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**CROSS-BORDER E-COMMERCE AS A MARKET ENTRY MODE:
A CASE STUDY IN CONTEXT OF CHINA**

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ABSTRACT

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This thesis aims to disclose the opportunities related to China's cross-border e-commerce market by analyzing the recent development of the e-commerce sector which has enabled foreign companies' new possibilities to enter the Chinese e-commerce market. The main research theme focuses on identifying the key influencing factors that facilitate foreign retail companies' entry into China by using cross-border e-commerce model. This phenomenon is reflected with the literature related to transaction cost theory and other relevant internationalization perspectives.

This thesis is based on deductive research approach, and it was conducted as a qualitative descriptive case study. For providing empirical evidence of the research context, this research incorporates with a single-case which is representing the market entry process into China's cross-border e-commerce market in the field of B2C consumer goods trade. The data collection was done by conducting key informant interviews and extensive documentary analysis.

The results suggest that cross-border e-commerce provides a streamlined pathway to China's e-commerce market due to the shorter value chain. Although cross-border e-commerce mode has advantages in terms of cost-efficiency and reduced risks compared to traditional entry modes, there are still major challenges which should be taken into consideration from the foreign companies' perspective. The outcome of the study supports to some extent other previous findings when analyzing the advantages and disadvantages of CBEC as a market entry mode. From a managerial perspective, this thesis can provide relevant insights from China's cross-border e-commerce market and practices related to planning the market entry by using cross-border e-commerce model.

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TABLE OF CONTENTS

1	INTRODUCTION	4
1.1	BACKGROUND OF THE STUDY	4
1.2	OBJECTIVES AND RESEARCH QUESTIONS	5
1.3	LITERATURE REVIEW	6
1.3.1	Internationalization theories and market entry strategies.....	6
1.3.2	Cross-border e-commerce	11
1.4	THEORETICAL FRAMEWORK.....	15
1.5	DEFINITIONS OF KEY CONCEPTS	16
1.6	DELIMITATIONS.....	17
1.7	RESEARCH METHODOLOGY	18
1.8	STRUCTURE OF THE STUDY	19
2	LITERATURE REVIEW	20
2.1	THE TRANSACTION COST ANALYSIS MODEL	20
2.2	THE UPPSALA INTERNATIONALIZATION MODEL	23
2.3	BORN GLOBALS	24
2.4	THE NETWORK MODEL.....	26
2.5	FACTORS INFLUENCING THE MARKET ENTRY STRATEGY	28
2.6	MARKET ENTRY MODES.....	32
2.6.1	Export modes.....	33
2.6.2	Intermediate modes	35
2.6.3	Hierarchical modes	38
2.7	CROSS-BORDER E-COMMERCE	40
2.8	COMPARISON OF TRADITIONAL INTERNATIONAL TRADE AND CBEC IN CHINA.....	45
2.8.1	Traditional international trade.....	45
2.8.2	Cross-border E-commerce mode	45
2.9	CBEC IMPORT MODES	48
2.9.1	Bonded import (B2B2C)	49
2.9.2	Direct import (B2C)	50
3	RESEARCH METHODOLOGY.....	52
3.1	RESEARCH DESIGN	52
3.2	CASE DESCRIPTION	53

3.3	DATA COLLECTION METHODS.....	55
3.4	DATA ANALYSIS METHODS.....	57
3.5	RELIABILITY AND VALIDITY.....	58
4	FINDINGS.....	61
4.1	SECONDARY ANALYSIS OF CHINA'S CROSS-BORDER E-COMMERCE MARKET.....	61
4.1.1	Cross-border e-commerce platforms and business models.....	65
4.1.2	CBEC third-party service providers.....	74
4.2	INSIGHTS FROM KEY INFORMANT INTERVIEWS.....	76
5	DISCUSSION.....	82
6	CONCLUSIONS.....	90
6.1	THEORETICAL IMPLICATIONS.....	90
6.2	MANAGERIAL IMPLICATIONS.....	91
6.3	LIMITATIONS AND FURTHER RESEARCH.....	92
	REFERENCES.....	93

Appendix 1: Invitation letter to participate in research

Appendix 2: Interview questions

LIST OF TABLES

Table 1. Research questions and objectives	6
Table 2. Literature related to internationalization theories	8
Table 3. Literature related to market entry strategies.....	10
Table 4. Literature related to cross-border e-commerce	13
Table 5. Comparison of traditional trade and cross-border e-commerce in China.....	47
Table 6. Conducted interviews	56
Table 7. Selected secondary documentary sources	56
Table 8. The main business models for China's B2C CBEC market.....	67
Table 9. The main categories of CBEC platforms in China	68
Table 10. Summary of the main CBEC business models.....	71
Table 11. Summary of the key informant interviews	81
Table 12. Summary of the key findings.....	89

LIST OF FIGURES

Figure 1. Theoretical framework.....	16
Figure 2. Research timeline.....	18
Figure 3. Structure of the study	19
Figure 4. Two extreme pathways of internationalization: Organic and born global.....	26
Figure 5. Factors affecting the foreign market entry mode decision.....	32
Figure 6. Development stages of China's cross border e-commerce trend.....	40
Figure 7. Cross border B2C ecommerce in context of global consumer goods trade.....	41
Figure 8. A responsibility assignment for cross-border e-commerce development.	43
Figure 9. Pathways for reaching Chinese consumers.....	48
Figure 10. Bonded import mode (B2B2C).....	49
Figure 11. Direct import mode (B2C).....	50
Figure 12. Number of CBEC customers in China 2014 – 2020.....	62
Figure 13. The main contributing factors to purchasing via CBEC in China	63
Figure 14. The most popular CBEC product categories in China.....	63
Figure 15. CBEC pilot cities and pilot zones.....	65
Figure 16. CBEC platforms market share in China, 2017 (Q4)	66
Figure 17. Selection of CBEC platforms for purchasing (2017).....	67
Figure 18. Percentage of retailers satisfied with online sales by e-commerce platform....	72
Figure 19. Main challenges faced by international retailers in China.	73
Figure 20. Main sales channels used by retailers in China.	73

1 INTRODUCTION

1.1 Background of the study

As an emerging market, China's middle class has been growing rapidly with increased exposure to the Internet and high-quality foreign brands, which has increased the demand for foreign products. Purchasing foreign higher quality products in Mainland China has been relatively expensive, or the product has been unavailable which have been attracting Chinese consumers buying directly from foreign retailers through the Internet without an intermediary. According to The Netherlands Consulate-General Shanghai (2017, 7), "this process of buying overseas products directly from foreign retailers and suppliers via the internet, without the specific need for an intermediary business entity in China, is called: cross-border e-commerce."

Traditionally, the general foreign trade in China required an extensive business network which was more accessible for large multinational companies operating in China. Importing products from overseas into China was usually done through a legal entity such as local manufacturer, subsidiary or a business partner. In this way, the legal entity managed the customs, imported the goods into Mainland China and paid all the related duties and taxes. After this process was complete, the foreign imported products could be sold in Chinese brick-and-mortar shops or through online channels. In addition, if a foreign company is willing to sell its products via regular B2C e-commerce platforms in China, it is required to have a company registered with a Chinese entity (The Netherlands Consulate-General Shanghai 2017)

The emergent of cross-border e-commerce phenomenon has been gaining more exposure, particularly among foreign companies which are aiming to enter China's e-commerce market. The previous research studies related to market entry modes in the Chinese market has been studied usually from the traditional perspective where the market entry is done through export intermediaries or via hierarchical modes by investing in wholly owned acquisitions. Nowadays, the recent development of China's cross-border e-commerce platforms and trading possibilities without the traditional intermediary has created new opportunities for foreign companies, and it is becoming a more relevant research topic. However, based on the previous scientific research publications, the factors influencing the foreign market entry mode decisions between CBEC model and traditional market entry modes with regard to transaction cost approach, are seemingly not present. In this study,

the transaction cost approach is used to identify the influencing factors which determine whether the cross-border e-commerce pathway provides fewer transaction costs compared to traditional market entry modes. The purpose of this research is to investigate this phenomenon in more detail and contribute future research in the field of CBEC and provide support for foreign firms entering China.

For defining the research objectives more specifically, this thesis aims to examine the new ways to enter Chinese market through CBEC platforms by using certified third-party service providers (TPs) and what kind of advantages and challenges it creates compared to traditional market entry modes which are associated with a legal entity in China. In essence, when entering China through the cross-border e-commerce platforms, the foreign company benefits from reduced risks as the value chain becomes shorter and direct selling to Chinese consumers becomes more efficient compared to traditional market entry modes. However, China's cross-border e-commerce market is highly dynamic and developing rapidly which can induce major challenges for foreign companies in terms of engaging with specific rules and regulations of China's e-commerce market.

1.2 Objectives and research questions

The objective of this thesis is to disclose the opportunities related to cross-border e-commerce in China by analyzing the recent development of the Chinese e-commerce sector which has enabled foreign companies' new possibilities to enter the Chinese e-commerce market. The main research theme focuses on identifying the key factors that facilitate foreign retail companies' entry into China by using cross-border e-commerce model.

In addition, the objective is to analyze what kind of advantages and challenges the CBEC model provides compared to using traditional market entry modes with a legal entity in China. From a theoretical perspective, this study strives to investigate the cross-border e-commerce phenomenon in more detail and contribute to expanding the previous internationalization perspectives when entering the Chinese market. Furthermore, the aim is to provide managerial insights for foreign firms which are aiming to enter China and further research suggestions for the development of CBEC research field. For defining the main objectives of this thesis, the following research questions are formed: (Table 1)

Table 1. Research questions and objectives

Research question	Objective
1. What are the main influencing factors that facilitate foreign companies' entry into China via the CBEC model?	To identify the key influential drivers of CBEC model from the foreign companies' perspective.
2. What are the main advantages of using CBEC model compared to using traditional market entry modes?	To identify the key factors influencing the market entry strategy when entering the Chinese market.
3. What are the main challenges of using CBEC model when entering Chinese e-commerce market?	To provide relevant insights of the associated challenges and risks of China's CBEC market.

1.3 Literature review

1.3.1 Internationalization theories and market entry strategies

One of the most fundamental internationalization theories is the transaction cost theory originally developed by Ronald Coase (1937). Coase's (cited in Madhok 2002, 535) main objective was to develop an understanding of why firms' economic activity is organized internally. Coase's study highlighted that markets are frictionless and organizing production in the market mechanism generates transaction costs which can generate inefficiencies for the organizations' economic activity. This theory was further developed by Williamson (1975, 1985) who focused on identifying specific transaction cost features and contributed the theory in a more predictive way. Williamson's contribution changed the transaction cost approach to be more associated with regard to issues of self-interest, ownership, appropriation, and alignment of incentives. (Madhok 2002, 535-536)

Based on the incremental entry mode approach, Johansson & Vahlne (1977) developed the Uppsala internationalization model which focused on the gradual acquisition and increasing foreign market commitments incrementally. The progressive internationalization process of the firm assumes that the necessary knowledge for developing international operations can be acquired mainly through overseas business operations. As the firm acquires more knowledge and experiences its tendency to increase commitment for internationalization activities into foreign markets strengthens. The lack of such knowledge is assumed to be a

major preventing obstacle for the development of international operations. (Johansson & Vahlne 1977, 23; Hollensen 2011, 72) However, the Uppsala internationalization model has received miscellaneous criticism, for instance, the theory is argued to be too deterministic (Reid 1983; Turnbull 1987, cited in Hollensen 2011, 75) and it does not consider the interdependencies among different markets (Johanson & Mattson 1986, cited in Hollensen 2011, 75). Also, for some companies, the internationalization process from the early stage can happen rapidly which enables them to establish a global presence in foreign markets without the need to incrementally develop their internationalization activities through markets which are characterized by factors related to low psychic distance. (Hollensen 2011, 75-76)

Johanson and Mattson (1988) approached internationalization from the network perspective in which they described the market as a system of relationships between firms. In this way, firms are dependent on each other and engaged together through business activities within the network. The network approach differs from traditional internationalization theories in a way that coordination is managed without organizational hierarchy. Instead, coordination is based on an interaction between firms in the network. Another key feature of the network approach is that developing relationships in the network requires effort and time in order to gain access to external resources and establishing exchange relationships. Johanson and Mattson (1988) also illustrated the degree of internationalization of the firms and markets by applying the network approach in terms of the degree of internationalization. The analysis describes four international situations; the early starter, the late starter, the lonely international and the international among others. (Johanson and Mattson 1988, 290-298)

The internationalization concepts from the born global perspective have also gained attention among the scholars who are studied by many researchers. The exact definition of born global types of companies varies depending on the specific company and the research context. Gabrielsson & Kirpalani (2012) and Oviatt and McDougall (1994), defined a born global as “an entity that from inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries” (Oviatt & McDougall 1994, cited in Gabrielsson & Kirpalani 2012, 4). According to Gabrielsson & Kirpalani (2012, 6) globalization of markets, development of technology and capabilities of people and small firms, as well as favorable home market conditions, are contributing the emergence of born global types of companies.

According to Agarwal & Ramaswami (1992, 2), previous studies related to international trade and entry mode behavior have distinguished several factors that influence the choice of a market entry mode. Many of the empirical studies have reflected the Dunning's (1977, 1980, 1988) theoretical perspective which focused on three main determinants when analyzing the factors influencing the choice of entry modes. These determinants were defined as ownership advantages, location advantages and internalization advantages. (Agarwal & Ramaswami 1992, 2) For this research, the Dunning's eclectic paradigm together with the transaction cost approach serves as the primary framework for identifying the main factors influencing the choice of foreign market entry modes. The following tables summarize the selected literature in the context of internationalization theories (table 2) and market entry strategies (table 3).

Table 2. Literature related to internationalization theories

Author	Summary of the key research themes and findings
Äijö et al. (2005)	Examined characteristics of organic, collaborative and born global internationalization pathways for software companies. "The choice of a pathway is all about choosing an appropriate growth and internationalization strategy for the company's competitive success." (Äijö et al. 2005, 39).
Coase, R. H. (1937)	The main theme focused on explaining "why firms emerge in a specialized exchange economy." (Coase 1937, 390). According to Coase (1937, 395), "a firm will tend to expand until the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction on the open market or the cost of organizing in another firm."
Gabrielsson, M. & Kirpalani, V. H. M. (2012)	Extensively covers the historical background and evolution of born global industry sector. Based on the conclusions from reviewing the extant literature, born global is often referred to rapidly internationalizing firms. Findings also indicate that there are still missing research areas which need to be covered in order to develop more understanding about the issues in the born global pathway. (Gabrielsson & Kirpalani 2012)
Hollensen, S. (2011)	Reviews the historical development of internationalization theories: the traditional marketing approach, the life cycle concept for international trade, the Uppsala internationalization model, transaction cost approach, Dunning's eclectic approach, and network model. (Hollensen 2011)
Jansson, H., Johanson, M., & Ramström, J. (2007)	Provides a comparative analysis of the Chinese, Russian and West European business networks and institutions. "The analysis concludes that institutions in these three markets influence business networks in different ways." (Jansson, Johanson, & Ramström 2007, 964).

- Johanson, J. & Mattson L., G. (1988) The network model is presented by analyzing interdependencies between internationalization trade, investments, industrial organization and international business behavior. "The research suggests that international interdependence between firms and within industries is of great and increasing importance." (Johanson & Mattson 1988, 287).
- Johanson, J. & Vahlne J. E. (1977) A model of the internationalization process of the firm is developed. This internationalization model focuses on the gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets. (Johanson & Vahlne 1977)
- Madhok, A. (2002) This study reassesses the Ronald Coase's transaction cost theory, by arguing that he foresaw the main questions that advocates of the resource-based view are concerning nowadays. The second argument is that "resource-based theory plays a potentially much more critical role in economic theory and in explaining the institutional structure of production." Lastly, "it is argued that complete understanding of the organization of economic activity requires a greater sensitivity to the interdependence of production and exchange relations." (Madhok 2002, 535)
- Oviatt, B., M. & McDougall, P. P. (1994) Based on the analysis of twelve global start-ups, the success factors and patterns underlying the rapid internationalization was studied. Characteristics such as global vision, international experience, and a strong social network were identified as a basis for a successful inception. (Oviatt & McDougall 1994, 38-39).
- Sutcliffe, K. M. & Zaheer, A. (1998) The relationship between uncertainty and vertical integration was studied with different forms of uncertainties (primary, competitive and supplier). It was hypothesized that each uncertainty forms had a varying effect on vertical integration. "Primary and competitive uncertainty were negatively associated with the decision to vertically integrate, but supplier uncertainty was positively related to the vertical integration decision." (Sutcliffe & Zaheer 1998, 1)
- Williamson, O.E. (1973) Research paper about the human and transactional factors which "induce a shift of transactions from market to internal organization and, within internal organization, to explain the types of hierarchical relations that predictably emerge." (Williamson 1973, 316).
- Williamson, O.E. (1975) "This paper examines the organization of economic activity within and between markets and hierarchies. It considers the transaction to be the ultimate unit of microeconomic analysis and defines hierarchical transactions as ones for which a single administrative entity spans both sides of the transaction, some form of subordination prevails and, typically, consolidated ownership obtains." (Williamson 1975)
- Williamson, O.E. (1985) Williamson contributes to the transaction cost approach by focusing "primarily on the economic institutions of capitalism, with special reference to firms, markets, and relational contracting." (Williamson 1985, 16).
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Table 3. Literature related to market entry strategies

Author	Summary of the key research themes and findings
Agarwal, S. & Ramaswami, S., N. (1992)	The study examines the choice of an entry mode with regard to the ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions factors. "The study provided support for most of the hypothesized relationships suggesting the importance of including interaction effects in the entry choice model." (Agarwal & Ramaswami 1992, 22).
Cavusgil, S. T., Knight, G. & Riesenberger, J. (2017)	The main research theme focuses on international business and globalization of markets. Market entry modes and operating in international markets is reviewed extensively which provides insights related to exporting, countertrade, FDI, collaborative ventures and contractual strategies. (Cavusgil, Knight & Riesenberger 2017)
Cullen, J. B. & Parboteeah, K, P. (2010)	Provides an analysis of various international business concepts and its implications for the multinational company. Strategic decisions related to the entry strategies " depends on a complex array of factors, including, but not limited to, the company's multinational strategy, it's strategic intent and its need for control of its products. Most MNCs will choose a mixture of entry strategies to fit different products or different businesses." (Cullen & Parboteeah 2010, 269)
Dunning, J.H. (1977)	International allocation of resources and the exchange of goods and services between countries is analyzed with the location-specific endowments of countries and the ownership-specific endowments of enterprises. (Dunning 1977)
Dunning, J. H. (1980)	This paper contributes to the eclectic theory of international production. "Ownership- and location-specific variables are analyzed to explain the industrial pattern and geographical distribution of the sales of U.S.affiliates in fourteen manufacturing industries in seven countries in 1970." (Dunning 1980, 9)
Dunning, J. H. (1988)	Continuation of the original eclectic theory which demonstrates its relevance in terms of explaining rationales related to international production and organizational issues in MNC activities (Dunning 1988, 24).
Hill, C. W. L., Udayasankar, K. & Wee, C., H. (2012)	An extensive review of international business concepts from an Asian market perspective. (Hill, Udayasankar & Wee 2012)
Hollensen, S. (2011)	Provides an overview of the major market entry modes and criteria for selecting them. (Hollensen 2011)

1.3.2 Cross-border e-commerce

The rapid global development of e-commerce has facilitated online consumers to purchase products across international borders as it enables shorter trading distances between buyers and sellers. According to Wang 2014; Accenture 2012 (cited in Ding, Huo, & Campos 2017, 370-372), when trading and transactions are happening across different countries via information and communication technology, it is referred to cross-border e-commerce (CBEC). Other researchers (Liu et al., 2015 cited in Ding, Huo, & Campos 2017, 370) refers CBEC to business-to-consumer (B2C) trading which enables activities of suppliers and customers to be integrated on the value chain.

On a global scale the development of domestic e-commerce has been the fastest growing retail channel, but at the same time, the cross-border trading has been constrained by various barriers such as bottlenecks on the customs practices and transparency related issues during the delivery operations. However, these constraining barriers for cross-border trading will be eventually diminished as the rapid development of e-commerce channels will become an increasing trend in Asia and Western markets. For instance, China has been one of the major players for contributing to the development of cross-border e-commerce sector. (Heel, Lukic, & Leeuwis 2014) According to the extensive literature review conducted by Ding, Huo, & Campos (2017, 371-372), the identified key drivers for the development of cross-border e-commerce trend were advanced technology, growing demand, and advantageous policies. From a retailer's perspective, this provides a greater opportunity for focusing on customers' needs regardless of organizing the locations of retailer's business operations. As the cross-border trading becomes more efficient from a global perspective, inefficiencies related to supply-chain processes can also be eliminated. In this way, manufacturers can eventually reach consumers across the globe in a more direct way since fewer intermediaries are needed. (Heel, Lukic, & Leeuwis 2014)

Insights from the "Global Cross-Border B2C E-Commerce 2018" report from Research and Markets (2018) reveal that cross-border B2C e-commerce sales have continued to grow worldwide. An increasing number of online consumers are purchasing by using foreign e-commerce platforms although the shares of overall online purchases and penetration rates differ across international markets. That said, the most significant growth rate has been in Asia-Pacific and mainland China since most of the online purchases in these markets are done from abroad via cross-border e-commerce platforms. The largest e-commerce companies such as Alibaba, Amazon, and eBay are leading in the worldwide cross-border

shopping market and facilitating the development of the international online shopping trend. Based on the findings of the Research and Markets (2018) report, over half of the global cross-border purchases are made via these major marketplaces. (Research and Markets 2018)

Based on the research publications from 2013 onwards, cross-border e-commerce in China has been gaining more interest from the internationalization perspective. However, according to Giuffrida, Mangiaracina, Perego & Tumino, (2017, 772-774), the scientific research studies are lacking specific insights related to managing the CBEC model and whether to manage internationalization activities in-house or through third parties. This phenomenon has been reviewed in the field of logistics which focused on investigating research gaps between CBEC and distribution network structures. (Giuffrida, et al., 2017) The effects of cross-border e-commerce on China's international trade has also been studied from the perspective of transaction cost economics which suggested that CBEC model can affect China's international trade positively only when the costs related to tariffs and transportation is offset (Lee, Wang & Wang 2017, 1-2). In addition, the effect of cross-border e-commerce policies on the export trade in China's pilot cities has been investigated which concluded that institutional support for cross-border e-commerce has a positive impact for export trading (Huo, Ouyang, Hung, & Sun 2018, 1-15). The policy environment of cross-border e-commerce has also been researched by analyzing the recent development of the phenomenon and what kind of challenges it has induced for the development of the industry (Yue, Wu, & Yao, 2017, 26-30). According to Wei, Liu, & Liu (2004, 2) studies related to foreign direct investment (FDI) entry strategies, has focused mainly on investigating wholly owned enterprises and equity joint ventures or between greenfield investment and acquisitions.

As the recent emergent of cross-border e-commerce in China has been developing rapidly in terms of policy and regulation issues, new business opportunities have emerged for foreign companies who are willing to develop their internationalization entry activities in China (The Netherlands Consulate-General Shanghai 2017, 7-13). This phenomenon has changed the traditional market entry approach in a way that foreign businesses can trade directly into China market without foreign direct investments such as establishing own business entities or through acquisitions. However, based on the previous scientific research publications, the factors influencing the foreign entry mode choices between CBEC model and traditional market entry modes with regard to the transaction cost approach, are seemingly not present. The purpose of this research study is to investigate

this extant research gap in more detail and contribute to expanding the internationalization perspectives in the context of China's cross-border e-commerce market. The following table 4 summarizes the selected literature in the context of cross-border e-commerce.

Table 4. Literature related to cross-border e-commerce

Author	Summary of the key research themes and findings
Accenture & AliResearch (2016)	Provides insightful data from the global cross-border B2C e-commerce market. (Accenture & AliResearch 2016)
Asia Briefing Ltd & Dezan Shira & Associates (2018)	Reviews the current CBEC market landscape and regulatory framework. In addition, different CBEC business models are compared with regard to their advantages and disadvantages. (Asia Briefing Ltd & Dezan Shira & Associates 2018)
Chan, W,C., Wouters, I. & Wu, R. (2016)	China's CBEC market opportunities and emerging challenges due to the changing regulatory environment are examined from western companies' perspective. "The winners in the fast-changing China e-commerce market are those who have a deep understanding of what Chinese consumers want, who are creative and courageous in attempting new models to satisfy consumers, and who remain sufficiently nimble and agile to respond quickly to the latest changes in the market." (Chan, Wouter & Wu 2016, 12).
Chiericozzi, A. (2016)	Based on the findings, the key managerial factors for succeeding in China's CBEC market are related to "deep market research, a project team, an accurate business plan based on a clear long-term strategy, the visibility opportunity that e-commerce platforms represent, the high risk of the project, the high investments required, the necessity to rely on TP and how to select it, how to manage TP relation, a communication based on contents and interactions (KOL, social) and managing mobile commerce." (Chiericozzi 2016, 3).
Ding, F., Huo, J. & Campos, J., K. (2017)	A literature review of recent academic research reports was conducted for identifying the current situation of developing CBEC market on a global level. The main contributing factors for the development were advanced technology, growing demand and advantageous policy. (Ding, Huo & Campos 2017, 370).
Frost & Sullivan & Azoya Consulting (2018)	Reviews how the CBEC market has evolved in China and analyzes the alternative cross-border sales models. Based on the findings, the use of a CBEC marketplace may not always be the best solution for international companies in engaging with Chinese online buyers. (Frost & Sullivan & Azoya Consulting 2018, 2).

- Fung Business Intelligence (2017) The development stages of the CBEC market and the new policies imposed by the Chinese government is analyzed (Fung Business Intelligence 2017, 1).
- Giuffrida et al. (2017) According to the findings from the literature review in the field of logistics in CBEC in China, the relationship between logistics and e-commerce seems to lack scientific insights on how to manage the distribution network design in China. (Giuffrida et al. 2017)
- Heel, B. V., Lukic, V. & Leeuwis, E. (2014) The article reviews how the cross-border e-commerce will be evolving globally since the constraining barriers such as "customs bottlenecks, transparency issues, unreliable and long transit times, price opacity and consumers limited ability to alter deliveries and locations will be eventually dismantled" (Heel, Lukic & Leeuwis 2014).
- Huo et al. (2018) A research paper about how institutional support to cross-border e-commerce affects export trading in emerging market. Findings indicated that the "institutional support to cross-border e-commerce at the pilot cities had a positive effect on export trade." (Huo et al. 2018)
- Lee, S, H., Wang, Y. & Wang, Y. (2017) An empirical study based on transaction cost analysis which "investigates the impact of cross-border e-commerce on international trade in the context of China, mainly from the perspective of transaction cost economics in conjunction with the traditional comparative advantage model". The findings indicated that "CBEC may have a positive role in promoting international trade only when the negative impact caused by tariff cost and transportation cost is offset." (Lee, Wang & Wang 2017, 1)
- Research and Markets (2018) A market research about global cross-border B2C e-commerce shopping trends in 2018. The key findings showed that purchasing overseas products is often done via marketplaces, mainly facilitated by biggest platforms. (Alibaba, Amazon, and eBay) (Research and Markets 2018)
- Rödl & Partner (2016) An article which provides an outlook of the CBEC B2C importing models after the new regulations were imposed by the Chinese government on April 2016 (Rödl & Partner 2016)
- Rongkun, L. & Xingzhi, L. (2017) This paper analyzes the development stages and the current form of China's CBEC market. According to the value chain analysis method and with specific cases, three main CBEC business models were identified; self-run E-commerce model, the information, platform model and the integrated service provider model. (Rongkun & Xingzhi 2017, 88)
- The Netherlands Consulate-General Shanghai (2017) A practical guidebook which includes an overview of CBEC sector in China and relevant insights for western companies entering China's e-commerce market. (The Netherlands Consulate-General Shanghai 2017)

Wei, Y., Liu,
B., & Liu X.
(2004)

This study uses a multinomial logit model to investigate the determinants of four types of FDI entry strategy in China. Based on the evidence from a large sample, "MNE's choice of the WOE mode is positively associated with its large investment commitment, the host-country experience in attracting FDI, a good industrial location, and a high asset intensity in the host industry." (Wei, Liu & Liu 2004, 13)

1.4 Theoretical framework

The theoretical framework of this study (Figure 1) is composed of the factors influencing the entry mode decision which are derived mainly from Dunning's eclectic paradigm (1977, 1980, 1988). These influencing factors are reflected through the transaction cost analysis which is an essential element of the theoretical framework. The transaction cost approach determines the market entry decision in terms of whether it is preferable to use traditional market entry modes which are associated with a legal entity in China or through cross-border e-commerce mode by using a third-party service provider. The traditional market entry pathway is associated with hierarchical, intermediate and export entry modes. The cross-border e-commerce mode has two alternative market entry pathways: a standalone e-commerce platform hosted outside China without a Chinese legal entity or using cross-border e-commerce marketplaces in China. The key interest is to analyze what are the main factors that facilitate foreign companies' entry into China via the CBEC model. In addition, the purpose is to identify what are the main advantages and challenges between cross-border e-commerce and traditional market entry pathways from foreign companies' perspective.

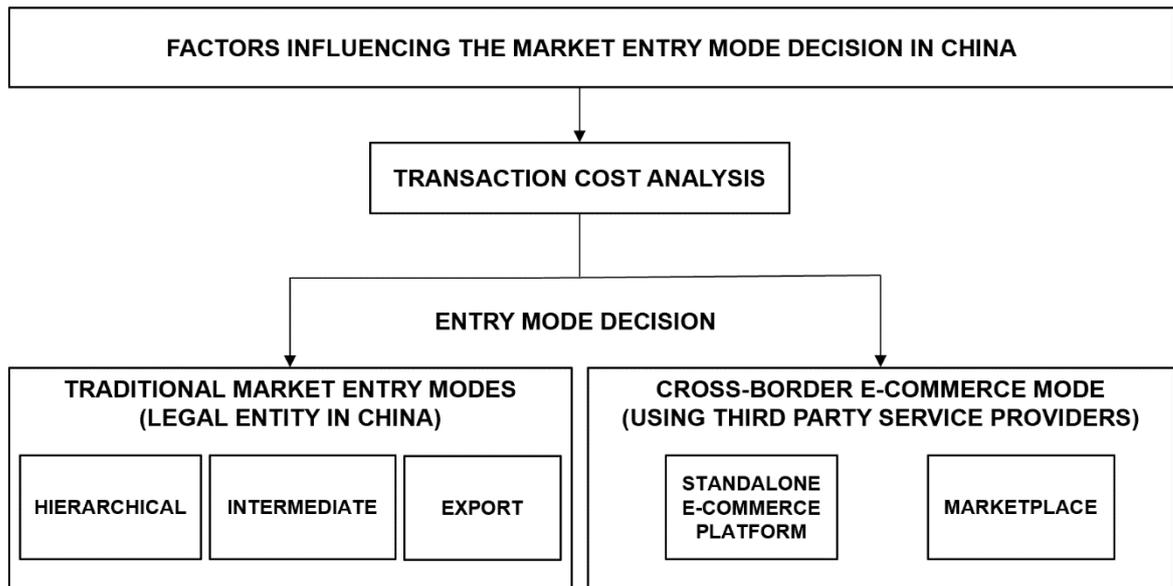


Figure 1. Theoretical framework

1.5 Definitions of key concepts

In this chapter, definitions of the most relevant concepts used in this thesis are presented.

Internationalization

Internationalization is associated with companies' tendency to systematically intensify their international business activities (Cavusgil, Knight & Riesenberger 2017, 35). According to Hollensen (2011, 6) internationalization can be defined as practicing business in many countries of the world. Usually, internationalization activities are limited to a certain region.

Market entry mode

Market entry mode is an institutional arrangement when the firm is entering a new foreign market. Market entry modes can be categorized into three main modes; export, intermediate and hierarchical modes. (Hollensen 2011, 320)

Transaction costs

Transaction costs emerge from the opportunistic behavior which creates friction between buyer and seller. Williamson (1975, cited in Hollensen 2011, 78-79) analyzed transaction costs from two main hierarchical governance perspectives where they were defined through

the firm's external and internal activities. Externalization related activities, for instance using importers or agents, induces market transactions from the firm's external environment. Internalization activities through an internal hierarchical system where business is managed vertically create transactions costs related to ownership control. These transaction costs can also be categorized into different forms of costs between buyer and seller including; search costs, contracting costs, monitoring costs, and enforcement costs. (Hollensen 2011, 78-79)

Cross-border e-commerce (China)

According to Netherlands Consulate-General Shanghai (2017, 7) "the process of buying overseas products directly from foreign retailers and suppliers via the internet, without the specific need for an intermediary business entity in China, is called: cross-border e-commerce." Giuffrida et al. (2017, 773) define cross-border e-commerce as "the process of selling goods to a consumer located in a foreign country by means of online channels, either directly through a proprietary website (i.e., B2C) or through a digital intermediary such as online retailers or marketplaces (i.e. B2B2C)". (Giuffrida et al. 2017, 773).

1.6 Delimitations

For narrowing the research scope of this thesis, this study focuses mainly on the transaction cost approach which will be used for answering the research questions. The transaction cost theory forms the basis of the theoretical framework for this study, but for gaining a wider perspective and greater interpretation of the international concepts, other relevant internationalization theories are reviewed as well. In this way, broadly reviewed internationalization concepts provide an opportunity to reflect the findings more extensively in order to elaborate the analytical conclusions of this study.

Secondly, the theoretical framework of this study is delimited specifically to the context of China's cross-border e-commerce market. The focus is to concentrate solely on current circumstances in the cross-border business-to-consumer trade sector. In addition, because the e-commerce market in China is highly dynamic in terms of rules and regulations, this study is based on the current cross-border e-commerce policies which were imposed in 2016 by Chinese authorities. Therefore, this research is not taking into account the previous regulations which were active before 2016. The outcome of the analyzed findings will be

derived from a single-case phenomenon which is influenced by the new regulations and rules of China's cross-border e-commerce market.

1.7 Research methodology

This thesis is based on a deductive research approach and it was conducted as a qualitative descriptive case study. The deductive research approach is preferable when the research is initially approached from theoretical perspectives and then followed by data collection and analysis. For achieving empirical evidence of the research context, this research incorporates with a single-case phenomenon which is representing the market entry process into the cross-border e-commerce market in the field of B2C consumer goods trade. Therefore, a single-unit of analysis is deployed for this research. The data collection method focuses on data triangulation from key informant interviews and documentary secondary data analysis. Patton (2002, 306) mentions that, by combining multiple data sources, the validity of the research becomes higher compared to using only a single data collection method. In addition, combining different data collection methods can compensate for the weaknesses of another data types (Marshall & Rossman 1989, 79-111, cited in Patton 2002, 306). The advantages of combining interview data and document analysis are that the researcher is able to acquire thoughts and feelings from the interview data analysis while document analysis provides opportunities to observe the behind-the-scenes perspectives, which may not be directly noticeable through interviewing (Patton 2002, 306-307). For collecting the interview data, semi-structured interviews were conducted through online video conference and telephone interviews. In addition, some of the primary data were collected from email mediated questionnaires. The documentary data collection is conducted by analyzing written materials such as journals, books, organization websites, press releases, government publications, and industry statistics. In addition, non-written materials were analyzed from different media channels, including, video recordings and documentary films. The timeline of the research phases is presented in the following figure. (Figure 2)

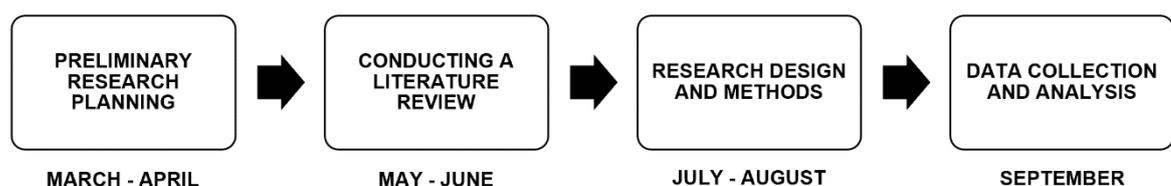


Figure 2. Research timeline

1.8 Structure of the study

The structure of the thesis consists of theoretical and empirical sections which are outlined in six main chapters (Figure 3). The first chapter provides an overview of the study and introduces the research topic with background details and definitions of the research objectives. In the second chapter, the literature review is conducted and presented for establishing the main research context by reviewing relevant internationalization theories, market entry modes and factors influencing the choice of market entry strategies. The subsequent empirical section describes the research design and methodologies related to data collection and analysis. The empirical research context and case study design are presented in more a detail for providing relevant background information which are supporting the main research objectives. The fourth chapter presents empirical findings which are then reflected in the literature review and theoretical realm. The last section of the study concludes the research results and provides answers to research questions with theoretical contributions and further research suggestions in the future.

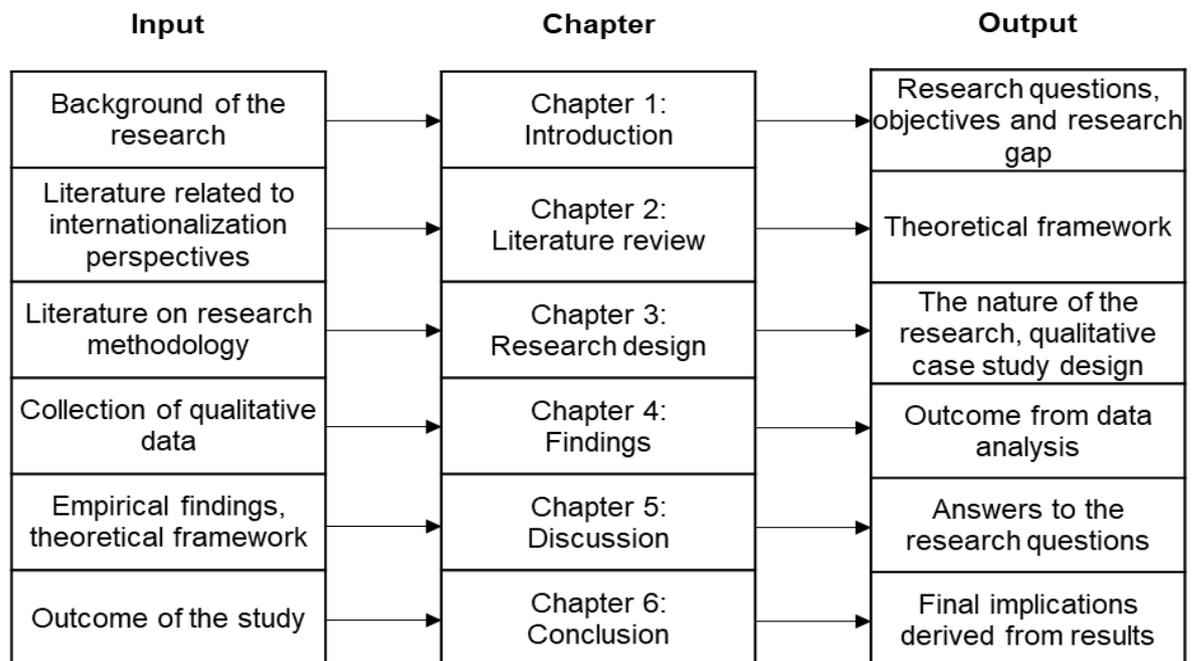


Figure 3. Structure of the study

2 LITERATURE REVIEW

For synthesizing and establishing the key concepts for this thesis, the literature review is conducted by reviewing the most relevant internationalization theories. The transaction cost approach forms the basis of the theoretical framework for this study but for gaining a wider perspective and greater interpretation of the international concepts other relevant internationalization theories are reviewed as well. The other selected theories are related to the Uppsala internationalization model, born global pathway and the network model approach. In addition, the literature review section also consists an overview of the traditional market entry modes and what kind of factors are influencing the choice of market entry strategies. Lastly, the literature related to cross-border e-commerce is reviewed from other relevant studies and articles which provides an overview of the concept of cross-border e-commerce.

2.1 The transaction cost analysis model

The transaction cost theory, originally developed by Ronald Coase (cited in Madhok 2002, 535) is one of the most fundamental internationalization theories which explains why some companies' economic activity is internalized within the organization. Coase's 1937 study (cited in Madhok 2002, 535) highlighted that markets are frictionless and organizing production in the market mechanism generates transaction costs which can generate inefficiencies for the organizations' economic activity. According to Coase (1937, 395), "a firm will tend to expand until the cost of organizing an extra transaction within the firm will become equal to the cost of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm." From this perspective, the company will manage its activities internally if the performance can be implemented at lower cost by utilizing hierarchical management control and implementation system while depending on the market activities where independent intermediaries, agents or distributors have a cost advantage (Hollensen 2011, 77).

The nature of the market is that there is always some friction between the buyer and seller which eventually will generate transaction costs. These transaction costs can be explained by opportunistic behavior which was defined by Williamson (1985, cited in Hollensen 2011, 78), as "self-interest seeking with guile." Opportunistic behavior is a prevailing phenomenon when an individual is taking a transactional advantage via lack of candor or honesty. This

is often happening when the individual is strategically distributing asymmetrical information for its own advantage. Another type of opportunistic behavior is related to first-mover advantages which can cause cost disadvantages for nonwinners when negotiating contracts. (Williamson 1973, 317) This opportunistic behavior can be avoided by utilizing various governance structures or safeguards which are used for providing control and trust at minimum cost for reassuring the transactors' trust during the exchange. This safeguard is usually a legal contract which defines each party's obligation and gives a transactor an opportunity to impose sanctions against the potential opportunistic behavior. (Hollensen 2011, 78) In addition to opportunistic behavior, Williamson (1973, 317) emphasized that individuals are also limited by their capacities to acquire, store, and retrieve information which induces errors when the information is processed. This kind of limitation to acquire information refers to the concept of bounded rationality which is influencing the transaction costs. (Williamson 1973, 317)

Williamson (1975, cited in Hollensen 2011, 79) also analyzed transaction costs from two main hierarchical governance perspectives where they were defined through the firm's external and internal activities. Externalization related activities, for instance using importers or agents, induces market transactions from the firm's external environment. Internalization activities through an internal hierarchical system where business is managed vertically create transactions costs related to ownership control. These transaction costs can be categorized into different forms of costs between buyer and seller including; search costs, contracting costs, monitoring costs, and enforcement costs. Search related costs are induced from the information collection for identifying and assessing the best available export intermediaries and gaining more understanding from the unfamiliar foreign markets. Foreign markets which are located nearby can generate significantly lower search costs compared to distant foreign markets. Contracting costs are caused by planning agreements between seller and buyer. Seller and buyer are also obligated to make sure that the agreement is executed accordingly, which creates monitoring costs for both parties. In addition, the agreement between the buyer and seller creates enforcement costs which are the expenses related to sanctioning practices if one of the parties are not acting accordingly to the agreement. (Hollensen 2011, 78-79)

According to Williamson (1985, 52), transaction costs can be distinguished to the following dimensions: asset specificity, uncertainty, and frequency dimensions. The asset specificity is associated with the tradeoff between investments which are causing risks in terms of whether the assets can be redeployed or not. For instance, firm-specific human capital can

be seen nearly as a nonsalvageable asset, but durable assets such as equipment and buildings can be redeployed. These asset specificities can be distinguished into four distinct types; site specificity, physical asset specificity, human asset specificity, and dedicated assets. The asset specificity is highly emphasized in the Williamson's transaction cost theory which is an important dimension in the nature of uncertainty (Williamson 1985, 52-56)

The second main dimension, uncertainty is related to the differing capacities of governance structures for managing interference issues effectively (Williamson 1985, 56-57). Uncertainty can be distinguished to primary and secondary uncertainty types, where primary uncertainty emerges randomly from natural events, whereas secondary uncertainty arises from lack of understanding actions of other decision makers (Koopmans 1957, cited in Williamson, 1985, 57). Koopmans (cited in Williamson 1985, 57) also stated that both primary and secondary uncertainty types are equally important in terms of economic decision making. The concept of uncertainty and its connection with vertical integration has also been studied by Sutcliffe & Zaheer (1998, 3-4) who distinguish uncertainty into three distinct types; primary, competitive and supplier uncertainty. Primary uncertainty is associated with exogenous sources as Williamson (1985), and Koopmans (1957) researched previously (cited in Sutcliffe & Zaheer 1998, 4). The competitive uncertainty is present when there are competitors' operating either in strategic or innocent fashion. This phenomenon can affect firms' vertical integration related decisions as existing competitors, and new entrants are implementing new strategic decisions in the market. Supplier uncertainty is associated with the exchange partner company's strategic decisions which cause behavioral uncertainty from potential ex-ante or ex-post opportunism. Supplier uncertainty and opportunism related issues are particularly present when associating with exchange partners on the upstream or downstream level of the value chain. (Sutcliffe & Zaheer 1998, 4)

The third-dimension frequency is associated with recurring transaction costs. The frequency of transaction costs is relevant for specialized governance structures as it supports hierarchy-oriented structures. When recurrent and large transactions take place, the more effortless the recovery from the cost of specialized governance structures will be, depending on the level of asset specificity. On the other hand, if the frequency of recurring transactions is minimal, then the hierarchy-oriented structure is inclined to subside. As Williamson describes, one of the main implications of this dimension is that transactions can be distinguished as nonstandard transactions which are suitable for specialized governance

structures and frequently recurring standard transactions which are associated with un-specialized governance structures. (Williamson 1985, 60-61)

2.2 The Uppsala internationalization model

The origins of Uppsala internationalization model were developed by researchers at the University of Uppsala (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, cited in Hollensen 2011, 74) who studied the patterns of internationalization process of Swedish manufacturing companies. Influenced by Aharoni's 1966, (cited in Hollensen 2011, 74) previous studies, Uppsala researchers developed an internationalization model which consists of four incremental entry mode approaches. In this mode, the successive entry modes are associated with higher degrees of international involvement and market commitment. (Hollensen 2011, 74)

In the first mode, the internationalization entry is done sporadically by using no regular export activities. The second mode focuses on export modes where exporting is done through independent representatives. At the third mode of operation, internationalization is associated with the elements of foreign direct investment by establishing sales subsidiaries in the foreign market. The fourth stage includes the establishment production subsidiary along with sales operations. (Hollensen 2011, 74)

The market commitment is associated with the availability of resources, or the required investments in the market and the degree of commitment, meaning the difficulty of searching for an alternative application for the resources. The knowledge required for implementing internationalization activities are associated with market-specific knowledge, which is the experience gained from operating in the market. Developing better market knowledge increases the value of the available resources which also enhances the effectiveness of market commitment. The Uppsala internationalization model suggests that increasing internationalization is done incrementally in terms of market commitment and geographical dimension. However, depending on the firms' available resources, the required market commitment activities for increasing internationalization can be different for certain firms. For instance, larger companies with a large number of resources can implement more extensive internationalization activities compared to smaller firms with inferior resources. In addition, when the firm has gained experience from previous markets with

similar characteristics, applying this internalization experience could be leveraged in other markets with similar features. (Johanson and Vahlne 1990, cited in Hollensen 2011, 74)

Although the Uppsala internationalization model has received a general acceptance among the researchers, it has also received some criticism (Johanson & Mattson 1988, 309). According to Reid (1983, cited in Johanson & Mattson 1988, 309), the stage model is too generic and deterministic since the firm's choice of market entry and expansion modes are context-specific and selective. Hedlund and Kverneland (1984, cited in Johanson & Mattson 1988, 309) suggested that growth strategies on foreign markets are being implemented with more direct and rapid market entry modes instead of slow-paced incremental stage model. That said, in the circumstances of highly internationalized firm and market, this model may be less significant, but when the firm is an early starter, and the market is characterized with a low degree of internationalization, the validity of this model becomes higher. (Johanson & Mattson 1988, 309-310)

2.3 Born globals

The phenomenon of born globals has been gaining an increasing amount of attention in recent years as many SMEs have been rapidly expanded in the global market instead of implementing long-term internationalization process stages. This internationalization concept differs from traditional internationalization theories in a way that a firm is not sequentially following the conventional internationalization patterns. The typical characteristics of a born global firm are that they are technology-oriented SME's with entrepreneurial-driven spirit. (Hollensen 2011, 87) In addition, a born global company has a vision of rapidly pursuing global markets without any previous long-term internationalization-related activities (Oviatt and McDougall 1994; Gabrielsson and Kirpalani 2004, cited in Hollensen 2011, 87).

However, it is common that born global companies are limited by their resources which forces them to manage their downstream operations through a specialized network. This means that a born global company should also establish cooperative partnerships for achieving accelerated expansion into global markets. (Hollensen 2011, 87-88) Collaborating with partners who possess specific skills and knowledge required for rapid globalization activities, complements the firm which is aiming to follow the born global pathway (Melén and Nordman 2009, cited in Hollensen 2011, 88).

According to Knight et al., 2004 (cited in Hollensen 2011, 89) the increasing presence of born global companies in international trade is becoming a prevailing trend. This phenomenon is driven by technological advancements and increasing demand for niche markets as global trade is becoming more competitive where large enterprises are dominating the overall market, leaving smaller niche markets for smaller specialized born global driven companies. Advances in technology allow firms to streamline their business operations in a way that they are able to respond more effectively to compete against larger international companies as technology enhances SMEs flexibility and adaptability during the challenges of turbulent global markets. Also, one of the main facilitators of the emergence of born global companies is that nowadays establishing partnerships with overseas businesses is easier through global networks, allowing born global companies to develop business relationships from foreign markets. (Hollensen 2011, 89-90)

This is also the result of advanced information technology providing accelerated information flow and efficiencies for reaching global markets. In addition, the globalization of technology trend has enabled born global firms with lower resources to establish global e-commerce platforms for reaching their target customers. (Hollensen 2011, 89-90) Lastly, it should be also mentioned that when the home market circumstances are not facilitating the growth of a new firm, for instance, when the domestic market is relatively small, then the firm may not have any other options than to establish its presence through born global pathway (Gabrielsson & Kirpalani 2012, 6).

Compared to the Uppsala internationalization model (slow organic pathway), the accelerated born global pathway represents the opposite in the internationalization spectrum which is illustrated in following Figure 4. (Äijö, Kuivalainen, Saarenketo, Lindqvist, & Hanninen 2005, 5-6).

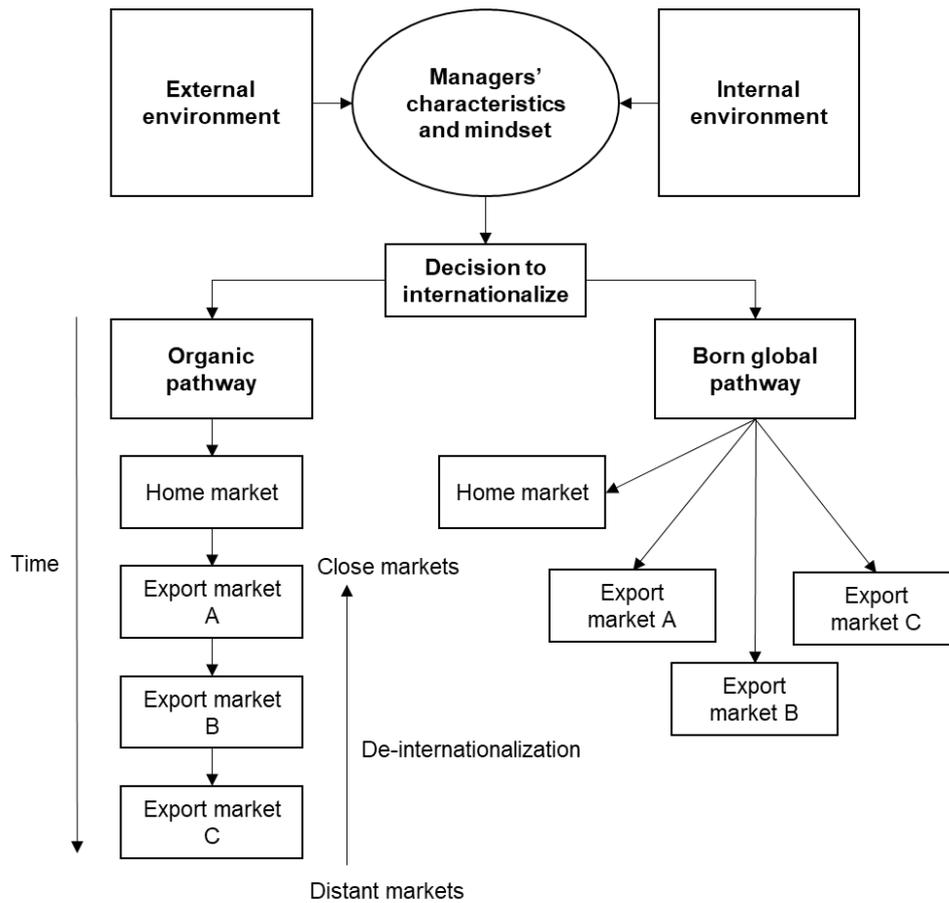


Figure 4. Two extreme pathways of internationalization: Organic and born global. Adapted from (Äijö et al. 2005, 6) with edited layout.

2.4 The network model

The network model is based on relationships in a domestic market which establishes connecting bridges to other networks which are located outside of the domestic market. In this way, business networks are consisting of various autonomous actors who are interdependent through technical, economic, legal and personal relationships. In the business network, interdependent actors are interacting with each other by arbitrating knowledge and mutual demands. Because of the autonomous role of the actors in the business networks and their reciprocal relationship-oriented interactions, the network model lacks the characteristics of the more hierarchy-oriented market model. In this way, the structure of the network model is more flexible during rapid changes in the turbulent business environment as it is not managed through one controlled hierarchical actor. Instead, actors interacting in the network model are authorized to alter the existing structure of the business network which enhances reaction abilities for potential changes in the market. Therefore, the network model is more suitable when the business environment is

featured with rapidly changing conditions and actors are focusing on interacting with each other for achieving more efficient business performance. From this perspective, the role of an individual company and its transaction-based approach is shifted to more exchange relationship-oriented approach. (Hollensen 2011, 80-81)

According to Jansson, Johanson & Ramström (2007, 956), business networks are characterized by dynamic and temporal features as firms can have different perspectives in terms of relationship time periods. Therefore, establishing, developing and terminating relationships are all relevant characteristics which are driven by the time perspective and rationales of the business actors (Medlin 2004; Snehota 1993, cited in Jansson, Johanson & Ramström 2007, 956). In addition to network dynamic aspect, networks are characterized by structural aspect which is associated with the network's form or spatial dimension (Jansson, Johanson & Ramström 2007, 956). The network's structure is formed by the strength of relationships and the level of commitment such as investments and adaptations of the actors. The level of commitment in the network affects the barriers to entry as well as the degree of how effortless it is to leave from the network. (Brennan, Turnbull, & Wilson 2003; Ford 1980; Hallén, Johanson, & Seyed-Mohamed 1991, cited in Jansson, Johanson & Ramström 2007, 957)

Therefore, it is important to take into consideration the resource investments of a firm which defines its specific position in the network. Also, due to the interconnected relationships in the networks, actors are affected differently. (Blankenburg Holm, Eriksson, & Johanson 1999; Johanson & Mattson 1985, cited in Jansson, Johanson & Ramström 2007, 957) From this perspective, firm and its role in terms of what kind of value it provides for the network is a relevant issue when considering whether it should be part of the network. For a new firm, entering the business network requires that other actors are willing to engage with the new entrant as the individual firm is dependent on the resources of other firms. Eventually, the firm's identity and status in the network will be established and defined by its specific function, but the development of a new firm's position will take time. (Anderson et al. 1994, cited in Jansson, Johanson & Ramström 2007, 957; Hollensen 2011, 81.)

Another important aspect of business networks is how firms strategic planning related to activities are influencing the surrounding network. Depending on the other firms' reliability and proximity in terms of other firms, strategic planning is also associated with the need to control and monitor the surrounding network. (Håkansson & Johanson 1992, cited in Jansson, Johanson & Ramström 2007, 957) Lastly, social and personal relationships can

have a different degree of importance in business networks. This is because business exchanges are also associated with economic rationales in addition to the social aspect. Therefore, developing and maintaining social relationships is an important aspect of business networks. (Andersson, Holm, & Johanson, 2007; Granovetter 1985, cited in Jansson, Johanson & Ramström 2007, 957.)

2.5 Factors influencing the market entry strategy

The basic foreign market entry decisions should be based on the following main decisions: which foreign markets to enter, a timing of entry and scale of entry. When considering which foreign markets to enter, the decision should be based on the country's long-term market potential and attractiveness in terms of benefits, costs, and risks. For instance, economic and political factors are key actors influencing the attractiveness of a foreign market. Also, the size of the market in terms of demographics, purchasing power and the anticipated economic growth rates which reflects the likely future wealth of consumers, should be considered in the long-term. When the firm has identified which markets to enter, the subsequent decision is to consider when to enter those markets. Entering a foreign market as a first-mover provides advantages for developing the firm's brand name and capturing demand before other competitors. In this way, an early entrant can later benefit from cost advantages as it reaches the experience curve progress ahead later entrants, which could force rivals to leave out of the market. Early entrants also benefit from switching costs which creates challenges for other late entrants acquiring customers from first-movers. (Hill, Udayasankar, & Wee 2012, 514-515)

However, the first-mover strategy may induce disadvantages, such as high expenditures from bearing the pioneering costs which arise from investing significantly and sacrificing time and effort for learning the practices of the new foreign market. In this way, the late entrant is able to acquire knowledge from the first-mover faults in the market and exploit the market potential created by the early entrant's investments. Moreover, the evolving business environment and changing regulations in the foreign market may entail disadvantages for early entrants who have invested ahead of later entrants, if the changes in regulations are depreciating the previous investments of first-movers. Particularly in developing countries, where regulations related to business practices are evolving, may cause risks from the early entrants' perspective. (Hill, Udayasankar, & Wee 2012, 515-516)

Entering a foreign market involves strategic commitment which depends on the scale of entry. Large-scale market entry strategy is associated with high resource investments and rapid expansion, resulting in a high strategic commitment. Therefore, significant strategic commitments are implying that the firm is attempting to develop a long-term market existence which could affect the nature of competition in the market. One of the positive effects of large-scale of entry is that it assures customers and distributors to believe that the firm entering the market will remain in the market for a long time, which facilitates attracting them more effectively. However, when the firm has a strong strategic commitment, and it has invested heavily in a specific market, strategic flexibility to expand into other potential markets may not be possible due to the insufficient resources. On the contrary, small-scale entry is used when the firm is not willing to be associated with high strategic commitment as the object may be to expand slowly and acquire more knowledge from the market. In this way, small-scale entry strategy reduces the risks and limits the investment costs of large-scale entry as it can gather initial information from the market before determining a large-scale strategy for entering the market. On the other hand, the negative effect of this market entry approach is that the firm may not be able to capture the first-mover advantages. (Hill, Udayasankar, & Wee 2012, 516-518)

The choice of foreign market entry mode is an important strategic decision which requires various levels of resource commitments, depending on the chosen entry mode (Agarwal & Ramaswami 1992, 1). In particular, when deciding initial entry mode strategies, it is critical to consider that it can be time-consuming and financially difficult to change the entry mode strategy (Root 1987, cited in Agarwal & Ramaswami 1992, 2). Therefore, when deciding the appropriate foreign market entry mode, the firm must take into consideration numerous complex factors and trade-offs between the alternative entry modes. Typically, the entry mode decision should be based on the anticipated returns of the investment but because foreign markets can be difficult to analyze in terms of qualitative data, finding relevant information which supports the entry mode decision can be challenging. (Hollensen 2011, 321-322) In addition, firm's entry mode decision may be influenced by the need of control and availability of resources, such as the financial and managerial capacity for serving the foreign market (Cespedes 1988; Stopford and Wells 1972, cited in Agarwal & Ramaswami 1992, 3).

According to Agarwal & Ramaswami (1992, 2), previous researchers have identified several factors affecting the selection of foreign entry mode which has been based directly or indirectly on the Dunning's (1977, 1980, 1988) eclectic paradigm framework, also known as

the OLI-framework. Dunning's framework consists of three main determinants: ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions within the firm. These determinants are formed by combining firm-specific and market-specific factors which affect the level of control, resource availability, potential risks and returns. In this way, Dunning's framework strives to understand the factors influencing the choice of different foreign market entry modes. (Agarwal & Ramaswami 1992, 2-4)

The ownership advantages are relevant when the firm is attempting to maintain higher control of the chosen entry model. In particular, when the firm is possessing strong assets related to its knowledge, experience, and capabilities to develop differentiated products, it may be more rational to not share its assets and knowledge with other participants during the foreign market entry process. In this way, potential risks of loss of long-term revenues may be avoided as other competitors are not capable of acquiring specific knowledge from the firm's own assets. Also, it is evident that the firm's size and multinational experience is positively affecting the preference for choosing investment modes when entering new foreign markets. Firms which are lacking multinational experience may underestimate the potential risks of foreign markets and face managerial problems during the market entry. Therefore, it may be more rational to choose entry modes which do not require higher control and large investments as in the case of sole ventures. (Caves and Mehra 1986; Gatignon and Anderson 1988; Terpstra and Yu 1988, cited in Agarwal & Ramaswami 1992, 4-5)

The location advantages are related to the attractiveness of a market which is determined by market potential and investment risks (Agarwal & Ramaswami 1992, 5). The influence of market potential, i.e. the market size and growth potential are recognized to be a key factor for investment activities in foreign markets (Forsyth 1972; Weinstein 1977; Khoury 1979; Choi, Tschoegl and Yu 1986; Terpstra and Yu 1988, cited in Agarwal & Ramaswami 1992, 5). When considering the entry mode decision into high market potential locations in terms of long-term profitability, it is preferable to choose investment entry modes as it enables the benefits of economies of scale and opportunities for developing long-term market presence (Sabi 1988, cited in Agarwal & Ramaswami 1992, 5-6). On the contrary, if the foreign market is characterized by uncertainty with regard to economic, political and government policy issues, long-term investment modes may not be rational for a market entry decision (Agarwal & Ramaswami 1992, 6). Also, the sociocultural distance between home country and host country may affect the entry mode decision because the differences

in trading practices, economic systems, and cultural implications can generate uncertainty for the firm (Hollensen 2011, 324). According to Root (cited in Agarwal & Ramaswami 1992, 6), it is possible that differences in government policies may induce challenges, for instance, when repatriating firm's earnings. Therefore, in the case of high investment risk and the sociocultural distance being great, it is preferable to choose a non-investment mode as a foreign market entry strategy (Agarwal & Ramaswami 1992, 6; Hollensen 2011, 324). When the foreign market is characterized by trading regulations and trade barriers, such as tariffs and quotas it may be preferable to consider a joint venture with a local partner or even establishing a subsidiary for managing business operations internally in the foreign market. The benefits from the joint venture with a local partner are that the local partner is able to facilitate establishing distribution channels, identifying local contacts and negotiating with them more effectively. However, in the case of high level of regulations which may require considerable adaption in the market, it may be more rational to perform the market entry through hierarchical investment mode. (Hollensen 2011, 325)

Internalization advantages are essential when market imperfections induce higher negotiation or transaction costs. Market imperfections may arise when the acquisition of information is costly, or the required information for marketing the product or service is unavailable. Arising market imperfections can have different effects for buyers and sellers. For instance, market imperfections may induce uncertainty when buyers are experiencing uncertainty over their supplies price, availability, timing, and delivery related issues. Sellers, on the other hand, may prefer internalizing when price discrimination is not allowed in the market or controlling information flow, and property rights are expensive. In some cases, sellers may also ensure their reputation by integrating vertically for achieving better control of their value chain's downstream functions. (Brown 1976, cited in Dunning 1980, 11) In addition, the impact of government legislation and public intervention could have various effects in terms of tax and exchange rate policies, patent controlling as well as production and licensing technologies. (Dunning 1980, 11)

From the transaction cost analysis perspective, Hollensen (2011, 326-327) stated that transferring firm-specific tacit knowledge, i.e., complex products or services which are difficult to articulate and express in words are also favoring the hierarchical entry modes. This is because organizational structure within the hierarchical mode facilitates the transfer of tacit knowledge. (Hollensen 2011, 326-327) Another transaction-specific factor is the opportunistic behavior which is likely to increase the firm's willingness to internalize when there are frictions creating conflicts between the firm and its export intermediary. For

instance, the export intermediary may abuse information related to shared promoting costs with the relating firm and manipulate market data for getting lower prices from the partner firm. (Hollensen 2011, 320-321)

To conclude, the determinants influencing the market entry strategy are a combination of several factors which are presented in figure 5 below. These factors affecting the foreign market entry mode decision can be distinguished into internal and external factors, desired mode characteristics and transaction-specific related factors (Hollensen 2011, 321-322).

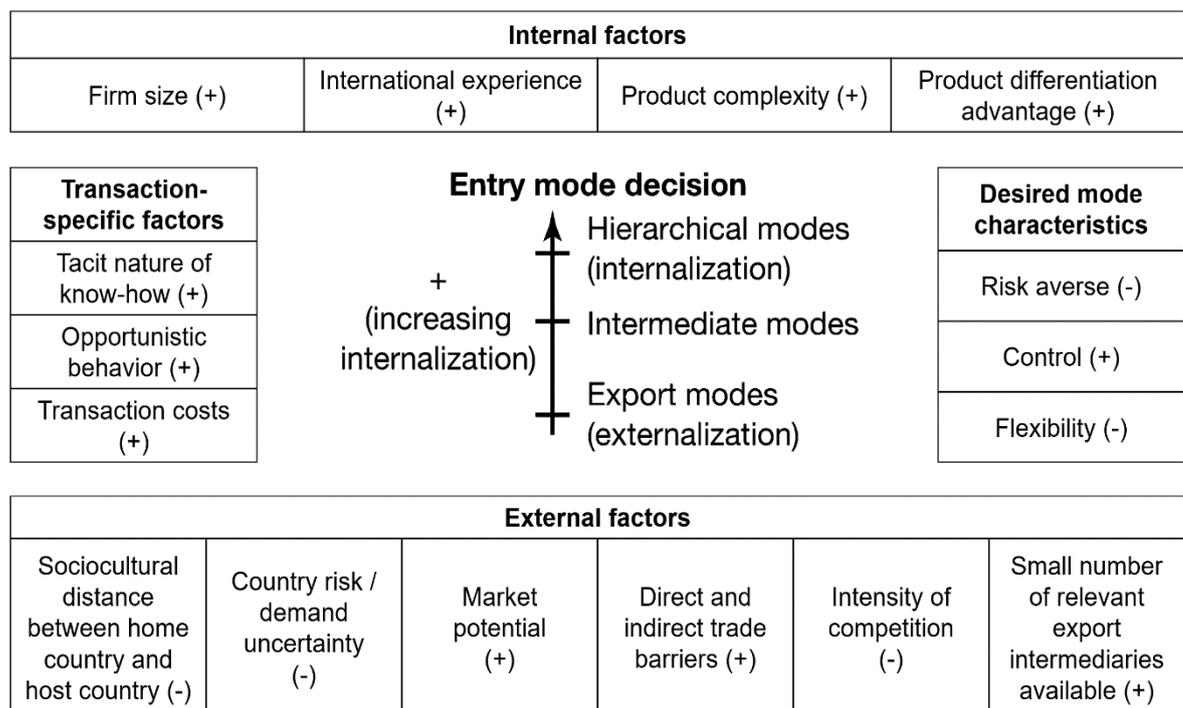


Figure 5. Factors affecting the foreign market entry mode decision. Adapted from (Hollensen 2011, 322) with edited layout.

2.6 Market entry modes

This chapter reviews the main types of market entry strategies, including exporting, intermediate and hierarchical modes. The nature of different market entry modes varies and each of them has own advantages and disadvantages which are based on the previously presented factors. Firms which are attempting to enter into foreign markets have many available options and it is possible to combine several entry modes for achieving a successful market entry strategy.

2.6.1 Export modes

Exporting is a foreign market entry strategy of producing products or services in a domestic country and selling them to overseas customers (Cavusgil, Knight & Riesenberger 2017, 376). For many firms, the international expansion usually starts through passive exporting as it is the easiest way to begin trading in other foreign markets and afterward exporting firm may change to another more involved mode for serving the market (Cullen & Parboteeah 2010, 244; Hill, Udayasankar, & Wee 2012, 518).

Passive exporting takes place when the firm is managing its overseas orders similarly like domestic orders which require minimal effort for targeting any international market. As the firm is progressing beyond passive exporting, it may choose one of the active export strategies. Active export strategies can be generally distinguished to indirect and direct exporting modes. Indirect exporting is done by using domestic intermediaries that offer specific knowledge and services for trading in the foreign market. The intermediary can typically be either an export management company (EMC) which operates as an export agent on behalf of the manufacturer company and specializes in specific product categories and markets or an export trading company (ETC) which is similar like EMC, but it is usually an independent distributor which takes title to the product before exporting. Typical functions of these intermediaries are to identify overseas suppliers and distributors, perform promotion activities, conduct market researches for recognizing potential markets and manage exporting regulation compliances. The main advantage of using either EMC or ETC is the rapid and cost-efficient entry process into foreign markets. (Cavusgil, Knight & Riesenberger 2017, 386; Cullen & Parboteeah 2010, 244-245)

In some cases, firms may not be aware that their products or services have potential to be exported in overseas markets until they are identified by export buying agent who is representing a foreign buyer in the domestic market. The role of the export buying agent is to facilitate the process of identifying potential sellers and consult with pricing arrangements between buyer and seller companies. In this way, establishing exporting operations can be effortless but the main disadvantage occurs from the lack of direct control as the exporter is dependent on the buyer and it can be difficult to observe customer behavior and competitors' actions in the foreign market. Exporting activities can also be established by using a domestic export broker which main purpose is only to establish contractual relationships between buyer and seller and not to deal with the actual activities related to selling or buying products. (Hollensen 2011, 338-339)

A special case of indirect exporting is piggybacking which enables inexperienced exporter to utilize other larger company's export facilities and distribution operations assuming that it is willing to act as an intermediary on behalf of the (rider) exporter. In this way, the carrier may purchase the products for exporting and act independently or receive a commission from the rider company to operate as an intermediary. When the carrier is buying the exported products, it may rebrand them with its own brand name and use products for the company's own promotional activities. In this case, the purchased products should be related to the carrier's own products and consist of complementary features without non-competitive factors. It is also possible that both rider and carrier companies arrange joint promotional activities for the rider firm's branded product. From the carrier's perspective, the main advantage of piggybacking is the possibility to broaden its product range rapidly and cost-efficiently. Despite this, there may be some disadvantages in terms of the rider's ability to offer quality products and maintain its supply operations. From the rider's perspective, the main advantage is the efficient way to exploit the carrier's knowledge and exporting facilities without investing to own exporting facilities. Disadvantages may occur from the rider firm's lack of control over the exporting activities and loss of opportunities to generate more revenue in other potential markets where the carrier is not operating. (Hollensen 2011, 340-341)

Another exporting strategy is to manage the functions of domestic intermediaries internally and reach the foreign market directly. Direct exporting requires a more active role as the firm is contacting overseas customers in a more direct way. Typically, the direct export strategy is to utilize foreign agents and distributors or establish a firm's own facilities for reaching end-users directly in the foreign market. When direct exporting is done by using local intermediaries, the exporter firm manages its own pricing policies and related delivery actions for the export products. The choice of an appropriate intermediary can be a challenging, but it should be taken into account that distributors operate independently, meaning that they take credit for the product and take care of their business operations solely. On the contrary, agents operate on behalf of the exporter company by managing sales functions in the importing country and receive commissions from the exporter. Because of this, agents may be a more flexible choice when considering the level of control in terms of marketing mix elements. In general, direct exporting with agents or distributors can provide effective access to foreign markets as the distribution chain becomes shorter compared to indirect exporting, providing better changes for acquiring market knowledge at the local level. The negative effects may occur from tariffs affecting market prices, lack of

control over downstream functions and cultural differences between the foreign and domestic markets. (Cullen & Parboteeah 2010, 246-247; Hollensen 2011, 341-350) Nonetheless, the main advantages of exporting are that it requires a minimal cost when entering new foreign markets, the market can be initially tested before investing significantly via FDI and it provides more flexibility with reduced risk in comparison with other alternative market entry strategies (Cavusgil, Knight & Riesenberger 2017, 377).

2.6.2 Intermediate modes

Intermediate entry modes are essentially collaborative ventures between two or more firms, which allows firms to share skills and knowledge between partners. One of the characteristics of intermediate modes is that they are not fully associated with ownership possession by one party but in turn, it can be shared mutually between the parent company and its partner. In this way, collaborative ventures allow participating firms to prevail risks and costs for achieving international ventures which might not be otherwise possible by the firm operating solely with limited resources. Typical intermediate modes are equity joint ventures, franchising, licensing, contract manufacturing and strategic alliances or non-equity joint ventures. (Cavusgil, Knight & Riesenberger 2017, 421; Hollensen 2011, 356)

Equity joint ventures are established by two or more independent firms who together have ownership of a new venture. Strategic alliances or non-equity joint ventures are similar, but they do not create a new company as it is only a contractual form between the partners. Typically, all the assets required for the venture establishment are not owned by one specific partner. Assets needed for the venture are combined from each party where each partner contributes their own specific assets. For instance, the local partner may provide insights about its country's culture and language, cost-efficient production factors or contribute its own factory facilities for the benefit of the joint venture. Partner from the foreign market may contribute capital, management expertise, technology know-how or some specific products which may be needed in order to the joint venture could be established. Joint ventures are also often pursued by western-based companies which are attempting to enter markets located in Asia as it provides essential market knowledge, direct access to customers and distribution networks as well as greater local control over the business facilities in the market. In addition, in some countries, joint ventures may be the only feasible entry mode due to the local political implications. (Cavusgil, Knight & Riesenberger 2017, 422-423; Hill, Udayasankar, & Wee 2012, 522-523; Hollensen 2011, 366-367)

According to a research, (Bradley 1977, cited in Hill, Udayasankar, & Wee 2012, 523) establishing joint ventures with local partners reduces the risk of harmful government interferences because local partners tend to influence local governments policies in the host market. However, joint ventures also have disadvantages, for instance, sharing specific technological knowledge with the partner could be risky if the partner attempts to exploit it for its own advantage. Secondly, complex management structures and coordination between the partners may be challenging which could reduce control over business operations. Thirdly, termination of the joint venture can be difficult particularly when some of the partners have made significant contributions for the joint venture. In addition, some of the partners may alter their objectives or strategic perspectives which could lead to conflicts in terms of the shared ownership arrangement. (Cavusgil, Knight & Riesenberger 2017, 423-424; Hill, Udayasankar, & Wee 2012, 523-524)

Another way to enter a foreign market is to arrange an international licensing strategy which is based on a contractual agreement between a domestic licensor and an overseas licensee. By paying royalties or other compensation for the license, the foreign licensee can utilize licensor's valuable assets in the form of intellectual property which could be a trademark, specific know-how, design, copyright or patent. Usually, the owner of intellectual property is granting the right to use the license for a given period temporally. As an entry mode, licensing can be an attractive option as it enables effortless, relatively cost-efficient and low-risk market entry choice for firms which do not have sufficient resources for international expansion. Moreover, licensing provides a preemptive entry strategy for testing a new foreign market before investing via FDI and gain market presence before other competitors. However, from the licensor's perspective, it can be challenging to maintain control over the intellectual property and how the asset is managed by the licensee. For instance, the licensor's intellectual property may be infringed, or it can be derived by the licensee and become licensor's competitor. (Cavusgil, Knight & Riesenberger 2017, 440-446; Cullen & Parboteeah 2010, 249)

Contractual entry strategy can also be arranged by granting rights to another firm to use an entire business system in exchange for compensation. This kind of special case of licensing is called franchising where the arrangement is done between a franchisor (licensor) and a franchisee (licensee). The franchisee is granted by the international franchisor to use the entire business model which typically includes the business concept, know-how, training, technologies, trademarks and other needed assets for the implementation. Typically, international franchising is based on standardized product or service as the franchisee is

required to follow accordingly to the procedures and norms of the franchisor. However, completely standardized products can be challenging to be adjusted to different markets due to cultural implications. Therefore, some form of customization may be needed for achieving a greater local response which should be done in a way that it is balanced accordingly with the franchisor's core business concept. (Cavusgil, Knight & Riesenberger 2017, 447-451; Cullen & Parboteeah 2010, 249)

It is also possible to establish a master franchising arrangement with an independent firm who is granted to manage an entire franchising network in its own market. In this way, the master franchisor can sub-franchise other independent companies which provide master franchisees an exclusive and large market with significant economies of scale related benefits. From the franchisor's perspective, the main advantages are that entry into several overseas markets can be done rapidly and without significant capital investments and franchisees knowledge can be leveraged for achieving a greater local response. The downside for franchisor is the lack of total control over franchisee's business actions, potential conflicts with franchisee's, challenges related to maintaining the image of the core business and the risks of franchisees becoming competitors eventually. Franchising related advantages to the franchisee are the ability to leverage the recognizable brand and acquire know-how and support for implementing an independent business with an international network. The main disadvantages are high initial expenses and royalty payments, the dominant role of the franchisor and potential dysfunctional management or technology systems behind the license agreement. (Cavusgil, Knight & Riesenberger 2017, 447-451; Cullen & Parboteeah 2010, 249)

In certain industries, it is common to establish a contract manufacturing arrangement in which the manufacturing is outsourced to overseas third-party who has expertise in manufacturing related activities. Contract manufacturing allows the focal firm to maintain and develop its other value-adding activities such as R&D, marketing, distribution, sales, and services in-house while the third-party manufacturer produces and delivers the products to focal firm for distribution and marketing purposes. (Cavusgil, Knight & Riesenberger 2017, 390-392; Hollensen 2011, 356-357)

By outsourcing on a global level, the firm can benefit from cost efficiency and greater capabilities to achieve strategic objectives. Global sourcing enables the firm to reorganize and focus on its most important high-value-adding business operations and increase the speed of development and innovation projects. Eventually, global sourcing activities could

contribute to firms overall competitive advantage and facilitate reaching the main strategic goals. However, global sourcing may entail potential risks, particularly from the corporate social responsibility perspective as it reduces national competitiveness and jobs in the home country. In addition, it could cause potential risks related to complex international transaction costs between the focal firm and third-party, economic and environmental challenges in the foreign market and third-party's management issues over the value-chain tasks. (Cavusgil, Knight & Riesenberger 2017, 394-397)

Lastly, intermediate entry mode can be implemented via management contract which is an arrangement with a contractor supplying managerial know-how for a client company who is willing to acquire support for managing local operations in a foreign market. By utilizing contractor's support and know-how to operate client's business operations, the contractor is not required to make any investments as the client is managing the required capital and other value chain functions. The main disadvantage of management contracts is that assisted clients may become later competitors. In addition, in some instances, a turnkey contracting is used in which firm plans, organizes, provides capital and executes the whole project in a foreign region until it is completed and then transfers it entirely to a customer's possession. After the project is completed, the contractor helps with customer's training and provides other subsequent supporting services. (Cavusgil, Knight & Riesenberger 2017, 452-453; Hollensen 2011, 375-378)

2.6.3 Hierarchical modes

The highest degree of internationalization, hierarchical entry mode is used when the firm is willing to control the entry independently into the foreign market by implementing foreign direct investment (FDI). FDI involves total ownership of the business units or some parts of the value chain functions in the foreign country. The domestic-based mode is used when all the value chain functions are managed in the home country and domestic sales representatives are used for contacting directly overseas customers. By establishing specific value chain operations via FDI, the firm can use wholly owned subsidiary units located overseas. (Cullen & Parboteeah 2010, 257-258; Hollensen 2011, 386-398)

There are different advantages and disadvantages depending on which value chain functions firm is attempting to establish in the foreign market. In the case of a sales subsidiary, the firm is able to acquire market knowledge more efficiently as it has direct market access to foreign market through the sales subsidiary, compared to domestic-based

sales units. Establishing a production subsidiary overseas can facilitate access to labor and raw materials and save transport costs. In addition to cost savings, production subsidiary in overseas can reduce potential legal restrictions imposed by a local government affecting importing related functions. Operating via domestic-based sales representatives can provide a higher degree of control but due to the excessive costs for reaching foreign markets from the home country, it may be preferable to establish overseas subsidiaries. However, establishing overseas subsidiaries can induce potential risks from the political and economic perspective, reduce flexibility and increase the amount of capital investments. (Hollensen 2011, 386-398)

The establishment of a wholly owned subsidiary in a foreign market can be done via greenfield venture, acquiring an established company or merging with other existing company (Cavusgil, Knight & Riesenberger 2017, 419-421; Hill, Udayasankar, & Wee 2012, 524). In the case of greenfield investment, the firm has greater control for managing the establishment of its own subsidiary units because it can build the organization culture and operating routines from the ground up. Compared to acquisitions, greenfield investment can also be seen as a less risky option in terms of the unexpectedness of arduous incidents. That said, building a greenfield venture from the ground up is a time-consuming and risky process, particularly when the firm has no experience and knowledge of the foreign market where it is attempting to enter. In addition, the threat of other competitors' presence who are entering through acquisitions in the same foreign market could be constraining the prospects for the greenfield investment. On the contrary, acquisitions can be implemented rapidly, and the firm can start establishing its market presence in the foreign market much faster and preempt against other competitors' actions. Another advantage is that, as the firm acquires another company, it will get access to valuable tangible and intangible assets which are supporting the established revenue streams. In this way, acquisitions can be seen as a less risky entry mode compared to a greenfield venture in the foreign market. However, acquisitions are typically notorious for high-priced assets as there are often several interested firms willing to acquire the same company with too optimistic expectations of the value they are presuming to acquire, also known as hubris hypothesis. Secondly, acquired companies may not be able to adjust accordingly in terms of the organizational culture and operational routines of the acquiring company because of the managerial and cultural differences between these companies. Thirdly, due to the precipitation of acquiring the specific firm for achieving greater market presence before other competitors in the foreign market, the comprehensive pre-analysis of the potential advantages, risks and expenditures related to the acquisition can lead eventually to failure of the investment. This is a

particularly relevant issue when the company is pursuing to execute cross-border acquisition from a foreign country which is characterized by relatively unknown factors with regard to cultural and business-related implications. (Hill, Udayasankar, & Wee 2012, 526-529)

2.7 Cross-border e-commerce

Since the development of China's cross-border e-commerce trend (Figure 6), CBEC's role in international trading has become an advanced form of e-commerce. During the end of the 20th century, the initial stage of CBEC started with Alibaba.com which is currently the world's largest cross-border B2B platform. After the first development stage, the global Internet penetration since 2008 contributed to the emergent of CBEC retail platforms in the B2C and C2C sectors, providing SMEs a new direct way to participate in international trading. Since the third development stage until the present, the contribution of China's efforts to promote CBEC by establishing new regulation systems led to the exponential growth of new CBEC platforms. These new CBEC platforms together with global Internet infrastructure has transformed the traditional international trading modes in a way that interaction between global consumers and firms has become more explicit. (Rongkun & Xingzhi 2017, 85)

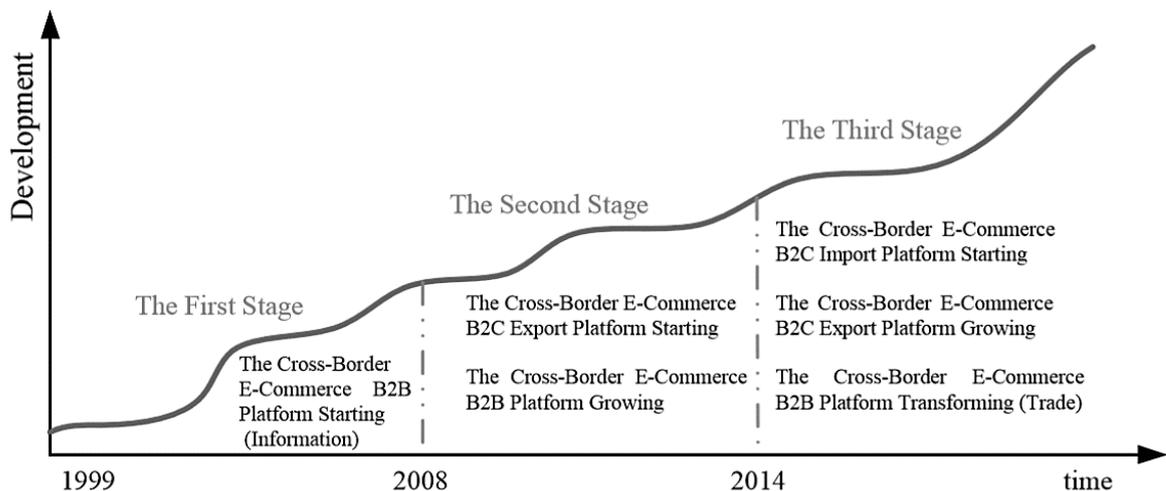


Figure 6. Development stages of China's cross border e-commerce trend. Adapted from (AliResearch 2016, cited in Rongkun & Xingzhi 2017, 85) with edited layout.

Generally, cross-border e-commerce is referring to transactions between different countries by means of the Internet and other forms of digital channels (Xue, Li, & Pei 2016, 131).

According to Giuffrida et al. (2017, 773), the cross-border e-commerce can be defined as “the process of selling goods to a consumer located in a foreign country by means of online channels, either directly through a proprietary website (i.e. B2C) or through a digital intermediary such as online retailers or marketplaces (i.e. B2B2C)”. (Giuffrida et al. 2017, 773). In B2C and B2B international trade, cross-border e-commerce has been a breakthrough, providing consumers direct access for searching information about products and making purchases with delivery services. (Lee, Wang & Wang 2017, 3-4). In the context of global consumer goods trade, the cross-border e-commerce can be illustrated with the following figure 7.

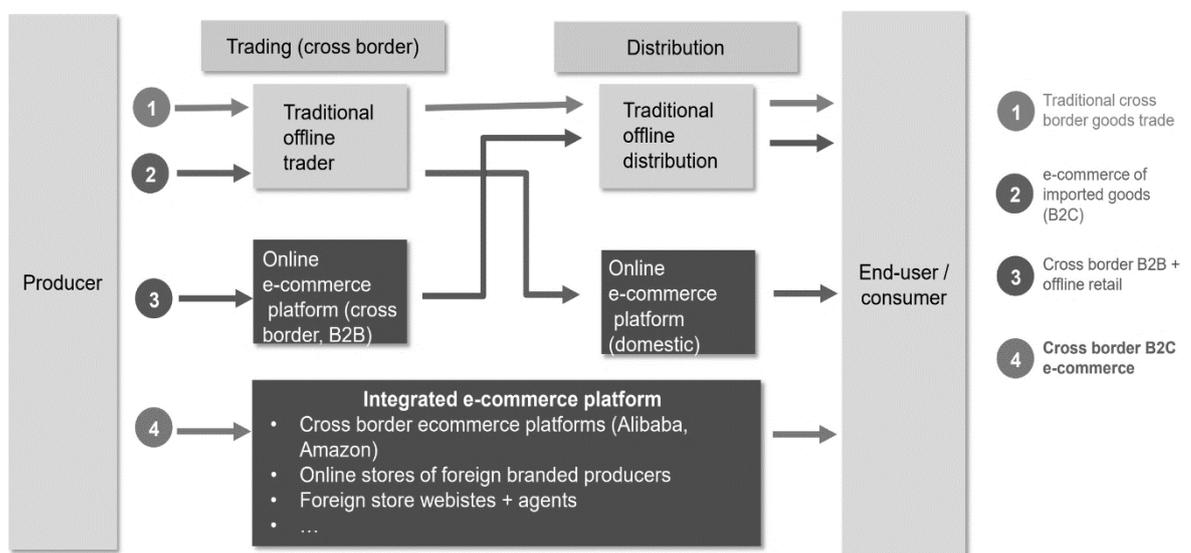


Figure 7. Cross border B2C e-commerce in context of global consumer goods trade. Adapted from (Accenture & AliResearch 2016, 3) with edited layout.

The evolution of cross-border e-commerce platforms provides an opportunity for international retailers to streamline their e-commerce operations since many of the constraining barriers will be diminished as the global market becomes a more borderless market. The world’s two largest e-commerce merchants Amazon and Alibaba have been developing their e-commerce operations and contributed to streamlining cross-border transactions opportunities via integrated e-commerce platforms. (Heel, Lukic, & Leeuwis 2014) Similarly, auction-based retailer eBay has developed an e-commerce platform which provides individual users and merchants possibilities to trade with online consumers. (Zucchi 2018).

As an example, Amazon's Multi-Country Inventory program provides international sellers an opportunity to dispatch product inventories in multiple countries in Europe. In this way, sellers can provide faster delivery services at the local level and save transportation-related expenses since products are sent in bulk to Amazon's local fulfillment centers before transactions. (Amazon 2018) In contrast, Alibaba does not have its own inventories and warehouses since its main business model focuses on facilitating trading by using its software platforms (Blystone 2018). Instead, the cross-border e-commerce platforms in China are based on the new modern logistics infrastructure which the Chinese government introduced in 2012 in order to streamline cross-border trading in China (Medium 2018). As a result, foreign sellers who are willing to reach Chinese online consumers have alternative import models, including a direct purchase imports model and bonded warehouse import model which provides similar advantages like Amazon's Multi-Country Inventory program. These two importing models will be covered in more detail in chapter 2.9.

The rapid global development of cross-border e-commerce has facilitated online consumers to purchase products across international borders as it enables shorter trading distances between buyers and sellers. According to the extensive literature review conducted by Ding, Huo, & Campos (2017, 371-372), the identified key drivers for this global development trend were advanced technology, growing demand, and advantageous policies. The advancement of e-commerce technologies can reduce trading related expenses and provide companies with opportunities to reach scattered international markets. (Burinskiene 2012; Grant & Bakhru 2004; Shama 2005, cited in Ding, Huo, & Campos 2017, 371). Secondly, the growing demand from consumers, particularly in developing countries where consumers are gradually purchasing more high-quality products from overseas markets has been influencing the cross-border trading phenomenon. (Analysys 2015; DHL 2013; Forrester 2014 cited in Ding, Huo, & Campos 2017, 372). Thirdly, advantageous policies for more efficient international trading practices is another main driver of CBEC development. Establishment of agreements like the European Free Trade Agreement and China Free Trade Area, is one of the examples of how policies can open new cross-border trading opportunities. Therefore, the government's support for promoting cross-border trading and implementing favorable conditions is playing an important role in the development of the CBEC sector. However, the development of cross-border e-commerce trading has been constrained by various barriers. Issues related to culture and consumer behavior, marketing, product counterfeits, laws and regulations, payment and logistics were identified as the main constraining factors. Particularly, logistics-related issues were

highlighted to be the most critical challenge to tackle when implementing cross-border e-commerce activities. (Ding, Huo, & Campos 2017, 371-378)

Another key influencing factor for facilitating cross-border trading relates to merchants' capabilities to localize its operations in a way that it is aligned accordingly with the different cultures and policies of the foreign market (Reynolds, 2001 cited in Ding, Huo, & Campos 2017, 376). When the merchant is limited with its abilities or resources to localize its operations in the foreign market, it may need to establish a cooperation with a local third-party service provider. In this way, accessing international markets can be done rapidly and more conveniently since the merchant can receive support from its local partner who can aid with logistics, marketing, and payment services. (Ding, Huo, & Campos 2017, 377) The following figure 8 illustrates the above-mentioned issues in nowadays responsibility cross-border e-commerce development trend and all the involved parties in the industry.



Figure 8. A responsibility assignment for cross-border e-commerce development. Adapted from (Ding, Huo, & Campos 2017, 377) with edited layout.

Compared to domestic e-commerce trading, cross-border online trading is associated with more complicated factors regarding distribution networks. This is because of the longer distances and delivery times, stronger dependence on third-party service providers and practices related to customs clearance. (Yang and Shen, 2015, cited in Giuffrida et al. 2017, 773) Another key characteristic of CBEC is related to cultural implications and local habits which can influence how logistic operations and services are managed in the foreign

market. In addition, the impact of local regulations should be taken into account when adopting the CBEC business model. Therefore, foreign firms must be aware of the required additional investments and local adaptations when implementing CBEC initiatives in the foreign market. (Giuffrida et al. 2017, 773)

Based on the previous scientific research publications, the factors influencing the foreign entry mode choices between CBEC model and traditional market entry modes with regard to the transaction cost approach, are seemingly not present. However, the scientific literature related to cross-border e-commerce has been reviewed by Giuffrida et al. (2017) from 2002 to 2016 which results indicated that the CBEC to China is gaining more interest among the academic publications. The development of new digital business models for cross-border trading has also gained interest from the business practitioners' perspective who are willing to increase their international operations. (Gessner & Snodgrass 2015, cited in Giuffrida et al. 2017, 773).

Even though CBEC in China is gaining more exposure among academics and foreign companies, there are some missing core research areas in the analysis of the CBEC literature, particularly on how to manage the distribution network design and outsourcing related functions in China (Giuffrida et al. 2017, 787-789). According to Lee, Wang & Wang (2017, 2), the previous researches related to cross-border e-commerce are studied mainly from the consumer welfare and trade distance perspectives. Based on the results of some the previous studies (Cairncross 2001; Cowgill & Dorobantu 2017; Gomez-Herrera, Martens & Turlea 2014, cited in Lee, Wang & Wang 2017, 2) it is evident that cross-border e-commerce provides easier transaction opportunities and reduces distances for trading.

Also, the managerial aspects related to cross-border e-commerce in China has been studied by Chiericozzi (2016). The study focused on examining CBEC as an exporting channel into China and identifying important managerial insights from SME's perspectives. The key findings indicated that in order to the international company is capable of exporting into China by using CBEC, it is imperative to conduct profound market research and plan a long-term business strategy. Also, the required investments and the need to select a right type of third-party service provider was found to be an important issue from foreign companies' perspective. (Chiericozzi 2016, 3)

2.8 Comparison of traditional international trade and CBEC in China

This section reviews the concepts of traditional international trading in comparison with cross-border e-commerce trading in China. To the extent of the author's knowledge, the academic literature related to comparing traditional international trading and cross-border e-commerce seems to be inadequate for providing proper scientific definitions when comparing these concepts from the internationalization perspective. That said, there are some existing government and corporate publications which provides relevant insights about the subject which are reviewed in the following section.

2.8.1 Traditional international trade

According to Frost & Sullivan & Azoya Consulting (2018, 7) traditional importing in China is referred as a general trade which requires foreign companies to register their products before they can be imported and sold in China. The key difference between CBEC and general trade is that foreign companies which are not using CBEC as a market entry mode into China are required to have a legal entity such as, a manufacturer, a subsidiary or a partner which is importing the foreign products in China. This also applies when an overseas company is willing to establish a domestic-based e-commerce platform and use it as an entry channel into China. Before the imported products can be sold in Chinese local stores and e-commerce platforms, the legal entity is obliged to manage the customs related duties and taxes which are summed over the cost, insurance, and freight (CIF) price. Additionally, importing products through Chinese trading agents can increase importing costs due to the relatively high commission fees. From the foreign company's perspective, managing the downstream functions of the value chain via the general trade mode can also be difficult to control. That said, foreign company which has enough resources or extensive business networks in China, may prefer this mode when entering China. (Fung Business Intelligence 2017, 11; The Netherlands Consulate-General Shanghai 2017, 11-12)

2.8.2 Cross-border E-commerce mode

Before the nowadays cross-border e-commerce trend, China's cross-border trading was mainly driven by "daigou" model which was operated by smaller companies who were purchasing overseas products from domestic online stores and then imported them into China. However, this "daigou" model has been overtaken by the current CBEC model since the government of China established the free trade zones and new regulations for achieving

better control over cross-border trading and importing taxations. As a result of the new regulations, international retailers and brands have also been facilitated for establishing their presence in the cross-border market. (Chan, Wouters & Wu 2016, 2) Although the current development of CBEC model, the previously mentioned “daigou” model can still be a viable option for reaching Chinese consumers through overseas domestic online stores as there is no need for product registrations in China. (Frost & Sullivan & Azoya Consulting 2018, 7-8)

Trading through a current form of cross-border e-commerce mode (CBEC) either by using special pilot zones or directly from abroad allows direct access for foreign companies to export into China without the required Chinese legal entity. In this way, overseas companies have an alternative method for entering the e-commerce market without the need to establish a physical presence in China. Another advantage of CBEC mode is the cost-efficient and rapid way to implement the market entry which on the contrary can be more expensive and time-consuming process when using general trade mode. In this way, new entrants can test the market without significant investments and risks. As the pilot zones have favorable policies for facilitating CBEC trading, importing related costs and taxes are lower and the overall trading process can be more efficient to manage as the value chain becomes shorter, providing less risky entry mode for the foreign company. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 8; Chan, Wouters & Wu 2016, 9; Fung Business Intelligence 2017, 11; The Netherlands Consulate-General Shanghai 2017, 11-12) The following table 5 summarizes the key differences between traditional trade and cross-border e-commerce in China.

Table 5. Comparison of traditional trade and cross-border e-commerce in China. Adapted from The Netherlands Consulate-General Shanghai 2017, 12) with edited layout.

Traditional trade	Cross-border e-commerce
<p>Requires a Chinese legal entity (a subsidiary, agent, manufacturer).</p> <p>The legal entity manages customs clearance and importing into China.</p> <p>The legal entity pays duties and taxed before the product is sold (over the CIF price).</p> <p>Products can be sold through online and offline channels.</p> <p>Imported products are usually associated with relatively high commission fees.</p> <p>The overseas company has a lower degree of control over downstream functions.</p>	<p>A Chinese legal entity not required.</p> <p>Overseas products are directly imported into China by using free-trade zones.</p> <p>An overseas company exports the product via a bonded import mode or the direct import mode.</p> <p>The overseas company manages customs clearance only after an online order is completed. The customer is required to pay associated duties and taxes.</p> <p>Products can be sold only on cross-border e-commerce platforms.</p> <p>Enables a shorter value chain and less risky option for the foreign company.</p>

When comparing traditional international trade and cross-border e-commerce from the transaction cost perspective, the transaction costs can be categorized into five categories: information costs, negotiation costs, transportation costs, tariffs costs, and middlemen costs. (Lee, Wang & Wang 2017, 3-4). Information costs are associated with search costs which are induced from acquiring information of products and commodities. The advantages of Internet technology in cross-border e-commerce reduces the information costs for both buyers and sellers, meaning that the searching of information becomes more convenient compared to traditional international trading (Wang, Chai & Liu 2015, cited in Lee, Wang & Wang 2017, 4). Cross-border e-commerce trading also decreases negotiation costs since the negotiation between traders is facilitated with regard to the required time and costs during negotiations. In terms of transportation costs, the B2C cross-border e-commerce trading can increase expenses from the consumers perspective since the purchased orders are typically smaller and longer delivery services can increase the amount of fees. Since the Chinese government has implemented regulations for integrating customs practices in cross-border e-commerce trading, tariffs related transaction costs can become higher. This is because of the increased customs online monitoring capabilities and management of

online transaction information. In addition, the intermediary or middlemen costs are reduced since Internet technology provides more convenient ways to sellers and buyers to engage during trading. (Lee, Wang & Wang 2017, 3-5) To conclude, the following figure 9 illustrates the current main pathways for foreign companies who are willing to reach Chinese consumers.

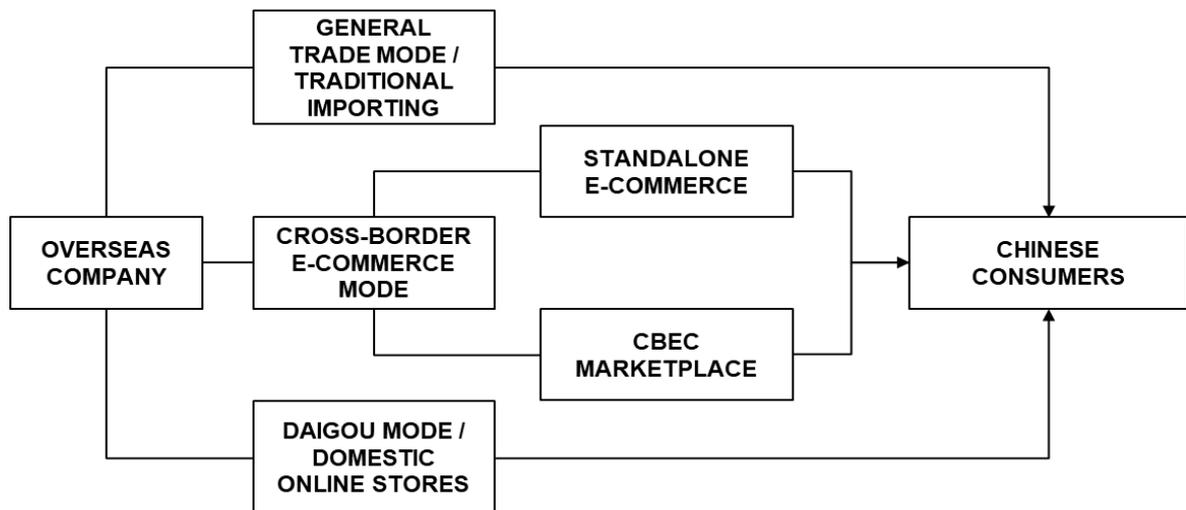


Figure 9. Pathways for reaching Chinese consumers. Adapted from (Frost & Sullivan & Azoya Consulting 2018, 6) with edited layout.

2.9 CBEC import modes

Since the government of China established new policies and pilot zones for promoting cross-border e-commerce trading, new CBEC import modes emerged with distinguishable features. The main CBEC import modes in China can be categorized into bonded import mode (B2B2C) and direct import mode (B2C). In the bonded import mode, the overseas products are imported first into qualified bonded warehouses located in the CBEC pilot zones before any customer orders. The direct import mode enables the foreign company to deliver products directly from abroad to its customers in China. From the foreign company's perspective, each of these import modes has advantages and disadvantages depending on the entry strategy and product categories which will be sold in China. In addition, there are differences in terms of taxes and duties for certain product categories which should be taken into account when deciding which CBEC import mode the overseas company is willing to utilize when trading via CBEC. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 8; Fung Business Intelligence 2017, 9-11; The Netherlands Consulate-General Shanghai 2017, 53)

2.9.1 Bonded import (B2B2C)

In the bonded import mode (Figure 10), the overseas products are imported first into qualified bonded warehouses located in the CBEC pilot zones before any customer orders. These bonded warehouses are under the Chinese customs supervision which is managing the customs clearance for ordered products before dispatching products to customers. In this way, the customer in China can order the overseas product with shorter delivery time as the product is already imported in bulk into the CBEC pilot zone. When the CBEC platform receives the order from the customer, products in the bonded warehouse are then processed through customs clearance and delivered to customers approximately in two to three days. After the customer has placed and paid its order, CBEC platform delivers details of the order, shipment, and payment information to customs in real-time. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 8; Fung Business Intelligence 2017, 9-11; The Netherlands Consulate-General Shanghai 2017, 48-49)

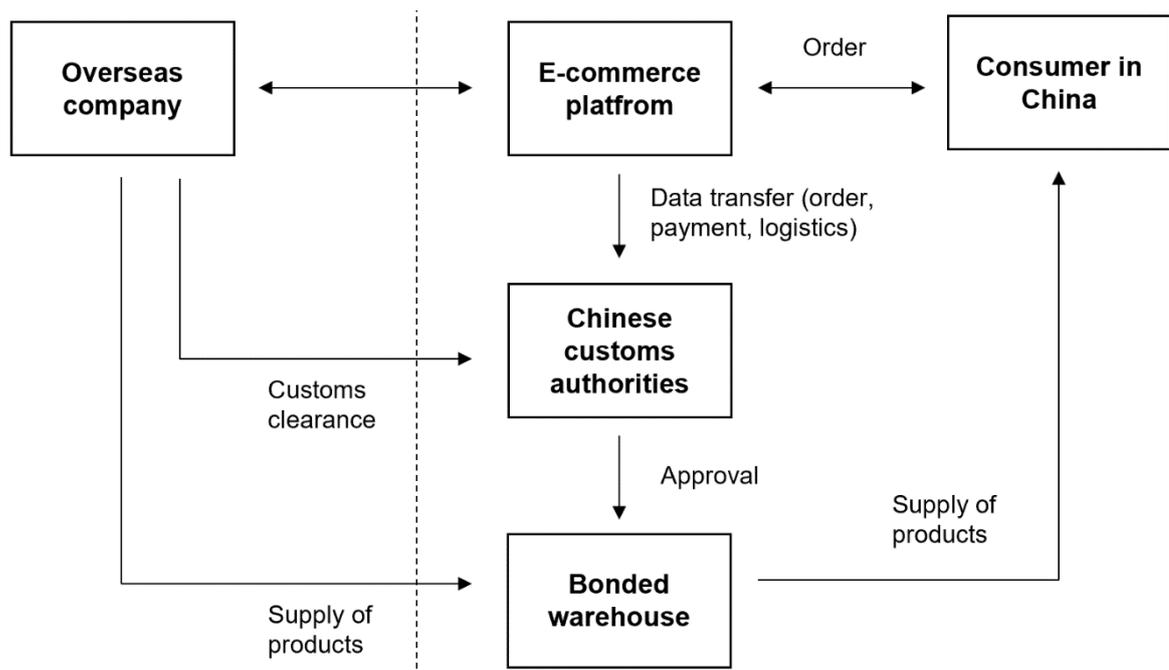


Figure 10. Bonded import mode (B2B2C). Adapted from Rödl & Partner (2016) with edited layout.

The main advantage of bonded import mode is that it provides faster logistics, real-time custom clearance, and after-sale services. In addition, some products which are imported into bonded warehouses have lower tax scheme in China. That said, this mode can be financially risky because the foreign company is stocking the products into bonded

warehouses in the CBEC pilot zones before they are traded. Also, if the traded products are associated with expiration dates, the bonded warehouse mode may cause disadvantages. Moreover, certain foreign product categories are not eligible for being imported through the bonded import mode which causes some limitations for overseas companies. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 8: The Netherlands Consulate-General Shanghai 2017, 53)

2.9.2 Direct import (B2C)

The direct purchase imports model (Figure 11) enables the foreign company to deliver products directly from abroad to its customers in China. This import mode allows Chinese customers to place an order through qualified CBEC platform which then submits details of order, shipment and payment information to Chinese customs. Simultaneously, the ordered products are dispatched from overseas company's own warehouses and delivered by international courier service to Chinese customs authorities. After customs clearance, the ordered products will be then delivered directly to the end user. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 8; Fung Business Intelligence 2017, 9-11; The Netherlands Consulate-General Shanghai 2017, 50-51)

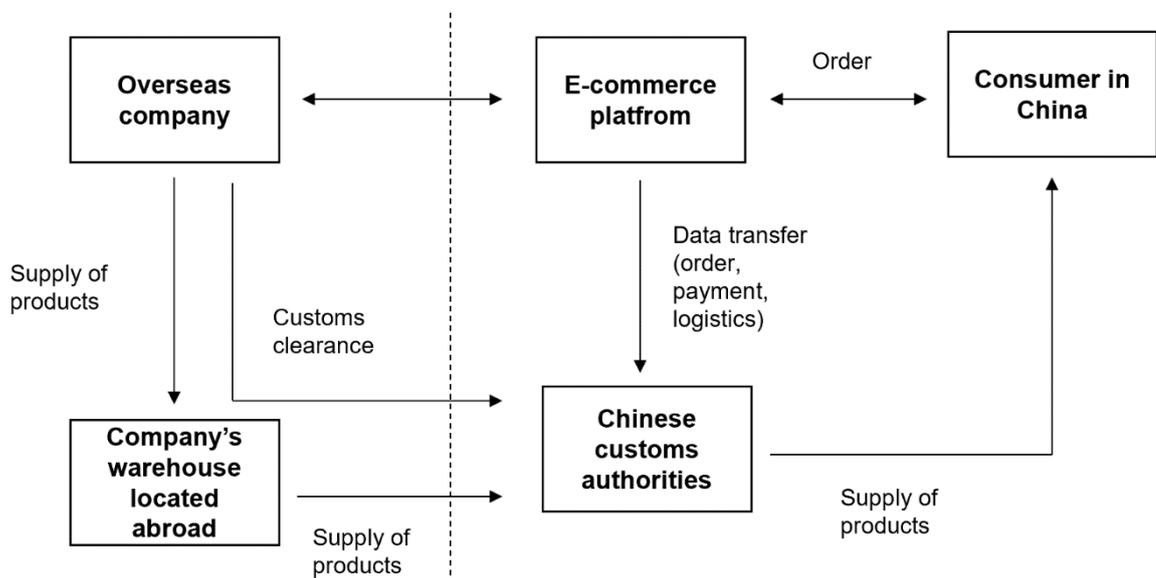


Figure 11. Direct import mode (B2C). Adapted from Rödl & Partner (2016) with edited layout.

Compared to the bonded import mode, the direct import mode has obviously longer delivery time because the products are shipped from abroad to China after purchasing. However,

as Chinese consumers consider foreign products as valuable and reliable compared to domestic products, they generally accept the longer delivery time when they are aware that the product is indeed shipped from abroad. An overseas company can also operate trading activities directly from its domestic market without the need to invest for stocking the products in advance into bonded warehouses located in CBEC pilot zones in China. In addition, direct import mode allows more extensive and varied product categories to be delivered compared to bonded warehouse mode. However, shipping directly from abroad to China can be a more expensive option due to the longer distance and delivery time. (The Netherlands Consulate-General Shanghai 2017, 50-53)

3 RESEARCH METHODOLOGY

The following empirical section reveals the main aspects of the used research methodologies for conducting this thesis. In the first section, the research type and its relevancy for this research context are described in more detail. The second section provides relevant background information related to the chosen case study design and their influence on the research context. The last sections reveal the chosen methodologies related to data collection and analysis as well as the reliability and validity of related aspects of the study.

3.1 Research design

As the analysis of this phenomenon is based on transaction cost approach and the research is guided by relevant internationalization concepts, this thesis is based on deductive research approach and will be conducted as a qualitative descriptive case study. According to Trochim (2006a), qualitative research is often undertaken when the purpose is to gain new knowledge and become more experienced with the investigated phenomenon. In addition, it is also an effective research methodology for generating detailed information by utilizing the original data collected from the research participants own perspectives (Trochim 2006a).

The deductive research approach is preferable when the research is initially approached from theoretical perspectives and then followed by data collection and analysis. Based on the formed research questions and objectives, the purpose of this research is to provide descriptive based answers. Robson (2002, cited in Saunders, Lewis & Thornhill 2009, 140) states that descriptive studies are used to provide accurate descriptions of certain situations and events. In some cases, descriptive research may be extended to an explanatory approach for analyzing causality between variables. However, this research is not aiming to provide any analytical explanations in terms of causal relationships between variables. The case study design is explained in more detail in the following section.

The case study method is an empirical inquiry which is typically used for understanding a real-life phenomenon, particularly when the boundaries between the investigated phenomenon and content are not distinctly understood (Yin 2009, 18). According to Robson (2002, cited in Saunders et al. 2009, 145-146), the case study strategy is based on

“empirical investigation of a phenomenon within its real-life context using multiple sources of evidence.” Another rationale for using case study is that it is preferable research approach for gaining a rich understanding of the research context and the associated processes of the investigated phenomenon (Morris & Wood 1991, cited in Saunders et al. 2009, 146).

As the nature of this descriptive case study is deductive, and the purpose is to gain an understanding of the context of the research, a single-case study approach is adopted in order to provide supporting empirical insights. For achieving empirical evidence of the research context, this research incorporates with a single-case phenomenon which is representing the market entry process into China’s cross-border e-commerce market in the field of B2C consumer goods trade. Therefore, a single-unit of analysis is deployed for this research.

According to Yin (2009, 46-49), there are five rationales for conducting a single-case study. Using a single-case study is particularly suitable when it is capable of testing certain theory’s propositions and determining accurateness of the theory. In this way, the single-case study can provide theoretical contributions and help to increase the amount of knowledge phenomenon. Another reason for using a single-case study is when the case is associated with a certain unique incident. On the contrary, the single-case study can also be utilized when the case is representing a commonly known situation, providing information which can be reflected in average cases. Also, in a situation when the case is associated with previously inaccessible research phenomenon, the single-case study design is preferable to be implemented. Lastly, during longitudinal case research, the single-case study can be beneficial as it provides an opportunity to study how the research phenomenon changes during a certain period. (Yin 2009, 46-49)

3.2 Case description

For providing empirical insights of the research context, the investigated phenomenon is analyzed from Finnish grocery retail operators’ perspective who are entering into food e-commerce market in China. Since the establishment of cooperation between K Group and the world’s largest online retailer Alibaba, the access to China’s e-commerce market has been facilitated for Finnish retail companies. Previously, K Group has gained international trading experience by importing food and non-food products from China and after establishing the arrangement with Alibaba, K Group became the first Finnish grocery retailer

which has entered into China's food e-commerce market. The strong international trading expertise, market knowledge, extensive business networks and strive to develop the best digital services in the trading sector provides interesting business opportunities for K Group. The objective of this cooperation is to sell Finnish food brands for Chinese online consumers and allow other Finnish retail operators to have access to China's growing e-commerce market. In addition, the aim is to contribute to the Finnish food chain and promote Finnish food products to international markets. (K Group 2017a, 2017b, 1-17)

"We have strong international trade expertise in the Far East and Asian markets and have imported food and non-food products from China for a long time. Thus, exports are a natural next step for us. Pure and healthy Finnish food is now and in the future our competitive advantage. At K Group, we wish to play our part in promoting the export of Finnish food products to international markets. China has the world's largest and most advanced e-commerce food market, from which we will learn valuable lessons. We will develop the online store with our partners in an agile way and in a start-up spirit," says Mikko Helander, K Group's President and CEO. (K Group 2017a)

Since the establishment of the cooperation, the product range has been expanded as other Finnish food brands such as Valio, Paulig, Fazer, Raisio, Finn Spring, Roberts, and Kiantama have participated with the e-commerce arrangement (K Group 2017b, 14). According to the press release (K Group 2017b 1-17) healthy and responsibly produced Finnish food products provide a competitive advantage as the foreign foods have a better image in terms of quality compared to local food products in China. This is because of the recent food scandals in China has increased the awareness of food product's safety and healthiness. Therefore, the valuation of food products healthiness and safety is an increasing trend in China, and it has increased the demand for food products from overseas.

"Finnish food stands for first-class quality, purity and safety, attributes that are key to making purchase decisions by Chinese consumers. Products from Finland are getting more and more popular in China and we are pleased that Kesko's Tmall Global store enables the 466m annual active consumers on our e-marketplaces to access and experience amazing Finnish food," says David Lloyd Managing Director, UK, Ireland and Nordics at Alibaba Group. (K Group 2017b, 17)

Another main influencing factor for K Group's entry decision to China is related to the market potential. K Group's vice president of grocery division (cited in MTV 2017) mentioned that the enormous market size and rapid growth makes China's e-commerce market an attractive option. In addition, China's e-commerce market is one of the most advanced e-commerce markets in the world. Helander (cited in MTV 2017) also mentioned that one of the influencing factors for K Group's decision to enter China's e-commerce market is that the government of China has substantially facilitated foreign retailer's entry process with the CBEC model, providing new opportunities and easier access for overseas retail operators.

3.3 Data collection methods

The type of collected data is based solely on qualitative data which is acquired by combining multiple sources of information. As this thesis is based on the descriptive case study method and statistical deductions are not required, selecting samples is done by using a non-probability sampling method. The self-selection sampling technique was used for determining relevant single-case which represents the cross-border e-commerce market entry process in China. The selection of key informant interviewees was done by identifying and contacting potential company representatives and industry experts who had specific experience and knowledge about the CBEC field in China. According to Patton (2002, 321) acquiring information from key informants who possess a deeper knowledge about the research context can help to understand better what is happening in the investigated phenomenon and why.

The data collection method focuses on data triangulation from key informant interviews and secondary documentary sources. Patton (2002, 306) mentions that, by combining multiple data sources, the validity of the research becomes higher compared to using only a single data collection method. In addition, combining different data collection methods can compensate for the weaknesses of another data types (Marshall & Rossman 1989, 79-111, cited in Patton 2002, 306). The advantages of gathering interview and document data sources are that the researcher is able to acquire thoughts and feelings from the interview data analysis while document analysis provides opportunities to observe the behind-the-scenes perspectives, which may not be directly noticeable through interviewing (Patton 2002, 306-307). In this way, combining interview data with relevant documentary data can support the subsequent data analysis methods.

For collecting the interview data, semi-structured interviews were conducted through telephone and online video conference interviews. In addition, some of the primary data were collected from email mediated questionnaires due to the different time schedules of the interviewed participants. The invitation letter (see appendix 1) for an interview was sent to 10 different candidates and 7 of them responded to accept the invitation. The duration of the interviews was between 30 and 45 minutes and all of them were audio recorded for further data editing. After each interview, the recorded audio data was transcribed verbatim to separate document files which were used during the subsequent data analysis process. The details of the conducted interviews are presented in table 6.

Table 6. Conducted interviews

Interviewee	Interview type	Duration	Date
Export manager	Telephone	45 min	14.08.2018
CEO	Telephone	30 min	22.08.2018
Marketing manager	Skype	30 min	23.08.2018
Industry expert	Email questionnaire	--	24.08.2018
Sales executive	Skype	30 min	27.08.2018
Tmall Partner associate	Skype	30 min	29.08.2018
Industry expert	Email questionnaire	--	30.08.2018

The documentary data collection is conducted by analyzing written materials such as journals, books, organization websites, press releases, government publications, and industry statistics. In addition, non-written materials were investigated from different media channels, including, video recordings and documentary films. During the data collection process, secondary sources were searched by using relevant online search queries in the context of China's cross-border e-commerce. The selected documentary secondary sources are presented in table 7.

Table 7. Selected secondary documentary sources

Author	An overview
Asia Briefing Ltd & Dezan Shira & Associates (2018)	An online document which reviews the current CBEC market landscape and regulatory framework. In addition, different CBEC business models are compared with regard to their advantages and disadvantages.
China Briefing & Dezan Shira & Associates 2016	An online article about selecting a third-party when entering China's e-commerce market.
eMarketer 2016	An online article about China's e-commerce market and outlook of future growth trends.

Frost & Sullivan & Azoya Consulting (2018)	An online document which reviews how the CBEC market has evolved in China and analyzes the alternative cross-border sales models.
Fung Business Intelligence (2017)	An online document which briefly summarizes the development stages of the CBEC market and the new policies imposed by the Chinese government (Fung Business Intelligence 2017, 1).
The Netherlands Consulate-General Shanghai (2017)	An online document which includes an overview of CBEC sector in China and relevant insights for western companies entering China's e-commerce market.
TMO Group 2018	An online article about China's e-commerce market insights in 2018.

3.4 Data analysis methods

In qualitative research studies, there aren't any existing formulas for data analysis methods as the qualitative analysis is always done in a unique way. There are some general qualitative analysis guidelines, but the analytical approach is always depending on the uniqueness of the research context as well as the knowledge and capabilities of the researcher. Therefore, choosing an appropriate data analysis approach requires evaluative and creative decisions from the research author. (Patton 2002, 432-433) Kvale (1996 cited in Saunders et al. 2009, 488) mentioned that the qualitative data analysis is not only occurring after the data collection but also during the data collection process. In this way, the data collection and analysis are an interactive and interrelated process which can facilitate identifying the important themes and connections of the studied cases. (Saunders et al. 2009, 488-489)

Generally, qualitative data analysis methods can be categorized into the following types; summarizing of meanings, categorization of meanings and structuring of meanings using narratives. Depending on the nature of the qualitative research, for instance, the deductive approach requires typically more structure-oriented and formalized analysis methods whereas inductive approach is less structured and focuses more on interpretation. (Saunders et al. 2009, 490-491) In a case study analysis, the data is organized into specific cases for in-depth study and comparison purposes. It represents an analysis process which consists of collecting, organizing and analyzing the data. This raw data is composed of all the relevant information sources which are used for forming the case study. (Patton 2002, 447-450) In this thesis, the case raw data is accumulated from the semi-structured

interviews, and secondary documentary analysis which is then compiled into case record. According to Patton (2002, 449-450), the case record is used for final case analysis which consists all the relevant information in an organized manner with necessary edits and condensations for providing a justifiable portrayal of the case analysis. After constructing the case record, the final case study report is written with all the necessary contents for providing a holistic understanding of the case study.

As this research is using deductive research approach, the analytic strategy for conducting the data analysis is based on the initial theoretical propositions. Yin (2009, 130-131) states that relying on original research objectives which were established from the theoretical orientations, literature review and research questions, is a commonly used method for formulating the data analysis strategy. In this way, the theoretical propositions provide a guideline for the case study which helps to eradicate irrelevant information and focus on identifying the most relevant data. (Yin 2009, 130-131) For analyzing the collected data, a pattern matching technique will be used as it provides the most relevant analysis method for this case study and it suits well with the nature of research. According to Trochim (1989 cited in Yin 2009, 136), the pattern matching technique is used for comparing empirical and theoretical based patterns. Therefore, pattern matching is a particularly relevant data analysis technique when conducting thematic analyses in qualitative studies (Trochim 2006h). Based on the presented propositions of the transaction cost analysis and other relevant internationalization theories and concepts in the literature review section, the empirical findings will be thematically analyzed with theoretical themes for identifying coincide patterns. The outcome of the pattern matching will be then analyzed further in discussion and conclusions sections for generating answers to research questions.

3.5 Reliability and validity

When judging the quality of research designs, Yin (2009, 40-41) emphasized the importance of the reliability and validity aspect through commonly used tests in the social sciences. For this case study, the most relevant tests evaluating the quality of research are construct validity, external validity, and reliability. The internal validity aspect is only associated with causal or explanatory related studies and therefore it is not a relevant test for evaluating the quality of this research. The construct validity test is related to identifying accurate operational measures when studying the concepts. In order to increase construct validity of a case study, the data should be gathered from multiple sources of evidence and

by establishing a chain of evidence. (Yin 2009, 40-45) External validity is associated with the generalizability of the derived conclusions with regard to other research findings. For achieving a higher degree of external validity, it is important to extract an accurate sample from a population and acquire a sufficient amount of study participants. An alternative method is to generalize the findings with regard to another broader theory. (Yin 2009, 43-44; Trochim 2006f).

Validity is associated with the ability to deduce correctly the meanings which are gained from participants knowledge. For instance, qualitative based interviews enable to capture a high level of validity when the topics are discussed from various perspectives. Additionally, the interviewer is able to provide more comprehensible questions and deductions from the responses. That said, statistical generalizations from the total population are not possible to achieve through semi-structured interviews as the number of cases is typically smaller. (Saunders et al. 2009, 327)

Another key issue in terms of quality of measurement is the integration between validity and reliability (Trochim 2006c, 2006e). In a research context, reliability is related to the quality of the measurement. The quality of measurement is associated with repeatability or consistency, meaning that if a measurement is reliable, it would provide same the results again. That said, there are different types of measurement errors which can decrease reliability which can affect the accuracy of the research measurements. Therefore, the negative effects of measurement errors are critical to take into account for generating reliable results. For instance, during the data collection process, there can be potential errors which can emerge from unintentional actions when conducting interviews with people. (Trochim 2006b, 2006c, 2006d) Saunders et al. (2009, 326) emphasized different forms of biases which are affecting the quality of the data when conducting interviews. In some cases, the behavior or beliefs of the interviewer can generate biased answers and interpretations of the responses. The response bias can also emerge from the interviewee's point of view which perceives biases from the interviewer's certain type of questions which are intruding sensitive subjects. This kind of issue can generate incomplete answers which affect the quality of the gathered data. (Saunders et al. 2009, 326)

Reverifying the collected data is an important procedure for maintaining the reliability of the measures. When collecting data from multiple sources, using triangulation as a data analysis method is a preferable way to confirm the accuracy of the results. (Trochim 2006b, 2006c, 2006d) The reliability aspect of this thesis is strived to establish through careful

planning and re-verifying every gathered data for minimizing potential measurement errors. In addition, gathering data from multiple sources and assuring the reliability of the results through triangulation fashion is sought from the beginning of the research design planning, data collection process, and data analysis.

4 FINDINGS

This chapter establishes the empirical foundation by conducting a secondary analysis of China's cross-border e-commerce market and primary research through key informant interviews. The first section is based on documentary secondary evidence which reviews the current state of China's cross-border e-commerce market. The following subchapters provide key insights of the main cross-border e-commerce platforms and their specific business models. In addition, findings related to the roles of third-party service providers in the cross-border e-commerce market will be presented. The final section focuses on the primary research sources which were collected from the key informant interviews. Findings from the conducted interviews will be presented with organized themes which are reflecting the initial research questions of this study.

4.1 Secondary analysis of China's cross-border e-commerce market

According to Asia Briefing Ltd & Dezan Shira & Associates, (2018, 2), cross-border e-commerce is one of the fastest growing subsectors of China's e-commerce market which currently has over 770 million online users. From the overseas business perspective, trading through cross-border e-commerce (CBEC) platforms provides an attractive entry strategy as foreign companies are not required to establish a legal entity, i.e. a physical presence in China. As a result, the required market commitment and expenses to implement market entry activities are relatively lower compared to traditional market entry strategies. Although the growth prospects and market potential are immense, CBEC market in China is highly a dynamic and complex market which can induce challenges for foreign companies which are attempting to enter into the CBEC market if they are not aware of the related policies and regulations influencing the business environment. (Asia Briefing Ltd & Dezan Shira & Associates, 2018, 2)

Since 2014, China's cross-border e-commerce market has been growing exponentially due to its increasing popularity among the Chinese middle-class consumers and it is anticipated to continue growing steadily in the near future (The Netherlands Consulate-General Shanghai 2017, 7-9). It is estimated that by 2020 (Figure 12), China's cross-border e-commerce market will have around 292 million purchasing online consumers (eMarketer 2016).

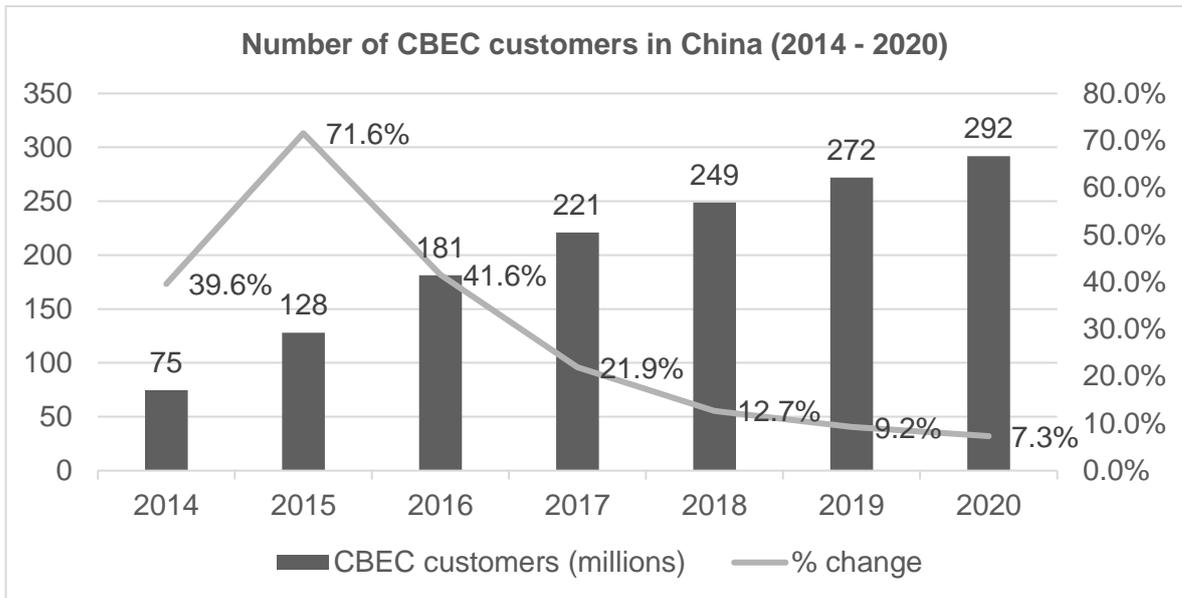


Figure 12. Number of CBEC customers in China 2014 – 2020. Adapted from (eMarketer 2016) with edited layout.

The main contributing factors to the rapid development of the CBEC market in China are related to an immensely growing middle class which have been exposed to overseas products and e-commerce platforms across the Internet. From the Chinese consumers perspective, the imported overseas products in local retail stores are considered usually with relatively high price due to the higher taxes or the products are often unavailable which is why they prefer to purchase foreign products through overseas websites or via Mainland e-commerce marketplaces which are allowing trading across international online shopping markets. This is a particularly prevailing trend among the increasing Chinese upper-middle-class consumers who are increasingly exposed to high-quality foreign brands which can be seen in steadily growing demand every year. In addition to high quality and brand image of the overseas products, the relatively lower price of imported products via CBEC platforms is also a significant contributor for buying directly from foreign sellers. Compared to imported products through general trade modes, the retail price of CBEC products can be substantially lower because of the import tax exemptions. Buying overseas products through CBEC platforms is also more trustworthy as the counterfeit market in China is notoriously high. (Asia Briefing Ltd & Dezan Shira & Associates, 2018, 4; eMarketer 2016; The Netherlands Consulate-General Shanghai 2017, 7-9)

The following figures highlight the key contributing factors for buying via CBEC (Figure 13) and the most popular CBEC product categories in China. (Figure 14)

The main contributing factors to purchasing via CBEC in China (2016)

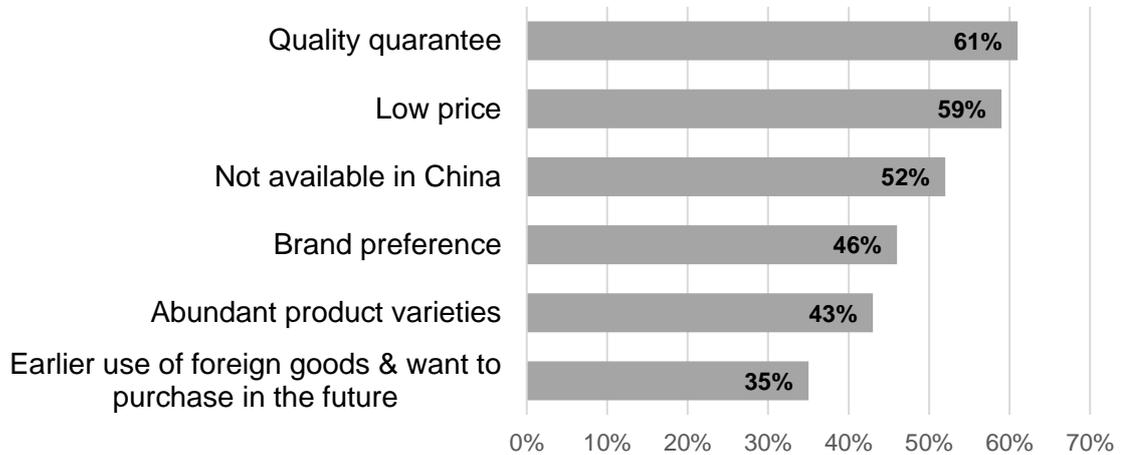


Figure 13. The main contributing factors to purchasing via CBEC in China (2016). Adapted from (The Netherlands Consulate-General Shanghai 2017, 8) with edited layout.

The most popular and best-selling CBEC product categories are related specifically to cosmetics and maternity related products. Product categories related to food and healthcare are also increasing demand as the lack of trustworthiness and lower quality of this types of domestic products are notorious among Chinese consumers. (Fung Business Intelligence 2017, 4-5)

The most popular CBEC product categories in China (2016)

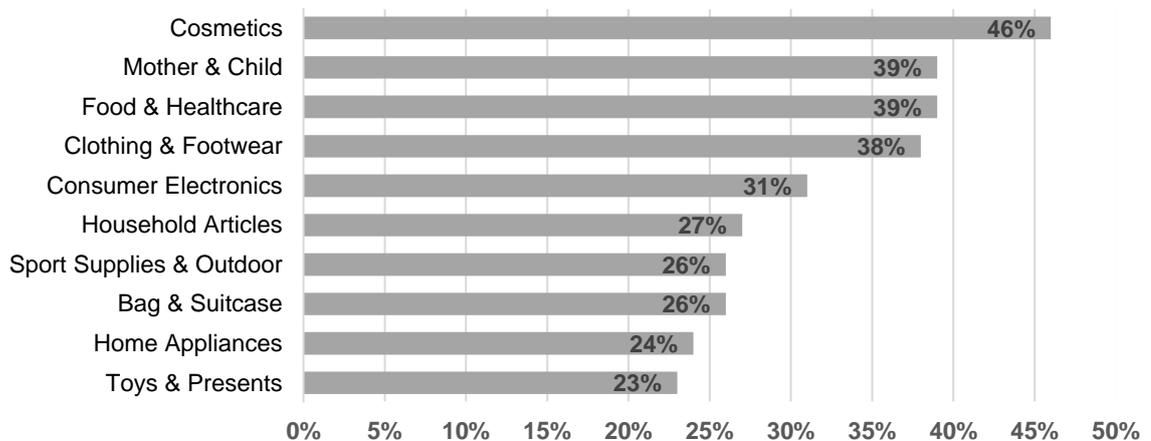


Figure 14. The most popular CBEC product categories in China (2016). Adapted from (Fung Business Intelligence 2017, 5) with edited layout.

From 2012, the development of CBEC market has also been contributed by the actions of the government of China by implementing beneficial policies for legitimizing CBEC trading. Since the establishment of exclusive e-commerce pilot zones, many foreign companies started to utilize the CBEC channel as a market entry mode into China. However, before the government of China implemented the policies facilitating the development of CBEC market, the purchasing of foreign products was done typically via “daigou” export buying agents or directly through foreign e-commerce platforms. Both purchasing methods have advantages and disadvantages related to price, order placements and payment solutions but the main negative factor from the Chinese consumers perspective was long delivery time. Other main disadvantages were difficulties related to product refunds, a quality uncertainty of the products, a language barrier when purchasing directly from overseas e-commerce platforms and additional hidden costs. (Fung Business Intelligence 2017, 6-8)

From the positive perspective, purchasing via “daigou” buying agents enable Chinese consumers to settle their payments in local currency and receive assistance from “daigou” agent for placing orders. That said, “daigou” buying agents have been considered as untrustworthy due to the illegal importing issues in China and managerial uncertainty over the delivery responsibilities. To reduce illegal importing activities from “daigou” agents, the government of China intervened by announcing new policies and establishing pilot zones for developing CBEC trading. By the March of 2017, China has established ten pilot zones for promoting CBEC importing. (Fung Business Intelligence 2017, 6-8) Figure 15 below shows the current CBEC pilot cities and pilot zones.



Figure 15. CBEC pilot cities and pilot zones. Adapted from (Asia Briefing Ltd & Dezan Shira & Associates 2018, 5) with edited layout.

4.1.1 Cross-border e-commerce platforms and business models

Since the development of cross-border e-commerce has been facilitated by the Chinese government, the emergence of various CBEC platforms has been a developing trend in China. As a result, Chinese consumers have exclusively adopted the third-party online marketplaces for shopping instead of buying through independent e-commerce sites in China or from abroad. Before describing the main CBEC platforms in greater detail, it should be mentioned that overseas companies which have a legal entity in China, can trade through normal Chinese B2C platforms. However, a foreign company with no legal entity in China is only eligible to trade through qualified CBEC platforms by utilizing one of the modes as described in the previous chapter. That said, it is possible that an overseas company establishes a standalone website outside of China for international trading purposes, but it can be extremely difficult to acquire a market presence in the already dominant e-commerce market and gain the attention of online consumers in China. In addition to the intensive competition, serving Chinese consumers via the standalone website from overseas can be challenging due to the differences in terms of payment methods, exchanges, after sales support and other service related issues. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9; Fung Business Intelligence 2017, 15-16; The Netherlands Consulate-General Shanghai 2017, 25-26) The following figure shows the CBEC platforms market share in China from 2017 (Figure 16).

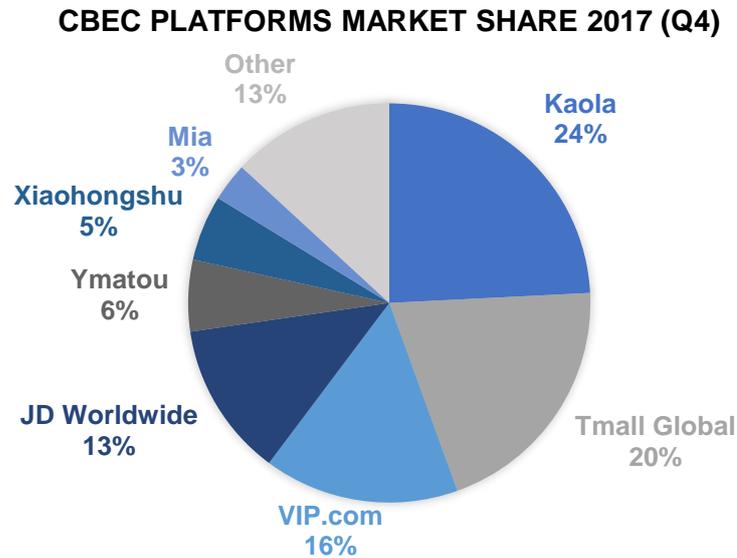


Figure 16. CBEC platforms market share in China, 2017 (Q4). Adapted from (iResearch 2017, cited in TMO Group 2018) with edited layout.

The cross-border e-commerce market in China is currently highly fragmented where new emerging platforms have captured a substantial portion of the market share. Major CBEC platforms such as Tmall Global and JD Worldwide are facing competition from several smaller platforms including, Kaola, VIP.com, Ymatou, and Xiaohongshu. (WalkTheChat 2017) According to a research report from Frost & Sullivan & Azoya Consulting (2018, 12), the cross-border purchasing during the past year was most often done through domestic e-commerce platforms such as Tmall Global, Kaola and JD.com. Global e-commerce platforms such as Amazon and Rakuten were also a popular choice for cross-border purchasing. (Figure 17)

Selection of CBEC platforms for purchasing (2017)

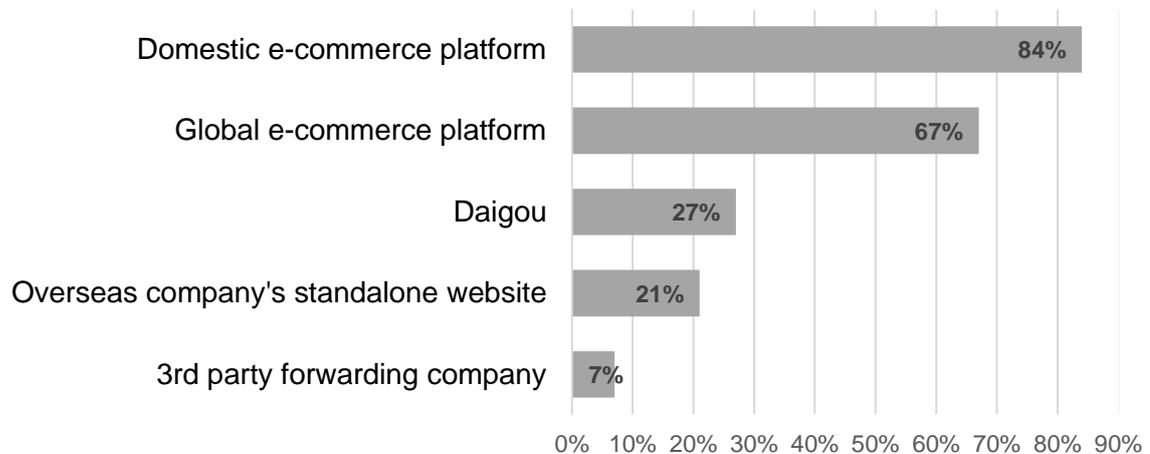


Figure 17. Selection of CBEC platforms for purchasing (2017). Adapted from (Frost & Sullivan & Azoya Consulting 2018, 12) with edited layout.

According to (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9-10) the current business models for China's B2C cross-border e-commerce market can be categorized into four main types (Table 8). In some CBEC platforms (Table 9), the business model is based either on direct purchase mode (B2C) or indirect intermediary marketplace mode (B2B2C). (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9; Fung Business Intelligence 2017, 15-16; The Netherlands Consulate-General Shanghai 2017, 25-26)

Table 8. The main business models for China's B2C CBEC market. Adapted from (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9-10) with edited layout.

Business model	Operating way
D2C company standalone e-commerce platform	Direct-to-consumer standalone website hosted outside China without a legal Chinese entity
B2C online mall model	Centralized marketplace platform allowing foreign brands to establish standalone online stores and direct access to Chinese online consumers
B2B2C intermediary model	Intermediary marketplace allowing foreign brands to reach Chinese online consumers indirectly via CBEC online malls
WeChat store model	An emerging CBEC model which focuses on social media platform

Table 9. The main categories of CBEC platforms in China (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9-11; Richway New Media Technology 2018; The Netherlands Consulate-General Shanghai 2017, 25-38)

Online malls (B2C)	Hypermarkets (B2B2C)	Specialty marketplaces (B2B2C)	Flash sales websites (B2B2C)	WeChat stores
Tmall Global	Kaola	Xiaohongshu	VIP.com	WeChat
JD Worldwide	JD Worldwide	Beibei	Jumei	Mengdian
Suning Global	Suning Global	Yiguo	Mei	
Ymatou	Amazon China Global Store	Mia		

Online malls (B2C)

Large online malls such as Tmall Global and JD Worldwide are the most well-known flagship B2C cross-border e-commerce platforms. These marketplaces operate as centralized platforms which have multiple independent merchant stores allowing online customers to purchase directly from them. Online mall platform is convenient and trustworthy for consumers as it allows them to access a variety of different merchant stores. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9; Netherlands Consulate-General Shanghai 2017, 27) Furthermore, Tmall Global platform, for instance, provides an IT infrastructure for hosting the merchant stores with possibilities for customizing the storefront layout designs, managing online store inventories and other relevant services for serving online customers (Tmall.com 2018).

Currently, the entry requirements for accessing the flagship CBEC platforms are based on certain qualifications which foreign companies are required to meet in order to be qualified for opening the online store in China. For instance, Tmall Global prefers foreign companies from specific industries which are owners or authorized merchants of well-known brands abroad. In addition, preferred requirements include that the foreign company must have been operating for over two years and annual revenues exceeding over US\$10 million. (WalkTheChat 2017; Web Retailer 2016)

Hypermarkets (B2B2C)

The hypermarket is a hybrid B2B2C marketplace model where the hypermarket is acting as an intermediary between overseas merchants and online customers. In this way, the hypermarket is purchasing the products directly from companies abroad and sells the products through an individual storefront. When using CBEC hypermarkets, a foreign company is not managing the online storefront and distribution related functions as those will be managed by the hypermarket. From the foreign firm's perspective, this platform reduces the risks related to stocking products beforehand and managing distribution activities in China. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9-10; The Netherlands Consulate-General Shanghai 2017, 28) Kaola.com is one of the examples of rapidly developing CBEC platforms which utilizes the hypermarket business model. Kaola's main business strategy is to focus on large-scale trading and offer Chinese consumers direct access for a wide range of overseas products. (WGSN Insider 2018) In addition, hypermarket and online mall models are also often used together by one CBEC platform. (The Netherlands Consulate-General Shanghai 2017, 28) For instance, JD Worldwide offers partnerships for traders, retailers, franchisees, and brands which are operating from abroad (JD.com 2018).

Vertical specialty marketplaces (B2B2C)

Vertical specialty marketplaces have similar characteristics like hypermarkets which are importing products directly from overseas sellers, but their product categories are targeted mainly for niche markets. As these CBEC platforms are focusing on specific product categories, the number of online consumers relative to other major CBEC platforms is typically lower. However, vertical specialty marketplaces can be an effective sales channel in terms of conversion rate and acquiring relevant customer traffic. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9; The Netherlands Consulate-General Shanghai 2017, 28) Xiaohongshu is currently one of the most popular specialty marketplaces which also operates as a social community e-commerce shopping platform (Xiaohongshu 2018).

Flash sales websites (B2B2C)

Flash sales websites are aimed particularly for new-to-market or excess products which are sold at heavily discounted prices for a fixed period. From the foreign firm's point of view, flash sales platforms can be a useful way to promote and gain exposure among Chinese consumers. In addition to increasing brand awareness, these platforms can be used for

testing the newest products and the amount of demand before investing in other main cross-border e-commerce platforms. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9; Daxue Consulting 2016; The Netherlands Consulate-General Shanghai 2017, 29)

WeChat Stores

Reaching Chinese consumers by integrating social media with cross-border e-commerce activities is also an important thing to take into account from the foreign companies' perspective. As social media is playing a pivotal role in Chinese consumers everyday life engaging with them through social media applications can provide opportunities for social selling. For instance, synchronizing CBEC platform accounts with WeChat social media platform enables foreign companies to reach WeChat users directly through an in-app merchant store without the need to use an external CBEC storefront platform. CBEC activities through WeChat is growing popularity among overseas companies as it provides an attractive market entry method into China. Creating an official business account for WeChat requires an ICP (internet content provider) license with a legal entity license in China. However, when using a third-party service provider, these previously mentioned requirements can be avoided. (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9; The Netherlands Consulate-General Shanghai 2017, 36)

The following table 10 summarizes the main CBEC business models and compares them in terms of advantages and disadvantages.

Table 10. Summary of the main CBEC business models. Adapted from (Asia Briefing Ltd & Dezan Shira & Associates 2018, 9-11) with edited layout.

	Company standalone website (D2C)	Online mall (B2C)	Intermediary marketplace (B2B2C)	WeChat store
Advantages	Low cost	High user traffic	Reduced risks and requirements for managing downstream functions	Direct engagement with customers Access to consumer data analysis
	Low commitment	Provides support services for consumers	Marketplace familiar with consumer demands	Customizability of the storefront and content Access to WeChat's social media environment and wide reach
Disadvantages	Low web traffic	High competition from other marketplaces	Limited product categories	Local business and ICP licenses required
			Lack of control over branding	High competition
	Low chances of success	Requires high investments	No control over downstream functions Products sold only at wholesale price	No organic traffic Requires high marketing investments for achieving traffic

Although there is no “one size fits all” platform or business model for foreign retailers, it is common that the establishment of the cross-border online store is done with the B2C model. That said, one of the recent buying trends among Chinese online consumers is that they are moving beyond online marketplaces and expecting a higher level of engagement and authenticity with foreign retailers standalone direct-to-consumer online stores. (Frost & Sullivan & Azoya Consulting 2018, 2)

Furthermore, Frost & Sullivan & Azoya Consulting (2018, 17), conducted a survey which purpose was to review the current development of China’s cross-border trading and international brands experiences from the market. Based on the survey, the international retailer’s satisfaction with online sales from domestic e-commerce platforms was lower compared to standalone online stores or global marketplaces (Figure 18).

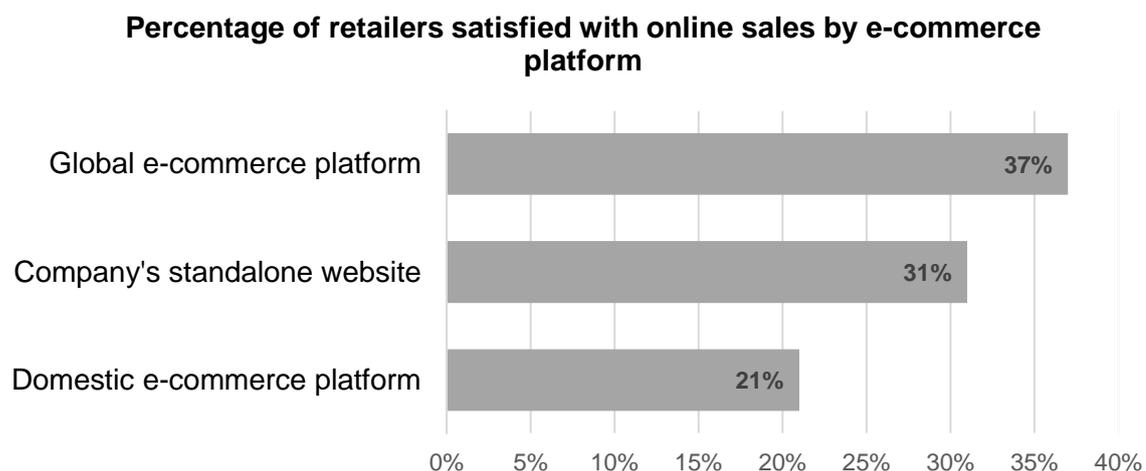


Figure 18. Percentage of retailers satisfied with online sales by e-commerce platform. Adapted from (Frost & Sullivan & Azoya Consulting 2018, 17) with edited layout.

One of the potential reasons for this result could be related to the perceived main challenges in the CBEC market. (Figure 19) According to the international retailer’s perspective, the main challenges were related to complex regulation which was perceived as confusing and prone to unexpected changes. Also, the highly competitive environment and a large amount of existing domestic and international brands in the market was perceived as a major challenge. In addition, some of the retailers perceived that the market requires high investments for entry or that online sales were unprofitable. (Frost & Sullivan & Azoya Consulting 2018, 16)

Main challenges faced by international retailers in China

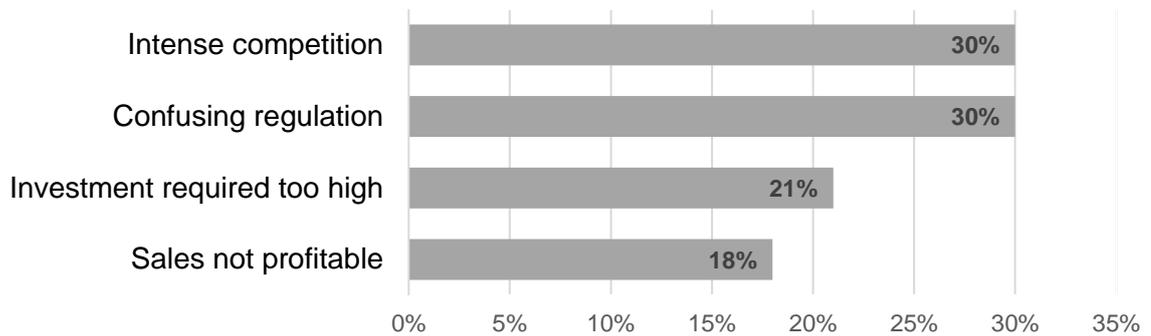


Figure 19. Main challenges faced by international retailers in China. Adapted from (Frost & Sullivan & Azoya Consulting 2018, 16) with edited layout.

Findings from the survey also highlighted the current role of physical stores among the e-commerce platforms. Compared to other main online stores, the role of a physical store as a sales channel is still dominant in China. (Figure 20) While the sales increase is mainly done through online sales, physical stores are still being used for expanding sales. (Frost & Sullivan & Azoya Consulting 2018, 14-17)

Main sales channels used by retailers in China

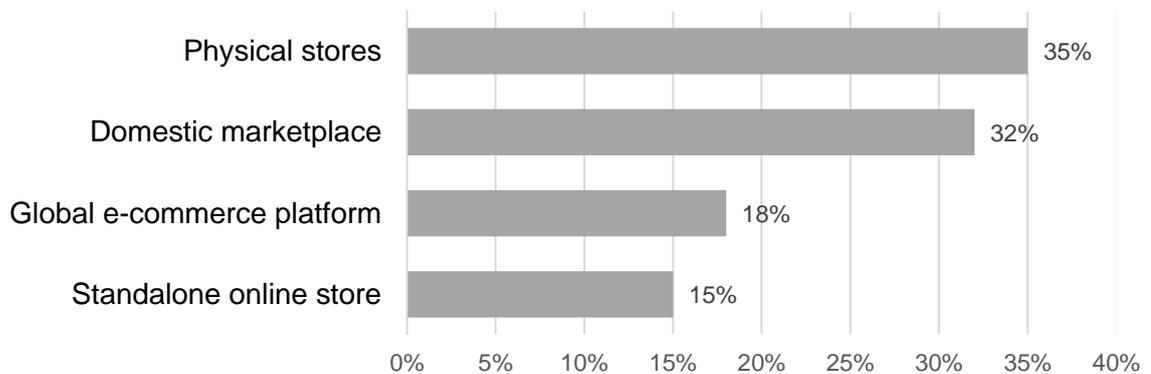


Figure 20. Main sales channels used by retailers in China. Adapted from (Frost & Sullivan & Azoya Consulting 2018, 16) with edited layout.

From the foreign companies' perspective, previously presented findings indicate that China's e-commerce market can provide significant opportunities because of the market potential and increasing demand for overseas products among Chinese online consumers. However, many of the surveyed international companies (70 %) were dissatisfied with the results when using an online store model solely as a market entry into China (Frost &

Sullivan & Azoya Consulting 2018, 19). Therefore, it appears that is critical to consider all the available market entry options holistically in order to leverage the full potential of the market.

4.1.2 CBEC third-party service providers

For accessing China's cross-border e-commerce market, foreign companies should also consider choosing an appropriate third-party agent (TP), also known as a Tmall Partner or Trusted Partner which allows overseas businesses to access the main CBEC platforms without legal entity in China. In fact, some of the main CBEC platforms, such as Tmall Global is nowadays choosing certain overseas businesses by inviting them directly to join their platform. In some cases, it is also possible to leverage TP's lobbying influence as a pathway for applying to Tmall Global platform. In addition to circumventing the required business license in China, these third-party service providers are also playing a key role when supporting foreign companies CBEC activities by providing various secondary services for business strategy development in China's e-commerce market. However, there are numerous TP agents offering different types of services for facilitating overseas CBEC activities. For instance, overseas companies have an option to choose TPs which are offering some specific functions and knowledge for facilitating CBEC operations or leverage an all-in-one service solution provided by certain TP agent. Due to the numerous available TP agents to choose from, the foreign company should consider selecting a reliable TP agent who can provide value to the company and offer specific knowledge from the associated field of industry where the foreign company is operating. (China Briefing & Dezan Shira & Associates 2016; The Netherlands Consulate-General Shanghai 2017, 65)

CBEC platforms such as Tmall and JD are also granting unofficial certificates for TP agents who are able to meet particular conditions set by the e-commerce platform. These certified TPs have the required competency, knowledge and experience to be able to manage and support foreign companies CBEC operations via a certain e-commerce platform. That said, choosing a TP agent with a qualified certification is not ensuring the suitability for managing foreign companies CBEC functions. Therefore, before deciding the appropriate TP agent and implementing the market entry process through CBEC, it is preferable to consider what is the overall market entry strategy and what are the business objectives in a long-term. For instance, some foreign companies are pursuing to grow rapidly by investing heavily in CBEC activities or attempting to achieve an organic growth strategy with minimal expenses. (China Briefing & Dezan Shira & Associates 2016; TMO Group 2018)

As some of the TP's have more extensive knowledge about the rules and regulations in specific industries, the foreign company should seek to partner with a TP which is operating in a common industry. Partnering this way can establish a more effective and useful partnership as it can offer more trustworthy and valuable insights about the CBEC market. Along with the industry-specific knowledge, TP agents should also have expertise at the regional level and understanding of the local business environment in order to provide unique services for facilitating foreign firms CBEC entry process. Depending on the foreign companies' capabilities and infrastructure, the availability of additional services offered by a TP agent should also be taken into account. Some TP agents provide an extensive range of secondary services for managing CBEC operations but typically with limited experience. These secondary services include, for example, business strategy development, digital marketing, sales promotion, building brick-and-mortar stores as well as industry and competitor intelligence-related services. (China Briefing & Dezan Shira & Associates 2016) Furthermore, it is also possible that TP agent acts as an intermediary which purchases products directly from the foreign company. In this way, the TP agent manages the online store functions either through its own storefront or via another affiliate merchant store. (The Netherlands Consulate-General Shanghai 2017, 65-66)

Lastly, the costs of engaging with a TP agent can vary depending on their scope of the services, company size and the level of expertise. In addition to separate service fees, TPs also receive a sales commission which is added to the expenses from using CBEC platforms. As a result, the associated costs of using TP agent for facilitating CBEC activities can be unexpectedly high and could be easily ignored by the foreign company, particularly when establishing a presence in major CBEC platforms which have typically higher fees. However, when the foreign company is focusing on organic growth through CBEC activities, it may be preferable to partner with a TP agent which has expertise on reselling the overseas products through authorized online stores or via their own storefronts instead of establishing an individual online store in some of the main CBEC platforms which requires higher investments. By using this method for leveraging TP agent's intermediary expertise, the market can be tested before investing more heavily on the larger e-commerce platforms. (China Briefing & Dezan Shira & Associates 2016)

Based on the aforementioned considerations it can be difficult to reassure which of the numerous TP agents are suitable for supporting foreign company's CBEC activities. Therefore, for avoiding unexpected inconveniences when establishing a partnership with TP agent, it is preferable for the foreign company to take into account the related costs, the

scope of the provided services and trustworthiness of the TP by researching the available agent candidates with a positive reputation. As mentioned before, establishing a flagship e-commerce store via the largest CBEC platforms requires extensive investments, so it is preferable to identify a reliable TP agent which has the required expertise for providing valuable consultation and capabilities for developing overseas CBEC business operations. (China Briefing & Dezan Shira & Associates 2016; The Netherlands Consulate-General Shanghai 2017, 65-67)

4.2 Insights from key informant interviews

In this section, the findings from the interview data are presented. After conducting the interviews, the collected data was organized into coded themes which reflects the initial research questions of this study. For illustrating the findings from the interviews, the most relevant insights are presented with direct quotations from the interviewees. The interview themes are organized into the following three themes:

1. Factors influencing the market entry via CBEC model
2. Advantages of CBEC model compared to traditional international trading
3. Challenges and risks of CBEC model as a market entry mode

Factors influencing the market entry via CBEC model

In analyzing the outcome of the interview data, most of the interviewees recognized that one of the key factors influencing the market entry by using CBEC model is the relatively easy entry access into China's e-commerce market. Using the CBEC mode was considered to lower the entry barriers into China as it does not require the establishment of Chinese legal entity which is required in traditional international trading modes.

“Cross-border model is the easiest way to test sales for companies’ products to Chinese consumers, as there is no need to apply for China import licensing for the goods put on sale. Also, e-commerce has a higher share of retail in China and combining with an overall audience the market potential in cross-border business is very big.”

Secondly, it was evident that the market potential of China's cross-border e-commerce market was another key influencing factor for using the CBEC model for market entry. One of the interviewees also mentioned that since Russia's market became inaccessible for certain food retailers four years ago due to the counter-sanctions against EU, there was a need for searching new alternative markets.

“The retail market in China was an attractive alternative option due to the rapidly developing e-commerce sector, retailing infrastructure and increasing purchasing power of consumers. Therefore, foreign retail companies were interested in starting to increase their presence in the market.”

Overall, the extracted insights from the interviews indicate that the factors affecting the market entry mode decision into China by using CBEC mode were mainly driven by the market size and its growth potential. In addition, the easier access through cross-border e-commerce pathway for establishing a market presence became an attractive option from the foreign companies' perspective.

Advantages of CBEC model compared to traditional international trading

When discussing the main advantages of using cross-border e-commerce mode compared to using traditional international trading modes, there was a noticeable consensus that the traditional trading pathway into China was associated with complex and multiform characteristics. From the foreign firm's point of view, the perplexing value chain through traditional trade mode causes substantial inconveniences compared to cross-border-e-commerce.

“The traditional pathway for accessing the retail market in China is quite complex and prolonged process compared to CBEC. Furthermore, the value chain in traditional trading mode involves additional fees from importers, distributors and retailers for many different product categories. The price of the product can eventually become four times higher compared to original wholesale price...”

“Based on several calculations, the consumer price is more competitive when selling through cross-border e-commerce. Even when summing-up all the required marketing related investments it will likely be a more viable option.”

In addition to the long and more expensive value chain, the traditional retailing network in China was considered as incoherent, causing uncertainties about whether the sold products were delivered accordingly to right retailers. Also, it was evident that, from many Finnish retailers perspective, the unfamiliar market and inadequate business network in China was causing uncertainties when using a traditional market entry as a pathway.

“...Instead of using traditional trading pathway, cross-border e-commerce provides a more direct, cost-effective and transparent route from the foreign company’s perspective.”

Some interviewees emphasized transparency as a key benefit of cross-border e-commerce, although in some cases foreign companies do not have full access to the consumer and sales data from e-commerce platforms.

“...Some of the cross-border e-commerce platforms are either allowing or not allowing access for the e-commerce data. However, when a foreign company has more control and access to sales and consumer data, it provides better possibilities to perceive consumers closer and use the data in the future planning.”

Obviously, cross-border e-commerce has advantages in terms of cost-efficiency and transparency, when the foreign company has access to the data from e-commerce platforms. Also, the unnecessary importing license in China was also highlighted as one of the main advantages among the interviewees.

In terms of the requirements for the foreign company to establish a cooperation with a cross-border e-commerce platform, it is was considered as a more straightforward process compared to the traditional pathway.

“China Import Guarantee check is needed. Otherwise, the requirement is just to have Chinese language content available for the e-commerce platform. And of course, need to negotiate the expenses to get goods on sale in platforms.”

Some interviewees mentioned that the requirements could vary depending on the type of e-commerce platforms but in overall, accessing China’s e-commerce market through these marketplaces were still considered as an easier pathway.

Challenges and risks of CBEC model as a market entry mode

From the interviewee's perspective, one of the main challenges of cross-border e-commerce in China was related to the intense competition in the market and achieving market presence. The importance of marketing activities was highlighted when using cross-border e-commerce as a market entry mode.

"As always when accessing new markets, the biggest challenge to success is marketing. Even it would be relatively easy to place goods on sale in cross-border e-commerce channels to China, the biggest challenge is to get Chinese consumers to purchase just your products among competitors' products."

The challenges of cross-border e-commerce were also discussed from the multichannel marketing perspective. It seems that foreign firms are not fully aware of how important it is to integrate multichannel marketing and e-commerce activities together in China.

"Foreign companies are not recognizing the symbiosis of China's marketing and e-commerce channels. It is not possible to achieve success if a company is not considering the multichannel strategies by combining social media, search engine marketing and other online marketing channels with e-commerce."

The integration of marketing and e-commerce was recognized as a major challenge mainly because western-based online retail operators have not been used for utilizing the multichannel approach in domestic e-commerce similarly as it has been used in China.

Also, depending on the type of used e-commerce platform, the degree of control and transparency can also vary, causing challenges related to transparency and lack of control over the e-commerce data.

"Major cross-border e-commerce platforms such as Alibaba's Tmall Global, do not give access for its e-commerce data. Other platforms such as JD.com is slightly more transparent but still it does not give full access to the data. On the other hand, smaller e-commerce platforms are more transparent with their e-commerce data."

When discussing whether it is preferable to use a standalone e-commerce website for achieving better control over the downstream functions instead of relying on CBEC

marketplaces, some of the interviewees thought that it would be possible, but it may cause challenges from a sales perspective.

“...There are two pathways for CBEC, either using a standalone e-commerce website or using marketplaces. A standalone e-commerce website is often established for achieving better control over the consumer data and building own brand through marketing activities but generating high sales volume can be very challenging.”

One of the interviewees also criticized foreign companies for their lack of preparedness when using cross-border e-commerce as a market entry mode. Foreign companies are often not familiar with the Chinese e-commerce market which can cause challenges and risks.

“China’s e-commerce market is still very unknown for many overseas companies and the efforts for researching the market is often neglected. For instance, when choosing appropriate e-commerce platforms for the right type of product categories, pricing the products accordingly and how the marketing strategies will be planned.

It was also mentioned that, when the foreign company does not have access for the e-commerce data and it is not familiar with the new market, the probability for failures increases.

“...Without the previous knowledge about the market and the lack of transparency over the e-commerce data can cause mistakes and unnecessary expenses, making the market entry process more challenging.”

In terms of expenses, most of the interviewees mentioned that using the major CBEC platforms requires more financial investments due to their pricing policies and terms of purchases, whereas using smaller platforms is less expensive.

“...Major e-commerce platforms such as Tmall Global and JD are more aggressive in terms of pricing terms for the products. This should be taken into account from the profitability and sales volume perspective and consider whether it is more viable to use smaller e-commerce platforms and sell products with higher prices.”

“Biggest e-commerce platforms are also expecting that foreign company is willing to invest substantially for marketing activities and being able to react to potential changes in the market rapidly.”

Adapting to the local market and offering local customer service was also recognized as a challenge, mainly because of the language barrier and Chinese consumers demand direct customer support services in their own language.

“Managing and coordinating the customer service for Chinese consumers is very difficult without using outsourcing partner services. The closer the foreign company is willing to serve the audience, the more it needs to consider outsourcing its downstream functions.”

Because of the challenges related to market adaptation, the role of outsourcing becomes more relevant, particularly for a smaller company which does not have resources and knowledge to operate in-house. Still, even for a larger company which have better possibilities to operate in-house, the demanding level of localized customer service from Chinese consumers can force foreign companies to invest in outsourcing services. The following table 11 summarizes the key insights from the conducted interviews.

Table 11. Summary of the key informant interviews

Interview themes	Summary of the key insights
1. Factors influencing the market entry via CBEC model	Streamlined market entry process Market potential of CBEC market
2. Advantages of CBEC model compared to traditional international trading	CBEC is associated with less uncertain and incoherent characteristics compared to the traditional pathway CBEC enables a shorter value chain with increased transparency and higher control
3. Challenges and risks of CBEC model as a market entry mode	Intense competition and difficult to achieve a market presence Market adaptation can be challenging

5 DISCUSSION

In this chapter, findings from the previous section will be further discussed and reflected by the theoretical perspectives from the literature review. The outcome of the reflection will be interpreted in order to provide answers to the initial research questions. The objective of this study was to identify the main drivers of the CBEC market and the key factors influencing the market entry strategy from the foreign company's perspective. In addition, the purpose was to analyze the main advantages of using CBEC model in comparison with traditional market entry modes and identify the main challenges of the cross-border e-commerce market in China.

The research objectives were derived from three research questions which will be answered in the following section. The first research question was formulated as follows:

1. *What are the main influencing factors that facilitate foreign companies' entry into China via CBEC model?*

The objective of the first research question was to identify the key influential drivers of CBEC model from the foreign companies' perspective. Based on the findings, there are various influencing factors which facilitates foreign companies' entry into China by using CBEC model. Firstly, since the access to China's e-commerce market was simplified for overseas companies, the market entry has been facilitated mainly because of the favorable trading policies related to cross-border e-commerce. This allowed direct access for foreign companies to export into China without the required Chinese legal entity. Based on the findings from the previous literature, (Cairncross 2001; Cowgill & Dorobantu 2017; Gomez-Herrera, Martens & Turlea 2014, cited in Lee, Wang & Wang 2017, 2) cross-border e-commerce provides easier transaction opportunities and reduces distances for trading. Chiericozzi's (2016, 128) study also supports that cross-border e-commerce provides an attractive and convenient way to enter China. In addition, when reviewing the literature related to the born global pathway (Hollensen 2011, 89-90), the advanced information technology provides accelerated information flow and efficiencies for reaching international markets. For this reason, cross-border e-commerce could provide a convenient market entry mode due to the technological advantages and streamlined entry processes for reaching China's e-commerce market.

When analyzing the firm-specific factors, it is evident that the case company had strong international competences before the market entry. K Group had strong international trading expertise, market knowledge and extensive business networks in China (K Group 2017a, 2017b) which seems to be an influential factor in facilitating the market entry. According to Hollensen (2011, 323), international experience reduces uncertainty and expenses in the market which in turn can positively affect the preference for choosing market entry mode which requires more commitment. Agarwal & Ramaswami (1992, 4-5) mentioned that firms which are lacking international experience might underestimate the potential risks of foreign markets and face managerial problems during the market entry which is why it is preferable to avoid investment modes. Since K Group established cooperation with Alibaba to launch an online food store in China, K Group is making a trade-off by using an intermediary-based market entry mode which can provide advantages as its partner is the world's largest e-commerce platform provider. In this way, Finnish retailing companies may learn new knowledge about developing online retailing services from a forerunner e-commerce company. According to Hill, Udayasankar, & Wee (2012, 522-523), the intermediary-based agreements could be beneficial for the foreign company because it can gain access to local partners market knowledge and receive guidance from its partner.

Another firm-specific factor influencing the market entry is the characteristic of the exported product. In this case, healthy and responsibly produced Finnish food is highly appreciated in China, providing a competitive advantage and product differentiation advantages for Finnish food retailers. According to the findings (see page 63), the main contributing factors for Chinese consumers purchasing through CBEC was the quality guarantee of the product. Product categories related to food are increasing demand as the lack of trustworthiness and lower quality of this types of domestic products has been notorious among Chinese consumers. The increasing demand for overseas products is a rapidly growing trend among Chinese consumers. Chinese consumers are accustomed to buying high quality and trustworthy overseas brands directly from the company and the emergent of advanced e-commerce marketplace platforms has enabled this trading in a cross-border fashion. Based on the literature, Hollensen (2011, 323-324) product differentiation advantages could provide opportunities for selling products at a higher price and develop entry barriers for other competitors.

The market potential of China's cross-border e-commerce market is also one of the main influencing factors. Based on the findings, (see pages 61-62 & 76-77) the CBEC market has been growing rapidly due to its rising popularity among Chinese middle-class. The size

of the market and its growth prospects offers an immense opportunity for overseas brands who are willing to reach rapidly growing Chinese middle-class consumers. According to Agarwal & Ramaswami (1992, 5), the location advantages are related to the attractiveness of a market which is determined by the market potential which is recognized as a key factor for investment activities in foreign markets.

2. *What are the main advantages of using CBEC model compared to using traditional market entry modes?*

The aim of the second research question was to identify the key factors influencing the market entry strategy when entering the Chinese market. Based on the documentary analysis (see pages 61-65) and findings from the key informant interviews (see pages 77-78) it appears that the CBEC model provides various advantages compared to traditional market entry modes. Firstly, using the traditional pathway by establishing a legal entity in China either via exporting, intermediate or hierarchical entry modes may not be as streamlined and convenient way to implement the market entry, in comparison with the CBEC model. From the Finnish retailers' perspective, using the CBEC as a market entry mode may lower the value chain and associated risks since the required investments and commitments during the entry process are lower compared to the traditional pathway. Therefore, the CBEC mode could provide a more frictionless route for accessing the market. As the findings from interviews demonstrate (see pages 77-78), incoherency towards traditional trading in China was identified as a prominent issue. These findings can be reflected to Williamson's (1985) transaction cost theory and Dunning's (1980, 11) explanation about market imperfections. Therefore, it can be argued that transaction costs could arise more likely when the foreign company is using traditional market entry modes in the context of China's cross-border e-commerce market.

It appears to be evident that when using the traditional market entry for accessing China's online retail market, the associated transaction costs occur from the more complicated value chain, causing additional friction between the buyer and seller. Findings from interviewees (see page 77-78) suggest that the additional costs are induced by several actors who are participating in the traditional value chain. Lee, Wang & Wang (2017, 4-5) stated that, when using CBEC pathway, the information costs, negotiation costs, and middlemen related costs are reduced since the Internet technology provides more convenient ways to sellers and buyers to engage during trading. Also, findings from the documentary analysis (see page 62) suggested that CBEC can lower the associated costs due to the import tax exemptions.

According to The Netherlands Consulate-General Shanghai (2017, 12), when using a legal entity for importing products into China, the legal entity is obliged to pay all the related taxes and therefore Chinese trade agents can demand higher commissions fees from the overseas company.

Findings from the interviewees (see page 77-78) also indicated that the traditional retailing distribution network in China was associated with uncertainty and incoherent features mainly because of the unreliable practices from the Chinese importers. This uncertainty issue can be reflected to Williamson's (1985) transaction cost theory and Koopmans (1957, cited in Williamson, 1985, 57) definition of the secondary type of uncertainty. According to Koopmans (1957, cited in Williamson, 1985, 57), secondary uncertainty arises from a lack of understanding actions of other decision makers. It is also possible that search and contracting costs may become lower when using cross-border e-commerce as a market entry mode. Results from the interviews suggested that (see page 78) due to the unfamiliar market and inadequate business networks of some of the smaller Finnish retail operators, using traditional entry modes was perceived with more uncertainty. Based on the previous literature, the advantages of Internet technology in cross-border e-commerce reduces the information costs for both buyers and sellers, meaning that the searching of information becomes more convenient (Wang, Chai & Liu 2015, cited in Lee, Wang & Wang 2017, 4). According to Hollensen (2011, 78-79), search costs emerge when there is a need for searching new information, identifying the right type of intermediaries and getting knowledge from unknown foreign markets whereas contracting costs are associated with the agreements between the seller and buyer.

Another advantage of CBEC appears to be transparency when perceiving consumer and sales data, although some of the interviewee participants mentioned (see page 78) that not all CBEC platforms provide access for the e-commerce data. But when the foreign company is allowed for accessing the sales and consumer data, it could provide an effective way to optimize and monitor the performance of CBEC trading. In contrast, when using traditional exporting market entry modes, the degree of control over downstream functions may be substantially lower, causing disadvantages for the foreign company. As the findings indicated (see page 78), the traditional retailing network appeared to be incoherent from the Finnish retailers' perspective. Therefore, it may be difficult to identify a suitable and trustworthy Chinese trading agent who sells the imported product accordingly to the right buyers. On the other hand, using a traditional pathway via a hierarchical-based market entry mode could provide a higher degree of control over the value chain, but it may increase the

amount of risks from the foreign companies' perspective. In the literature section, the disadvantages of using hierarchical entry modes were reviewed by Hollensen (2011, 386-398), who explained that establishing overseas subsidiaries requires high investments and reduces flexibility. Hill, Udayasankar, & Wee (2012, 526-529) also stated that when the company is pursuing to execute cross-border acquisition from a foreign country which is characterized by unknown factors with regard to cultural and business-related practices, the risks and expenditures related to the acquisition could lead eventually to failure of the investment.

3. What are the main challenges of using CBEC model when entering Chinese e-commerce market?

The objective of the third research question was to provide relevant insights of the associated challenges and risks of China's CBEC market. Although cross-border e-commerce as a market entry mode has advantages in terms of cost-efficiency and reduced risks compared to traditional entry modes, there are still major challenges which should be taken into consideration from the foreign companies' perspective. According to the findings from interviews (see page 79), the main challenges of cross-border e-commerce in China was related to the intense competition in the market and difficulties for building market presence. It appears that the cross-border e-commerce market is highly saturated by numerous existing foreign companies which are competing for reaching Chinese consumers attention. This challenge was particularly pronounced from the marketing point of view which requires a large amount of investments in order to achieve presence in the market. Findings from previous research sources (see page 73) indicated that the highly competitive market was identified as the biggest challenge among international retailers in China (Frost & Sullivan & Azoya Consulting 2018, 16). Chiericozzi's (2016, 129) study also demonstrated that penetrating into the Chinese market is challenging because of the intense competition and developing market presence requires high investments, particularly in the early stage. In the literature, Hollensen (2011, 325) stated that, when the market is characterized with high competition, it is preferable that foreign company adopt a market entry mode which does not require heavy investments and commitment when entering the new market.

Secondly, it appears that the China's e-commerce and marketing landscape was recognized as relatively unknown from the foreign retailers' perspective. For instance, findings from the interviewees (see page 79) indicated that the way how the brand presence should be established in China's e-commerce environment seemed to be unfamiliar for

many Finnish retail operators. This was pronounced particularly when comparing the way how the multichannel marketing strategies are implemented in China's e-commerce environment compared retailers own domestic market. Findings from the previous surveys (see page 73) also imply that confusing regulation was one of the main challenges faced by international retailers in China's CBEC market (Frost & Sullivan & Azoya Consulting 2018, 16). As the CBEC market has been developing rapidly in China, the industry has been affected by fast-changing regulations and practices (Asia Briefing Ltd & Dezan Shira & Associates 2018, 6-8). This could partially explain the reason why foreign companies are confused about the rules and regulations of the CBEC market. Chiericozzi (2016, 129-130) also highlighted that the Chinese market is associated with dynamic and unpredictable characteristics from foreign companies' perspective, requiring an in-depth market research before entering the market. In the literature, this challenge can be also reflected to the distant sociocultural factors between the home and host country, causing uncertainty for foreign companies. As Root (cited in Agarwal & Ramaswami 1992, 6) stated, it is possible that differences in government policies may induce challenges for foreign companies. Therefore, when the sociocultural distance is prominent, it is preferable to choose a non-investment mode as a foreign market entry strategy (Agarwal & Ramaswami 1992, 6; Hollensen 2011, 324). Giuffrida et al. (2017, 773) emphasized also that the impact of local regulations should be taken into account in China when adopting CBEC model as it could require a greater local adaptation for the foreign company.

Additional challenges arise also when the foreign company is deciding on a suitable CBEC platform for selling its products. In general, there are two alternatives for the foreign company, either using a standalone e-commerce website or using an e-commerce marketplace. In the findings section (see page 71), the main advantages and disadvantages of these main business models were summarized which indicates that there are significant differences between the two approaches. Based on the findings, it is evident that using a standalone e-commerce website is the least preferable option in terms of achieving a substantial amount of sales volume. It appears that a standalone e-commerce website is preferred mainly as a channel for building own brand image and achieving greater control when analyzing consumer data. Therefore, in order to achieve greater sales volume, it may be inevitable to choose an appropriate CBEC marketplace as the main sales channel.

For identifying the right type of CBEC platform, the foreign company needs to initially consider which platform is suitable for selling its products. Some of the platforms specialize for specific product categories which could provide more preferable selling options for

certain types of product categories. Secondly, as it was evident from the findings, (see pages 71 & 79-80), the degree of transparency and control varies in different types of platforms. According to Asia Briefing Ltd & Dezan Shira & Associates (2018, 9-10), some of the CBEC platforms operates as a centralized B2C marketplace, providing foreign companies a direct access for reaching Chinese consumers and greater control over the online store operations. Platforms which are based on B2B2C intermediary model allows the foreign company to reach consumers indirectly as the platform buys the products from overseas brands and sells to consumers. Therefore, it is important to take into account potential transparency issues between these two business models as well as how much control the foreign company can have when managing its own brand and online store. Also, some of the flagship platforms, such as Tmall Global and JD.com requires a relatively high commitment from overseas companies compared to smaller platforms. Based on the findings from the interviewees (see page 80-81) it seems that the biggest e-commerce platforms require a substantial amount of investments and greater commitment due to more rigorous policies. Furthermore, it appears that the platform provider requires foreign company to be highly responsive and react rapidly to potential changes in the market which could cause additional expenses and friction. According to Williamson's (1985, cited in Hollensen 2011, 78) transaction cost theory, when the friction between buyer and seller becomes higher than costs of controlling via the hierarchical system, then the firm should focus on internalizing its operations.

When the foreign company is willing to achieve greater control and minimizing potential friction from the e-commerce platform provider, it is possible to establish a standalone e-commerce website which is hosted outside China and without a legal entity. However, based on the findings (see pages 71 & 79-80) the disadvantage of this approach is that it can be extremely difficult to achieve web traffic and eventually a significant amount of sales volume. Also, the challenges related to market adaptation and offering localized services for Chinese consumers can be difficult when the foreign company is lacking experience and knowledge about the local market. Because of this, the foreign company may be required to use third-party service providers (TPs) for outsourcing related services. As some of the interviewees responded, (see page 81) the more localized services the company is willing to provide, the higher the tendency becomes towards using outsourcing services. Another similar research (Chiericozzi 2016, 140-143) finding suggested that the role of Chinese third-party service providers appeared to be an essential requirement for international brands due to the significant differences between Western and Chinese markets. Therefore, foreign companies which are willing to enter the Chinese e-commerce market should be

prepared to establish a cooperation agreement with the right type of third-party service provider which could support the entry process.

The following table 12 summarizes the previously presented findings of the study.

Table 12. Summary of the key findings

Research question	Conclusion
1. What are the main influencing factors that facilitate foreign companies' entry into China via CBEC model?	<p>Easier access to China's e-commerce market</p> <p>Chinese consumers demand for high-quality overseas brands (Product differentiation advantage)</p> <p>Market potential</p>
2. What are the main advantages of using CBEC model compared to using traditional market entry modes?	<p>No need for a legal entity in China</p> <p>Less commitment</p> <p>Shorter value chain since fewer intermediaries are needed</p> <p>Information costs and negotiation costs are reduced</p> <p>Higher control and transparency (compared to traditional export modes)</p>
3. What are the main challenges of using CBEC model when entering Chinese e-commerce market?	<p>Intensive competition</p> <p>Difficult to achieve a market presence</p> <p>Requires high investments at the early stage</p> <p>Rapidly evolving market and changing regulations</p>

6 CONCLUSIONS

This thesis aimed to disclose the opportunities related to cross-border e-commerce in China by analyzing the recent development of the Chinese e-commerce sector which has enabled foreign companies' new possibilities to enter the Chinese e-commerce market. The main research theme focused on identifying the key factors that facilitate foreign retail companies' entry into China by using cross-border e-commerce model. This phenomenon was reflected by the previous internationalization theories and traditional market entry modes, providing more insights for the extant research gap. For providing empirical insights of the research context, the investigated phenomenon was analyzed from Finnish grocery retail operators' perspective who were entering into food e-commerce market in China. To conclude this study, the following sections of this chapter describes the theoretical and managerial implications of the study. Lastly, the limitations of this thesis are discussed, and further research suggestions are presented.

6.1 Theoretical implications

Based on the previous scientific research publications, the factors influencing the foreign entry mode choices between CBEC model and traditional market entry modes with regard to the transaction cost approach, are seemingly not present. The purpose of this research study was to investigate this phenomenon in more detail and contribute new insights to future research purposes. However, the significance of implications for the scientific field is still quite limited because the extent of the study findings is derived from a specific single-case phenomenon and generalizability of the results is inadequate due to the nature of the study.

The outcome of the study findings supports to some extent other previous findings when analyzing the advantages and disadvantages of CBEC as a market entry mode. Also, this study can provide relevant theoretical insights in similar missing research areas which were identified by Giuffrida et al. (2017). However, the lack of previous scientific findings in identifying the advantages of CBEC business model in comparison to traditional internationalization models appears to be deficient to the extent of the author's knowledge. That said, the previous research studies related to choosing the market entry modes in the Chinese market has been examined usually from the traditional market entry perspective.

This research contributes to expanding the previous existing internationalization perspectives and market entry pathways for reaching China.

6.2 Managerial implications

From a foreign companies' perspective, this thesis can provide relevant insights from China's cross-border e-commerce market and practices related to planning the market entry via CBEC model. As it was evident from the findings, foreign companies were often lacking practical knowledge on how to operate in the unfamiliar e-commerce market. Also, the dynamic and rapidly evolving e-commerce sector can induce challenges for the foreign company if it is not considering implementing profound market research before market entry. Based on the findings, cross-border e-commerce can be an attractive option from the foreign companies' point of view but without taking into account the associated risks and challenges, the market entry can be challenging.

Companies which are aiming to expand outside of their domestic market, cross-border e-commerce can provide a convenient pathway to reach international markets. Although this thesis was conducted in a context of Finnish food retailing operators entering the market, findings of this study could still be applied to some other industry sectors as well. Companies which are operating in the field of cosmetics, healthcare, consumer apparel, and electronics could be interested to gain relevant insights of the opportunities as these product types are in high demand in China's CBEC market and are often associated with similar product differentiation advantages from the Chinese consumers' point of view.

Since access to China's e-commerce market was streamlined by new trading regulations, foreign companies can implement market entry activities with less commitment. When the foreign company is planning to use the CBEC model for market entry into China, it can be an effective way to test its products on the market. Furthermore, the CBEC model can also be used as an initial step for building a market presence in the market. Later, the company could start to internalize further in order to achieve greater control over its business operations and launch its own business facilities and standalone e-commerce platforms in the market.

6.3 Limitations and further research

As this thesis is based on a single-case study method, the scientific generalizability of the findings to a broader perspective is inadequate. According to Yin (2009, 15) case studies are more oriented to expand and generalize theories instead of generalizing statistical results. Also, using a multiple-case study method could have provided advantages for analyzing the phenomenon more extensively. As Yin (2009, 61) mentioned, when using a multiple-case case study method it is possible to replicate the findings and provide stronger analytical conclusions.

Another concerning limitation is that most of the primary data were collected mainly from a Finnish food retailers' perspective. The primary data could have been gathered more extensively from other international companies which are operating in different fields in order to acquire their own insights and experiences from China's cross-border e-commerce market. Also, from a managerial point of view, this study could have benefited if the primary data collection was gathered from companies which had operated in the cross-border e-commerce market for a longer period.

Findings from longitudinal research studies may also lead to different analytical outcomes compared to this study due to the rapidly evolving e-commerce market and changing regulations. As the cross-border e-commerce is increasing its role in China's import trading, the role of traditional international trading has been diminishing. However, according to Asia Briefing Ltd & Dezan Shira & Associates (2018, 7), it is likely that the trend towards more regulated cross-border e-commerce model is emerging as the Chinese authorities are planning to adjust the regulatory fairness between CBEC and traditional import modes.

Other suggestions for future research would be to focus on analyzing the integration of e-commerce and online marketing strategies. The findings indicated that the role of Chinese digital marketing channels is an important element along with e-commerce platforms. Therefore, the future research in the context of B2C cross-border e-commerce could be expanded to lead generation strategies, implementing multichannel marketing strategies in China's digital marketing landscape and investigating the role of China's online advertising platforms for increasing online sales volume.

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APPENDICES

Appendix 1: Invitation letter to participate in research



Invitation to participate in research about China's cross-border e-commerce market opportunities

Dear,

You are invited to participate in a study about China's cross-border e-commerce market opportunities from the western company's perspective. This research is related to my master's thesis which purpose is to identify the key drivers of cross-border e-commerce market from the foreign companies' perspective. Secondly, the aim is to identify the key factors influencing the market entry strategy when entering the Chinese e-commerce market. In addition, the purpose is to provide relevant insights from cross-border e-commerce business model and analyses of the associated risks of China's e-commerce market.

The interview will be conducted with open-ended questions. If you accept to participate in the study, the interview can be conducted via Skype or telephone.

Please note that all the answers will be handled confidentially. You will not be identified by name when information is analyzed or in any findings that come from the study.

Thanks in advance!

Sincerely,

Toni Markus Kukkonen

M.Sc. Student at Lappeenranta University of Technology

Appendix 2: Interview questions

1. What kind of products are you selling through cross-border e-commerce in China?
2. Does your company have any previous business experience operating in China?
3. From your perspective, what are the main influencing factors that facilitate foreign companies' entry into China via cross-border e-commerce model?
4. What are the main advantages of using cross-border e-commerce model compared to using traditional market entry modes?
5. Based on your knowledge and experience, what are the main challenges and risks of using CBEC model when entering Chinese e-commerce market?
6. How easy was it to establish a cooperation with a cross-border e-commerce platform to open an online store in China?
7. What type of cross-border e-commerce platforms are you currently using in China?
8. Will online platforms be the primary distribution channels for you in China?
9. Do you use cross-border e-commerce third-party agents (Tmall Partners)? If yes, please explain why and for what purpose?