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**International Marketing Strategies of
Chinese Multinationals: The Case Studies of
Haier and Lenovo**

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"I declare that this research study is entirely the product of my own work and that it has not been taken from the work of others. When the work and ideas of others have been used in the study, the work has been properly cited in the text."

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Abstract

Recently, multinationals emerging from transition economies have drawn a great deal of interest from marketing researchers. In particular, Chinese multinationals which have had assistance and encouragement from their government are entering into the international marketplace. It is noticeable that many Chinese multinationals have already performed aggressively in the global market. The aim of this study is to identify the international marketing strategies used by Chinese multinationals and to compare them with the findings of the existing literature. This research adopts a cross case study approach and it will primarily use secondary data collected from multiple sources, such as journal articles, published interviews and Internet databases.

A review of the current academic literature on this issue indicates that few studies have been conducted in the area of Chinese multinationals' international marketing strategies. Most of the studies have concentrated on western successful multinationals' internationalisation and marketing strategies. Based on the in-depth analysis of two Chinese multinationals; Haier, and Lenovo; this report serves not only to provide Chinese multinationals with knowledge and information regarding global marketing strategies, but also contributes to the academic literature by emphasising an understanding of how Chinese multinationals compete in global markets.

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Chapter 1- Introduction:

1.1 Background

Since the late 1970s, China has enjoyed an incredible period of economic growth, and today China is the fastest-growing country in the global economy. With President Deng Xiaoping's successful open-door policy, China's GDP has grown by 9.3% annually, which is three times faster than the US economy (Zeng and Williamson, 2003). With a population of 1.3 billion, China has become one of the most attractive markets in the world. By joining the World Trade Organization (WTO) in 2001, China today plays a significant role in the global economy, with mainland China viewed as the workshop of the world. With the coming 2008 Olympic Games being held in Beijing, China has been noticed by most advanced countries as a sleeping giant which is now waking up.

On the internal front, under the successful market reforms and the open-door policy, China has benefited from an invite-in strategy, with a large quantity of foreign capital and investments directly entering the world's most potential consumer market. On the international front, many multinationals have ignored the emergence of Chinese enterprises as powerful rivals. Chinese multinationals, like their ancestors who built the Silk Road thousands of years ago, face huge opportunities, large challenges and inspiring prospects. More and more Chinese multinationals are looking at the overseas market potentialities, by utilising their advantages in areas such as low labour costs and raw material resources.

The government plays a significant role in the internationalisation process of Chinese enterprises, and the global ambitions of Chinese enterprises have been encouraged by

both the local and national governments. Chinese enterprises have begun to fulfil internationalisation based on their experimental basis. Meanwhile, the Chinese government has implemented a flexible and practicable approach to monitoring their international processes.

Entering the WTO had given Chinese companies chances and opportunities to present themselves on the international stage. This symbolises the ambitions and desires of Chinese companies to expand globally. In their globalisation efforts they are driven by two forces; acquiring new technologies, and exploring new markets. Many Chinese multinationals have been exploiting the process of globalisation, in such areas as international brand image, participation in world-class technological standards, competition with global players, global sourcing and overseas market experiences and knowledge, among others.

Though China's export growth has been primarily driven by foreign and foreign-invested enterprises, some Chinese multinationals are starting to emerge as substantial global competitors. The Haier Group, Lenovo, TCL, Changhong, Glanza and Huawei are some of the best examples of Chinese companies, which are becoming active international players in the new century.

Today, it is difficult to find a store in a Western market which does not sell products labelled *Made in China*. In the twenty-first century, China has already overtaken Japan as the largest manufacturer and exporter of consumer goods. China has become the world's number one manufacturer in 172 product categories of various consumer and industrial goods (Barboza, 2006).

1.2 Purpose of the Study:

Chinese multinationals are typically government policy supported and guided. As a result, their processes and strategies in internationalisation have shown differences in their overseas markets' business operations in comparison with Western multinationals. The purpose of this study is to identify the international marketing strategies used by Chinese multinationals and to compare them with the findings of the existing literature.

1.3 Research Questions:

1: What entry mode strategies do Chinese multinationals (Haier and Lenovo) use in international markets, and are there any differences in entry mode strategies between the successful Western multinationals (Uppsala model) and Chinese multinationals?

2: As latecomers, in order to successfully gain global market share, what international marketing strategies (product, promotion, pricing and distribution) have Chinese multinationals (Haier and Lenovo) implemented in comparison with Western multinationals?

1.4 Report Structure:

The research report is divided into seven chapters. Chapter 1 presents a brief introduction to the Chinese economy and Chinese multinationals' global ambitions. It is followed by the reasons for conducting this research and the research questions. Chapter 2 presents a review of the related literature, the internationalisation U-model (Johanson and Vahlne, 1977) and international marketing strategies, given the

existing theories. Chapter 3 is composed of the methodology used in this research and the two companies' backgrounds. Chapter 4 provides the case study of Haier, with Chapter 5 presenting the case study of Lenovo. Chapter 6 discusses the findings, with cross comparisons between the cases. Comparisons are also made with the existing literature. Chapter 7 presents the conclusions, the managerial implications of this research, the limitations and future research directions.

Chapter - 2 Literature Review:

Under the current global dynamic business environment, one of the most prominent and prevalent trends in doing business is the internationalisation of ambitious companies and the globalisation of markets in terms of merchandise and services. Most of the international firms cannot deny that these trends have been affecting and influencing companies' international strategies over time. Therefore, the exploration of internationalisation and globalisation of the international marketplace is of enormous significance.

2.1 U-model:

The most well-known original internationalisation model is the Uppsala model (the U-model) which was developed at the University of Uppsala, Sweden. The Uppsala model was developed in the 1970s by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977; 1990), from the case study of a Swedish manufacturing industry. The Uppsala model describes the internationalisation process as a step-by-step commitment within the company's different levels of internationalisation. They distinguish between four different modes of entering international markets. The theory is outlined as follows.

Stage 1: No regular exporting activities

Generally, companies in this stage primarily focus on the domestic market, without any exporting activities.

Stage 2: Exporting via independent representatives (agents)

Indirect exporting means that intermediaries are located in the domestic market and help companies to contact, and reach, international buyers (Jeannet and Hennessey, 2004). This means that the intermediaries (middleman) in the home country will re-sell the products to overseas markets. In comparison with direct exporting, indirect exporting involves less risk, because the firm does not need to undertake any exporting operations. The manufacturer will not, however, gain any knowledge, or information, about the international markets.

Stage 3: Establishment of an overseas sales subsidiary

This stage implies that the firm establishes its own exporting department and market its products through local intermediaries located in the overseas markets (Kotabe et al., 2005). This stage is also called direct exporting. The firms sell products to overseas customers who are normally agents, or distributors, that resell products to local customers. Generally speaking, direct exporting implies that firms make a substantial commitment in the international market. More often, direct exporting involves of handling of a large quantity of foreign contacts.

Stage 4: Overseas production/manufacturing units

A familiar type of international entry mode is the domestic manufacture of an enterprise's product. Apparently, many international enterprises have benefited from manufacturing firms' local offerings, rather than through supplying certain regional markets with products, or services, produced elsewhere (Jeannet and Hennessey, 2004). Acquisition and internal development are the two most commonly used direct modes of entry strategies, which have been adopted by many global and regional

companies (Doole and Lowe, 1999; Bradley, 1995; Onkvisit and Shaw, 1997; Kotabe et al., 2005).

Internal development operations occur when companies decide to custom-build foreign expansions in order to satisfy local consumers (Hill, 2005). Hill also pointed out that there are a number of advantages in adopting internal development strategy. First, there is no need to deal with existing management and facilities in order to establish operations for other requirements. Further, it provides the capability of initialising new operations in local, or regional, markets using the firm's technology and expertise, management structures and corporate cultures. On the other hand, internal development strategy provides parent companies with complete control of start-up developments and local market strategies. There are some internal development disadvantages which have to be noted, such as the necessity of the firm to establish its own channel, supplier, and distributor relationships in the local market. The local competitors have time to design strategies to cope with new entrants, as well as the risks that involve the resources committed in the new markets and temporarily financial losses due to slow market growth (Kotabe et al., 2005).

Jeannet and Hennessey (2004) indicated that international enterprises normally make acquisitions, as this is much quicker than internal development in entering the target market. In addition, acquisition is also considered to be faster and cheaper than setting up a wholly-owned manufacturing subsidiary, which could help the firm to build a global market presence much more quickly. Apart from the above reasons, international companies made acquisitions in foreign market segments as an existing way of entry with "...institutional support and a working network of suppliers,

intermediaries, and customers” (Bradley, 1995, p.354). The reasons for international firms adopting acquisition strategy include product and geographic diversification, acquisition of resources in terms of technology, information, management and marketing and quicker entry to new markets (Onkvisit and Shaw, 1997).

As far as the entry modes are concerned, licensing and joint ventures are taken into consideration in later stages of internationalisation modes (Anderson, 1993).

The Uppsala model has been recognised and accepted as being broadly applicable to internationalisation processes. The original model has since been redeveloped into incremental steps. First of all, firms which have surplus and excess resources can be expected to take larger internationalisation steps. Secondly, when a market is under conditions of stability and homogeneity, pertinent market knowledge can be obtained in ways other than through experience. Thirdly, if the firm has substantial experience from markets which have similar characteristics, it could be capable of generalising this experience to a specific market (Johanson and Vahlne, 1993).

Recently, the Uppsala model has been under criticism due to its too deterministic and sequential logic (Turnbull, 1987; Reid, 1983), but not due to its inability to describe firm’s stage-skipping (Oviatt and McDougall, 1994). Turnbull (1987) also emphasized that a firm’s previous exporting experiences have no relationship with the choice of entry mode. Turnbull and Valla (1986) challenged the concepts of the U-model. Their study explained that there is no need for firms to undertake any particular and steady pattern in the process of internationalisation. Due to every country having its own characteristics, a firm can select various entry modes.

2.2 Elaborations on internal development:

Internal development happens while an enterprise, whether lately established, or already in operation, begins trading on a consistent basis in an existing market segment from which it was previously absent (Yip, 1982). The new firm always establishes a new manufacturing subsidiary by sending key administrators who hire employees locally, start up the new business gradually and build networks with local business partners, communities and institutions (Barkema and Vermeulen, 1998). Internal development allows the parent company to hire a new labour force and management team, which can leverage the parent company's specific and expertise advantages from its headquarters (Buckley and Casson, 1998). If an enterprise with competent technological expertise and capabilities acquires a local company with inferior technological expertise and capabilities, more often than not the parent company has to transfer and install its technologies to the newly acquired firm and, thus, the expertise and capabilities are needed for the acquired firm to learn new routines, rules, procedures, company cultures and strategies as well (Muller, 2000).

Product-diversified multinationals have comparatively competent technological expertise and capabilities, because they take advantage of "...multiple learning chances when staying within cognitive and organizational limits on information sharing between divisions and between divisions and headquarters" (Chang and Rosenzweig, 2001, p.751). Such firms are, thus, probably more able than either single-business companies, or intensive product-diversified companies, to establish new ventures in foreign markets. If multinationals follow vertical global expansions, this will exploit the company's resources, expertise and capabilities and the firm may set up a new venture in new markets, by acquiring local employees (Barkema and

Vermeulen, 1998). Brouthers and Brouthers (2000) stated that internal development assists multinationals to acquire more synergies than can acquisitions. Contrarily, acquisitions may create barriers in gaining synergies, because of rival products, or services, or the lack of product/service expertise and capacities in the recently acquired business. Agarwal and Ramaswami (1991) argued that international enterprises possessing superior capabilities to develop differentiated product offerings are more likely to undertake internal development strategies.

2.3 Elaborations on acquisition:

An acquisition investment occurs when an established contestant in an existing market segment is acquired by a company which has not previously been participating in that market segment. The acquirer ought to have the intent to exploit the acquired firm as a base for further expansion, and not just view it as an investment (Yip, 1982). In terms of acquisition, the international enterprise purchases at least part of the equity of an existing company in a particular region. The acquisition allows the company to acquire new technological resources, which can substantially assist the parent company's internal development (Barkema and Vermeulen, 1998). In particular, the high-tech enterprises prefer obtaining innovative technology by acquiring foreign companies from other regions (Yip, 1982). In contrast, enterprises with competitive technological expertise and capabilities prefer entering foreign markets through internal development. Dikova and Witteloostuijn (2004) stated that acquisition of knowledge is a significant source of managerial expertise and knowledge learning in the form of organisational experience and environmental scanning. Brouthers and Brouthers (2000) indicated that technologically intensive multinationals lacking local market-knowledge and experience might seek to gain the knowledge and experience

by acquisition. If an international enterprise decides to pursue a product diversification strategy, such a firm will prefer to follow an acquisition strategy by obtaining essential resources and product-specific knowledge (Buckley and Casson, 1998). Hennart and Park (1993) continuously implied that, by undertaking acquisition, Japanese enterprises acquired significant human resources which possess important information and that similarly, acquisitions of foreign companies are capable of obtaining local successful brand names and combining these brands with the entrant's firm-specific management and marketing resources.

2.4 Significance of the choice of foreign market entry mode:

According to Bradley (1995), the relationship between market strategy, complexity of international markets and mode of market entry must be integrated to allow the firm to make an optimum choice of entry strategies. The appropriateness of a specific entry mode relates to the ease, or difficulty, with which a firm can enter new international markets (Gannon, 1995). Harold and Rod (1998) indicated that the choice of method of entry into foreign markets for many firms is a fundamental and critical decision in international marketing, as the entry technique will influence the rest of the marketing programme. Many studies in this field have argued that there is no, one, single ideal entry strategy for foreign market entry. Harold and Rod (1998) also stated that it is not a practical strategy to enter all markets using a single entry method. Many large multinationals adopt multiple entry strategies, each reflecting different levels of commitment and resources, as well as the dynamic nature of international markets, which makes it difficult to adopt a single entry method which will work effectively in all markets. Indeed, a company's entire international marketing programme might be substantially determined by how it chooses to enter foreign countries and the market

entry methods chosen have to relate to the company's overall strategy, goals and the time periods in which it wishes its objectives to be achieved (Bennett and Blythe, 2002).

2.5 Psychic distance:

To explain the incremental internationalisation process, it has been hypothesised that, when companies approach international markets, the successively greater psychic distances will be taken into consideration. The concept of psychic distance has been regarded as a factor preventing, or disturbing, the flow of information between company and market. This factor is composed of differences in language, cultural backgrounds, political systems, level of education and industrial conditions (Johanson and Vahlne, 1977). Johanson and Wiedersheim-Paul's (1975) case study demonstrated that the firm follows a pattern of entering new markets with successively greater psychic distances. The Uppsala model advocates that psychic distance plays a significant role in firm's internationalisation process.

2.6 International marketing strategies:

Kahler and Kramer (1977) implied that international marketing is a combination of exporting, or producing, and marketing multi-domestics, without the goods crossing national borders. Bennett and Blythe (2002) indicated that international marketing considerations is a collection of activities, including product designs and development, advertising and promotion, public relations, sales promotions, determination of selling prices, personal selling, post-sale services and distribution systems. They stated that international marketing strategy is concerned with product positioning, branding strategies, choice of target country, entry mode strategy and the use of international

media for promotions. The dominant factors in the international marketing processes are that the company has permanent business operations in two, or more, countries. The processes are composed of interactions and inter-relations within economic, cultural and political issues (Fayerweather, 1982).

2.7 International product strategies:

In order to achieve international success, enterprises make every effort to meet and satisfy the demands of the markets, but only if the products, or services, provided are suitable and eligible for meeting their objectives (Doole and Lowe, 1999). The motive that mainstream companies to originally develop foreign markets is to provide a cost effective method of creating new market chances and increased requirement for a new product, a domestic product range, or simply to off-load surplus capacity (Doole and Lowe, 1999).

2.7.1 Balance between product standardisation and adaptation:

When introducing firms' offerings into international markets, it is always important for multinationals to weight the benefits of standardising products globally versus adapting products to local markets. Researchers have long debated the choice of product adaptation/product standardisation (Cavusgil, Zou and Naidu, 1993). Additionally, many researchers have advocated product standardisation not only because of the economies of scale, but also due to the homogeneity of global markets (Levitt, 1983; Ohmae, 1985). On the other hand, some researchers are sceptical about the feasibility and benefits of product standardisation, due to different consumer habits and diverse demands, as well as the differences of cultures, economies and political conditions (Boddewyn, Soehl and Picard, 1986; Quelch and Hoff, 1986).

Since late in the last century, both standardisation and adaptation have been regarded as being equally important and multinationals have been encouraged to balance the conflicting conditions in their global offering designs (Cavusgil, Zou and Naidu, 1993; Wind and Douglas, 1987). Nonetheless, all products made for international markets are not produced with this purpose. The fraction of international products which balance standardisation and adaptation appears to keep grow (Takeuchi and Porter, 1986), and it has been proven that multinationals seek the merits of balancing standardisation and adaptation. Through balancing standardisation and adaptation, multinationals not only benefit from manufacturing efficiency and responsiveness (Morrison and Roth, 1992), but also obtain global competitive advantages through successful inputs from both headquarters' and overseas subsidiaries' product design collaborations (Subramaniam and Venkatraman, 2001).

2.7.2 Significance of product standardisation and adaptation:

Onkvisit and Shaw (1997) indicated that, when it is appropriate, standardisation is a very cost-effective approach to reach international markets, as when a consistent corporate or product image is required, product uniformity is necessary. The advantage of standardisation is the ability to help multinationals reach economies of scale. Homogenisation of international customers provides opportunities for multinationals to deliver a large quantity of standardised products to customers. In addition to the maximum utilisation of manufacturing facilities, large quantities of sales allow multinationals to gain more efficient manufacturing technologies, lower research and development expenses, lower the costs of mass-media advertising and gain greater utilisation of current channels and sales forces (Claudio and James, 1995).

Multinationals which are devoted to product standardisation, with similar positioning worldwide, not only rely on product strategy, but also on regional factors including access to media, technological support and established distribution channels (Yip, 1989). If conditions fit to undertake product standardisation, the multinational companies can pay more attention to setting up sufficient distribution capacity, sales forces and advertising and promotional campaigns (Henzler and Rall, 1986). The fundamental objective of adopting product standardisation is to reduce costs of production, and "...the cost savings can be passed through to the company's customers by lower prices", with multinationals being able to concentrate on customisation and adaptation of their product offerings, based on domestic consumers' needs and demands (Kotabe et al., 2005, p.294).

Under many market conditions, multinationals adapt products to special regional consumption characteristics. Product adaptation has been prevalent due to the belief that products and programmes must be adapted to meet customers' demands and desires in particular regions, or countries. Cavusgil, Zou and Naidu (1993) implied that market characteristics will force multinationals to undertake product adaptation strategies. International enterprises constantly find that they must alter some components and parts to suit local circumstances (Jeannet and Hennessey, 2004). International consumers' product offerings are usually developed consecutively from marketplace to marketplace, or country to country, leading to similar product offerings and services being obtainable in many regions, and even globally (Bradley, 1995). The level of product adaptation mostly depends on the nature of the product and the market characteristics (Kotabe et al., 2005). Multinationals can occupy large

marketshare in particular countries, or regional markets, by adapting products to local needs.

2.8 International promotion strategy:

Effective and integrated communication is even more important as a foundation stone of international marketing today, than in the past. Whether it is an issue of launching promotional campaigns, or creating a marketing system, multinationals have to understand what kind of messages would please, or irritate, the target markets (Czinkota and Ronkainen, 1998). Effective communication is very important in international marketing. The reason for this is that the geographic and psychological distances which disconnect the company from its intermediaries and target markets (Czinkota and Ronkainen, 1998). Advertising, as a compulsory element of international marketing, has significantly changed in the recent past and will continue to change into the new millennium. Comprehensive changes around the world are enabling multinationals to reconsider the methods by which they promote and sell their offerings. If existing international promotional practices in advertising verify anything, it is that there is no single correct method to reach target customers internationally (Czinkota and Ronkainen, 1998). Identifying the most appropriate strategy, or strategies, is the critical challenge for multinationals.

To communicate with and influence international consumers, several promotional methods are available. Advertising is normally the most visible medium of promotion, however, it is not the only option for promotion. The promotion mix is composed of three distinct, but interrelated elements: Personal selling; publicity; and sales promotions (Onkvisit and Shaw, 1997). The four promotional tools are not equally

exclusive, and it can sometimes be complex deciding which one is the more appropriate (Onkvisit and Shaw, 1997).

Sports promotions and sponsorship have been prevalent since last century. With major sports events increasingly being covered by the mass media (by television, in particular), the commercial value of these events has increased tremendously over the last few decades (Jeannet and Hennessey, 2004). Today, large sports events, such as the Olympics, or world championships in specific sports, cannot exist in their present form without funding by companies. Companies provide this funding, either through advertising, or through different types of sponsorships. To take advantage of global sports events, a company needs to have a logo, or brand name, that can become recognisable to a global audience.

2.8.1 International branding strategies:

To date, many studies on international branding have concentrated on global brands, describing how these brands are perceived (Johansson and Ronkainen, 2005), as well as how they adapt to particular contexts of overseas markets (Watson, 1997); or on local branding, with explanations on their competitiveness against global brands (Eckhardt, 2005).

In general, international marketing research falls into two categories: Globalisation; versus localisation. From the empirical international marketing studies, it can be seen that researchers who advocate globalisation are in favour of global standardised branding strategies (Levitt, 1983), which refers to the branding being the same globally. Advocators of localisation prefer to tailor branding strategies according to

local market environments (John and Rohit, 2004), which means that the brands will be different in different markets. The question of whether to promote globalised, or localised, branding strategies has recently drawn a great deal of interest from marketing researchers. Many have argued that globalised branding strategies are appealing to firms which view the global market as one market and offer standardised products (Jeannet and Hennessey, 2004). Due to the differences of culture and values existing across regions, however, localisation branding strategies are preferred by others.

Strong brands will assist the company to build an identity in the marketplace and develop an elaborate customer base (Kapferer, 1997; Keller, 1998). Many multinationals manage to acquire one, or a bundle of, advantages through global branding. These advantages include legal protection, quality guarantees and product offering differentiations (Bradley, 1995). With the purpose of building an international competitive advantage, enterprises constantly attempt to attach featured attributes to the product offerings. Quality performance, country of origin, luxury image and status are always noteworthy issues in the building of consumer brands (Bradley, 1995). Onkvisit and Shaw (1997) also indicated that a successful international brand will bring many benefits, namely status and prestige associations, maximum market impact, easier identification and good reputation for quality.

2.8.2 Re-branding:

According to Lomax and Mador (2006), re-branding can enhance the company's image, and "...two over-arching drivers have emerged: imposed corporate structural

change, and concern over external perceptions of the organization and its activities” (Lomax and Mador, 2006, p.86).

2.9 International pricing strategy:

Among the international marketing mix, pricing is one of the most critical and complex elements faced by internationalised firms. A firm’s global pricing strategy may make, or break, its international expansion efforts (Kotabe et al., 2005). Bagwell and Riordan (1991) pointed out that price can be an important signal of product quality and value, which means that pricing is crucial for multinationals.

As the fundamental concern in international marketing is whether the company strategy should be standardised or adapted, international pricing strategy is regarded alongside of the standardisation-adaptation continuum (Theodosiou and Katsikeas, 2001). One area of international pricing that draws a great deal of attention is the issue of pricing standardisation. Research into the marketing mix of giant US-based companies in their Latin American operations has discovered that the level of pricing standardisation is diverse, due to particular local issues (Onkvisit and Shaw, 1997). Normally, branding and product are less adapted. Probably due to government regulations and policies, the pricing and advertising sectors are quite often adapted (Onkvisit and Shaw, 1997). They also find that many international US firms standardise their prices worldwide, because they are seeking economies of scale and standardisation reduces costs. Today, the development and innovations in the international marketing environment make pricing standardisation a practical, or even inevitable, strategy (Theodosiou and Katsikeas, 2001). Since pricing standardisation has an effect on companies’ sales and profitability levels and sets up products for

overseas market positioning, it is crucial to comprehend the factors that affect the level of international pricing standardisation (Theodosiou and Katsikeas, 2001). Many studies have expressed the view that pricing standardisation is probably unproductive. Sometimes, standardised pricing might lead to products being under-priced for a number of countries, and overpriced for others (Theodosiou and Katsikeas, 2001). Doole and Lowe (1999) implied that international pricing adaptation would allow the overseas subsidiaries to set prices which are considered to be the most suitable to the local customers.

In international markets, pricing strategies are considered to be more complex, as they are influenced by various other external factors, including fluctuations in international currency exchange rates, inflation in particular markets, international payment options, barter-trade and counter-trade. Pricing decisions are also drastically affected by the nature and intensity of the competition in various regional markets (Doole and Lowe, 1999). Terpstra and Sarathy (1997) stated some other issues which international firms should take into consideration, such as environmental issues, market condition issues, firm internal issues and particular product category issues (Doole and Lowe, 1999).

2.10 International distribution strategies:

Distribution channels are the means by which goods are distributed from manufacturer to end user. Some companies own their own means of distribution. Some companies only deal directly with their most important customers. Many multinationals, however, rely on other companies to perform distribution services for them. In international marketing, companies usually take advantage of a wide number of different organisations to facilitate the distribution of their products (Kapferer,

1997; Keller, 1998). The actual distribution channel decision is a fundamental decision, as it affects all aspects of the international marketing strategy. The key objective in building an effective distribution strategy is to build a supply chain to the markets. As stated by Doole and Lowe (1999) a properly designed and managed vertically integrated marketing system that incorporates both the wants and needs of the manufacturer and the distributors. To achieve this across international markets is a daunting task and the international marketing manager has to meet a number of important challenges in order to ensure the development of a distribution strategy which delivers effective distribution of products and services across international markets. The major areas they need to consider are as (Doole and Lowe, 1999):

1. Selection of foreign country intermediaries;
2. How to build a relationship with intermediaries;
3. How to deal with the varying types of retailing infrastructure across international markets;
4. How to maximise new and innovative forms of distribution; and
5. How to manage the logistics of physically distributing products across foreign markets.

Distribution channels which use intermediaries, agents, or merchants, positioned between the manufacturer and consumer in a distribution channel can often have several levels and employ several intermediaries, each with their own specific purpose within the distribution channel. The use of intermediaries can be a relatively easy, quick and low-cost entry strategy into a new foreign market. Hence their frequent use by many multinationals, particularly small-to-midsize firms which do not have the resources to operate their own marketing and distribution systems in a foreign market

(Kotabe et al., 2005). Distribution networks in different countries may, however, have much in common so that planning should be based on observed similarities, rather than differences (Bradley, 1995). Bradley also implies that the distribution strategy should be modified to suit the country, rather than attempting to change it completely.

2.10.1 Relationships in distribution:

Johanson and Mattson (1988) used companies' relationships in their investigation and exploration of internationalisation. They viewed the business network as a dynamic relationship with the companies' distributors, wholesalers, customers, suppliers, competitors and government; all the actors in the business network. The activities occurring in the networks can help the firm to build close relationships, which will enable the firm to obtain access to resources and potential markets (Chetty and Holm, 2000). Being network oriented means that firms can obtain more opportunities to better penetrate markets and serve customers (Hadley and Wilson, 2003). Hadley and Wilson (2003) also stated that networks enable multinationals to build relationships so that, in turn, further linkages with other actors can be realised.

Chapter 3 - Methodology:

In order to achieve the objectives specified in the research questions, I will introduce the processes which this research project will contain. Generally, academic researches are approached via either one of two methods, statistical quantitative research, or case study qualitative research. Quantitative research is valuable for generalising theories via examination of data collected from a certain sample size. The quantitative method is not able to be utilised in the case of multiple-choice questions.

3.1 Research approach:

The research methodology used is based on the nature of the research problem. Since this research is an exploratory study, a case study approach is considered to be more appropriate and applicable than a quantitative method, due to the in-depth secondary data observations required. A case study is normally used to pursue, not only descriptive (exploratory), but also explanatory (Hakim, 1987).

A case study approach will be included in this research project. The case study strategy is normally used to obtain a comprehensive understanding of the context of the research and the processes being conducted (Morris and Wood, 1991). Since the purpose of the case study approach is to increase knowledge on current and contemporary issues and look for the answers why and how things occurred under particular circumstances, a case study is an appropriate method for my research questions. The significance difference between the case study approach and other methods is that it focuses on particular cases, not the whole population.

Cross case studies were used in this report. The use of multiple case studies enables some measure of generalisation across a broad dimension. It is also used to identify distinctive features by observing similarities and contrasts between the cases (Daymon and Holloway, 2002). In a cross case study, there is usually a detailed description of each case, with the themes within each case observed, followed by a thematic discussion across the cases. Miles and Huberman (1994) stated two advantages of cross case analysis. It can enhance generalisability and deepen understanding and explanation.

In order to obtain in-depth information and knowledge, many qualitative researches involve personal interviews. Initially, I intended to do interviews in this research, but this was eventually not possible. Due to the special characteristics of Chinese social contexts and the transition economy, there are foreseeable barriers in conducting face to face, or telephone interviews (Li, 2005). Chinese companies are sensitive regarding critical questions and worried about information leakage. An interesting point is that, in China, many researchers use secondary data to develop case studies (Li, 2005) and this approach is often used in transition economies, such as Eastern Europe and Asia.

As a result, I use secondary data to develop my case studies. The case study approach will use secondary data collected beyond a simple literature review. There are two reasons for me to use secondary data. Firstly, interviewing senior administrators is very difficult, whereas information accessed from staff tends to lack value. Secondly, many Chinese scholars who have strong personal relationships and networks have performed case studies on domestic enterprises. Their studies contain valuable data

and information (Li, 2005). Liu and Li (2002, p.705) implied that, by having intimate relationships, they "...were able to have access to both internal strategic documents such as reports and full cooperation from the company's top management for interviews". Using other sources can reach the same results, which means that the research approach has to be adapted to the Chinese context.

3.2 Data collection procedures:

As a result, this case study will primarily use secondary data collected from multiple sources, including news stories, journal articles, published interviews, Internet databases, library databases, official statistics and annual reports. I have included every possible valuable source, and an extensive data collection has been conducted. All these data will provide a sufficient basis for this research project.

In the case of avoiding ambiguous faults in data collection, all the secondary data will be examined through being read before being cited in the literature review, diagrams and charts. Malhotra and Peterson (2005) pointed out that there are some criteria applied for secondary data collection. First, the methodology used for the data collection should be critically inspected to discover any potential sources of bias. Second, the accuracy of the data collected needs to exclude any errors which may occur in the collecting process. Third, the currency of the data collected must be updated where necessary. Fourth, the data obtained has to be objective, as the relevance of the data does count. Fifth, the data achieved has to be natural and consideration has to be made as to its usefulness to the study. Last, the data has to be dependable, with original data sources used.

In this research project two Chinese multinational firms have been examined and investigated. The companies I have studied are two *Chinese Champions*. Avoiding sensitivity issues in terms of these two Chinese companies is crucial. The term *Chinese Champion* is used to refer to a Chinese firm which has a dominant position in the domestic market. Haier and Lenovo are the two companies chosen for this research. Domestically, Haier is the biggest white-goods home appliance manufacturer in China and Lenovo has the largest share of the PC market. Ethical issues can be avoided through collecting data via libraries, the Internet, published journal articles and other articles. There is no ethical issue involved in this research. I will briefly introduce these two Chinese champions in the following sections.

3.3 Company background:

3.3.1 Company background: Haier Group Ltd.

The Haier Group was established in 1984 with headquarters in Qingdao, Shandong Province, PRC. In 1984, Haier only manufactured a single model of household refrigerator. Today Haier has become one of the world's leading white-goods home appliance manufacturers, and its products are sold in over one-hundred countries under the Haier family brand (www.haier.com). Haier ranks fourth among the white-goods home appliance manufacturers; behind Whirlpool, Electrolux, and Bosch-Siemens (www.ifm.eng.cam.ac.uk). Even though it is under partial public ownership, Haier is still technically a collective enterprise (<http://www.mobilesdata.com/Haier>). A collective enterprise lies between private ownership and state ownership. In theory, a collective company is one where the employees own the company. Due to the complexity of the Chinese economy, Haier is still influenced by, and intervened in, by the government (Liu, 2005).

Currently, Haier has over 240 subsidiary companies, over 110 design centres, plants and trading companies and more than 50,000 employees around the world. The global revenue for 2005 was 103.4 billion RMB (US\$13 billion). Haier focuses on a reasonably wide range of industries, including technology research, manufacturing, trade and financial services (www.haier.com). Haier's international business framework encompasses a global network of design, procurement, production, distribution and after-sales service. In global markets, Haier products are available in twelve of the top fifteen chain stores in Europe and ten leading chain stores in the US. Haier is now moving towards the goal of being an internationalised firm, through localised design, manufacturing and sales/distribution. Additionally, Haier has built manufacturing facilities and factories in the US, Italy, Pakistan, Jordan and Nigeria (www.haier.com).

3.3.2 Company background: Lenovo Ltd.

Lenovo is an innovative, international technology company, formed as a result of the acquisition by the Lenovo Group of the IBM Personal Computing Division. Nowadays, Lenovo has become one of the leading global PC manufacturers. It develops and manufactures reliable, high-quality and innovative PC related products. Lenovo is an international firm, with executive offices in the US, China and Singapore. Its principal operations are in Beijing, China, and North Carolina, the US, with an enterprise sales organisation around the world. Currently, Lenovo employs more than 19,000 people worldwide (www.lenovo.com).

The company was founded in Beijing, China in 1984 by eleven scientists, under the name Legend. It opened a new era of consumer PCs in China. Lenovo started business by distributing IBM and HP PCs within the domestic market. Today, Lenovo has had a leading position in the domestic PC market for eight consecutive years, commanding over 25% of the market share in 2004. Due to the ambition of international expansion, Legend changed its brand name to Lenovo in late 2003. In 2004, through its acquisition of IBM's Personal Computer Division, Lenovo became an international leader in the PC market. Today, Lenovo is the third largest PC manufacturer in the world, after Dell and HP (Liu, 2007). Its global revenue was approximately US\$13 billion in 2005 (www.lenovo.com). Lenovo spent US\$1.75 billion in cash, stock and assumed liabilities to acquire IBM's personal computer division. The Chinese government took a 26% ownership stake in Lenovo, with 18.9% held by IBM and Lenovo and other shareholders owning the remainder of the ownership stake (Fan, 2006).

Lenovo and IBM have entered into significant, long-term business relationship, which offers consumers favourable access to IBM's first-class customer service company and international financing offerings. With the acquisition, Lenovo is now able to exploit IBM's prevailing global distribution and sales network. During this long-term relationship, global customers will be offered the best quality products, with the lowest total-cost-of-ownership (www.lenovo.com). "The Lenovo today have six basic business lines: consumer information-technology products, commercial information-technology products, hand-held products, information carriage, information technology services, and contract production of components" (Ling, 2006, p.365).

Chapter 4 – Case Study One: The Haier Group

Haier was one of the first Chinese companies to execute a global internationalisation strategy. It is rated as the number one domestic electrical appliances manufacturer in China, with total revenues of US\$ 8.7 billion in 2002 (Liang, Zheng and Xu, 2003). Haier has established a reputation domestically for quality, innovation and customer service. It has dominant market positions in washing machines (24%), refrigerators (23%), vacuum cleaners (18%) and air conditioners (13%) (Wu, 2005). Haier is considered to be “...the official template for the Chinese MNC of the new millennium” (Child and Rodrigues, 2005, p.403).

4.1 Internationalisation entry mode strategy of Haier:

The famous Chinese saying *cross the river by feeling the stone* explains the procedures of Haier’s preparations and commitment, with in-depth target markets research, product adaptations and tailored designs, as well as careful selection of market entry modes, and long-term nurturing and cultural sensitivities (Du, 2003).

Haier’s first export trial was carried out in 1986, under a licensing contract with Liberhiever-Haushaltsgerate Engineering Ltd. (Germany). The first trial was due to a shortage of foreign currency, and was a government initiative utilising the structures already existing within Haier. By winning a bid in the late 1980s, Haier became the United Nations’ refrigerator supplier (Sull, 2005). Even though the sales volumes were small, Haier gained confidence in the design and quality of its products. The initial exporting experiences helped Haier gain market share in international markets and promote the brand to worldwide customers (Liu, 2005). Du (2003) explained that the first country Haier exported to was Germany, which was not a psychologically

close country (Cavusgil, 1980). Nor was it a new market “with successively greater psychic distance” (Johanson and Vahlne, 1990, p.118), or a neighbouring country, as would be the norm within the assumptions of the Uppsala Model (Carlson, 1975; Johanson and Vahlne, 1992). Haier’s products were also exported to Europe and the US in 1990 and to Japan in 1991 (Child and Rodrigues, 2005).

4.1.1 The trial overseas production stage:

Haier’s first overseas seeding project began in 1992, when its products were introduced to Indonesia through a contract with an original equipment manufacturer (OEM). Shortly after this, an Indonesian company named Sapporo became interested in the superior quality and stylish design of Haier’s refrigerators, and made a commitment to take on a joint venture with Haier in 1996 (Yi and Ye, 2003). The manufacturing facilities in Indonesia were Haier’s first overseas investment and it was the first time Haier had stepped into the international market. In 1997, Haier started a joint venture with Philippine company, LKG Electric. The Southeast Asian experiences have been valuable and helpful in Haier’s later international expansions. These steps not only assisted Haier to gain international managerial experience, but also helped it obtain overseas market knowledge (Yi and Ye, 2003). Apart from these points, Haier gained experience in establishing a brand image and a corporate reputation worldwide.

Haier’s initial trial stage of internationalisation, like the traditional U-model, also concentrated on developing markets with closer psychic distances, such as Southeast Asian countries. The purpose was clearly that Haier aimed to build sales volume, increase international presence and acquire international experience. The first

overseas joint venture in Indonesia signified Haier's significant movement towards internationalisation (Liu and Li, 2002). The Uppsala model of Johanson and Vahlne (1977) is only partially useful in explaining the internationalisation processes of Haier. An internal development strategy was adopted by Haier from the beginning of this process.

4.1.2 The extensive overseas production stage:

The extensive overseas production stage (from 1999 to the present) involves the adaptation of product designs and features to local customers, as well as the establishment of overseas manufacturing facilities. Haier primarily focused on developed countries during this stage.

Before 1994, Haier's products were exported to the US by signing OEM contracts. Both sales volumes and product range were limited. This situation drastically changed in 1994. Michael Jemal, an America home appliances dealer in New York, had the confidence to sell Haier brand products. Since then, both parties have built up a long-term distribution-manufacturing relationship, with a joint venture being entered into in 1999 (Yi and Ye, 2003). The immediate difficulty for Haier America was that of how to promote Haier products; a brand which the local consumers had never heard of; in a market dominated by world famous brands including GE, Whirlpool, Maytag and Frigidaire. In 1999, Haier spent US\$40 million to establish a wholly-owned manufacturing facility in Camden, South Carolina and a design centre in Boston (Liu, 2006). This was Haier's first overseas industrial park. The US plant only manufactures tailored refrigerators designed specifically for the local market. This was the first wholly-owned Chinese firm to own and operate an overseas

manufacturing facility in a developed county. Since that time, Haier has taken advantage of *Made in USA* effects in order to compete with its global competitors.

In Europe, Haier's products were exported to Europe through OEMs from the early 1990s. The UK and Germany were its first European markets, and then France and Italy, respectively. After a couple of years of gaining exporting experience and a quality reputation, Haier managed to introduce its own brand. In 1997, Haier entered into a joint venture with a Yugoslavian company in Belgrade to manufacture multi-tasking air conditioners under the Haier brand (Yi and Ye, 2003). Haier Europe Ltd. is located in Varese, Italy. The headquarters coordinates the marketing activities and sales force across thirteen European countries. Besides the headquarters, there are eight offices overseeing operations in Italy and Switzerland, the UK and Ireland, France, Germany and the Benelux countries, Spain and Portugal, Greece, Poland and Scandinavia (Yi and Ye, 2003).

Since Haier successfully entered niche markets, such as compact refrigerators and wine cellars, the competition has shifted to mainstream product lines. Haier has had some difficult barriers, which internal development strategies have not been able to solve, in conquering the developed markets, especially in Europe. Acquisitions were adopted in order to bring a new stage of development for Haier. In 2001, the acquisition of Meneghetti Equipment (Italy) was the first acquisition in Europe (Yi and Ye, 2003). This acquisition was viewed as a significant step in Haier's internationalisation and localisation strategy in developed markets, following the establishment of the wholly-owned subsidiary in the US. This acquisition has

provided Haier with a European manufacturing base, which can manufacture innovative products and better serve local consumers.

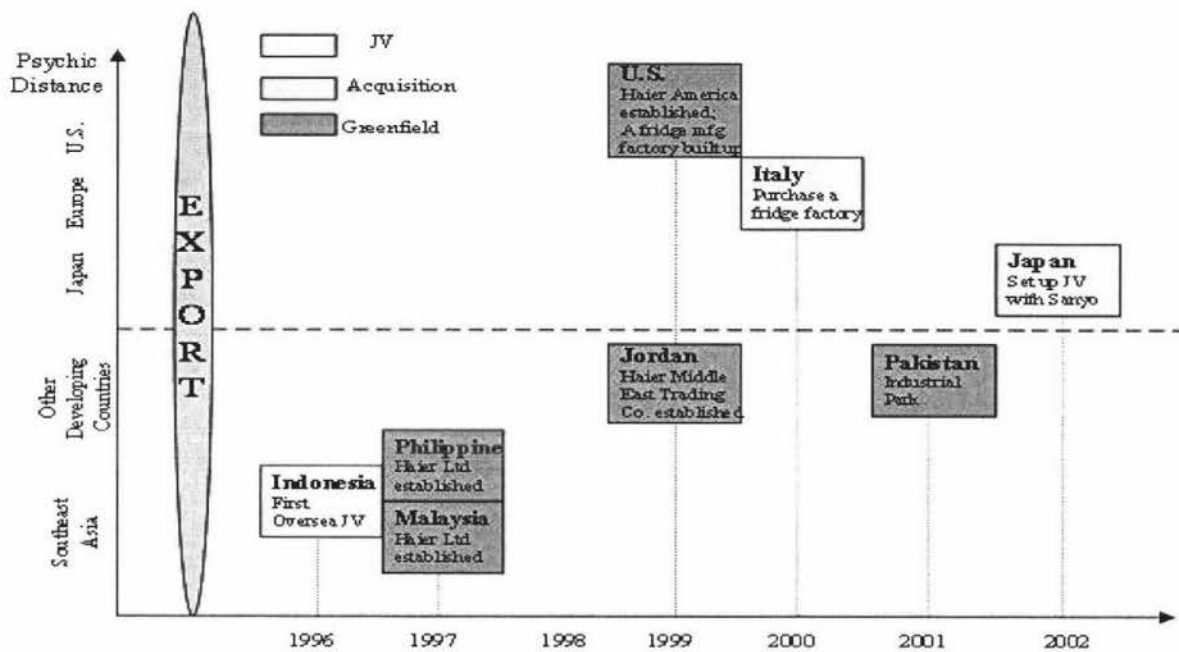
Haier was aware that trans-regional transactions of white-ware appliances had declined, and would continue to decline. The primary reason was clearly shipping costs, which make the products less competitive due to their large size. As a result, establishing manufacturing facilities in other countries was essential for Haier in competing with its international competitors (Chan, 2005). On the other hand, this strategy has enabled Haier to overcome quota restrictions and potential anti-dumping suits. Moreover, Dunning (1981) pointed out that internationalisation advantages can also be gained by controlling customer services and marketing/distribution, and that ownership benefits can be obtained through developing R&D and design capabilities via leveraging local intellectuals and resources.

In the new millennium, Haier accelerated its internationalisation pace by establishing the Haier Industrial Park in Pakistan. It was Haier's second overseas industrial park (Chan, 2005). A joint venture with Hayes (Bangladesh) signified that Haier has fought back to Asian markets (Yi and Ye, 2003). Most Middle Eastern and Southeast Asian countries are developing countries with large demand for white-ware goods. Haier's internationalisation expansions have been primarily based on the reputation and image achieved in the US. Haier's success in the US market assisted its investments and operations in other developed markets, via the spin-off of technology and brand reputation (Liu and Li, 2002).

In 2002, Haier gained competitive advantages in international markets through a joint venture with a high-technology Japanese firm. Usually, Japan has been considered to be the most difficult market to enter for most multinational companies, due to its special cultural and social contexts. Nevertheless, Haier was able to enter the Japanese market in 2002, when the Haier Group and Sanyo Electric Co. (Japan) announced a broad business alliance, including the areas of business networks, marketing resources and technological co-operation (Liu, 2006). This alliance helped Haier eliminate market entry barriers and establish brand awareness in Japan.

Haier found, however, that acquisition has been providing opportunities to develop new products, with advanced technology. From 2000, Haier has not only quickened the pace of its internal development globally, but has also made acquisitions according to market conditions. Haier also took part in negotiations with the US's third-largest producer of home appliances (Maytag) in June 2005 (Wu, 2005). Even though the acquisition did not eventuate, we can see that Haier has become a mature multinational enterprise, adopting market entry strategies based on market characteristics. Haier can not only benefit from prestigious brand names and advanced technology, but can also acquire mature sales channels through acquisition.

Figure 1: Haier's overseas productions strategies



(Source: http://www.ifm.eng.cam.ac.uk/cim/chimnet/research/projects/kaimei_haier.html)

Haier's *first the hard, then the easy* approach in its international expansion is the reverse of the traditional view of the internationalisation process. The traditional view holds that it is comparatively easy to enter less-developed markets, however, the prevalence of an enterprise's brand is restrained (Xu et al., 2006).

4.2 Haier international product strategies:

In order to access international markets, Haier established a Consulting and Certification Centre to focus on obtaining world-wide standard quality certifications for its products, including UL certification in the US, EEV and CSA in Canada, VDE, GS and TUV in Germany, and the world wide ISO 9001 (Liu, 2005). Haier has been paying considerable attention to new product technology, product innovation, local adaptation and diversification of products to occupy consumer markets. The Haier Central Research Institute was established in 1998 and has engaged in innovative design, new product research and testing (Sull, 2005). Normally, if a small, or

particular, overseas market segment is uninteresting to international competitors and is dominated by local firms who standardise their offerings (Piercy, 1981; Cooper and Kleinschmidt, 1985), then product adaptation can help niche market competitors achieve international growth (Madsen, 1989).

“Developing new cake” (Liang, Zheng and Xu, 2003, p.39): From the very beginning, Haier has not chosen to compete with branded products in existing categories, but has developed new products for consumers through technology innovation and product adaptations.

Instead of confronting big manufacturers such as GE and Whirlpool directly, Haier America found its own position in developing adapted products for niche markets. Filling the gap for compact refrigerators had proven successful in the US market for Haier, while those big manufacturers viewed this as an unprofitable market, with low margins. “Jemal maintains that a company that is going to be successful is not one that only competes and expands a category; it is one that creates a market” (Yi and Ye, 2003, p.210). Haier has adapted its products to meet consumers’ demands, but it has also been able to take market shares from other strong international competitors. Similarly, Haier’s products are being accepted by many Japanese households, due to its competitive prices and stylish and unique designs.

“A product-focused strategy” (Liu and Li, 2002, p.701): When entering an overseas market, Haier focused on tackling the market using one product. Once that product is prevalent in the market, other categories will be introduced, benefiting from the already-established reputation and brand image.

A prominent example of this strategy is the wine cellar (Wu, 2005). By introducing a wine cellar into the US market over a six month period, Haier not only benefited from adapted products and new consumers, but also created a new product category. Customers with a good experience with these innovative adapted wine cellars were more willing to buy other offerings under the Haier brand. The strategy is to clearly understand what customers want and then manufacture these products, at the same time developing innovative and new products which promote the corporate image. By 2003, Haier had gained a 50% share of the compact refrigerator market and a 70% marketshare for wine coolers in the US market (Child and Rodrigues, 2005). Haier successfully penetrated a niche market that other international players have abandoned. The strategy is based on innovative product adaptation to local customers. In the European markets, for instance France and Italy, Haier started by promoting its air-conditioning category. Since the air-conditioning product was relatively new there was not much difference in country-of-origin effects (Wu, 2005). Haier introduced tailored colour televisions in Saudi Arabia, especially tailored for Middle Eastern markets. After the successful entry of colour televisions, Haier expanded into other categories (Child and Rodrigues, 2005).

In developed markets, Haier has been diminishing the country of origin effect (Chao, 1998) by using *Made in USA* labels on its products. By combining with the design centres located in the US, Europe and Japan, Haier's internal development internationalisation strategy has been demonstrated, along with its ambition to establish a globally recognised brand. Haier has been focusing on ensuring customers are offered quality products and on building long-term relationships and obligations (<http://www.haieramerica.com>).

4.3 Haier international promotion strategies:

Haier's global promotion framework encompasses international networks for product design, manufacture, distribution and post-sales services (Lin, 2005). Haier were actively participating in numerous international trade fairs and product exhibitions, catching the attention of international dealers and agents, including the Consumer Electronics Show, the House-wares Show, Berlin's HomeTech and Milan's ExpoComfort Fair (Yi and Ye, 2003). Outdoor billboard advertisements have been posted in London, Paris and New York (Fan, 2006). In 2003, Haier placed an electric billboard in the shopping district of Ginza, Tokyo, signifying its determination to tackle the world's most difficult market (Lin, 2005). In Germany, for example, in order to establish a local reputation on Haier's product quality, it launched blind testing on its products in comparison with local brands.

Sports sponsorship has been prevalent since last century and many major sports events are covered by the mass media. Haier has realised the commercial value of these events (Jeannet and Hennessey, 2004). In Australia, it is the major sponsor of the 2005 premiership winning team in the Australian Rugby League, the Wests Tigers (Hollows and Clegg, 2006), and it also has a sponsorship deal with Italian Premiership football (Fan, 2006). Currently, Haier is the official sponsor of the NBA, which brings the Haier brand to every single US family. Sponsoring the 2008 Beijing Olympic Games will enable Haier to present itself on a stage that people will see from every corner of the world.

In the US, Haier has placed advertisements on luggage carts at New York's JFK airport and advertisements on luggage trolleys at Miami airports. Haier chose JFK and

Miami airports to target international travellers who already know the Haier brand (Yi and Ye, 2003). *What the World Comes Home To* (Yi and Ye, 2003) is the slogan of Haier America in its promotional activities, which implies the importance of being family oriented, especially after the September 11 events. All the actions taken by Haier are designed to increase salience and quality perception of the brand value. The purchase of the former headquarters of the Greenwich Bank at 1356 Broadway also indicated Haier's dedication to going overseas (Isaksen, 2006). The central location in Manhattan is far beyond its actual usage, but it also implies to visitors and by-passers its prosperity. When companies are engaged in internal development internationalisation strategy in order to establish a brand overseas, purchasing a luxurious landmark building in the leading city and putting the brand name on it is a good way to enhance the quality associations regarding the brand (Isaksen, 2006).

In many major European cities, Haier's neon advertisements can be seen directly competing with international brands such as Sony, Philips, Toshiba and Samsung. Its eye-catching pink brand name was displayed on retail outlets throughout Europe (Yi and Ye, 2003). In spring 2002, a bigger promotional campaign (the Haier Train) was launched in France. The Haier Train was composed of seven vehicles, each one furnished like an exhibition hall. "The train was a travelling exhibition of Haier products" (Yi and Ye, 2003, p.199). Not only it was an exhibition of the Haier family series, but the train was also dedicated to delivering Chinese arts, culture, history, tourist attractions and social nature to the world. In every city, visitors to the train took part in prize-winning games; for example, free travel to China, or a Haier product. The Haier Train stopped in eleven major cities, over approximately twenty days and travelled more than 2,500 miles (Yi and Ye, 2003).

4.4 Haier international pricing strategies:

Price can be an important signal of quality and value (Bagwell and Riordan, 1991). Haier devoted itself to new and innovative product development and customer research. Rather than as with companies from undeveloped countries competing on price, Haier has been attempting to gain market share through introducing innovative products. As an international latecomer, Haier is determined to distinguish itself from other market giants through brand name recognition, adaptation, stylish designs and superior-quality products. Haier has been aggressively operating toward dominating the international market by maintaining and developing dealer relationships, enhancing networks and distribution channels, establishing local manufacturing facilities to avoid trade barriers and seeking new markets by establishing strategic alliances with foreign companies. Pricing is only part of the competition, although Chinese multinationals can leverage from lower labour costs (Xu et al., 2006).

“Value-adding not pricing” (Xu et al., 2006, p.39): Today, being price competitive not only means just having lower prices, but also means understanding what customers want. The story of Haier shows that, by being innovative and improving on the added value of products, it has found its competitive position in the international market. Since products sold in each market are tailored to the special demands and requirements of locals, Haier has adopted a dynamic pricing strategy. For example, in US, the lower price models are sold at price-only stores that sell commodity goods; whereas, the classy higher priced models are only sold in stores which display Haier’s range with sales assistance (Liu, 2006). According to Doole and Lowe (1999), international pricing adaptation will allow overseas subsidiaries to set prices that are considered to be the most suitable to locals.

4.5 Haier international distribution strategies:

Different from the traditional view of distribution strategy, whereby many companies establish their own marketing subsidiaries in each market, Haier takes advantage of local distributors. Through market research, Haier has found that in developed markets, there are many mature distributors in each category, with mature marketing/sales channels (Chan, 2005). These distributors are familiar with local marketing/distribution practices and environments and have no difficulties in regards to language, communication and cultural issues. To date, Haier has set up sixty-two distributorships worldwide, covering 160 countries and regions (Liu and Mao, 2003). It has established intimate long-term relationships with distributors internationally. These distributors have provided assistance with logistics and promotional activities.

Selling through widespread chains was one of Haier America's distribution strategies. By all accounts, it had the most difficulty in getting into Wal-Mart (Yi and Ye, 2003). Wal-Mart was critical of its products' quality and standards. After testing and checking Haier's products and visiting its manufacturing facilities in China, Wal-Mart eventually opened its door to Haier. By meeting Office Depot and Home Depot requirements in its product features, Haier successfully got into these two big chains (Liu, 2006). From 2002, the Haier America picture became promising. Besides the regional national-wide chains (Wal-Mart, Lowe's, Best Buy, Home Depot, Office Depot, Target, Fortunoff, Menards, Bed Bath & Beyond, BJ's, Fry's, ABC and BrandsMart), there are over 7,000 independent retailers which also promote Haier products. The well-known internet company, Amazon, also carries Haier products for web surfers and e-consumers (Liu and Li, 2002).

Haier adopted traditional channel marketing strategies in the European markets for market penetration. Haier relied on the brand strategy rather than the simple pricing strategy, based on overwhelming marketing campaigns. Currently, Haier series products are not promoted in large-scale distribution outlets, but through specialised independent stores and retailers. Raffaele Casilli, the managing director of Haier Italy stated that “In big stores we would simply be one of the many products available, whereas in smaller outlets, the specialist staffs are able to underline our unique characteristics” (Yi and Ye, 2003, p.203).

4.5.1 E-distribution:

Haier has created two online networks. The first network is a business-to-business network, based on www.iHaier.com. This website is a global supply chain that seeks potential distributors and establishes intimate business relationships. The other network Haier has set up is business-to-consumer, based on www.eHaier.com. Haier identified e-business as a new, promising sector and is devoted in taking action to overcome any obstacles in this area. This website normally takes online orders from e-customers and assists Haier to establish an effective and efficient distribution network.

Chapter 5 - Case Study Two: Lenovo

5.1 Lenovo internationalisation entry mode strategy:

Lenovo was registered in Hong Kong in 1988 and was listed on the Hong Kong Stock Exchange in 1994 (Sigurdson and Long, 2003). Until recently, Lenovo primarily focused on the domestic market. After the 1980s, the Chinese PC market grew dramatically. By 2005, the growth in the Chinese market was seven times that of the US market. In spite of the market share taken by Dell and HP, Lenovo is still the PC market leader in the domestic market, with one-third of the Chinese market share (Ernst, 2006). Before Lenovo stepped into the international marketplace, it engaged in deep collaboration with a core cluster of technology suppliers and strategic partners in order to develop and improve its innovative capabilities. Its desire to learn from international IT industry leaders was captured by the company slogan: “Research and development stands on the shoulders of giants” (Feng and Elfring, 2004, p127).

Lenovo’s going-global ambition was engendered after the trip to Taiwan in 1998. The CEO Liu Chuanzhi was shocked by the level of Taiwan’s technological production. Liu Chuanzhi was surprised to know that 70% of the products were sold overseas under the brands of IBM, HP, Compaq and Dell. The president of Hongji, Shi Zhenrong, also told Liu Chuanzhi that selling products under its own brand in overseas markets was proving to be extremely difficult (Ling, 2006).

5.1.1 The exporting stage:

The Uppsala model (Johanson and Vahlne, 1977) cannot properly explain Lenovo’s internationalisation process. What Lenovo has done was in opposition to the U-model. Lenovo’s initial international attempt was back in 2001, setting up seven overseas

sales subsidiaries. Overseas sales only accounted for less than 3% of the firm's total revenue, although it has been the PC market leader in China for eight consecutive years. In late 2002, Lenovo proclaimed that the company would concentrate on the domestic market. Lenovo is also the market leader in the Asia Pacific region (excluding Japan), with 12.6% of the market share (Fan, 2006). Before the acquisition, Lenovo had given priority to its international expansion in developing countries, for instance India and Russia, with relatively closer psychic distance (Child and Rodrigues, 2006).

With the increasing competitive pressure in the domestic market, like Haier and other local brands, Lenovo started to look for opportunities to enter the international market. In 2004, it realised that it was time to expand into overseas markets because of the slow-down in domestic market growth and the fierce competition with Dell and HP. In response, Lenovo outlined a four-pronged strategy. First, develop a well-known international brand. Second, increase the firm's international market share as quickly as possible. Third, attack international competitors by introducing less overly-engineered and inexpensive products. Last, institute intimate cooperation with PC industry leaders in order to develop innovative capabilities (Ernst, 2006).

5.1.2 The overseas expansion stage:

Liu Chuanzhi recognised that there two primary options to globalisation. One was through internal development. Nevertheless, this approach would require patience and would be a long process. Acquisition is another option for globalisation, but it is a risky process. With the assistance and help of experts and consultants, Lenovo adopted the acquisition approach (Liu, 2007). In December 2004, Lenovo announced

the acquisition of IBM's PC division, which was the take-over of an American icon. After acquisition, over 72% of the Lenovo revenue would come from overseas markets, compared to approximately 0% previously (Wu, 2005). With little international market experience, Lenovo's acquisition was not explainable by the Uppsala model (Johanson and Vahlne, 1977).

Before 2004, Lenovo barely have any export revenue, although it already held more than 30% of the PC market in China. As a result, its capability to keep growing at a fast speed was restricted. Initially, IBM sincerely approached Lenovo to raise the idea of acquiring IBM-PC, due to the focus of IBM moving to the service and software sectors. Since the management of Lenovo had the intention of reaching global markets, which had been proven to be extremely difficult (Taiwanese experiences) if promoting its own brands; Lenovo considered that this could be a great opportunity to step onto the global stage.

In order to maintain IBM's consistent technical assistance and to control consumers' loyalty, IBM took an 18.9% ownership stake in the new company. The Chinese government holds 26%, and Lenovo and minor shareholders hold the rest of the shares. The new company has an 8.6% share of the global PC market, with US\$13 billion in annual sales revenue, and is rated as the third largest PC maker in the world, behind Dell at 16.8% and Hewlett-Packard at 15% (Wu, 2005). Many Chinese commentators stated that this acquisition has accelerated Lenovo at least ten years along the road towards internationalisation (Fan, 2006). The new Lenovo has to retain loyal IBM Think Pad customers, while developing its own special international brand reputation. Although the size of the acquisition was not big in the broader context of

international acquisitions and mergers, the purchase of the IBM PC division had a tremendous symbolic significance for China, as it was announced that Chinese IT companies had eventually gained participation in the global economic scene (Liu, 2007). Equally important would be Lenovo's access to IBM's international expertise, such as management in manufacturing, technological know-how and a strong customer base, but also important is the intangible value of the IBM brand itself, which rates as the third most popular brand in the world (Ernst, 2006).

Immediate benefits from the acquisition include technical assistance from IBM R&D centres, access to international market intelligence and distribution know-how. Lenovo also acquired 1,500 patents (Ernst, 2006). These patents can bring additional income for Lenovo (IT companies that had paid IBM licensing fees for using the patented products are now paying Lenovo these licensing fees). Lenovo will exploit proprietary IBM Innovation (particularly in major technological elements) to enhance and increase its own innovative capabilities.

For the year ended 31 March 2006 Lenovo's turnover was US\$13,276 million and it employed 21,400 people internationally (www.pc.ibm.com). Lenovo's aim was clear: To conquer its weak brand image internationally, meanwhile exploiting IBM's brand image, technological forces and distribution channels (Ernst, 2006). Moreover, the headquarters have moved from Beijing to New York, which indicates its ambition to become an international brand.

5.1.3 Smooth transaction:

Liu Chuanzhi recognised the significance of human resources and developed an ownership and incentive system to motivate Lenovo employees to continually make efforts to increase the sustained position of the company (Liu, 2007). Liu Chuanzhi was concerned that the former IBM PC division employees would be reluctant to work for a firm whose major shareholders are Chinese. These concerns were also organisational. Firstly, Lenovo has publicly claimed that the new company will provide more career opportunities for progression to top management, which was comparatively limited in the previous IBM structure. Meanwhile, Lenovo has announced that the official language of the new Lenovo is English, which means that it is not a traditional Chinese firm with a rigid and narrow mindset, but its company culture is completely open and international. This conduct of Lenovo has set the US employees' minds at ease. In the new company top management, the former IBM PC division employees took 50% of the positions, and the remaining 50% were filled by Chinese employees. Secondly, Liu Chuanzhi stated that former IBM employees' remuneration would remain the same. IBM employees' were content with this and many talented intellectuals were retained (Liu, 2007).

Since both Lenovo and IBM focused on world-class standards of business operation and management, there were not many difficulties for smooth transaction of the management. On the other hand, Lenovo now has a wider business scope, whereby conflict and possible overlaps are diminished. That is because Lenovo's businesses primarily concentrate on the domestic market, while IBM PC division's operations are focused on overseas markets. By doing so, Lenovo has properly acquired IBM PC division although there have been slight changes. Though the two companies'

business scopes, culture and communication traditions are different, the transaction has proceeded smoothly so far (Liu, 2007).

5.2 Lenovo international product strategy:

Through the acquisition, the R&D employees have expanded from 1,100 to 1,800. This represents around 10% of Lenovo's total workforce (Ling, 2006). Lenovo has also acquired two R&D labs in Yamato, Japan and North Carolina, the US. These R&D centres could assist Lenovo to improve the portfolio of its R&D projects and to raise R&D productivity and revenues. Yamato is famed for developing and designing IBM's well-known ThinkPad family of notebooks, therefore, it is a valuable asset for Lenovo. As for North Carolina, Lenovo decided to build a new R&D campus close to Morrisville. This new centre will have more than 2,200 employees, focused on the development of desktop PCs, software, product definition and quality control (Ernst, 2006).

Since the acquisition, Lenovo has not become more aggressive on price competition than IBM had been. Lenovo is following the route of IBM, being exceptionally aggressive on product innovation and the creation of values that it can offer to consumers, and not going into the commodity PC markets. Lenovo will continue to provide superior quality standardised IBM series products to customers with high-performance, whereas the Lenovo series focuses on standardised, less-engineered products. Customers could experience more product choices than ever from existing IBM retailers. Lenovo has taken its product standardisation strategy into the international markets. According to Claudio and James (1995), by manufacturing

standardised products, multinationals can benefit from learning technology know-how by concentrating certain activities in a particular region, or market.

IBM PC division used to primarily focus on commercial clients, such as high-end medium- to large-sized businesses. The situation will change under the control of Lenovo. Since Lenovo series PCs focused on low-end consumer markets and the majority of small- to medium-sized businesses, Lenovo can now achieve dual positioning of standardised product offerings (Liu, 2007). Two different standardised series could satisfy customers with different product features. There are also dramatic potential synergies in offerings, market segment and geography. According to the statistics, before the acquisition, only 18% of Lenovo's revenues came from laptops, while laptops generated around 60% of the revenues for the IBM PC division (Ernst, 2006). Lenovo is expecting to benefit from IBM's successful international presence to conquer its lack of international experience.

In order to reduce market risk, Lenovo will continue using the IBM logo on Think Pad series products for the next five years and the original sales team of IBM will be retained. Meanwhile, Lenovo sent out more than 2,000 sales employees to their customers to guarantee them that Lenovo would provide them with the same quality offerings and level of service (Liu, 2007).

5.3 Lenovo international promotion strategy:

Lenovo had come up with a fresh new way for taking Chinese multinationals out into the world. Lenovo, as the first Chinese firm concluded a cooperation agreement, has also become the worldwide partner of the International Olympic Committee.

Sponsoring the Olympic Games implies a strong desire to expand abroad. By being a sponsor of the Turin Olympic Winter Games in 2006, Lenovo was for the first time ranked together with famous multinational enterprises, including Coca-Cola, General Electric, Kodak, MacDonald's, Matsushita and Samsung. At the 2008 Beijing Olympic Games, Lenovo will provide computing and communications technology equipment, including desktops PCs, notebooks, servers and printers, and offer funding to over two-hundred national and regional Olympic committees around the world. Lenovo is expecting improvements in its brand recognition globally. As Lenovo is still quite new to overseas consumers, through the platform of the Olympic Games Lenovo plans to reach different countries (Xu, 2005). In America, Lenovo is the official PC partner of the NBA. In the field of Formula 1 racing, AT&T Williams names Lenovo as one of its major sponsors, having become the official PC partner of one of the world's most famous teams. Lenovo has been noticeably displayed on the AT&T Williams car in 2007 (www.lenovo.com). Through participating in international sponsorship activities, Lenovo not only benefits from popularising the brand, but also successfully establishes a good company image.

The acquisition of the IBM PC division has strengthened Lenovo's brands and patents portfolios. According to the agreement, Lenovo is allowed to use the IBM brand for five years, including the use of the Think Pad brand. Meanwhile, IBM has announced that it will provide Lenovo with marketing through the IBM marketing force. The purpose of this acquisition was clear. Lenovo could conquer its weak brand image in overseas markets. The new company could take advantage of IBM's brand name and image, and sell PCs under the IBM brand (Fan, 2006).

Under the agreement, both IBM-branded and Lenovo-branded products will continually be sold through the current IBM channels. This includes over 7,000 IBM PC business dealers in the US. IBM branding will remain on IBM products for another eighteen months (Child and Rodrigues, 2005), and then the company will switch to a co-branding model IBM-Lenovo strategy. Finally, Lenovo branding with an IBM tagline will be adopted instead. Lenovo has the challenge of sustaining the IBM brand and retaining loyal consumers, as well as implementing a credible and effective brand-transition strategy. Acquiring an internationally-recognised brand is an efficient internationalisation strategy, however, managing and sustaining the acquired brand name is a not an easy task.

The new company will unavoidably lose some loyal IBM customers, but the real task will come after five years, when Lenovo face termination of the use of the IBM logo. The vital question is whether Lenovo will have grown into a well-known international brand by then (Fan, 2006). Meanwhile, sustaining and managing the acquired brand is a tough task for Lenovo. It has to convince potential and current customers that the new company possesses the knowledge and capability to continually bring high-standard quality and post-sales service.

5.3.1 Re-branding strategies:

The re-branding strategy plays an important role in Lenovo's overseas expansion. Lenovo stands for leading innovation (Xie and White, 2004). Lenovo was forced to change the name from Legend to Lenovo in 2003, because the brand name Legend had been registered in a variety of sectors among many regions, making it hard to promote the brand internationally. Lenovo combines the *Le* of legend (to reflect its

heritage), with the universally recognisable Latin prefix *novo*, signifying innovation and newness (Fan, 2006). This new name is designed to establish a brand new image for the firm globally.

Xu (2005) indicated several steps taken by Lenovo in its re-branding strategy. Firstly, thousands of Lenovo employees were visited in order to gauge their feelings about the spirit of the Lenovo brand. Secondly, Lenovo chose the world first-class brand designing and consultancy company Future Brand to execute the new brand logo strategy programme. The entire process lasted over two years, including investigating and examining the market, planning the branding strategy, designing the brand symbol and the popularisation of the new logo. Finally, Lenovo repeatedly studied the cases of re-branding strategies executed by other firms in similar industries, such as Sony and Motorola, in order to obtain in-depth knowledge and experience.

5.4 Lenovo international pricing strategy:

IBM-branded systems from Lenovo will also benefit from reduced manufacturing costs, which could create greater price competitiveness. Lenovo is more cost-effective and operationally effective than ever after the acquisition, and can benefit from strong distribution and strong brand awareness. The new company will be able to do well to take advantage of its dual legacy to provide the channel more margins and benefits (Kovar, 2004). Lenovo has come up with low-cost PCs in the channel in order to compete with Dell. Having more price-competitive products will help Lenovo compete more aggressively against Dell and others. Currently, Dell and HP are the two major competitors Lenovo has in the global PC market. The price-competitive Lenovo series products can attack the competitors by taking more market share from

them (Zarley and Campbell, 2004). Lenovo will introduce products and services that are less over-engineered and expensive than are other international leaders. The strategy is clear that Lenovo will attack the weak point of international players by promoting Lenovo's low-price series, and products offering unique performance features that appeal to specific characteristics of the targeted markets. An example of this is that Lenovo introduced 3000 J series Desktops and 3000 C Notebooks to overseas markets, and these models focus on lower performance, at a lower price (Ernst, 2006).

Lenovo will, however, insist on the pricing strategy used by IBM. The new Lenovo is just, as IBM was an exceptionally innovative company combined with the most advanced research centres and broad product categories. IBM-branded products will not give customers an impression of a price-war. The IBM series will continue to provide the best quality PCs with most advanced technology. The IBM series PCs and laptops have generated substantial growth at very competitive price points, but frankly at price points that are higher than the competitors because the products are superior (Zarley, 2004). By positioning Lenovo and IBM offerings at different price levels, the new company can benefit from dual price positioning strategies. The Lenovo series products look after customers with less-engineered demands on PCs, whereas the IBM series insists on delivering high-performance PCs to customers.

5.5 Lenovo international distribution strategy:

IBM has been well known for its investments in dealers and partners relationships, and today Lenovo is continuing to view these relationships as being valuable for its growth. Lenovo has taken advantage of IBM's dealer programmes, and keep growing

these. The service centres are in contact with business partners everyday in order to ensure they are operating well and that their customers are properly looked after. The IBM Business Partner Charter is the basis for Lenovo to develop its charter with its business partners (Zarley, 2004). Lenovo expects that similar programmes and similar relationships will be targeted at offering its business dealers and partners with a much broader manufacturing line.

Competitors were looking forward to seeing confusion in the channels. We have seen, however, a straightforward integration without any unexpected disruptions (Campbell and Burke, 2004). Lenovo has been working well with IBM and also working well with its partners. The basic principle for Lenovo was to have as little change as possible across the channels in terms of the IBM and Lenovo relationships. Lenovo promised to its business partners that, no matter what new contracts are signed between Lenovo and IBM, the current contracts will remain in effect. Lenovo appointed more than 2,000 employees to their loyal customers and distributors to make sure that the new firm would provide exactly the same high-standard products and level of pre- and post-sales service (Liu, 2007).

According to previous acquisition history, many people had fears regarding the business transaction. The new Lenovo ensured as less change as possible during the procedure, in order to ensure that the distributors were reassured. The channel strategy was kept the same as under IBM. Lenovo insisted on keeping long-term relationships with distributors. As mentioned by IBM distributors the new Lenovo promised them that they would see little disruption in their existing business relationships (Liu, 2007).

After the acquisition, Lenovo expected to obtain access to a global network of highly skilled computer marketing and sales teams and distribution employees who excel in tax laws and invoicing operations in over sixty countries (Ernst, 2006). IBM is the only PC maker that carries out the majority of its business via these channels. With the combination of Lenovo-branded products, it would generate extra benefits for the channel (Kovar, 2004). Both Lenovo and IBM branded products could be sold via the successful existing channels, which will provide tremendous choices for customers.

Chapter 6 - Discussion:

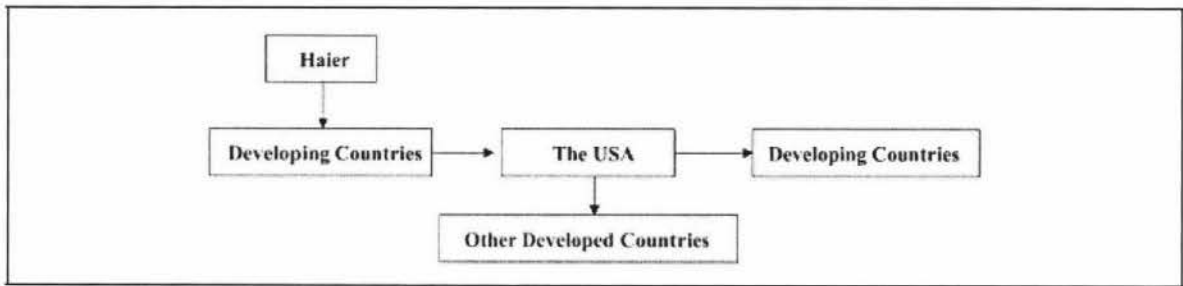
6.1 Internationalisation entry mode strategies of Chinese

multinationals:

According to the traditional international expansion stage view, most successful multinational enterprises adopt an *easy first, then the hard* approach when entering the international market. Generally speaking, enterprises decide to enter those markets that they are familiar with, or which are geographically or demographically close (i.e. consideration of the psychic distance). In operations, many multinational enterprises start exporting before establishing any subsidiaries, or offices overseas. The advantage of such an approach is that it is considered to be risk-eliminating and capital outlay reducing (Carlson, 1975; Johanson and Vahlne, 1992).

Different from traditional the internationalisation model: the U-model (Johanson and Vahlne, 1977); Haier adjusted its internationalisation strategy to *first the hard, then the easy ones* after an initial stage of trial-and-error in South East Asia (Xu, Zhu, Zheng and Wang, 2006). Haier believed that if the brand could find its position in these competitive markets, it would have obtained outstanding advanced technology and management systems that would reward Haier with an unbreakable advantage over other developing markets. This strategy offset the issues of psychic distance (Johanson and Vahlne, 1977). Although Haier had a couple of initial overseas joint-ventures in South East Asia, it left after several years' international experience and knowledge accumulation. Shortly after understanding customers' tastes, gaining the trust of distributors and setting up channels in developed markets, with the success in niche markets Haier entered the mainstream white-goods market and quickly won reputation and dominance in a couple of categories.

Figure 2: Path of Haier’s International expansion process (Liu and Li, 2002)



Haier’s internationalisation process was effective in tackling developed markets, namely, the US and Europe. Then, Haier turned around and penetrated developing and low-development countries. Haier’s strategy differed from Uppsala Model’s (Carlson, 1975; Johanson and Vahlne, 1977), however, in the market expansion process, in which the market entry should be based on psychic distance, or neighbouring countries. The rationale for Haier’s adoption on this approach was that, once Haier had already established its brand image in the developed markets; for instance the US and European markets; it would be much easier for it to tackle the less-developed markets.

In contrast, Lenovo undertook an understandably cautious strategy. Lenovo’s overseas ambitions are based on new and innovative products and tackling targeted markets. Unlike Haier, that has devoted itself to establishing its brand in developed markets; Lenovo decided that developed markets would have to wait after until other developing countries were tackled. Initially, Lenovo’s products were exported to Russia, India and other Asian countries with relatively closer psychic distance (Johanson and Vahlne, 1977). In 2004, Lenovo adopted the modern approach via the acquisition of a successful western brand, which was intensively recommended by a well-known consultancy in the field (the Kotler Marketing Group) (Fan, 2006). The reason for Lenovo to acquire the IBM PC division is that Liu Chuanzhi realised that

the opportunity for further domestic expansion was limited. Moreover, Liu Chuanzhi also realised that Lenovo were lacking a couple of things, such as a worldwide recognised brand name, a strong presence in the global market and human resources with skills in international management. After the acquisition, the new Lenovo gained access to IBM's industrial expertise, including technological know-how, brand name, customer base, marketing/sales force and channel/distribution.

The Uppsala model advocates that psychic distance plays a significant role in the firm's internationalisation process (Johanson and Vahlne, 1977). Both Haier and Lenovo do not appear to give priority to tackling geographically close, developing countries with close psychic distance. In contrast, the attractions of developed markets, including technological know-how, international experience and brand assets can offset any issues of psychic distance. In spite of Johanson and Wiedersheim-Paul (1975) statements on entering new markets with greater psychic distance, these two companies are internationally oriented, with a long-term perspective with a determination to dance with the global players.

Similarly, both Haier and Lenovo reversed traditional marketing practices and skipped one or two stages (i.e. indirect and direct exporting) of the U-model (Johanson and Vahlne, 1990). Especially for Lenovo, without much successful exporting experience, it suddenly presented itself in the global PC market by acquiring the IBM PC division. Chinese commentators supposed that the acquisition has accelerated Lenovo at least ten years along the road to internationalisation. In the exporting stage, Haier seldom exported via agents, primarily relying either on its own sales subsidiaries, or on OEM contracts. Haier had something in common with

Lenovo when entering the international markets. The strategy is simple: Get to the market. Lenovo, with the inheritance from IBM, was trying to manage markets, not factories; however, Haier was looking after the market first, then the profits. Both companies viewed the meeting of consumers' demand and wants as their initial objective, and the measure of their achievements.

Table 1: Differences between Chinese multinationals and the traditional view of internationalisation

<i>Internationalisation</i>	Traditional view	Haier	Lenovo
<i>Attributes</i>			
<i>Internationalisation entry mode strategies</i>	1. Uppsala Model 2. Consideration of psychic distance	1. Seldom export via agents, Internal development 2. hard first, then easy (South Asia markets first, but refocus on developed market)	1. Consideration of psychic distance initially before acquisition 2. Acquisition without much exporting experiences (Initially focused on developing countries, India and Russia)
<i>International Product Strategies</i>	Standardisation V.S. Adaptation Product Diversification	Adaptation/Niche market Innovative products Product Diversification	Standardisation/Product innovation Both high and low-performance categories
<i>International Promotion and Branding Strategies</i>	Media advertising, Personal selling, Publicity and Sales Promotion Sponsorship Re-branding	Media advertising Promotion campaigns/publicity Sponsorship Local branding Trade affairs/exhibitions	Media advertising Promotion campaigns/publicity Sponsorship Re-branding and Acquired-branding
<i>International Distribution Strategies</i>	Direct selling Channel selling Networks in distribution	Channel selling Chain-stores/Specialised stores E-distribution	Channel selling Chain-stores/Specialised stores
<i>International Pricing Strategies</i>	Pricing standardisation V.S. Pricing adaptation	Value-added pricing strategy Local competitive pricing High and low price models	Standardised Pricing: IBM: High-end pricing Lenovo: Low-end pricing

6.2 International product strategies of Chinese multinationals:

Competing head to head with famous international brands in developed markets could be expensive. Haier entered the developed market by introducing one product category at a time, rather than a wide range of product categories at the same time. The successful introduction of the adapted wine cellar and compact refrigerator are good examples of this in the US market. Jeannet and Hennessey (2004) indicated that, because tastes and fashions are dissimilar from country to country, with the immediate effect, multinationals always have to change the styling of the product offerings, and they elaborately design their product offerings to meet local performance standards. Haier found niche markets and filled these gaps through meeting consumer demand. The cost of this entry strategy is lower and effective. Once Haier had built up its brand image and reputation, Haier entered the mass domestic white-ware market. Boris (2004) particularly pointed out that, by adapting products to niche markets in foreign markets this permits firms to obtain specialisation advantages and rewards in narrow market segments.

In contrast, Lenovo adopted a global product standardisation strategy. Two series of products are produced under the IBM-Lenovo and the Lenovo brands. According to Claudio and James (1995), by engaging in product standardisation, multinationals can focus on certain activities in particular markets by leveraging technological know-how. After the acquisition, Lenovo continued to supply superior quality standardised IBM series products to consumers with the demand of high-performances, whereas the Lenovo series concentrated on less-engineered standardised products. Consumers have more product options from retailers than before. The new Lenovo can reach dual positioning of standardised product offerings,

and two different standardised series can take care of consumers with different features. Through product standardisation, Lenovo cannot only benefit from maximising utilisation of manufacturing facilities, but can also achieve more efficient manufacturing technologies, lower research and development expenses, lower costs in mass-media advertising and greater utilisation of current channels and sales forces.

6.3 International promotion strategies of Chinese multinationals:

The traditional international promotion strategies have been implemented by both Haier and Lenovo. Czinkota and Ronkainen (1998) proposed that effective international marketing communication is crucial for firms, the reason being the geographic and psychological distances that disconnect a company from its intermediaries and target markets. Internationally, both companies exerted a great deal of effort on media advertising. Programmes include television advertisements, outdoor billboards, trade fairs and product exhibitions, and specially designed in-store posters. Haier's promotion strategy is primarily based on local characteristics, for example the slogan *What the World Comes Home To* (Yi and Ye, 2003) was used in the US after the September 11 events and the Haier Train campaign was used in France (Yi and Ye, 2003). In order to enter the international market, Lenovo used a re-branding strategy in 2003. Interestingly, both Haier and Lenovo are vigorously involved in international sports events sponsorship, including the Olympic Games, NBA, Formula 1 and sports teams in different countries. They realised the commercial value of sponsoring because sports events are being covered by mass media (Jeannet and Hennessey, 2004). Through participating in international sponsorship activities, Haier and Lenovo cannot only benefit from popularising the brand, but can also successfully establish a reputable company image.

6.4 International pricing strategies of Chinese multinationals:

Standardisation and adaptation are the two pricing strategies implemented by Haier and Lenovo, and the pricing strategy is along the company's overall marketing standardisation-adaptation continuum (Theodosiou and Katsikeas, 2001). Haier adopted a dynamic pricing strategy to suit local market characteristics (Doole and Lowe, 1999), such as prices being different for low-standard and high-standard models. It adapted prices to different models. Instead of using a lower price strategy to penetrate the markets, Haier found its position in being innovative and adding value to products. For the purpose of seeking economies of scale (Onkvisit and Shaw, 1997), a standardised pricing strategy was implemented by Lenovo. Lenovo slightly adapted its pricing strategy due to its customers demanding both less-engineered and high performance PCs. By positioning Lenovo and IBM-Lenovo series at different price levels, the new company can benefit from dual price positioning strategies.

6.5 International distribution strategies of Chinese multinationals:

The critical issue in international product distribution is to establish an effective distribution channel (Onkvisit and Shaw, 1997). Different from the traditional view of distribution strategy, through which many companies establish their own sales subsidiaries in each market, Haier took advantage of local distributors using channels in international markets (Doole and Lowe, 1999). Currently, Haier has established sixty-two distributorships internationally, covering 160 countries and regions. The reason for this is that local people know about their market, their customers and their buying behaviours. Locals can provide superior promotion and services than can people sent from the original country. In order to obtain access to resources and potential markets (Chetty and Holm, 2000), Haier has established intimate long-term

relationships with distributors internationally. The website networks, www.eHaier.com and www.iHaier.com assist Haier to work more closely with business partners in order to ensure the necessary components for international growth. IBM has been famed for its investments in dealers and partner relationships. Lenovo is taking advantage of IBM's distributorship programmes. Similarly to Haier, it has adopted channel selling (Doole and Lowe, 1999). Since Lenovo is the only PC maker which does the majority of its business via channels, it insists on keeping long-term relationships with global distributor networks. Being network oriented, Lenovo can obtain more opportunities to penetrate markets and serve customers.

Chapter 7 – Conclusion:

Entering a foreign market is difficult. It is particular difficult in developed regions, where countries have remote psychic distances, as well as technical and legal requirements. If Chinese multinationals are pursuing success in developed markets, it is necessary that a strategic marketing programme and proper tools are implemented. Improper conduct would damage the firm's overseas reputation and take a long time to correct.

Generally, Chinese organisations use two types of internationalisation strategies, as observed in the case studies. Chinese companies, such as Haier, might decide to go it alone and proceed to set up parts of their firm in some of their main western markets. This strategy is recognised as the internal development strategy. Naturally, this option will be separated from the majority of the management integration dilemmas. Noting that, internal development is a delicate procedure and branding establishment will need a long time period. On the other hand, many Chinese companies, such as Lenovo, may purchase an international player that already has outstanding global brand awareness. This option is recognised as an acquisition strategy. The advantage is that Lenovo can sell their products under established brand names through the acquisition of the IBM PC division.

There are several distinctive issues for Haier and Lenovo, in comparison to western multinationals. First of all, both Haier and Lenovo did not appear to give priority to tackling neighbouring countries with close psychic distance, however, most western multinationals choose geographically close markets and take psychic issues into consideration. Moreover, apparently Haier and Lenovo skipped one or two stages that

western multinationals usually employ (i.e. indirect and direct exporting) in the process of internationalisation. Especially for Lenovo, without many successful exporting experiences, it suddenly entered the international PC market by acquiring the IBM PC division. Thirdly, Haier tackled the developed markets by focusing on one, or a few, product categories at a time, unlike western multinationals which tend to introduce a full range of company categories at once. Typically, Haier established its brand reputation and image by filling a gap in a niche market. On the other hand, Lenovo provided global consumers with both high- and low-performance product categories under the IBM-Lenovo and Lenovo brands, respectively, unlike western multinationals which normally introduce a fixed category of products. Fourthly, both Haier and Lenovo are actively involved in global sports events sponsorship, as they have recognised the commercial value of being an official sponsor. Sponsoring serves not only to benefit the firm through popularising the brand, but also creates a reputable corporate image. Finally, Haier and Lenovo are partially government supported Chinese multinationals, and their international marketing implementations are considered to be relatively more patriotic when compared with western multinationals, who are completely profit and benefit oriented.

In comparison with the domestic market, the overseas market is a broader field, with foreseeable opportunities and market potentialities. On the basis of successes in the domestic market and (limited) overseas market experience, Chinese multinationals have to employ their unique globalisation strategies to reach more international markets. Through the implementation of international marketing strategies and quick responses to environmental changes and external factors, Chinese multinationals can establish a reputable brand image, achieve economies of scale and gain greater profits.

7.1 Managerial implications:

Some strategic implications can be drawn from this research:

- ≡ As international latecomers from a developing country, Haier and Lenovo have some disadvantages in comparison with western firms, such as a lack of resources and advanced technology. They have managed to conquer these disadvantages, however, via establishing R&D centres and strategic alliances in developed markets.
- ≡ If Chinese companies desire to expand into overseas markets, they have to possess strong positions in the domestic market. This will enable the companies to acquire necessary support and assistance. Equally important, they must have special and unique offerings to promote in the international markets, either something partially different from, or superior to, the other players.
- ≡ Successful western multinationals always have to bear in mind that latecomers from developing countries with limited resources and technological disadvantages can still take market share from them. Even though these latecomers arriving in international markets are far behind the western firms, they have the courage to “dance with wolves” (Liu, 2007, p.573). Haier successfully dominated the niche markets and filled the gaps through providing innovative products. Through the acquisition of the IBM PC division, Lenovo accessed one of the world’s most advanced PC R&D centres.
- ≡ Some of the Chinese companies’ second stage in international expansion strategies should be taken into consideration. It is notable that Chinese companies

have to adapt their internationalisation strategies according to market conditions and competitive environments. Haier's later acquisition of an Italian firm is entirely different from its previous strategy (internal development). The reason for this change in strategy was that Haier confronted some hard-to-surmount barriers, which internal development strategies could not overcome. Lenovo's acquisition of the IBM PC division diversified from its initial exporting strategy. To date, the takeover is considered to be successful and valuable. The fierce competition and requirements in the global PC market forced Lenovo to adjust its original exporting strategy to acquiring a western brand.

≡ According to this research, Chinese companies' successes are based on the competitive advantages that also fall into typical paradigms, such as customer satisfaction, innovative product design and relationship management, among others. Haier's competitive advantage is built on precisely understanding what customers want and need, and finding niche market in which to work more interactively and more closely with consumers. Similarly, Lenovo's global ambition is based on providing high-performance and innovative products for both existing, and potential, customers.

7.2 Limitations:

The limitations of this report come from several areas; methodology, social context, language barriers, and the potential to integrate the findings with empirical research. There are foreseeable limitations in academic research, as "...there are no perfect research designs. There are always trade-offs. Limited resources, limited time, and

limits on the human ability to grasp the complex nature of social reality necessitate trade-offs” (Patton, 2002, p.223).

- ✦ This research is an exploratory case-study based on secondary data, rather than a statistical generalisation.
- ✦ There is no primary data in this report, with only secondary data being accessed. Initially, I intended to include interviews. This was not possible, however, due to the special characteristics of Chinese social contexts and the transition economy (Li, 2005).

7.3 Directions for future research:

From the discussion, it is clear that the U-model could not properly explain Chinese firms’ internationalisation processes and paths. With the immediate effect, we should take into consideration whether there are any other models which can be applied; such as I-Models (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982). Perhaps there is no applicable empirical model which can be applied to the Chinese experience. As a result, a new model may need to be generated particularly for the Chinese internationalisation process. More studies on Chinese multinationals seem necessary to add to the academic knowledge in this area. Why the international expansion strategies implemented by Chinese multinationals have been relatively successful (to date), even though they differed from the traditional model is a question needing examination.

The two companies included in this report are known as *Chinese Champions*, with the halo of being official templates. Their successes have been more, or less, based on government behaviours and ambitions. To some extent, they do not represent other Chinese multinationals, such as family-owned businesses (Hope Group Ltd) and privately-owned businesses (HuaWei Ltd and Glanz Ltd). Perhaps further research in this field could be extended to include other types of Chinese multinationals and their internationalisation strategies. It would be interesting to determine whether there are any noticeable differences among these different types of firms.

From the literature review on internationalisation approaches and international marketing strategies, it is obvious that the topic covers a great number of dimensions and aspects in numerous different issues. Further studies require greater detail and in-depth examination of these issues. In addition, internationalisation approaches and marketing strategies are different from industry to industry. There would be foreseeable differences and adjustments in their international expansions.

The findings would also be enriched through conducting further studies employing primary data. Accessibility to primary data and the unwillingness of participating units will constantly create challenges and difficulties in regards to studies of Chinese businesses. With the experience and credibility gained from this research, however, advanced research techniques can be better employed.

Finally, this research should be considered to only having touched the tip of an iceberg. To date, few studies have focused on emerging international latecomers from China. It is noticeable that more and more Chinese multinationals are taking market

share from reputable international players. This study and other related studies will provide Chinese multinationals with comprehensive knowledge and information regarding internationalisation approaches and marketing strategies, therefore, they will be able to be more competitive in overseas markets. This research contributes to the current literature by emphasizing an understanding of how Chinese multinationals compete in international markets.

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