International Review of Entrepreneurship, Article #1653, 19(2): pp. 273-280.
© 2021, Senate Hall Academic Publishing.

Entry Strategies into China: A Case Study of Three Benelux Technology Firms

Ying Zhang[1], Binglun Ma and Tao Yue
Rotterdam School of Management, Erasmus University Rotterdam, The Netherlands

Abstract. In this case study, three technology-based companies from the Benelux area are introduced, with different sizes, ages, and backgrounds (Philips, SMS-Timing, and Trebu Technology). The companies have used different entry strategies into the Chinese market, ranging from exporting goods and services to setting up joint ventures with Chinese partner firms and setting up wholly-owned subsidiaries in China. The case study presents the experiences of the three companies with these different modes of internationalisation in the Chinese market. Advantages and disadvantages of each mode are discussed in light of the different characteristics of the three companies. The purpose of the case is to improve understanding of doing business on the Chinese market. This case can be widely used for MBA and undergraduate students in the studies of international strategy, entrepreneurship, and cultural management.

Keywords: China, internationalisation strategies.

Acknowledgement: We are grateful to André van Stel for his comments and support.

1. Introduction

In the eyes of Western investors, China, as that famous Chinese term *jiyu* indicates, is full of opportunities as well as challenges (Anglès, 2019). As a (Western) large company, as an SME, or as a start-up, entering the Chinese market is far from straightforward, and not comparable to entering other foreign markets. This is mainly due to cultural and institutional differences (Zhang, 2013). Dealing with China and the Chinese market requires not only expertise, experience, and luck, but also a certain intelligence and strength to deal with the culture and day-to-day geo-political environment. So how should Western firms proceed if they want to enter the Chinese market? In this case study, we tell you three different stories of three technology firms from the Benelux countries[2] that decided to do business in China but used different modes of internationalisation.[3]

As one of the world's largest markets for goods and services and one with fast growing consumer purchasing power, China offers great opportunities for international companies to expand and grow. As an illustration, China recently

1. Corresponding author: Dr. Ying Zhang, Rotterdam School of Management, Erasmus University Rotterdam, The Netherlands. Email: dr.yingzhang@outlook.com or y.zhang@rsm.nl
2. The Benelux countries are Belgium, the Netherlands and Luxembourg.

© 2021, Senate Hall Academic Publishing. All Rights Reserved

overtook the United States in terms of new foreign direct investment (BBC, 2021). Moreover, China also invests in overseas infrastructure and development projects at a rapid pace as part of its 'Belt and Road' Initiative (BRI) (Silver et al., 2019). The BRI was proposed by President Xi Jinping in 2013, although Chinese companies already started to invest abroad in the preceding decade as well, including in Europe (Zhang and Filippov, 2009). The BRI, referring to the new silk road, is one of the most ambitious infrastructure initiatives in connecting China, Asia, and Europe, providing further support and incentives for international companies to enhance cooperation with China and with Chinese partners outside of China. Since China's economic reform from the 1980s, the openness and liberality of the market has attracted enormous foreign investment and collaboration. Nevertheless, many foreign firms still struggle to understand how to do business and how to survive in China.

The present case study covers the experiences of three Benelux firms – Philips, SMS-Timing, and Trebu Technology – of doing business on the Chinese market. Though they are all technology-focused firms with a similar geographic origin (Europe), they took divergent paths into China and their experiences with doing business in China were very different. The case covers the period up until 2018.

2. Philips

Philips N.V. (Philips), founded in 1891 in Eindhoven, the Netherlands, is a Dutch multinational conglomerate corporate, focusing on electronics engineering with more than 80,000 employees in 2020 and operations in over 75 countries (Philips, 2021). Philips was originally a family company founded by Gerard Philips and his father Frederik Philips, producing carbon-filament lamps and other electro-technical products. The firm's small size and its inability to raise money for investments almost brought it to the brim of bankruptcy (in 1895) until the situation became better with the participation of Anton Philips (the younger son of Frederik Philips) with a number of entrepreneurial ideas. In 1912, Philips became listed on the Amsterdam stock market, enhancing its financial strength and operating conditions.

Philips' history with China dates back to 1920. The Republic of China was established in 1911 as a result of the Xinhai revolution. Sun Yat-sen, the leader at the time proposed the "Three Principles of the People" which encouraged the development of industry, domestic capital, and business. He led the country to accept foreign investors to enter into the Chinese market. Nevertheless, the

3. The case of Philips is developed from secondary sources, including among other sources, annual reports and information on the website of Philips (www.philips.com). The cases of SMS-Timing and Trebu Technology have been developed while also using information from primary sources, i.e. semi-structured interviews with members of the management team.

overall development of China, especially the level of science and technology, was extremely laggard. For Philips, China was a country with a vast consumer market in which the lighting equipment could be easily introduced. Considering the unstable political and economic situation in China, Philips decided to solely focus on direct export, so that they could possibly stop exporting to China due to any shock (such as war) from China's economic-political crisis.

In the following decades, Philips developed rapidly in the international market. It set up eight research centers in Western Europe and the United States, which laid a strong foundation for product development and innovation. As the company grew, its ownership structure also changed. In 1971, Henk van Riemsdijk replaced Frits Philips to be the fifth CEO of the company, removing the family label of Philips. The internationalisation process of Philips was then accelerated with more direct investment instead of simple export.

In 1978 China announced the economic reform, which opened the door to foreign capital and prepared a platform for global business cooperation. Philips seized this opportunity and established its first joint venture (JV) in China in 1985 – Beijing Philips Co. Ltd. A few years later, Philips set up a wholly owned subsidiary in China. In the following years, Philips increased its direct investments and established more entities in various locations in China.

In the 1990s, Philips accelerated technological development and underwent changes in many fields. In the field of healthcare, the new people-centric approach made medical systems more efficient and improved patient service. In the field of data carriers, Philips partnered with SONY in 1997 to introduce the DVD – a groundbreaking innovation at the time. This was Philips' second time to partner with SONY. Their earlier collaboration in 1983 brought disks to the market – another landmark technological achievement.

Adopting the 'bringing-in and going-out' strategy in the 21st Century, China achieved rapid economic growth and provided a favourable environment for Philips' continuous expansion there. China became one of the most important foundations (next to its home country the Netherlands) for Philips in the realm of both manufacturing and R&D.[4] In 2018 Philips had more than 25 legal entities in China including both JVs and subsidiaries; the Chinese market was the second biggest market for Philips.

4. Some facts: China now accounts for 50 percent of Philips' employees in the Asia Pacific. There are over 180 cities with one million consumers in China for Philips. China makes up 20 percent of total global production for Philips. Philips' research in China focuses on breakthrough technologies development, aiming to make a difference to people's health and wellbeing across the healthcare continuum (Newscenter of Philips at philips.com, visited in 2018).

3. SMS-Timing

SMS-Timing N.V. is a Belgian small and medium-sized enterprise (SME) that develops innovative timing and booking software used to run a karting or entertainment facility. The software service in the go-karting industry is a combination of technology and daily life consumption. In this high-end niche industry, sales are highly dependent on the professional knowledge of the complex product and service. By 2017 the SMS-Timing team had launched four generations of software and offered services to clients all over the world. By the end of 2018, the company had 25 full-time employees and an annual revenue of €3.3 million.

SMS-Timing had been active in the Chinese market since 2014. Until 2017 export had been its only internationalisation mode. To maintain a stable export order, SMS-Timing segmented its products into five categories: hardware, software, installation (travel expense, start-up cost, etc.), consumables (membership cards, unlock codes, etc.) and services (briefing movie, delivery cost, etc.). Between 2014 and 2018, almost half of the revenues in China came from software and 30% from hardware. The revenue percentage of software was much higher in China than in other markets.

SMS-Timing flew salespeople to China to introduce not only the complex product but also the market to its distributors. It was challenging to teach a distributor with the language barrier. CEO Philippe Van Elst explained that selling go-karting service required a lot of efforts. “It's not like clothes or pens that are easy to be understood. In the go-karting software solution industry, the same problem exists everywhere in the world – not just in China.”

China, however, also had its uniqueness, according to Philippe Van Elst. First of all, Chinese clients preferred buying software to renting it. This consumption habit made it difficult for SMS-Timing to sell SaaS (Software-as-a-Service) – a business mode that involves monthly payment for service – to its Chinese customers. Due to the specialty of the go-karting industry, the software used there had many unique features and needed constant updates. But Chinese customers were price sensitive and prone to think of software as a one-time investment. About 90% of the karting tracks in China were low-cost and low-investment ones.

Because of this buying-the-cheapest mindset, SMS-Timing’s customer base in China was unstable. In 2015 SMS-Timing’s sales dropped to the bottom. The lack of local sales representation and the increase of the customer demands resulted in a downward trend. At the same time, the Chinese online payment market was dominated by major domestic firms such as Alipay, Tenpay (WeChat Pay) and China UnionPay. Consumers hardly chose international payment systems, which made it difficult for a global exporter.

Being a small-sized foreign player in the Chinese market, SMS-Timing faced many other obstacles too. CEO Mr. Van Elst felt that building trust with Chinese

partners was a major challenge. According to him, Chinese partners often did not care too much about relations. Chinese companies were more familiar with local laws and regulations that were less strict with local firms than with foreign ones. As a result, Chinese companies could sign a contract without executing it.

SMS-Timing also lacked the support of the Chinese market (such as reliable distributors) because it was smaller than many local competitors. Limited capital was another challenge. For a small firm, building alliances to raise capital and share risk was a common strategy. However, it was rather difficult for SMS-Timing to find qualified agents in China. Without reliable local alliances, SMS-Timing relied on internal salespeople, or "ambassadors", to promote its products and build its brand image. Such approach was costly, money- as well as time-wise.

In 2017, a private investment company bought 50% of SMS-Timing's shares. The following year SMS-Timing experienced a revenue boom after acquiring two new customers and four existing customers renewing their contracts. It seemed the right moment for SMS-Timing to increase investment in China. But Mr. Van Elst preferred going ahead steadily with necessary backup if needed. He said that he would like to "wait for the right opportunities and partners" to make direct investments in China. "If we have a proper market, better product, a few more clients, there's going to be some decisions made [about investing in China]. But now, we are still waiting for the right chance."

4. Trebu Technology

Trebu Technology, a Dutch family-owned enterprise with 15 employees, had been manufacturing industrial components and hydraulic systems for more than 25 years in Europe. Hydraulic power units are essential parts applied in wind turbines and solar panels to increase the efficiency and accuracy in the operation of the power generators.

In 2007, Trebu entered the Chinese market because of a coincidence. Its biggest customer in the Netherlands sold a license to a Japanese company for a wind turbine. The Japanese company was sold to a company in Hunan, China. The Chinese company was looking for a supplier in Europe to ensure the completion of the first order of hydraulic units. Hence, Trebu exported its products to China.

The high rate of return in China's hydraulic industry made Trebu continue investing there. As the market developed, an export-only strategy could not meet the growing demands. Therefore, in 2009, Trebu established its JV in Beijing. Being a small company with limited capital, JV was a more feasible choice for Trebu than a wholly-owned subsidiary. However, due to management problems and a lack of technical patent security, the JV was shut down after only nine months. "Our partner did not want to do business with us. They only wanted to

buy our technology, copy it, and start their own business. So, after nine months, we stopped the collaboration," said Michel Ubert, sales manager of Trebu and son of the owner.

In 2014, Trebu established a second JV in China, which was unfortunately closed down again in 2017. Wind power plants in China were state-owned enterprises (SOEs) and the approval of procurement budgets in SOEs often had to go through complex processes and long cycles. The results of this were delays in payments – 20 million RMB in receivables severely affected Trebu's operations and led to the collapse of the JV. "High profit rate in China is hard to convert to assets in a short term," said Ubert. "The cost in Europe is about 7% but in China it is about 10% or 11% [...] In China, the profit for sure will be more. But on the other hand, you need a lot more cash flow. You need to wait much longer time for money to come in because of payment conditions."

According to Ubert, culture was the most challenging aspect of doing business in China. Trebu had incurred high communication cost in the process of adapting in China, which negatively affected the operation efficiency. The company tried various ways to solve miscommunication issues caused by language and cultural differences. For example, they tried to attract local employees with overseas background and professional experience to work at the key positions at Trebu. But this proved difficult. Eventually Trebu hired a general manager who could speak English. It worked to a degree, but the efficiency of communication still needed improvement.

Trebu had considered establishing a wholly-owned subsidiary in China to ensure full understanding of the market and complete control of the business. But there were more restrictions for wholly foreign owned companies in China than for JVs because the Chinese government wanted domestic enterprises to cooperate with foreign ones to gain international management experiences and advanced technologies. The profits of wholly foreign owned entities, for example, could not be transferred abroad in the first five years of the operation – a serious problem for a small company with limited capital like Trebu.

Considering strong market prospects in China, Trebu continued to search for investment opportunities there. A third JV was set up of which Trebu owned more than 80% of shares. Its structure resembled one of a JV; however, as the decision-making power was solely with Trebu it was more like a representative office or a subsidiary from a functional perspective. In the third JV, Trebu operated a more direct and straightforward business model to avoid miscommunication. The main business of the JV was aftersales for existing customers in China because some of the machines sold in 2007 were out of warranty and required repair or replacement. The business was simple and didn't need much control and training from Trebu's headquarters in the Netherlands. As the decision-making did not depend on communication, Trebu hoped that cultural differences would not negatively affect the operation.

Corporate governance issues however emerged in the JV. Due to a lack of control and insufficient monitoring, Trebu's business partner in China, in Ubert's own words, took advantage in the daily operation and decision-making process. "Although we have our person, she can't be everywhere or reach every client," Ubert said. "And she was not invited to the board meetings. As a result, you don't know what they (the Chinese shareholder) were speaking about."

In 2018 Trebu resorted to exporting again to expand its market in China. It worked closely with Chinese distributors to promote sales in an attempt to avoid challenges brought by cultural differences, corporate governance issues, legal restrictions, and unsatisfying payment conditions. Trebu kept the third JV with aftersales as its only primary business. The family Ubert was still the majority shareholder and the other two minority shareholders were employees in Trebu's last JV. "We trust them," Ubert said, adding that this was an essential reason for the JV to keep on operating in China. In the meantime, Trebu was trying to form alliances with other companies to become less vulnerable. "We are satisfied now. We can control, and we can earn money. Trebu will develop but still need time," Ubert said.

References:

Anglès, V. (2019), “Doing business in China: Challenges and opportunities”, *Global Business and Organizational Excellence*, 38(2), 54-63.

BBC (2021), “China takes new foreign investment top spot from US”, News item of 25 January 2021. https://www.bbc.com/news/business-55791634

Philips (2021), *Philips Annual Report 2020 - Innovating to Address Global Health Challenges*, Amsterdam: Koninklijke Philips N.V. www.philips.com/annualreport2020

Silver, L., Devlin, K. and Huang, C. (2019), *China’s Economic Growth Mostly Welcomed in Emerging Markets, but Neighbors Wary of Its Influence*, Report by Pew Research Center, December 2019. Washington, DC: Pew Research Center.

Zhang, Y. (2013), *Entrepreneurship Development in China: A Multilevel Approach*, PhD thesis, Eindhoven University of Technology (223 pages). Eindhoven: Eindhoven University of Technology. ISBN: 978-90-386-3326-8.

Zhang, Y. and Filippov, S. (2009), “Internationalization of Chinese firms in Europe”, UNU-MERIT Working Paper Series, #2009-041. Maastricht, the Netherlands: UNU-MERIT. http://collections.unu.edu/view/UNU:303#viewMetadata