from the cost point of view.

**4.3.3 Failure in Joint Venture Cooperation**

SKF has a failed experience with Chinese joint venture companies, which explained why SKF did not use any joint venture strategies in the late years.

Generally, the result of joint venture is actually under the terms when the company first entered market. And these terms and conditions are quite different from market to market. When SKF wanted to set up its first manufacturing in China, it cooperated with joint venture companies.

Goran said, “Today it was told by the history that joint venture strategy was a mistake, however, at that time, it was quite a big decision.”

In the middle of 19th, SKF group discovered the potential with the Chinese market and realized that they have to establish themselves here, because the market was opening up eventually. Then they decided to find supports for their manufactory. Under the background of that era, however, the only way to establish manufactory in China was through a joint venture. Mr. Jiang explained that foreign companies were not allowed to set up their own factories in China at that time, and Chinese government formulated the principles.

As a result, SKF group arranged a meeting with the Chinese government, and then reached an agreement to cooperate exactly with a local leading bearing manufactory in the north part of Dalian. Unfortunately the cooperation did not last long, both of the joint venture partners wanted to split up to be independent.

When Mr. Jiang recalled the memory of that era, he said that the government emphasized the concept of “domestication”, which means using the big market to attract the investment and the exchange of technology. It was from the Chinese government point of view, they would like to have SKF’s technology, while SKF would like to have the right of control. Joint venture could help foreign companies to get access to the market and sale the production easier. Therefore it was a “Win-Win” policy from Chinese perspective.

From the perspective of SKF, directly management and entire control power is the most important thing during the joint venture process. SKF got the access to establish the factory and bought 51% of the joint venture firm, while the government held 49%. The left 1% ownership was very important because it determines who is the decision maker. The annual profit generated by the whole company also separated into 51% and 49%. “If you go into the joint venture, if you are the majority shareholder, if you less than 50%, you can only be told what to do, you don’t have any control power”, illustrated by Goran Berg.
Consequently, Goran Berg thinks it was not a smart decision today when looked back into the history. The cooperation was all about technology sharing and internal conflicts. SKF and the Chinese government as well as local companies had different intentions, and it was difficult to reach the agreement from both perspectives most of the time. So the joint venture cooperation relationship split up.

According to Goran’s experience, there are other Swedish companies, which set up with a small scale, and they wanted to establish in China. Some of them choose to have a partnership with Chinese businessmen or firms and build up together. But the experience from those partnership, as Goran said, “Except only few successful cases, most of them are ‘unhappy marriage’”. Definitely it is an advantage at the beginning if a firm has a local partner or joint venture partner, who knows how to set up, communicate and sale. However the culture conflicts and value difference will break the relationship sooner or later.

The disadvantage of not using joint venture is obvious, as the foreign companies needs to deal with all kinds of issues by themselves. But there are several round ways to replace the position of joint venture partner. For example, Swedish government found an organization named “Business Sweden”, which directly give advisors and supports to the Swedish industrial companies who establish subsidiaries and manufactories in foreign countries. Besides, foreign companies can also ask all kinds of consultant firms for help privately. These business consultants can facilitate foreign companies to establish themselves in new market in a simpler way to reduce the failure risks, and the most essential point is, consultants will not influence the independence of the companies.

4.3.4 Government Issues

One of Goran’s responsibility is to attended the risk analyze meeting before SKF making any new big investment. During the meeting, they made a lot of risk analysis, brainstorming, and topic discussion. The probability of decisions should be estimated in advance as well as the consequences. It has been widely admitted that high probabilities and high consequences usually bring high risk. One of the main risks is getting the problems from the local government. Sometimes, companies’ decisions could be delayed or untreated by the local government.

From now on, the communication with the Chinese authorities has been going very well. According to Mr. Berg’s opinions, Chinese government has made effort in promoting the development of SKF. For instance, in the green zone, government wanted to support SKF in a best way and SKF wanted to get the support; the whole process has been done smoothly and successfully.

But there is one problem comes up with the power supplier. In Sweden, there are a lot of power suppliers. Take electricity for instance, Sweden has more than 20 different
choices. However, when SKF group negotiate with the local power suppliers. They have only one choice that monopolize in the whole China.

Mr. Jiang also carried an optimistic impression when explained the political problems that came to SKF. He claimed that serious political barriers did not exist in the whole entering process because it was the leader of China who first invited SKF to come to China. Chinese Prime Minister, Mr. Zhu learned some mechanical knowledge at his early age and then he visited the big company SKF in Sweden and invited them to invest in Shanghai enthusiastically. Therefore, Chinese government supported SKF’s investment with full power at that era.

4.3.5 Culture Difference

4.3.5.1 Long-term Vision versus Short-term Vision

The way of making business is different from country to country, even changing inside countries. The more distance is, the more difference is. Mr. Berg said that Chinese companies have a little bit short-term horizons to make the profit when compared with Swedish companies sometimes. Typical Swedish companies look more into a long run. They can make the investment for first five years, and then make some payback time within thirty or forty years before having good profit. That is to say, Swedish business companies have more patience in sacrificing the available profits to achieve long-term goals.

4.3.5.2 Group Spirit versus Individual Spirit

The Swedish partners trust in each other a lot owe to their flat organizations, however due to the specific situation, it is complicated “up down structures” most of the time in China.

Here is an story mentioned by Goran Berg in his working experience:

“You have a task must finish in next afternoon, but now it’s already in evening, you must ask your colleagues to help you. In Sweden, if you talk to your Swedish colleagues who are your good friends, and tell them about the tough situation, they will say, “sure, I will help”. But when in Japan as well as in China, of course they will say yes, but the outcome is normally bad. The Swedish colleague, they will for sure to help you, with the Japanese colleague, they will just say yes and then say sorry for cannot help because they have so much work to do which happened quiet daily.”

As a consequence, in the flat organization, trusts between colleagues are better than the Asian structure. Employees in western countries are working in a more independent situation, which own a lot of freedom but also responsibilities. When a
person recognizes his responsibilities by himself, nobody needs to tell him how to do and how to behave step by step. He will finish the task because he thinks it is important. In other cultures especially in Japan and China, however, each single task should be told in advance and clear instructions should be made for the employees to follow step by step.

4.3.5.3 Culture Shocks

Goran has experienced a lot in his life and he found out that he understood nothing when it comes to the cultural shocks. In his youth career, he travelled a lot to Japan because he was responsible for Japanese market at that time. He read a lot of books about Japanese culture and history and he thought he understood the Japanese way of thinking, as well as doing business. Then he moved over there from 1996 to 1999, and he was shocked by the culture difference, which almost made him to quit the job. Gradually he realized he could never join into their culture within a short period.

For instance, in some commercial meetings, he had a good discussion and got good feedbacks with the customers who were happy and polite, but later on he lost the contract of those customers. On the contrary, he had conversation with the customers, who were not happy, not smiling, and not polite at all. The interesting thing is, he got the business without any expectation.

In order to understand these culture differences, Goran thought he must have to live more than three years. Maybe after ten years he can understand this kind of culture shocks in a better way. Now he tried to learn as much as possible to understand the history. Because the history tells about the way that a country works today and how people behave and think today.

Mr. Jiang denied the existence of big problems due to culture differences, because he insisted that every Chinese were eager to learn the advanced technology and became stronger 20 years ago. Therefore, they learned the western culture as an advanced knowledge and seldom people resisted the change.

Besides, Sweden is one of the most international countries in the world and one obvious feature of Sweden is “Small country with international companies”. “Since the both countries have strong willingness to communicate, culture difference cannot be a big problem.” Claimed by Mr. Jiang optimistically.

4.3.6 The Successful Factors

“There are two different ways to be successful in the market: either you are selling on price, and offering the best price, or either you are the best, you are selling the best quality, best performance, and then get a higher price.”
SKF is the market leader but also the price leader, it has the highest price compared with the other competitors. Goran is proud of the quality of their productions even they are expensive. SKF is not selling only the best products, but also the best performance, the best technology, and the best services. Mr. Jiang also confirmed this point.

From the general perspective, it necessary to have a well-developed strategy if a company wanted to establish. The successful factors and strategies will be fully impacted by the different goals: short-term or long-term.

- The short-term establishment is not serious. After entering the new market, the task of firms is to find out the cheapest labor, and when the labor cost going up, they step out.
- The long-term establishment is about never think of stepping out. The strategy of long-term goal is making market surveys, looking for the market potential, and clearing the goals.

In this case, SKF choose the long-term strategy because they have the ability to become the market leader. Once SKF entered the Chinese market, it entered forever and never thinks of stepping out. Goran Berg ranked the successful factors from Swedish perspective as required:

1. Unique product: Owning something unique products or technology or service is the first step to success.

2. Communication: Firms should contain the capacity of communicate the value of the products. Even they have the best products or the best services, if they are not able to communicate, that products and services are not worthy.

3. Marketing: The trend of marketing needs is one of the best signals to guide the developing direction for SKF.

However, Mr. Jiang has given out a similar but different rank list of successful factors of SKF from his point of view.

1. Marketing demand: The key of success in entering new market is not what kind of strategies has been used, but what kind of marketing needs has been satisfied.

2. Customer: The feedback get from the customers is a mirror that can reflect the market fluctuation and future trend.

3. Products: Based on the needs of customers and market, producing suitable products to meet the needs of the existing market.
Moreover, under the background of the historical perspectives, the Swedish industry has been very successful in three categories, which can also be related to SKF’s success.

- Swedish company has been successful in export business for a long time in the history.
- Swedish quality, together with Swedish innovation is excellent. To be innovative in new products, and rolling them out of the market is the main goal of the major Swedish companies. It is well known that made in Sweden means high quality.
- The third reason is tricky since Sweden did not participate either in world war one or world war two. Therefore, their industry was not affected at all; instead, they earned a lot of money from the countries that wanted to rebuild several decades ago.

4.3.7 Existing Problems Nowadays

There are three main problems that Goran Berg mentioned in the interview, which can be clarified as competitors’ threats, talents shortage and the outflow of employees.

SKF has been caught with the reality today that the competition is fierce everywhere. Five or six years ago, it was so easy to get the sales, but today SKF has to fight equally as much as the other competitors.

Each company should monitor its competitors extremely carefully. As mentioned by Goran, “one of my duty there is to prevent competitors to analyze, and to get the feedback, and you have to know your enemies well”. In coming years, the greatest threats to SKF group are likely from competitors’ copying. Not only the products copying but also the technology copying. When SKF innovated a new technology or a new generation of products, their competitors will follow their steps within a couple of years.

Another big problem China challenges today is lacking of knowledgeable and skilled local people, especially local senior people with experience. Employees should contain the skills of arguing in front of the customers; otherwise they will fail. Nowadays, only few people at a younger age contain both the abilities of speaking frequent English and rich experiences and skills.

Although the business develops in a high speed in China now, it is still a big shortage that experienced people who worked forty or fifty years with the trade business are missing. The elder the employees are, the more experience and knowledge they have, which can be utilized in the daily work.

“If the youth don’t have senior people to learn them, how can they improve themselves?” Goran Berg has already stayed in China for three years, he said “I
consider myself spend in China as bringing knowledge, to teach them how to do things, how to behave with customs, but three years are far too short.” This leads to the result that the top managers are still foreign talents from countries worldwide.

It is a real challenge to keep people in Chinese market now. SKF owns roughly 7000 employees in China while the Shanghai office has 500 staffs, and 99% are Chinese. It is a tough problem that how to keep local employees staying for a longer time, because the longer they have stayed, the more value they can contribute for the company.

### 4.3.8 Future Expectation of SKF

Generally, the whole development in Chinese market has been extremely fast, including the goals, standard, environment, industry and so on. However, the same growth rate should not be expected in the next 20 years. The growth line will be flat now. In fact, no matter markets fluctuated up and down; SKF still has to deal with them.

When Mr. Jiang explained the type of Chinese economy, he divided into two categories: market-based economy and government-based economy. Fortunately, the development relayed on investment and management of the government went well in the last 30 years. However, pulling the economic by investment will not be a sustainable strategy any more. Therefore, the market will fluctuate by internal and external factors. While at the same time Chinese government reduces the control power and step out of the market.

Absolutely SKF will be the leader of the market, but it will not be so active as before. Now there is economic crisis among global markets that cause amount of uncertainties. Though there is plenty of cost pressure, Chinese market is one of those markets that SKF still do investment. SKF has stepped into a more stable development period so it does not expect double growth any more. Mr. Berg speculated that if there is depression and decline year by year in Chinese market, it will not just a terrible signal for the Chinese, but a disaster for the global market. “It will be tough for the coming years, we have considered that as well.” Goran said. But both Mr. Jiang and Mr. Berg have firm confidence in the performance of SKF in the future.
5. Analysis

In this chapter, the authors combined empirical data with theories and The Uppsala model to analyze SKF entry strategies in Chinese market. The authors started with the obstacles and different cultural perspectives between Sweden and China, then analyzed about each strategy in changeable situation, meanwhile followed with the analysis of a failing strategy. Finally, the authors pointed the top successful factors that made SKF to be the market leader in bearing industry from the both standpoints.

5.1 SKF in China

SKF plays an important role in the Chinese market as the leader in bearing industry. SKF sets up its first commercial agent in Shanghai in 1912 and only five years after SKF founded, the company had to moved out of China in 1951 due to some political reasons. However, depending on the development of SKF and the marketing demands, SKF came back to the Chinese market in 1986 with full power, both in Shanghai and Hong Kong. Until now SKF has a stable leading position in the Chinese market.

5.1.1 Obstacles in Cooperation

5.1.1.1 Different Culture Perspectives between China and Sweden

According to the difference between international markets and domestic markets, there are many environmental analyses presented in Doole and Lowe’s (2004) “SLEPT approach”. They examined various aspects of international marketing such as social, legal, economic, political and technological. Between Sweden and China, different business culture becomes an obvious barrier during the business process. Business culture, the way of making business differs from country to country, even changing inside of the country. SKF had realized that difference between China and Sweden before stepped in. Apparently, Sweden is a typical western country while China is typical eastern country. From the strategic perspective, the Chinese companies are more tend to be short-term horizon in making the profit. However, typical Swedish companies look more into a long-term development. They can make the investment for first five years, and then tolerate the payback to come many years later. In other words, Swedish business companies have longer horizons than Chinese companies. Chinese companies want to make profit immediately while Swedish companies more focus on the long-teams plan, making profit not immediately but permanently. That means variant perspectives obstruct the companies to reach the same goal in the cooperation process.

Moreover, Swedish partners trust in each other a lot. In Sweden the organizations are in
a more flat structure, but in China it is complicated up-down structure most of the time.

As Mr. Berg said, due to the flat organization, trusts between colleagues are better than in the complicated structure because employees are working in a more independent atmosphere, which means owning a lot of freedom but also responsibilities. When the employees recognize their responsibilities, nobody needs to be told how to think and how to behave. But, in other cultures, this situation is not obvious. Especially in Japan and China, each single task should be told specifically and then the employees follow the clear instructions step by step. For the Swedish company-SKF, entering into the Chinese market is equal to face the huge risks that cultural difference and obstacles brings.

As the product manager Mr. Berg said, only when he figured out the different culture between Sweden and China and then could he understand the culture shocks in a better way and operated the company more successful. The history of a country has tight connection with its culture, what the history shows reflects what the country works today as well as people’s behaviors and thoughts today.

5.1.1.2 Government Participation and Political Issues

The situation in the early years of China was complicated. The Chinese government confiscated foreign companies and asked them to leave China, which forced SKF to step out. However later on, the Chinese chief leader Xiaoping Deng opened up the Chinese market and kept it active till now. The government gave supports to SKF, which created a precious opportunity for SKF’s development in China.

Government participation is one of the Nontariff Barriers when a company starts a business adventure in foreign markets. Onkvisit and Shaw (2004) presented in their book, government participation in trade includes three types, which are administrative guidance, government procurement and state trading. The Chinese government participated in the market and wanted to control the domestic market, which created a lot of obstacles for the foreign investment. Currently the government gradually loses its control power intentionally and moves out of the Chinese market in order to create a free and open international investment regime for foreign companies.

Although the government participation had made a large sum of barriers to prevent the development of foreign companies, the company can hardly built up without the strength from government participation. Therefore, positive participation can promote the speed of establishment and development while negative policies may have the opposite effect. How to utilize and maximize the strength of the government may be a crucial problem.

To SKF, the political problem is a significant problem when the company entered into the Chinese market. Doole and Lowe (2004) presented that political environment
should be considered during the international trade. Mr. Berg told us, SKF seldom directly contacted with Chinese government because of the political barriers. There are green zones in China, where SKF can directly get useful supports including the facilities from the government. The government wanted to support SKF in a best way and SKF wanted to get the support and the whole process has been done smoothly and successfully.

During Bradley’s book, on of the researcher he mentioned in the book, Cannon (1993) proposed that framework decision for foreign market entry choices include four different sections: Marketing strategy, Organization, Industry and Target country (Gannon, 1993; Bradley, 1998). The target country also should consider the political issues. In the case, SKF met with difficulties like political issues. Thus, SKF arranged the risk analysis meeting before making any big investment. They made a lot of risk analysis, brainstorming, and topic discussion. The consequences of investment should be predicted in advance. With high probabilities and high consequences, definitely it is high risk that has to be dealt with. One of the main reasons among these risks is the local government. The local government probably delays decisions and activities sometimes. Currently SKF has a good communication with the Chinese authorities, however, till occurred one problem as trade monopoly with the Chinese power supplier. China only has one electric power supplier that controlled by the government. If SKF wants to cooperate with power supplier, which means the company has no choice with the price, and the same time good manners are required when communicate with local government. SKF took a correct way to understand the Chinese policy and negotiated with the suppliers and customers lead to the success in the Chinese market.

However, Mr. Jiang who is the Chinese product manager of SKF, explained the political problems from the other side. He claimed that SKF did not solve the political issues through agency because the chief leader of China Mr. Zhu invited them to come to the Chinese market. So the political problems would not exist. Mr. Jiang took different opinions with political issue, it may be because they responsible for the different projects. And the way to solve political problems may differ from each project.

Anyway, when the foreign companies tend to set up in China, the political issues are unavoidable. Thus how to reduce the influence that barriers bring or to minimum the risks are the problems SKF should considers specifically. According to this case, SKF first negotiated with local government showed a correct approach, which lead to the success in later expansion. Having great communication with government is not just getting accepted from the Chinese market, but also gain a bunch of customers at the same time. Moreover, from the perspective of Mr. Jiang, the Chinese leaders encouraged foreign companies to invest in China will be a great reason for them to come to China and set up in Chinese market.
5.1.2 The Markets Entry Decision of SKF

As Kwon and Konopa presented in 1993, the risk, cost, control and return could be advantages and disadvantages in each market entry mode in long-term process. Before SKF entered into China, the company considered various situations and factors in the Chinese market, such as doing some market surveys in advance, and then making feasible strategy.

Due to the cultural difference between China and Sweden, Mr. Berg and Mr. Jiang have different opinions of markets entry decisions. Mr. Berg said, firstly, the company should base on the current situation to seek the potential opportunities of the Chinese market. Secondly, the pressure of competitors could also bring more motivation for SKF. A lot of companies want to standing in the Chinese market, which stimulate SKF have an interest in develop their business in the Chinese market. Moreover, SKF contacted with the huge numbers of potential customers in Chinese market. Because of these reasons, SKF decided to step into China. SKF wanted to have great development so that they did a lot of preparatory work in advance to make sure the company will has great growth in the Chinese market.

On the other side, Mr. Jiang said that the Chinese leader Mr. Zhu invited SKF to set up in China, which is the main reason for SKF to make the entry decision. Absolutely, government invitation provided a pulling strength to attract SKF, but the authors could not attribute it to the government completely. The government is just a part of the impact elements, and more reasons are from the market surveys before. As long as the company has a complete vision of the Chinese market, they will give a correct decision for entry.

For whatever reason, the company should learn about the market first. To make sure there is any value in this market to invest, understand why they need to enter the target foreign market. It is hard to make the decision to enter China because it takes a lot of risks. Therefore, SKF did a considerable analysis, and here follows the figure that shows the reasons why SKF decided to enter the Chinese market.

<table>
<thead>
<tr>
<th>Swedish Perspective:</th>
<th>Chinese Perspective:</th>
</tr>
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<tbody>
<tr>
<td>Discovering opportunities</td>
<td>Government invitation</td>
</tr>
<tr>
<td>Social/Economic environment</td>
<td></td>
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<tr>
<td>Competitors’ pressure</td>
<td></td>
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<tr>
<td>Marketing analyze</td>
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Figure 6. The reasons of entering the Chinese market
5.2 Marketing Strategies in China

5.2.1 Distributors Strategy in China

Doole and Lowe (2004) suggest distributors are the significant export methods in the early stage when the company first comes into the foreign markets. Distributors need to buy the products from the manufacturers, and take the market risks on unsold products as well as the profits. Therefore, they usually expect to take a higher percentage pay back to cover their costs and risks. Distributors usually explores exclusive rights for a specific sales territory, also mostly represent the manufacturer in all aspects of sales and services in that area.

Figure 7. The Marketing strategies of SKF

Figure 7 The strategic process of SKF in the Chinese market, which designed by the authors according to the empirical data. The strategic process of SKF in different periods will be illustrated below.
In the case, at the beginning of entering the Chinese markets, SKF worked with distributors and direct customers. SKF may only have one sales office in some big markets, but it has a lot of distributors to deal with the daily business with its customers. It is possible to operate a quite big market just with a small office. That is the strategy SKF used for a long time. In the Chinese market, SKF had really tight relationship with powerful distributor companies. There were fewer risks to work with the distributors and let them to retail the products to small customers, which was very important at the beginning of entering new market with a lot of uncertainty.

There are three major types of customers as listed below according to Mr. Berg. Firstly, orient customers, consuming customers, and small customers. Customers are one of the most the significant factors, and the company will reach the success in Chinese market as long as having great commitment with the customers. From Mr. Berg’s point of view, he said SKF would like to win with the winners, which means the standards they used to choose partners are very strict and only the leading companies have qualification. Take for instance, wind power is quite a new market, and everyone see the opportunity and energy. “Our strategy is, who will be the leaders of the potential customers, and who we will work with.” As Mr. Berg said proudly, “we are doing investment, which spend money, time and costs, of course we want to generate revenue as soon as possible.” This is the reason why SKF selected the most important key customers who will be biggest in the future.

Using the distributor strategy is the one of the best ways to minimize the risks to see what is the potential opportunity (Yong et.al., 1989). When the business has been develop into a certain size, SKF stepped in from its sides and opened up sales offices and subsidiaries later on. A tricky step is taking over the biggest customers from the distributors and then organizing the customer foundation of SKF itself. In other words, SKF worked with this big customer directly instead of through distributors, in order to save the remuneration for distributors, promote the communication and accelerate the speed of action. SKF has a large scale of customers, and the next step is considering the following strategy, which occurred to be local manufactories as a correct choice in the Chinese market.

### 5.2.2 Unsuccessful Experience of Joint Venture

Joint venture is a company established by two or more companies, they have to shared ownership and profit with the partner company. Usually, joint venture based on two or more companies that could supply each other to get more expertise and resources to the new special company (Doole & Lowe, 2004). Joint venture is one kind of strategic alliance that often used in the company entry into foreign markets. Hlavacek(1977) and Bradley (1998) both agree that the company provides the products and technology while the other one provides the access method to the market (Hlavacek, 1977; Bradley, 1998).
In a general way, the result of joint venture is actually under the terms when the company first entered the market. And these terms and conditions are quite different from markets to markets. When SKF wanted to set up its first manufactory in China, it tried joint venture strategy. But now it seems like a mistake. In that moment, SKF saw the potential in the Chinese market, they realized to establish the company in China might be a great idea. However, they choose the joint venture as a strategy that brings the failure experience for the company. Both of the joint venture partners want to gain the whole control of the company, so that the joint venture end of the split up to be independent company.

Joint ventures also have their inadequacy and limitations. Onkvisit and Shaw (2004) mentioned that when two individual organizations work together, it usually followed with bound of conflicts, because of the cultural problems, dissimilative goals, marketing strategies, and weak contributions by one and the other partner. Another significant problem is the matter of ownership. There are two managers from the partner company to management the joint venture. The equal control between partner companies is difficult to balance.

“If you go into the joint venture, if you are the majority shareholder, if you less than 50%, you can only be told what to do, you don’t have any control”, illustrated by Goran Berg. Two partner companies both want to directly manage the company and control the decision. That is the most markedly failure factors. SKF and the local companies have different intensions, and it was hard difficult to reach the agreement from all perspective all the time. So the joint venture cooperation relationship ends up in a short time.

When Mr. Jiang recalled about that time, he said that the government emphasized the concept of “domestication” in that moment, which means Chinese government used the big market to attract the investment and exchange the technology. The government would like to have SKF’s technology while SKF would like to have the control power from the government. It was easier for foreign companies to get access to the market and sale the products. Therefore in government’s perspective it was “Win-Win” policy, the foreign company invests in China, and the Chinese government gains the technology. At the beginning, everything might be operating very well, but when the joint ventures operate for a long time, the contradiction with different companies become more evident. Finally, the joint venture announced the failure of cooperation.

After SKF failure in joint venture, they found another way to solve the serial problems during the business. Swedish government found an organization named “Business Sweden”, which directly gives advisors and supports to the Swedish industrial companies. That could be helping SKF to get over, instead of the advisors and suppliers that lost in joint venture. Consultant firms also are the choices for SKF, which will not influence the independence of the companies. That is good for the SKF
and do not share the profits and control power with other companies.

5.3 Build Manufactories in China and “Win-Win” Policy

After have a failure experience in International Joint Venture, SKF is well aware of 100% ownership and cost reduction that is the most important for the company. Based on the huge customers and knowledge experience from distributors, SKF decided to build up the manufactories in China. If the manufactories success in China, SKF could be saving cost during the manufacturing process, producing with the local cost, training educated people to operate factories, direct communicating with local suppliers to generate a long chain. SKF dose not need to share the control and profit with other company, wholly percent ownership should be better to make decisions, and the entire profit will be more attractive. SKF began with the development in the Chinese green zone, where can directly get all the supports include the facilities from the government. Nowadays, the main manufactories SKF have are in the industrial green zones that dedicate to international companies to set up, which have the whole control power with SKF.

From the other side, Sweden has significant achievement in technology. SKF’s choice to establish manufactories in the Chinese market is an advisable strategy. On the one hand, SKF utilized the local material and labor as much as possible, greatly reduced the cost, saved the transportation time, which means SKF could be more effective and bring more profits. But there was a problem since SKF was required to win the great trust and reputation from the local suppliers, according to Mr. Berg. SKF has a good communication and contact with the local supplier, that is why it still being the leader of the Chinese market in the bearing industry. On the other hand, SKF obtained lots of customers and great reputation through distributors. Customers need products while SKF provides their products, the great reputation and superior part quality, which gain the support from the customers. SKF adopted this “Win-Win” policy to operate the successful business in the Chinese market.

Mr. Berg considered proudly that SKF spends money, time and costs to work with the leaders of the potential customers, so that the company wants to generate revenue from the Chinese market. This is the reason why to select the most important key customers who will be biggest in the future, like a gamble. But SKF could be has some problem after build manufactories. SKF uses the agency and consultants to deal with different problems. Use consultants to deal with some problems between governments, the local consultants have familiar with the local government, which give a convenience for SKF.

After SKF builds manufactories in China, it was created a new area to develop the company. SKF gives assistance for Chinese government finished the big program in China, such as started to provide comprehensive solutions, products and technique for
China Railway High-speed. SKF gains recognition from the government, which let the company gets much more programs from government. SKF has been in constant development and changed in each period.

5.4 Successful Factors of SKF in the Chinese Market

Explorations of internationalization, which is included the perspectives of market-seeking sales activity, offshore sourcing production activity, and development of international network of business activity. As soon as the company wants to have a successful in the long-term situation, choosing the correct market entry strategy is a critical step, this decision could have an ongoing impact on the firm’s international business performance. SKF wants to stand stable in the Chinese market, the company needs to consider a lot of situations and factors, which could influence companies’ development in China, to be leader in the Chinese market.

As Mr. Berg said there are two different ways to be successful in the markets: either you are selling on price and offering the best price, or either you are the best, selling the best quality, best performance with high price. In this case, Mr. Berg mentioned, SKF choice long-term strategy, because they have strong power to be the market leader.

There are some difference between Mr. Berg and Mr. Jiang. According to two product managers who presented Swedish and Chinese perspectives, the rank of successful factors can be clearly seen below:

<table>
<thead>
<tr>
<th>Swedish Perspective</th>
<th>Chinese Perspective</th>
</tr>
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<tbody>
<tr>
<td>1. Unique Product</td>
<td>1. Market Demand</td>
</tr>
<tr>
<td>2. Communication with government and customers</td>
<td>2. Customers</td>
</tr>
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</table>

Figure 8. The Successful Factors from Swedish and Chinese Perspectives

From the Swedish perspective, the unique product is first element that needs to be considered according to Goran Berg. He said, as long as the company has product innovation development, the entry into the other country is easier. Product is the core strength of the company because unique product can attract and keep the target customers. From Mr. Berg’s point of view, there are three successful factors when SKF entered into the Chinese market, unique product, communication and marketing. Firstly is the unique product, the company owns unique products or technology or service is the first step to success. Moreover, communication is playing an important
role in the process of development. Good communication with target consumers can show the products and services value better. Each person who is employed by the company should have the skills of arguing with the customers. SKF thought Chinese challenges today is lacking of knowledgeable and skilled local people while the employees of SKF in Sweden are on the contrary side. The elder the employees are, the more experience and knowledge they have, which can be utilized in the daily work. In addition, the trend of marketing needs is one of the best signals to guide the developing direction for SKF.

From the Chinese perspective, Mr. Jiang said, the market demand promotes the company’s confidence and pace to achieve the goal in China. It is very coincident that Mr. Berg and Mr. Jiang both put forward about potential requirement. They both think that, once the target market has a great potential for investment, it might be more close to the success. Mr. Jiang claimed the key of success in entering new market is not what kinds of strategies has been used, but what kinds of marketing needs has been satisfied. Therefore, the most important factor is listening to the sounds of customers and market, and the second is to produce suitable products to meet the needs of the existing market. In addition, customers and products are also the successful factors for SKF. Get the feedback from customers is like the mirror, reflect the market fluctuation and future trend, which could facilitate SKF’s development in China. Mr. Jiang mentioned in the interview, as long as based on the needs of customers and market, the company can produce suitable products for markets, which could give out clear requirement.

No matter the unique product or the market demands, two managers from two countries have different opinions, which present the perspective from Sweden and China. Different perspectives could be better for the company to achieve the goals, which means SKF could analyze the Chinese market from different aspects, the more factors the better for SKF’s further expansion. It has reached an agreement that unique product and market demands are both important for the SKF to lead the Chinese market. However, Not only these two factors, but also other factors need to be considered. Successful companies not just rely on only one or two factors. As the large company like SKF, the communication with local government, the different culture, and the network with the distributor and suppliers and so on, these things must be premeditated. Only take different aspects of target market that could a company get more resources and access to success in this market.

5.5 Future Expectation of SKF in the Chinese Market

From the perspective of Mr. Berg, the whole development in the Chinese market has been extremely fast, including the goals, developing standard, environment, industry, and so on. However, this kind of growth rate should not be expected in the next 20 years. The growth line will be flat now. Also during the present situation, Mr. Berg
mentioned there were three existing problems in the conversation, which could be clarified as competitors’ threats, talents shortage and the missing of employees.

According to Mr. Jiang, the Chinese market contains both market-based economy and government-based economy. Fortunately, the development relayed on investment and management of the government goes well in the last 30 years. However, pulling the economic by investment will not be a sustainable strategy any more. Therefore, the market will frustrate by the factors of itself and the government reduces the control and steps out of the market in a higher level.

As is well known in the Uppsala model from Johanson and Vahlne (1977, 2009), there is a significance feature, when firms start to enter into foreign markets they first gain experience from the domestic market. After then, firms start their foreign operations from culturally and geographically close countries and move gradually to culturally and geographically more distant countries. The traditional exports have gradually turned in using more intensive and demanding operation modes (sales subsidiaries etc.). So that, SKF chooses the Chinese market that is totally different country. However it occurred to be the Uppsala model is not completely suitable for the Chinese market, because of the national cultural difference and corporate culture difference. But at the begin of consider the entry strategy, SKF thought it might be worked in Chinese market. Sometimes, the Uppsala model is suitable for the early stage of China, depending on the development and Chinese context, but the Uppsala model is not use in SKF right now, just use at the start of the business. After SKF getting market commitment and knowledge, the company might be decided to have some changes to develop the current activities and expectation for the future.

Absolutely SKF will be the leader of the market, but it will not so active at the moment. Now there is economic crisis in the global market that leads to a lot of uncertainties. Chinese market is one of those markets that SKF still do investment. But of course, there is a lot of cost pressure, so it has now step into a more stable development era. SKF don’t expect double growth any more. If there is depression and decline year by year in Chinese market, it will not just be terrible for the Chinese people, but for the global. SKF is not expanding in the new offices but transferred into long-term strategic goals. “It will be tough for the coming years, we have considered that as well.” claimed by Mr. Berg. Necessary change not only is good for the Chinese market but also is giving SKF another stage to development continually and stably.

SKF has been more than 100 years history in China, during this period, the company must gain the different experience from different aspects, and maximum utilized this experience to get some change, some innovation in the future. Economic do not develop so fast now, every country want to enter into the Chinese market. There are a lot of competitors, SKF need to slow down their steps, get more attention in the currently environment, adaptation the market variations.
6. Conclusion

In the last chapter, the authors presented a summarized conclusion together with the limitations and further implications.

6.1 Entry Strategies and Successful factors

After reviewing the existing literature and analyzing the findings from interview, combined with theories the authors come up with the following conclusions. The purpose of this research is depend on the SKF case study, the authors figured out what kind of strategies has been used to lead to the success and which factor should be considered during the entry process.

Q1: How does industrial companies’ entry strategy worked out to enter into the Chinese market?

Through this study, the authors got a clear vision about SKF’s entry strategies in the whole process of entering the Chinese market. As has been illustrated in the analysis, SKF built up its customer’s foundation through cooperative distributors and utilized the great network of distributors to open up the Chinese market. SKF obtained convenience, experience, knowledge, and customer resources from the distributors and formed a “Win-Win” situation. After accelerating the reputation and customers in the Chinese market, the establishment of manufactory became the second target of SKF. Building manufactories in China contributed SKF to save the raw material costs, labor costs and transportation costs, which made SKF competitive among the local bearing companies. When the company has a great success in the specific area, setting up own subsidiaries and operating the company with 100% ownership is the final strategy in the expansion process. At the same time, SKF could also expend the business in other areas and industries to realize the diversified development. The success of SKF in China is not merely because they are large enterprise in the world, but also due to the multiple strategies in the different periods.

However, from the failing experience of joint venture cooperation, it is not hard to see the importance of independence. Undoubtedly, SKF faced many obstacles in the process of development. The entry barriers like culture difference, government participation will all prevent the joint venture partners to reach the agreement. To the company like SKF which paid high attention on the independence, it is better to terminate the joint venture relationship with unsuitable partner but transferred to search for the supports from independent consultants. The history told us that joint venture is not suitable for every company. As long as a company finds the rift in time, and changes the strategy according to the situation, that can stop the company to develop in the wrong way. SKF is a company with clear targets and decisions,
therefore the failing experience will contribute to the further development.

Last but not least, the Uppsala model is one of the famous models for the company enters into foreign markets. However, depends on the cultural difference and region difference. Uppsala model is just at the beginning stage, for the development of SKF, is not fully applicable. Also due to the environment of Chinese market, which could influence the model.

Q2: What are the successful factors of industrial companies to enter the Chinese market?

The successful factors of entering into the Chinese market has been mentioned in the analysis part, as market demands, unique products, communication with local suppliers and government, network with the customers and so on. SKF considered different dimensions before exploring the target market in China. Market demand and unique product is two of the vital factors for SKF’s success. Which can be defined as the most successful factor for the SKF. The other similar companies can combine these successful factors with the organizational culture and particular environment to make their own entry strategies.

6.2 Limitation

The successful entry strategies and successful factors that the authors concluded in the case studies came from one Swedish bearing company-SKF. The limitation of this thesis rely on the fact that only one company in a specific industry was studied and for an ample results, a process of comparison between two or more companies on the same segment could be more suitable. Meanwhile, the target market is only in one country that narrowed the practical application of strategic framework.

The case study focused on the entry strategies and process approximately thirty years ago, which cannot be fully suitable to the future companies interested to enter Chinese market. Since the government policy, economic level and social environment has changed a lot in the last thirty years in China. Therefore, there is a lag of time in this study.

Besides not all kinds of entry strategies are discussed in the case, only the most common and well-known strategies are discussed in the research. Therefore, the introduced entry strategies in the work occurred to be incomplete.

Finally, most of the empirical data is based on two product managers from the source of interviews. There is no doubt that the results are influenced by the private opinions. This study can include other managers or employees to reduce the subjective bias in the further research
6.3 Further Implication

Since SKF is the leading company in bearing industry, it can fit as an example due to the process of success and even the failure process. The successful entry strategies from the authors’ research provided an applicable and imitational reference mode for the followers. The similar companies, which contain the similar scale as well as the economic power and advanced technique, can use the successful strategies from SKF for reference. The failing experience of joint venture can also give a lesson to those who want to explore the Chinese market in a long run. The following companies and researchers can understand how government and other factors influence the entry strategies of entering the Chinese market.

6.4 Future research

Consequently, in order to increase the numbers of users who can imitate this strategy mode, the future research could be complete by extending the target market to a larger scale and adding the types of industries. It will be a significant study and a huge project to generate a strategic framework that contains different specific strategies to suit for changeable situations and different types of companies.
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Appendix

Interview Questionnaire of SKF

——Successful Entry Strategies in Entering Chinese Market

Interviewer: LIJING YU, YUN FU
School: Halmstad University

Interviewee: Goran Berg
Nationality: Swedish
Position: product manager of Asia self-aligning bearing
Interview place: SKF’s head office in Gothenburg
Interview date: 4th of April

Interviewee: Dan David Jiang
Nationality: Chinese
Position: product manager of self-aligning bearings
Interview method: Phone interview
Interview date: 8th of May

Research questions:
Q1: What strategies have adopted by SKF and how these strategies worked out to enter into the Chinese market?

Q2: What are the successful factors of industrial companies to enter the Chinese market?

We arranged the interview process into three parts:

Step 1: Asking some general questions and the development of SKF in Chinese market.

Step 2: Asking specific questions about the entry process and strategies of SKF, and also ask how did SKF overcome the difficulties.

Step3: Discussing about the research questions and sharing opinions. Besides, some future planning or expectations of SKF in China.

Specific questions:

Q1. Do you have strong competitors? What are the advantages of SKF compared with the others?
Q2. According to the history of SKF, in 1951 it moved out of China. Do you know the reason why it moved out?

Q3. SKF has agencies and subsidiaries, do you know more about other entry strategies they used?

Q4. Is the subsidiary wholly owned subsidiary or like a strategic alliance with other companies?

Q5. Can you talk about the agencies? Is it just an office to deal with the daily issues, or include the production and sailing?

Q6. Are there any connections between these two modes?

Q7. Most large companies choose to build a subsidiary in entering the new markets, but some other firms choose to enter step by step. First setting up the agency in the new markets and than has a joint venture with the local company, and later on built a wholly owned subsidiary. What’s your opinion about this phenomenon? Which one do you prefer?

Q8. Can you describe the process of entering Chinese market of SKF?

Q9. Is it risky to enter a new market, especially market with big culture differences? What kind of risks had SKF meet? How do you avoid the risks?

Q10. When the company decided to go into a new foreign market, what is first thing that you consider?

Q11. When company first entry into China, which factors you think is important, and which factor that you think is possible to ignore?

Q12. What strategies had SKF chose when entered into the Chinese market? And why you choose this strategy? Can you give us some examples?

Q13. During these strategies, did the company meet any troubles? How did you solve the problems? Can you give us some examples? For instance, did you meet the problems in government communication, tax, culture and economy? Can you tell the specific issues about that?

Q14. Can you tell us something about other countries that entered into new markets? Is it similar when compared with China?

Q15. Can you answer our research questions?
Q16. We would like to know more about the operation of the company now? How many Chinese employees do you have?

Q17. What is the structure of SKF’s office in China? Is it different from the structure in Sweden?

Q18. Do you have existing problems in Chinese market? Do you have unsolved problems?

Q19. What do you think about the future of SKF? What is your next marketing plan?

Q20. Do you have any expectations about Chinese market, or Chinese government or Chinese employees?