

Kong Xianglin

A Chinese Company Entering into the Brazilian Market

Case company: SF Express

VAASAN AMMATTIKKORKEAKOULU
UNIVERSITY OF APPLIED SCIENCES

International Business

ABSTRACT

Title	A Chinese Company Entering into the Brazilian Market. Case company: SF Express
Author	Kong Xianglin
Year	2014
Language	English
Page	74 + 2 Appendices
Name of supervisor	Åsa Lillhannus

As more and more international contacts take place over the globe, it becomes a common trend that companies internationalise in different industries. Logistics and transportation industry is one of the most potential and fastest developing industries in the world in the process of internationalization. Many companies have established and expanded business to other countries.

This thesis chose a case company, SF Express, for studying its internationalisation to Brazil. SF Express is one of the leaders in the Chinese logistics market, holding 20% market share over the whole market. With a relatively stable business in China, SF Express started to expand its business overseas from 2006. Now it has business in most countries in Southeast Asia, or United States and Australia.

Brazilian market is an important composition to the whole world, being the largest market in Latin America. SF Express must have access to Brazil if it wants to enter into Latin America. Based on two interviews with two executives at SF Express, as well as other information collected this thesis evaluated the situation and probability by SWOT analysis of SF Express's entry to Brazil.

Through the research this study made assessment of the situation of the case company by analysing its strengths, weaknesses, opportunities and threats. As a result suggestions concerning entry modes and market positioning to the company were presented.

Key words: Internationalization, Chinese logistics company, Brazilian market

VAASAN AMMATTIKORKEAKOULU

Koulutusohjelman nimi

TIIVISTELMÄ

Opinnäytteen nimi	Kiinalaisen yrityksen pääsy Brasilian Case: SF Express
Tekijä	Kong Xianglin
Vuosi	2014
Kieli	Englanti
Sivumäärä	74 + 2 liitettä
Ohjaaja	Åsa Lillhannus

Kansainvälisten kontaktien yleistyessä on yleinen trendi, että yrityksetkin kansainvälistyvät eri toimialoilla. Logistiikka ja liikenneteollisuus on yksi potentiaalisin ja nopeimmin kehittyvä teollisuudenala kansainvälistyessä maailmassa. Monia yrityksiä on perustettu ja ne aikovat myös laajentaa liiketoimintaansa muihin maihin.

Tämä opinnäytteen case-yritys on SF Express. Tutkin sen kansainvälistymisprosessia ja etabloitumista Brasiliaan. SF Express on yksi johtavista Kiinan logistiikan markkinoilla, ja sillä on 20 % markkinaosuus koko markkinoilla. Sillä on suhteellisen vakaa liiketoiminta Kiinassa, SF Express alkoi kasvattaa liiketoimintaansa ulkomaille vuodesta 2006. Nyt sillä on liiketoimintaa useimmissa maissa Kaakkois-Aasiassa, Yhdysvalloissa ja Australiassa.

Brasilian markkinoilla on tärkeä rooli koko maailmassa, sillä on suurin markkina-alue Latinalaisessa Amerikassa. SF Expressin on päästävä Brasiliaan, jos se haluaa tehdä Latinalaisessa Amerikassa liiketoimintaa. Tutkimus perustuu kahteen haastatteluun, jossa on haastateltu kahta avainhenkilöä SF Expressiltä. Myöskin tietoja on kerätty, työssä arvioitiin SWOT-analyysillä tilannetta ja todennäköisyyttä, miten SF Express voi etabloitua Brasiliaan.

Kautta tutkimus, tässä tutkimuksessa tehty arviointitilanteenkohdeyrityksen analysoimalla sen vahvuuksia, heikkouksia, mahdollisuuksia ja uhkia. Tämän seurauksena ehdotuksia syöttömoodeja ja markkina-asemaan yhtiölle on esitetty.

Asiasanat: Internationalization, Kiinan logistiikkayritys, Brasilian markkinoilla

Contents

1. Introduction.....	7
1.1 Background of the study	7
1.2 Study objectives and questions	8
1.3 Study limitations	9
1.4 Thesis structure	10
2 Theoretical foundations	11
2.1 Internationalization	11
2.1.1 Definition of Internationalization	11
2.1.2 Triggers of internationalization.....	12
2.1.3 Approaches to internationalisation/ internatioanlisaiton models.....	14
Uppsala internationalization model	14
Network approach to internationalization.....	16
2.2 SWOT Analysis	18
2.2.1 Origin and definition.....	18
2.2.2 The usage of SWOT Analysis.....	20
2.3 Entry mode.....	21
2.3.1 Country/ Market Selection	21
2.3.2 Entry Mode Choice	22
2.3.3 Choosing entry mode for service firms.....	26
3 Introduction to the case company—SF Express	30
3.1 History of SF Express	30
3.2 Development of SF Express.....	32
3.2.1 Technology-oriented mode	32
3.2.2 Network and business mode	33
3.2.3 Positioning and strategy	34
3.3 Products of SF Express	34
3.3.1 Services and products in China.....	35
3.3.2 Services overseas	37
4 The Logistics Market in Brazil	39
4.1 General situation of logistics market in Brazil	39
4.1.1 Geographical Economy.....	39
4.1.2 Infrastructure and problems	40
4.1.3 Logistics service areas	41
4.2 Competitors in the market.....	42
4.3 Summary of the logistics market in Brazil	44
5 Research Methodology	45
5.1 Research Methods.....	45
5.2 Research Implementation.....	46
5.3 Reliability and Validity.....	48
6 Empirical Findings.....	50

6.1 Implementing of the interviews	50
6.2 Data collection and analysis.....	50
6.2.1 The reason for going internationalization	50
6.2.2 Internationalization strategy.....	52
6.2.3 Process of decision-making	53
6.2.4 The relationship network	54
6.2.5 Opinions to Brazilian market	55
6.2.6 Situation of capital and funds	57
6.2.7 Summary of interviews	58
6.3 SWOT Analysis	59
6.3.1 Analysis.....	59
6.3.2 Discussion	63
7 Conclusion	66
7.1 Answers to research problems	66
7.2 Suggestions	67
Reference	69
Appendix 1	75
Appendix 2.....	76

LIST OF FIGURES AND TABLES

Figure 1.1 Outline of the study.....	10
Table 2.1 Motives to internationalize by Lommelen	13
Figure 2.1 Four situations in Network approach to internationalization.....	18
Table 2.2 Advantages and Disadvantages of Entry Modes.....	26
Figure 2.2 The choice of entry mode for service firms.....	27
Figure 3.1 Services of SF Express in China.....	35
Figure 3.2 Delivery services of SF Express overseas.....	38
Graph 4.1 Major and center cities in Brazil	42
Figure 5.1 Research Process.....	47
Figure 6.1 SWOT Analysis of SF Express entering into the Brazilian market.....	60

1. INTRODUCTION

This chapter is the first part of the thesis. In this chapter, basic information will be briefly introduced, which consists of background of the study, study objective and questions, limitations and the layout of thesis structure. At first, background of Chinese logistics industry will be discussed. Secondly, the study objective and questions propose the research purpose regarding to the case company. Thirdly, limitations of this study will be stated. Finally, basic structure of this study will be listed in the fourth part of this chapter.

1.1 Background of the study

With economy rapidly increasing China has been well known for its considerable industrial potential and market potential. Particularly the transportation and logistics industry is one of the most attractive industries, experiencing robust growth. Gradually completed policy, improved infrastructure and rising domestic consumption make transportation and logistics development thrive more than ever.

In this context many logistics companies have started their business operations and gained impressive success. Besides, some logistics giants in the world have also expanded their business operations to China. Along with the market development, some indigenous companies have occupied parts of the market and have much earned profit and they have started to think about internationalization. The case company in this study, SF Express, is one of these companies; or, SF Express is the most outstanding company of which domestic companies want to expand their business abroad from China.

Although SF Express is well-known in China, the internationalization process is it just starting. Now the basic internationalizing concentration of SF Express is in Southeastern Asia, including Taiwan and Thailand, and parts of the United States. As for such a big logistics company, it is feasible to go abroad with strong finance support.

In other words, SF Express could have the ability to expand broader in the world, such as Latin America.

Specifically, as one of the fastest growing economies, Brazil is a potential market where mixed between challenges and opportunities in Latin America. With a Gross Domestic Product (GDP) of US\$ 2.253 trillion and the GDP growth of 7.5% in 2012, Brazil has become the world's seventh wealthiest economy. It is also the largest country in area and population in Latin America and the Caribbean. (World Bank)

Hence, exploring in Brazil might be a good choice for the internationalization of SF Express. Moreover, it is worth researching on the internationalization path of SF Express, a representative logistics company in China.

1.2 Study objectives and questions

This study aims to examine the current situation of the case company, SF Express, and make investigation and estimation whether it is a good choice for the company to expand its business in Brazil, based on the internationalization theories; and which entry mode the company could choose.

Thus, the research problem of this thesis is: Is it possible for the case company to enter into the Brazilian market? If so, what entry mode it would choose?

Although internationalization is a good strategy for a company enlarging its business map, it is deliberate work which depends on the coordinating of business tactics, finance, human resource etc.—it is not an easy task to internationalize. Verdin and Van Heck (2001) propose three essential questions about internationalization as a foundation for such an exercise:

- (1) Why? Specifying the benefits.
- (2) What? Designing organisational modes and blueprints.

(3) How? Managing the process.

In order to evaluate the internationalization to Brazil of the case company, this study raises questions that should be solved:

- What is the current situation of this company?
- What is the market background in Brazil?
- What is the primary strategy of this company's development?

At first, the interviews with executives in SF Express will be held, for gaining deeper information on the company. Also, the development information of logistics industry in Brazil is collected and discussed. Based on the interviews and other sources of information, a SWOT analysis of the company will be conducted. Finally, the study will give a constructive suggestion to expanding business into Brazil for the case company, SF Express.

1.3 Study limitations

Any study is limited in certain aspects, so is this study. There are three limitations in this study.

The first one is about the study methodology—qualitative method. In this thesis, an interview will be held with an executive of the case company, SF Express, to collect information on the corporation strategy. In addition, some basic operating statistics can be collected through the interview. However, interviewing with open-ended questions only through one executive in the company is somehow limited.

The second limitation is that the case company is a logistics SME company. Firstly, because of the limitation of the logistics industry, the internationalization process of the case company cannot be a representative case for the study of a typical internationalization process. Secondly, the internationalization process of an SME

company is restrained by the size of company, which is related to capital, labor, marketing strategy etc.—it is not comparable with big MNEs.

The third limitation is the specific country limitation. Because this study is researched based on a specific country, Brazil, the barriers encountered in the way of expanding business are not represented.

1.4 Thesis structure

This thesis is mainly divided into six chapters. This chapter is the first chapter, explaining the study background, study objective and limitations. Next chapter shows theoretical foundation of the whole study, including the theories regarding to internationalization, SWOT analysis and marketing strategy. The third chapter introduces the leading role in this study, the case company; also, some background information of logistics industry in China and the target country is provided. Then brief methodology introduction will be stated. And next comes to the very crucial part of this thesis, empirical study, showing how the study processing and what the result comes out. Finally, conclusion of the study will be summarized.

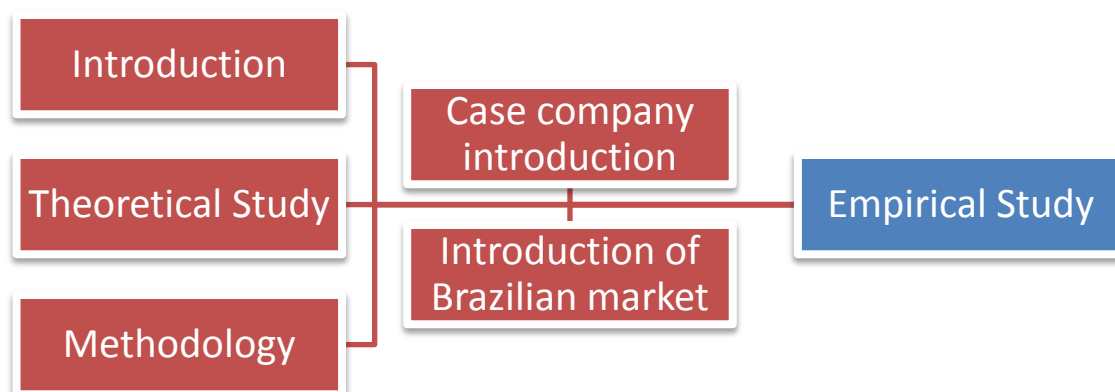


Figure 1.1 Outline of the study

2. THEORETICAL FOUNDATIONS

In this chapter the related theories and explanations will be examined. These theories are results and findings of others' researches, and they are of value to this study, concerning internationalization, factors/ triggers influencing internationalization, SWOT analysis and marketing strategy.

2.1 Internationalization

2.1.1 Definition of Internationalization

Initially the English writer J. Bentham first used the term "international" around 1780. The word "international" could be derived from Latin: "inter" refers to "between", and "nationalization" means "nation" (Stier, 2002).

Gjellerup (2000) proposed that internationalization can be equivalent to the fact that economic activities expand geographically, crossing a national country's border.

As a widely used concept, internationalization has no regulated or written definition. Scholars tend to have their own understandings, depended on their research areas and aspects. Johanson and Wiedersheim-Paul (1975), who are supporters of Uppsala Internationalization Model, suggested that internationalization is the process with an attitude of the firm towards foreign activities or with the actual carrying out of activities abroad, and it is also the result of a series of incremental decisions. The founder of Uppsala Internationalization Model, Johanson and Vahlne (1977), viewed internationalization is best understood in terms of the psychic distance, depending on managers' cognition between the home and host markets. Some scholars focus on the internationalisation process applying into a firm's operation abroad, and described internationalization as a process of increasing involvement in international operation and, at the same time, adapting it to international environments (Welch and Luostarinen, 1993; Johanson and Mattson, 1993; Calof and Beamish, 1995). And this

process has been well understood as incremental as well as gradual, which consists of some stages.

A few researchers focus on networks and relationships in internationalization. Johanson and Mattsson (1993) regarded internationalization as a “cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm”. Furthermore, Johanson and Vahlne (1990) had a rather promising idea of internationalization with defining it as “developing networks of business relationships in other countries through extension, penetration and integration”—that is, the networks and relationships of firms are enlarging and improving through business expansion around the countries, and that represents key essence of internationalization.

Additionally, some authors hold a differed perspective of internationalization. With referring to resource-based approach to internationalization, Ahokangas (1998) defined internationalization as a flowing and accumulating process, built up a resource basis, for firms to conduct other international activities.

2.1.2 Triggers of internationalization

Many firms, including small and medium size enterprises (SMEs) and multinational enterprises (MNEs), intend to go abroad for reasons. Then why internationalize?

Bartlett and Ghoshal (2000) concluded two main motivations affecting internationalization: traditional motivations and emerging motivations. Among traditional motivations it is said that the need to guarantee essential supplies, such as minerals, energy and scarce material resources, are the very crucial factors to drive companies to invest in other countries in the earlier time. The other important trigger of internationalization was usually described as market seeking behavior, which is relatively strong when companies have specific advantages, such as high technological and great brand recognition, which make them confident among competition. Also,

awareness of lowering cost of production was another traditional trigger of internationalization.

When it comes to the emerging motivations, Bartlett and Ghoshal (2000) described them influencing by a set of economic, technological, and social developments. The emerging motivations of companies facilitated internationalization and made them essential to the survivals.

Generally, as many know, the main purpose for firms to internationalize is to “make more profit”. However, as Lommelen (2004) said, there is always a combination of factors that affects the internationalization decision. The theories of Hollensen (2001), Bartlett and Ghoshal (2000), and Jeannet and Hennessey (1998), Lommelen (2004) have raised an idea about motives to internationalize of service providers. He illustrated with two classified motives: proactive motives and reactive motives (table 2.1). Proactive motives refer to the positive factors which affect the services companies to internationalize—that is, the spontaneous motives that “pull” the companies to internationalize; on the other hand, reactive motives are somehow negative factors that force the companies to go abroad under the circumstances of pressure.

Proactive motives	Reactive motives
Economies of scale/ Access to low-cost factors	Competitive pressures (domestic or foreign)
Foreign market opportunities/ market information	Domestic market: small and/ or saturated
Managerial urge	Export market incentives
Profit and growth goals	Extend sales of seasonal products
Secure key supplies	Following customers
Tax benefits	Overproduction/ excess capacity
Technology competence/ unique product	Proximity to international customers/ psychological distance
	Unsolicited foreign orders

Table 2.1 Motives to internationalize by Lommelen

Source: Lommelen (2004)

2.1.3 Approaches to internationalisation/ internationalization models

Uppsala internationalization model

In 1977, Johanson and Vahlne proposed a widespread internationalization model—Uppsala internationalization model, one of the best known internationalization models in the world.

The Uppsala internationalization model states that firms go abroad through incremental steps, increased their international involvement slowly in the operating foreign markets. The model implies that some specific knowledge of target markets—“psychic distance”, which drives the internationalization process, determines the selection of entry-mode and target market. This knowledge is about cognitive differences between home country and host country, including languages, education, business practices etc. Therefore, lacking of knowledge is the principal obstacle for firms expanding abroad. And because of uncertainty and non-experience, firms would go internationalization incrementally. (Johanson and Vahlne, 1977, 1990).

Based on behavioral theories, Uppsala internationalization mainly analyzed the process of internationalization. As it is said, firms intend to enter in a psychically closer country first, with relatively less psychical differences, and then they would try to continue expanding their operations to another more distant country. Moreover, as Johanson and Vahlne (1977, 1990) claimed, this model can be applied to both MNEs and SMEs. To sum up, firms would increase their international involvement successively through incremental movement, from near places to far ones, from the view of psychical distance.

However, many scholars have raised criticisms towards Uppsala internationalization model for several reasons. The most critical one is the “psychic distance”. Sousa and Bradley (2006) have indicated that “psychic distance captures the manager’s individual perception of the differences between the home and the host country and is a highly subjective interpretation of reality”. They showed ideas that some employees are much more comfortable when going abroad to some more distant countries than staying in shorter distance countries, from the perspective of psychic distance, while the managers prefer the closer countries theoretically. Furthermore, some researchers also showed that there might be some distance-bridging factors, which can overcome the psychic distance through decisions made by managers or firms. Child et al. (2002) have found that managers’ personal network, such as trusted friends, could really help FMEs (Family-based Multinational Enterprises) operate in foreign distant markets.

In addition, the psychic distance could be overcome by knowledge dissemination or trial and error process, according to the study of Nordström and Vahlne (1994). Moreover, Kontinen and Ojala (2010) indicated that network relationships, cultural knowledge, and language skills are very important distance-bridging factors in the process of internationalization. They also found some actions that can decrease the psychic distance by studying four Finnish manufacturing companies operating in the French market, including recruiting capable employees with cultural knowledge and language skills, choosing proper entry mode, learning the culture and language of target markets, using earlier experiences from abroad and building trusting relationships.

Another criticism pointed that the Uppsala internationalization model is too deterministic (Reid, 1981). Also, with time passing, some studies have indicated that there are some firms, called born-global or global start-ups, not following the traditional internationalizing pathway suggested by the Uppsala model, which try to internationalize from their birth (Madsen and Servais, 1997; Oviatt and McDougall, 1995).

Network approach to internationalization

It is common that every firm is engaged in a business relationship network, consisting of suppliers, clients, competitors etc., and it is important to maintain and develop the network. No matter where the firm operates, in its home country or in other countries, the network is always changing with the firm's operations, or it even drives the operation. Thus, many researchers have more ideas about internationalization of firms from network perspective.

Other than Uppsala internationalisation model, network approach is also famous in the discussion of internationalisation. In 1993, Johanson and Mattson come up with a new idea about understanding internationalization: they put emphasis on the network development among a firm internationalizing. As Johanson and Mattson described, within the network relationships, a firm's position might be considered both from micro (firm-to-firm) or macro (firm-to network) perspective. From the micro perspective, firms are interdependent whether to the collaborating or to competing. As for analysing the relationships from the macro perspective, both direct (involving partners in the network) and indirect (involving firms that are not partners in the network) firms should be considered.

As for internationalization, it is described in network approach as a process that firms establish, maintain, and develop the relationships in a foreign network with the collaborated partners or competitive opponents. In other words, a firm could primarily have its own position as well as business relationships in domestic circumstances, and then with the network extending outside the home country, it goes abroad and further develops the network relationships in other countries.

From the view of Johanson and Mattsson (1993), there are strategies for internationalizing firms, according to the network model: minimizing the need for

knowledge development; minimizing the need for adjustment; and exploit established network positions. (Ruzzier et al. 2006)

Amal and Filho (2010) concluded that this network approach to internationalization means a lot to the study of internationalization. Not only focusing on particular advantages of firms in whole process, the network model also pays attention to the level of internationalization of the network.

Johanson and Mattson (1993) drew out four stages in order to analyse the network developing model in internationalization with combining the ideas from micro and macro perspectives: the early starter, the late starter, the lonely international, and the international among others. Also, according to the model, Amal and Filho (2010) described four situations in internationalization: the situation of a low or high degree of internationalization of the firm, and the situation of high or low degree of internationalization of the production network. These four situations derive four alternatives of internationalization patterns that corresponded to the four stages proposed by Johanson and Mattson (1993).

In the first situation, firms and network have restricted the international involvement, thus, a firm that starts internationalization will be called an early starter. The second alternative is firms have internationalized to some degree, higher than the firms in the first situation, with some relationships in other countries. But the degree of network in internationalization is still low. These firms are considered as lonely international ones. Firms in the third situation are called later starters. Later starters are of high internationalization in network, but of low internationalization to firms. The final alternative is in the fourth situation, called the international among others, with relatively high internationalization degree of both network and firms. The firms in the fourth situation are the ones that have enough advantages and knowledge provided by network; then the firms can use these advantages and knowledge to continue to extend

business in other foreign countries. The four situations and the representative firms are showed in Figure 2.1.

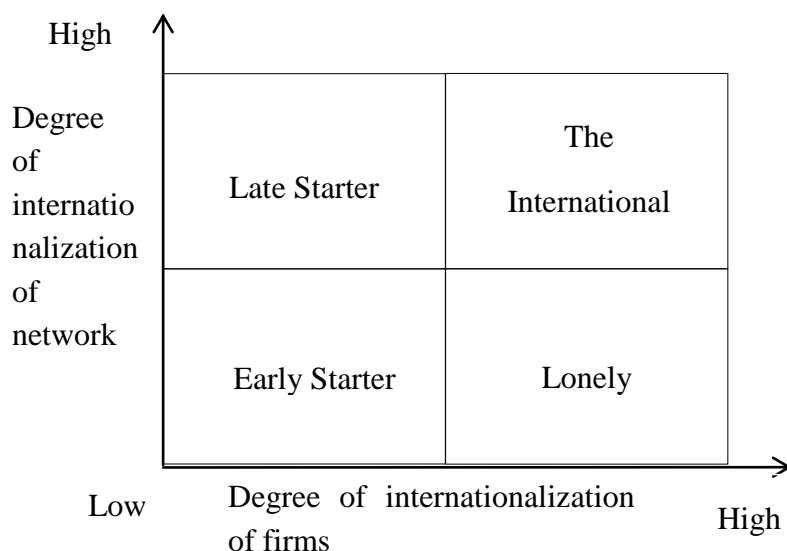


Figure 2.1 Four situations in Network approach to internationalization

Source: Johanson and Mattson (1993), Amal and Filho (2010)

2.2 SWOT Analysis

2.2.1 Origin and definition

SWOT Analysis, or Strength, Weakness, Opportunity and Threat Analysis, is one of the famous analysing tools in the area of strategic management. As Helms and Nixon (2010) said, there is no agreement on the origin of the term “SWOT”. Learned et al. (1969) described the term as a tool to help reducing the quantity of information when analysing and to help decision-making; while online Wikipedia claims the “SWOT” analysis was first used by Albert Humphrey.

However, the understanding of “SWOT Analysis” has reached consensus with many researchers’ acknowledgement. The online Wikipedia explains it as “a structured planning method used to evaluate the strengths, weaknesses, opportunities, and threats involved in a project or in a business venture” (Wikipedia- SWOT Analysis). Generally, SWOT Analysis is considered as a strategic planning tool or method that helps to develop a full awareness of situation. In which, “S” refers to “strength”; “W” means “weakness”; “O” represents “opportunity”; and “T” means “threat”.

S- Strength

Strength is about some attribute or features the analysing target owns, which can bring it advantages over other competitors.

W- Weakness

Weakness means other features or attribute the analysing target owns, which would limit its development or place it into a disadvantageous position, related to other competitors.

O- Opportunity

Opportunity refers to some elements in the environment around the analysing target that can help it to exploit and develop its advantages.

T- Threat

Threat in the analysis is the latent elements in the environment that could cause troubles, or make the analysing target suffer loss.

Internal factors and External factors

Furthermore, the Strength and Weakness are called internal factors, as they are representing the conditions and features of the analysing target. In other words, internal

factors are the factors that affect the target by the target itself. For example, personnel, 4Ps, finance capability etc. are all the internal factors.

Similarly, the Opportunity and Threat are external factors. Derived from the surrounding environment, external factors are used to describe how the surrounding environment affects the analysing target. For example, legislation and climate are external factors.

Classifying the factors between inside and outside helps the target project or the study object understand the situation easily.

2.2.2 The usage of SWOT Analysis

Obviously, the strengths of SWOT analysis are its simplicity and application to a variety of levels of operation. The SWOT analysis can afford many situations:

- Explore possibilities for new efforts or solutions to problems;
- Make decisions about the best path for initiative;
- Determine where change is possible;
- Adjust and refine plans mid-course. (Community Tool Box)

Although some criticism is exist, SWOT Analysis is still the most prevalent strategic planning tool in the world (Glaister and Falshaw, 1999). Many researchers show affirmative attitude to the use of SWOT analysis. Glaister and Falshaw (1999) also found the analysis was one of the highest ranked method and approach that most companies would choose to use when doing strategic planning in the UK. Thus, as a widely used method, SWOT Analysis is approved to analyse an organization or a project—in this case, SWOT Analysis is used to analyse the case company, SF Express, about the possibility to operate in Brazil.

As for the research problem of this study, basic information about SF Express will be given in chapter 3; also, the information of strategies and corporation culture will be

collected in the interview with an executive of SF Express. Then the SWOT analysis will be conducted in the empirical finding part to analyse the current situation of the company, and to help decision-making proceed.

2.3 Entry mode

2.3.1 Country/ Market Selection

According to Johanson and Vahlne (1977), Uppsala internationalization model indicates that psychic distance is the most important criteria when a firm choosing a target market. However, the theory is not universal, since it is only applied to manufacturing companies; at least they only studied with manufacturing companies.

About the application of Uppsala internationalization model to service industries, Carneiro et al. (2008) studied approaches of internationalization process of services companies, and made complement to the Uppsala internationalization model. The result came out that the model cannot be applied to all the service providers completely. It means that, for service providers, to some extent, there are uncertain patterns for them in expanding their business operations.

Since the case company, SF Express, is a Chinese company, in the area of target market selection we can discuss on the basis of Chinese companies. Parmentola (2011) noted that for many Chinese companies, their first step to internationalization is to survive. But this step is just the first step. Their strategy is aimed at reaching a position of global leadership.

Schüler-Zhou and Schüller (2009) have noticed that although mergers & acquisitions (M&A) happened a lot in Chinese companies, these cases have happened more in African and Latin American countries, and fewer have taken place in the developed countries. That is because of the learning perspective.

Based on this finding, it is easy to imagine that other than in the extended areas of the case company, it is feasible to choose the markets/ countries from Latin America. That is the reason why this study chooses Brazil as the target country.

2.3.2 Entry Mode Choice

Recent decades have witnessed a large number of firms internationalizing or globalising—some of them succeeded in choosing entry modes when expanding to other countries, and others failed. In this case, choosing an appropriate method entering a new country is much worthy of notice.

Theoretically, entry mode has been defined as an agreement during the process of business transactions among international circumstances, such as exporting, joint ventures, and wholly owned operations. (Root, 1987)

In his book, *International Business*, Charles Hill (2009) introduced several entry modes to foreign markets.

Exporting

As a beginning, exporting is a good try that many firms or manufacturers started their first step of internationalization. Apparently, it is the most risk-low approach to enter foreign market, since the firm itself is still operating in home country.

The advantages of exporting entry-mode are also obvious: firstly, it avoids large costs of establishing manufacturing plants or subsidiaries in the host countries; secondly, it could help the firm achieve experience curve and location economies, because the firm may realize the substantial scale economies from its overseas sales volume when keeping manufacture staying in a centralized location. While the disadvantages of exporting is as plain as daylight: high manufacturing costs comparing to lower cost abroad; high transportation cost would make exporting uneconomical; and, tariff barriers. (Hill, 2009)

Turnkey Projects

Turnkey project means the contractor will have a contract with the foreign client. In the contract duration, the contractor is responsible for the project, even for the training of operating personnel. At the end of the contract, the foreign client will be handed a “key” of the full operation built by the contractor.

Similarly, turnkey project is a good way to spread out capital and services. Comparing to foreign direct investment (FDI), turnkey project is less risky. Because sometimes when the industry affects the country’s economic lifeline, such as petroleum industry, the government would have some restrictions to accept FDI. The drawbacks of this method are about the risk of leaking know-how, the risk of losing competitive advantage, and the possibility of creating competitors. Moreover, if a firm decides to enter a market by turnkey project, then it will lose long-term interest in the country. This could be an internal disadvantage as well. (Hill, 2009)

Licensing

A licensing agreement is the agreement between a licensor and a licensee. In the agreement, the licensee can receive the rights of intangible property for a period from the licensor; meanwhile, the licensor can receive a royalty fee.

The primary advantage of licensing is that the firm does not have to spend extra money on operating physical business while opening new markets. Also, this method is used when a firm owns a specific technology which has business applications, but the firm does not want to develop these applications—so it grants rights to other companies. On the other hand, licensing has three quite serious drawbacks. First, it limits the firm’s ability to realize experience curve, for the control of licensor is not much tight to licensee. Second, licensing in a new market limits the firm having coordinating strategy in this market, since the licensee has no contract with licensor beyond strategy. Third, there is risk associated with licensing know-how, especially technological know-how,

to other foreign companies, facing the risk of leaking competitive advantages. (Hill, 2009)

Franchising

Similar to licensing, franchising is also an agreement between a franchiser and a franchisee, and the franchiser grants intangible property rights to franchisee so that it can receive royalty fee. However, the differences between franchising and licensing are that franchising tends to involve longer-term commitment than licensing, and other than intangible property rights, the franchiser also make strict rules as to how franchisee does business.

Like licensing, franchising has almost the same advantages: the firm can save much money of establishing a physical venture by itself. However, quality control is a significant disadvantage of franchising. Every store/ venture has the same name that convey the same message to customers—the consistent quality. Thus, it could be a problem concerning the international reputation of the firm. (Hill, 2009)

Joint Ventures

A joint venture means that in order to open a new market, the firm establishes a new company that is also owned by other one or more firms in the market. The most typical joint venture is 50/50 venture, which refers to half control of each. Some firms prefer higher priority of decision-making and managing, and then they would invest more so that they could have a majority share.

The advantages of joint ventures are easy to say. First, the firm internationalized could benefit a lot from the local firm, the one it cooperates with, for the market information and even know-how, such as distribution channels. Second, there are one or more partners who can share the cost and risk of establishing a new company in the country. Third, in some countries, joint-ventures mode is considered as the only way to enter in.

It also has several disadvantages. Choosing joint venture mode means a lack of control over technology know-how to some extent, since the partner has responsibility for the company as well. Besides, because of partners, joint-ventures mode is facing the problem that the new company cannot engage in international strategic coordination with the internationalized firm. Moreover, it might raise conflicts or battles between two or more involved firms, as their strategy and operating vision are different. (Hill, 2009)

Wholly Owned Subsidiaries

In a wholly owned subsidiary, the firm owns 100% of the shares. There are two ways that firms usually establish wholly owned subsidiaries: the first one is acquisition, which is to acquire 100% share of a local established company and thus have a tight control of the company, promoting its products; the second one is to build a completely new company in the new market, which is also called greenfield venture. Many big internationalized and globalised firms, such as MNEs, would choose to use this entry mode, for tightly control the subsidiaries and precede their international coordination strategy.

The advantages of wholly owned subsidiaries are very clear. First, a wholly owned subsidiary can reduce the risk of losing control over technological know-how to the maximum extent. Second, a wholly owned subsidiary can provide the biggest support when the firm operates global coordination strategy. Third, a wholly owned subsidiary can help the firm realizing location and experience curve economies. However, to establish a wholly owned subsidiary is the most costly method entering a new market, as the big capital invested. Besides, when acquired a company, the problem of divergent corporate culture may affect the operation. (Hill, 2009) Table 2.2 summarizes advantages and disadvantages of each entry mode.

Entry Mode	Advantages	Disadvantages
Exporting	Avoids large costs; To help the firm achieve experience curve and location economies;	High manufacturing cost as well as high transport cost; Tariff barriers;
Turnkey contracts	Less risky	The risk of leaking know-how, the risk of losing competitive advantage, and the possibility of creating competitors
Licensing	Reducing extra costs and risks;	Limitations of the firm's ability to realize experience curve; Difficulties of operating strategic global coordination; Lack of control over technological know-how;
Franchising	Reducing extra costs and risks;	Lack of quality control;
Joint ventures	Benefits from local established sources; Sharing costs and risks with partners;	Lack of control over technological know-how; Difficulties of engaging in international strategic coordination; Conflicts between the firm and partner;
Wholly owned subsidiaries	Reducing risk of leaking knowledge; Biggest support of international strategic coordination; Realizing location and experience curve economies;	High costs and risks.

Table 2.2 Advantages and Disadvantages of Entry Modes

Source: Charles Hill (2009)

2.3.3 Choosing entry mode for service firms

Although Hill (2009) has several entry modes for internationalized firm entering into new markets, it is of possibility that service firms might in different cases, as the distinct characteristics service firms had.

Dunning (1979) contends that it is necessary to have several advantages when considering entry choice for service firms. Location advantages, ownership advantages and internationalization advantages are all the decisive factors concerning entry mode. Location advantages are the attractiveness of one foreign market. Ownership advantages refer to the unique advantages regarding to the service firms, such as technological know-how, specific skills or assets. Internationalization advantages mean that the real worth of the know-how, assets and skills in the firm when foreign market fails; or the probability of being partnered by other companies when the market overseas fails.

Ekeledo and Sivakumar (1998) pointed that it is in different case when talking about choosing entry mode for service firms. They illustrated the affecting factors choosing entry mode for a service firm.

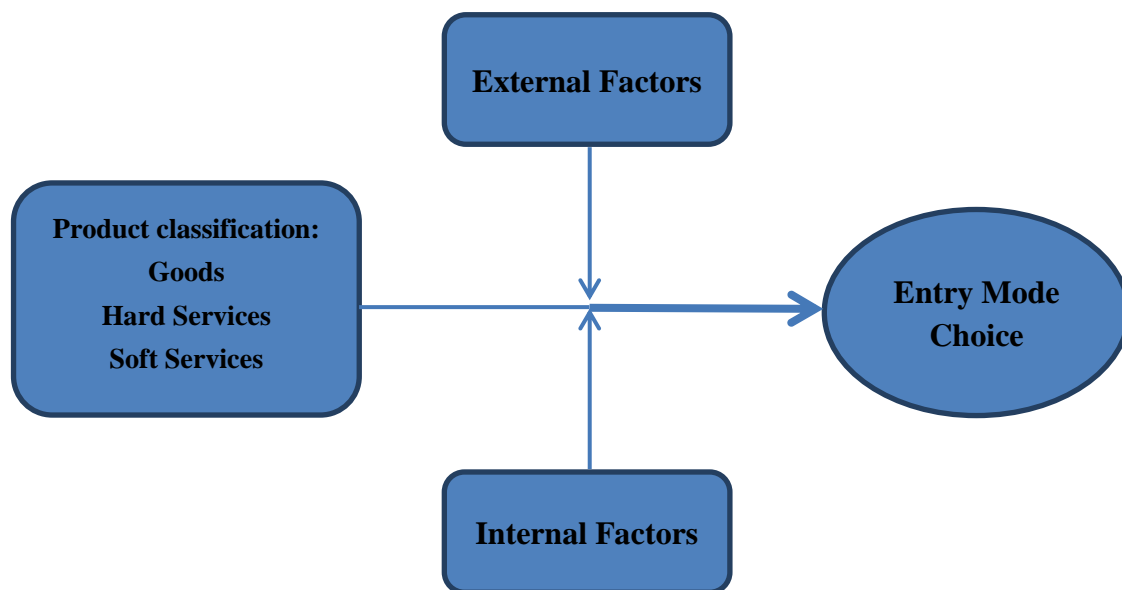


Figure 2.2 The choice of entry mode for service firms

Source: Ekeledo and Sivakumar (1998)

As Ekeledo and Sivakumar (1998) contend, the product classification is based on product characteristics. The most important part is service classification. A hard service

relates to part of production and consumption; thus, it can be exported. For example, life insurance, music and education are hard services. In contrast, a soft service requires physical carrier between service transmission, from production and consumption. For instant, health care and lodging service are soft services. In this case, logistics and express service is a kind of soft service.

As for the external factors, they consist of host country market factors, political and socio-cultural factors, economic infrastructure, trade barriers and home country factors. (Ekeledo and Sivakumar, 1998)

They also mentioned the internal factors, which include product factors, corporate goals and objectives and corporate strengths and weaknesses. Ekeledo and Sivakumar (1998) argued that these internal variables can be shaped and controlled by firms so that they could be firm specific advantages or competitive advantages.

Ekeledo and Sivakumar (1998) also claim that there are three entry modes for service firms in general: exporting, contractual arrangement (which includes joint venture, licensing or franchising and management contract), and sole ownership. However, as it is mentioned above, soft services are different from hard services which involves with production and consumption (Ekeledo and Sivakumar, 1998). Thus, the choices of entry mode for soft services are non-export—that is, sole ownership, joint venture, licensing, franchising, or management contract. (Ekeledo and Sivakumar, 1998)

Specifically, Erramilli (1991) proposed a U-shaped relationship for choice of entry mode by service firms between their experience and desired control. According to the U-shaped model, Erramilli found that for service firms, they prefer sole ownership in earlier years when starting expand their experience. As time passed with experience increasing, they favor joint venture gradually. Finally, they revert to sole ownership again as their internationalizing experience becomes extensive.

For the case company, SF Express, it has already started its internationalization process by developing business in most countries in Southeast Asia, the United States and Australia. As for the entry mode choices, SF Express has chosen sole ownership among these countries so far.

3. INTRODUCTION TO THE CASE COMPANY—SF EXPRESS

3.1 History of SF Express

Founded in 1993, SF Express started its sail on sea in Shunde, Guangdong, China. Now the headquarters of SF Express is in Shenzhen, China.

Wang Wei, the founder of SF Express, was a private courier among personal relationship network between Guangdong Province and Hong Kong (by that time Hong Kong was British colony) before 1993. With the increasing business, he noticed that it could be a remarkable opportunity to start the business officially. Thus, based on borrowing 100 thousand Yuan, SF Express was registered in 1993. At first, due to the policy restrictions and long hours of customs clearance, many requested delivering goods and documents were carried as personal belongings by Wang Wei and his colleagues. Later, with the policy alleviated and environment opened gradually, Wang Wei started to drive his business on the track.

In the earlier times, with more and more competitors, Wang Wei proposed the strategy that to offer a price discount of over 30 percent off to attract customers. Thus, SF Express had earned the first amount of money, and monopolized nearly 70 percent of the market in delivery between Shunde and Hong Kong in 1997. This can prove that SF Express has good collaboration with the government.

After 1997, SF Express started to expand from Shunde and soon it covered the main areas in Guangdong. Later, it expanded its business area quickly toward Central China, East China and North China, with setting branches in cities. Many people participated in this company as couriers with personal financial responsibility—that is, as a member of SF Express, you can earn more if you deliver more goods. This mode of operating attracts many people, which laid a foundation for efficient delivery.

As the very fast speed of growth, SF Express was facing a potential risk—sinking down into a large number of competitors that customers cannot distinguish. Foreseeing this problem, Wang Wei clearly adjusted the target market to intermediate-end customer market with not stepping into the business range of the international logistics giants and cheap logistics business. Additionally, SF Express focused only on the market of delivering small pieces, excluding heavy cargos. Based on this clarified development direction, SF Express proposed a price system of services that is appropriate for the company's strategy.

What is more, Wang Wei concentrated more on the delivery speed, always faster than other competitors; thus he gave up the initial low-price strategy. For reaching the purpose of higher-speed, in 2003, he started to collaborate with airlines, renting cargo aircrafts from them. SF Express became the only logistics services provider in China who utilized flights in business at that time. Fast service speed and good service quality supported SF Express's brand awareness, as more and more customers got to know this unusual company. This, furthermore, guaranteed SF Express's extension in China. After 2003, SF Express went into the golden period of growing by having set over 200 branches all over China. By 2006, the business areas have covered more than 20 provinces, 100 domestic cities (including Hong Kong area), and more than 300 towns and villages.

In 2008, SF Express had its own airline—SF Airline, which is invested by SF Express and an investment company. By 2013, SF Airline owned 14 aircrafts that are used as cargo flights by SF Express. Other than using its own aircrafts, SF Express still rents cargo aircrafts and ventral of passenger planes to deliver goods.

Since its establishment in 1993, SF Express has invested much on its service network building every year, improving its self-network connection and management. From a small city to the full area of Pearl River Delta, from South China to East China, from covering small areas to the whole China, SF Express put efforts on enlarging business

areas in 20 years; also, the profit and brand awareness have considerably improved with good service amount and quality. By 2013, SF Express has set 6000 branches in Mainland China; meanwhile, it started international steps in recent years, expanding business to Taiwan, Japan, Korea, Singapore, Malaysia, Vietnam, Thailand, United States and Australia. (SF Express Website)

3.2 Development of SF Express

Since its inception, SF Express has always focused on improving the quality of services, keeping meeting market demand. In Mainland China, Hong Kong, Macau, and Taiwan, SF Express established business organizations and networks concerning collection of information, market development, logistics and express delivery.

In the meantime, SF Express actively expand services to international areas, in addition to the markets of Mainland China, Hong Kong, Macau and Taiwan, SF Express has opened courier services in United States, Japan, Korea, Singapore, Malaysia, Thailand, Vietnam, and Australia.

By the time of January 2014, SF Express has nearly 240,000 employees, more than 10,000 sets of transport vehicles, 14 own cargo aircrafts and more than 7,800 business branches throughout China and overseas. Furthermore, the whole year turnover of SF Express over 2013 has reached the milestone of 20 billion Chinese Yuan.

3.2.1 Technology-oriented mode

For a long time SF Express constantly invests to strengthen infrastructure and network construction, and collaborates with IBM, ORACLE and other international companies for active research and development. For example, SF Express is the first Chinese logistics company that used the second-generation hand held terminal system (HHT). Specifically, it is a hand held machine, issued mainly to complete individual work of courier himself/ herself, including personal order management, customer management,

courier task management and other function concerning information sending and receiving. After scanning from HHT, the express order has own barcode, which will be an identity card of the express order. Each courier has his/ her exclusive HHT, which means a personal ID portal.

What is more, for reaching the purpose of higher speed, SF Express established an efficient data and information center, which became a competitive advantage of SF Express. There are as many as 2,000 elite people and teams take responsibility of developing and operating the data and information center. The company staffs over 6000 branches across the country monitor and manage express parcel information, logistics information flow, and cash flow every day in real-time. Based on this center, all the information from transit fields, personnel, vehicles, and operating of couriers can be viewed and recalled from the real-time operating system. If there are any complaint calls, the problem will be found quickly in real time. In addition, the center integrates information from service requests to the terminal delivery courier in many steps, but in a short time. (SF Express website)

3.2.2 Network and business mode

With continually setting up branches over China, SF Express commits itself to building a large and dense network of its own. SF Express's own service network has uniform service standards, as well as stability, quality of service, advanced security that are significant advantages. These are of the greatest possible to protect customers' rights and interests.

As for the business mode, SF Express always chooses the lowest-risk mode— setting up company-owned branches. Unlike other logistics companies using licensing or franchising for lower cost, SF Express has its own ideas about service providing. A company-owned branch or outlet can follow the regulation of the company, facilitating company's operational process and standardizing service quality. Moreover, the same

working process helps company integrate and distribute resources. It is important for a company, especially for a logistics company to achieve. At the same time this business mode is also good to build excellent brand recognition, since each branch or outlet of SF Express provides the equivalently fast and good quality service. (SF Express website)

3.2.3 Positioning and strategy

Express speed is the decisive factor in market competition, but also the core competitiveness of SF Express. Long before Wang Wei recognized this key factor, and started to focus on speed improvement. To some extent using aircrafts, building their own networks and infrastructure are for improving service speed, though the responding service price will increase. To become the fastest express company in the market is the position SF Express set for itself; thus, the company would also attract a group of customers who are time-oriented and care less about the price factor.

Now SF Express still focuses on speed improvement. According to a report, SF Express is 20% faster than other private courier companies. Furthermore, because of its fast speed and reliable delivery, SF Express has the highest market share, 20%, among Chinese private logistics companies, according to a data analysis of a third party collector. (SF Express website)

3.3 Products of SF Express

SF Express provides a series of delivery services as their main products, classified by business areas. In addition to the services in China, since the strong extension to Southeast Asia, the United States and Australia, SF Express also has high quality services in these countries.

3.3.1 Services and products in China

Basically in China, SF Express has most quantity of services provided. Other than the basic Standard Express Services, SF Express has several advanced delivery services, based on the delivery areas. Also, SF Express offers special services to specific customers, such as some customers of monthly payment who are frequent service users. In Mainland China, SF Express also provides Value-added Services, such as insurance services, fresh product delivery and virtual address. Some value-added services are also offered in Hong Kong, Macau and Taiwan. Additionally, in Mainland China, SF Express has its own e-commerce platform, Sfbest.com, acting as an “online shopping mall of global quality food.” Figure 3.1 shows the main delivery services of SF Express in China. (SF Express Website)

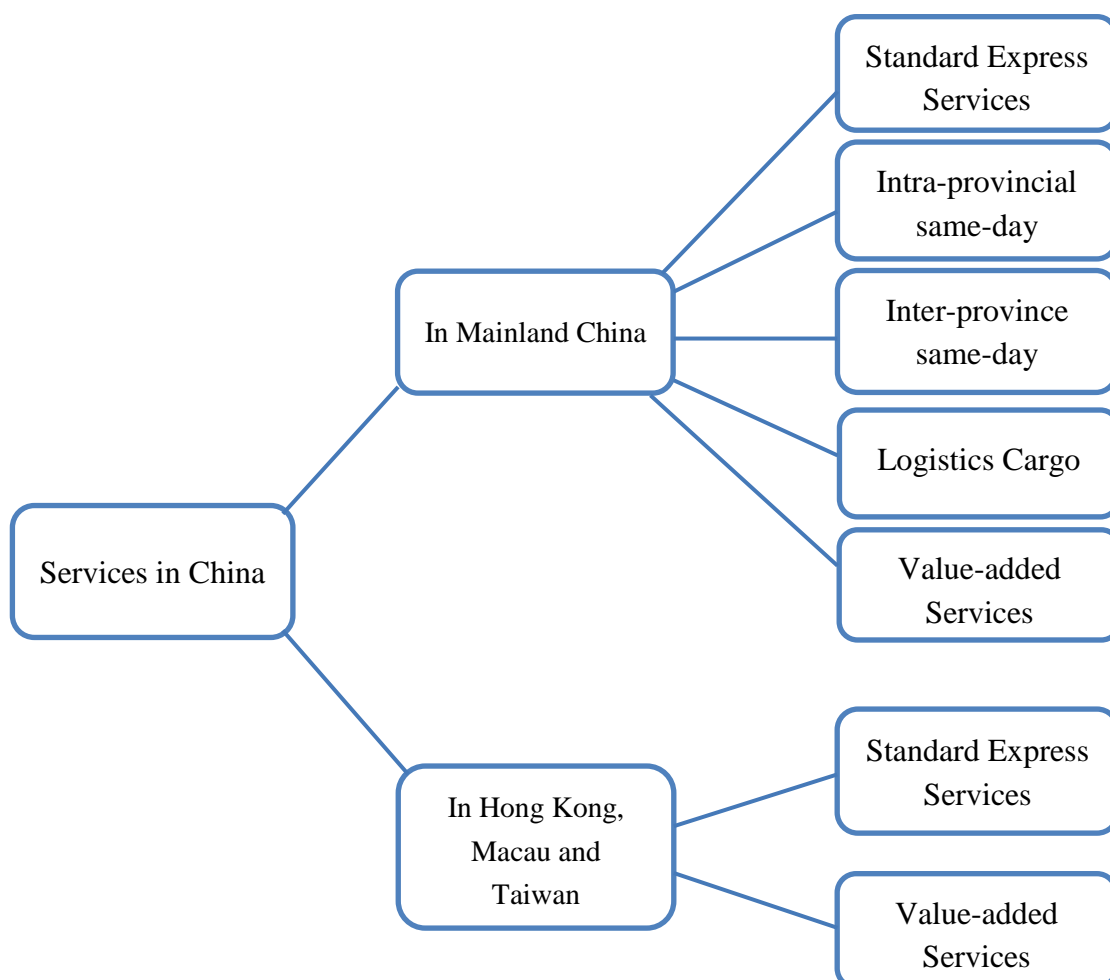


Figure 3.1 Services of SF Express in China

Source: SF Express website

Standard Express Services

SF Express provides a high level and door-to-door courier services. With standard pricing and standard operating procedures, each stage of Standard Express Services is of the fastest speed to deliver, transit, and dispatch. This service makes relative delivery commitments to customers as well.

In this service SF Express commits to that: in 1 hour, the process from customer ordering to courier picking up goods can be finished; and, the process from the goods arriving in branches to courier delivering can be completed in 2 hours. Regardless of holidays, SF Express provides this service 365 days a year, ensuring that the customers' needs are met. (SF Express website)

Intra-provincial same-day Delivery

To meet the customers' requirements for higher efficiency services, S.F. Express provides intra-province same-day delivery service, in which a shipment can be picked up and delivered within the same day in the same province with a money back guarantee. (SF Express website)

Inter-province same-day Delivery

Similar to Intra-provincial same-day Delivery, Inter-province same-day Delivery is also an advanced service with higher efficiency. However, because of the large land area of China, this service is only provided among particular cities with specific routes. (SF Express website)

Logistics Cargo Service

To meet customers' demands on delivering batch cargoes to the same destination, SF introduced the new "Logistics Cargo Service". The service provides a stable transit time through the distribution mode of cargo consolidation and distribution at a fixed time in a fixed location. Meanwhile, door-to-door pickup and delivery, insurance and other value-added service are also provided. (SF Express website)

Value-added Services

The Value-added Services are special services added to the main services. SF Express has many kinds of value-added services: Cash on Delivery Service, Insurance Service, Virtual Address, Return Proof of Delivery, Special Warehousing Service, Evening Pickup Services, Time-definite Delivery, Service Guarantee, Pickup Authorization Service, Packaging Service, Remote Area Fee, Self-service, Hong Kong non-industrial/Commercial Surcharge, Overweight and Oversize surcharges and Fresh Product Delivery Service. Among these services, most of them are only provided in Mainland China, and some of them are also available in Hong Kong, Macau and Taiwan. (SF Express website)

3.3.2 Services overseas

With the international expanding in recent years, SF Express has successfully opened several new markets among the world. Most of the new markets overseas lay in Southeast Asia, in which SF Express has covered all the areas of these countries. Also, in United States and Australia, it expanded its business area across the whole countries.

The figure 3.2 shows the delivery services of SF Express overseas.

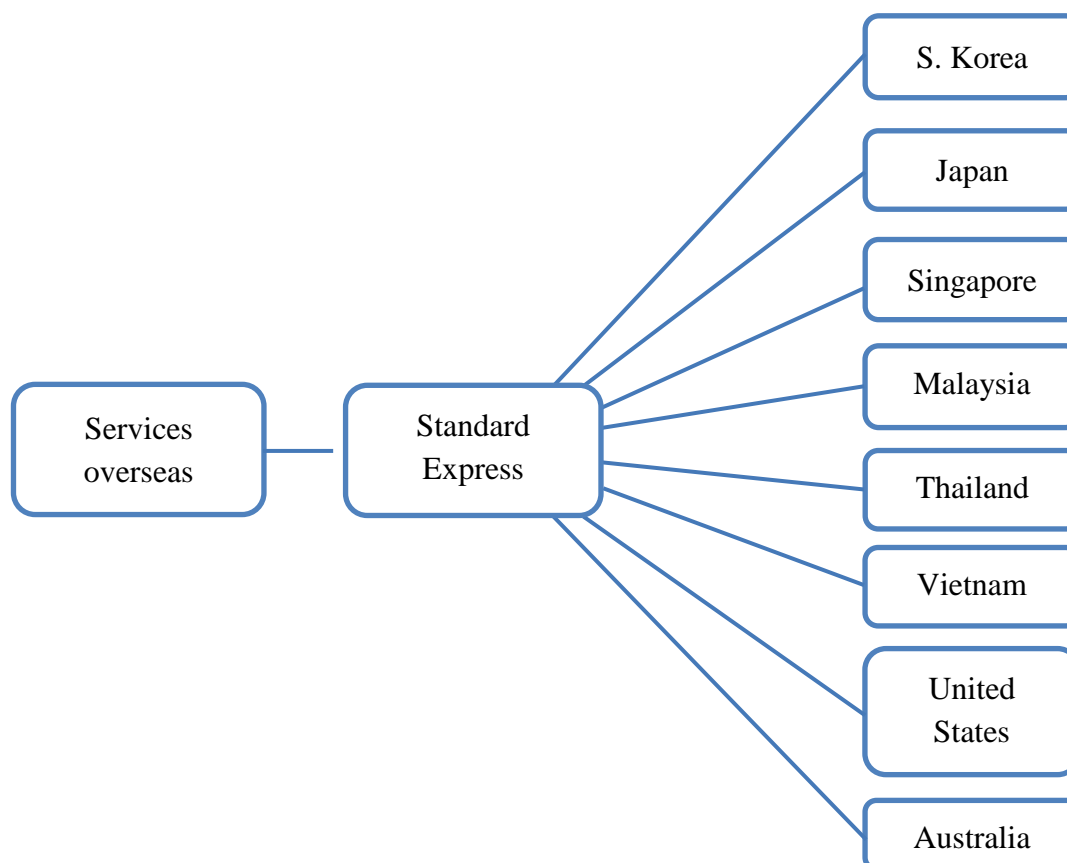


Figure 3.2 Delivery services of SF Express overseas

Source: SF Express website

In the markets overseas, however, SF Express only has one services provided, Standard Express Services, so far.

Undoubtedly, these are the first stage that SF Express stepped out. Although the service provided is single, SF Express survived with the basic services. Owing sole ownership subsidiaries overseas, its major target group is the overseas Chinese. Regarding to the target market, Brazil, it is probable that SF Express will use the same entry mode to enter.

4. THE LOGISTICS MARKET IN BRAZIL

4.1 General situation of logistics market in Brazil

4.1.1 Geographical Economy

Brazil is the largest country in both South America and the Latin American region. It is the world's fifth largest country, both by geographical area and by population.

The Brazilian economy is both the world's seventh largest by nominal GDP and by purchasing power parity in 2012. In recent years, Brazil grows with one of the world's fastest speed among major economies as a member of the BRIC group. The economic reform gives the country new international recognition and influence. Brazil is a founding member of the United Nations, the G20, CPLP, Latin Union, the Organization of Ibero-American States, the Organization of American States, Mercosul and the Union of South American Nations. (Wikipedia—Brazil)

As online Wikipedia described, “Brazil is one of 17 mega diverse countries, home to a variety of wildlife, natural environments, and extensive natural resources in a variety of protected habitats.” Brazil is a strong power in Latin America and also in international affairs, with some analysts identifying it as an emerging global power. Brazil has been the world's largest producer of coffee for the last 150 years. Agriculture is strong developed in Brazil. (Wikipedia—Brazil)

As for the terrain and landform of Brazil, it could be a challenge. Huge areas of rain forests in the lowlands of the Amazon in the north, plateaus and mountains in the south; while the Andes lays in the west of the country— these compose a geographic face of this South American country. As a result of the complex terrain, the infrastructure in the rain-forest region of the north is poorly developed. The savannas in the mid-west are particularly important as for the agriculture developing. But a large proportion of the country's population lives along the Atlantic coast in the east. (Wikipedia—Brazil)

4.1.2 Infrastructure and problems

Strong regional differences characterizes Brazil's transport infrastructure. In the economically prosperous southwest and south, there are several well-built highways which are available. But the picture is completely different in the Amazon region in the north: the availability of various means of transport is very limited, and as a result, the opportunities here are very limited in terms of density. Other than road traffic, there are railway transport and water transport, since the various landforms in Brazil. (DHL Logbook—Brazil)

Basically, Brazil's transport system depends heavily on the highway network, which is handling sixty percent of total transport volume. In some economically active regions, even though other means of transport are available there - particularly in São Paulo, the highway network is still at the highest usage rate. One major challenge is the long-term reduction of the high amount of road traffic. This challenge could be possible if a sufficient number of inter-related distribution centers have been set up. (DHL Logbook—Brazil)

Rail transport in Brazil cannot yet be measured by American or European standards in terms of quality and density. There is 29,000 kilometer rail network but poorly developed, and even some parts of it are in bad condition. The railway transport is primarily based in the states of São Paulo, Minas Gerais, Rio de Janeiro and Rio Grande do Sul. What is more, even though Brazil has 40.000 kilometers of potentially navigable waterways, this transport method only corresponds to 13% of the country's logistics sector.

As for the sea transport, Brazilian ports charge higher fees than most other ports worldwide. For example, the fees charged by Brazilian harbors are considerably higher than in places like Hamburg, Singapore and Antwerp. Unfortunately, many ports have tremendous problems as well. Some lack handling capacities, and have trouble keeping

up with demands. Since the navigational-channel depths are low, ships faced a reduction of capacities. In ports, the highway and rail connections are inadequate. Moreover, though the labor and personnel are adequate in ports, they are poorly trained comparing with ports in other countries.

One final problem has to be taken into account with security in Brazil. The level of robberies and theft is very high, so there are not many options for transportation, and the cost of insure transported loads of valuable freight is very high.

4.1.3 Logistics service areas

Since 2003 economy and exports in Brazil have been growing tremendously. However, as the report of DHL states, the resulting upswing is being endangered by disproportionately high logistics costs. These costs are estimated to be about 20 percent of gross domestic product, or twice as high as in OECD countries. (DHL Logbook—Brazil)

The global trend toward integrated logistics solutions in contract logistics is also available in Brazil. For instance, just-in-time solutions are frequently sought by the automotive industry, prompting many service providers to offer them. But the efficient and cost-effective implementation of these solutions is being hindered by bureaucratic hurdles.

The transport sector was strongly fragmented in Brazil until the end of the 1990s, once then it has become consolidated gradually. At this point, large, multinational and primarily European logistics service providers contributed much to this development. As a result of the increased competition, domestic carriers have evolved into logistics service providers. (DHL Logbook—Brazil)

In terms of Complex event processing (CEP) services, the Brazilian market is very well developed in the main economic regions in the south and southeast. As mentioned

above, the northern part of the country has much catching-up to do. (DHL Logbook—Brazil)

The most important centers are located in the south of the country, primarily in the economic centers of São Paulo and Rio de Janeiro. Besides, cities such as Porto Alegre—near the important trading partner of Argentina - are playing more and more important roles in logistics as well. In the country's interior parts, cities like Goiania and Belo Horizonte serve as centers. (DHL Logbook—Brazil) Graph 4.1 shows the major and center cities in Brazil.



Graph 4.1 Major and center cities in Brazil

Source: Internet

4.2 Competitors in the market

Important providers of logistics services in Brazil are DHL, TNT, America Latina Logistica, Companhia Vale de Rio Doce, Expresso Mercurio, Penske and Ryder. (DHL Logbook—Brazil)

DHL Express

DHL Express is a division of the German logistics company Deutsche Post DHL, providing international express mail services. Deutsche Post is the world's largest logistics company operating around the world. DHL is a world market leader in sea and air mail. (Wikipedia—DHL Express)

TNT Express

TNT Express N.V. is an international courier delivery services company with headquarters in Hoofddorp, Netherlands. The firm has fully owned operations in 63 countries and delivers documents, parcels and pieces of freight to over 200 countries. The company recorded sales of over €6.69 billion in 2013. (TNT Express Website)

América Latina Logística

América Latina Logística (ALL) is a Brazilian logistic company, mainly focused in the railway line logistics in Brazil, being the largest company in Latin America in this segment. The company provides also transportation services such as logistics, intermodal transport, port operations, movement and storage of merchandise, administration of storage facilities and general storage. It is also involved in lease of railroad equipment to third parties, and offers road transport services in Brazil through América Latina Logística Intermodal S.A. (Wikipedia—América Latina Logística)

Companhia Vale de Rio Doce

Vale S.A. is a Brazilian multinational diversified metal and mining corporation and one of the largest logistics operators in Brazil. From 2000 to 2006 Vale invested more than \$1.3 billion on the acquisition of over 361 locomotives and around 14,090 freight cars, those locomotives were primarily for iron ore transportation, but some were for regular cargo. In addition, Vale owns a port and has maritime terminals in other ports around Brazil. It also owns several ships. (Wikipedia—Vale S.A.)

4.3 Summary of the logistics market in Brazil

From the information above it is easy to find that as a developing country, Brazil has an immature logistics market with imperfect infrastructure, uncoordinated proportion of transport usage and incomplete govern system.

However, though the market is not as good as the market in developed countries, such as Australia, it is full of capacity. With the fast growing speed of BRICs, Brazilian government comes to realize the problem of the infrastructure and market imperfection. In order to attract more and more MNEs and international investment, these problems existing would catch more and more attention and be put upward on the table. A fast growing economy means no boundaries of possibility. In addition, Brazil is the largest country in Latin America with the largest population. As the society grows, the market will be deeper excavated.

5. RESEARCH METHODOLOGY

Research is undertaken by researchers to present and prove the a of thinking. Specifically, it is a way for examining their professional practical work from all aspects. (Dawson, 2002)

In this chapter the research method this study used will be introduced, as well as the research implementation and explanation of validity and reliability.

5.1 Research Methods

Basically there are two research methods that studies commonly used, and they are the quantitative research method and the qualitative research method.

Quantitative research method

The quantitative research method is a common way that used to quantify the research problem by the virtue of collecting data that can also be transformed into valuable statistics. In the quantitative method the respondents' attitudes, opinions and other defined variables can be quantified from a larger sample. (Snap Surveys)

Qualitative research method

The qualitative research method is also frequently used in research, especially in exploratory research. With the qualitative method it is possible to get a deeper understanding of the underlying reasons, opinions and motivations. Additionally, it is helpful to develop one's own ideas or even hypothesis for further quantitative research. In other words, qualitative research method is a method to explore the problem thoroughly, understand the phenomenon of events, analyse human behavior and views, and then answer questions. It is used to define a problem or deal with a problem. The specific purpose of the qualitative research method is to deeply study the specific features or acts to further explore their causes. The qualitative research method

investigates the “why” and “how” of decision making, not just “what”, “where”, “when”. (Neuman, 2000)

The data collection of qualitative method is depended on the study. In some studies group discussion, individual interview and observations are the common forms of data collection. Although the sample is smaller than that of quantitative method, it is still of reliability and validity in researches.

In this study qualitative research method will be used. In order to explore more basic information, as well as international strategy, corporate culture and developing direction of SF Express, I chose two middle-senior executives of SF Express as interviewees.

These two interviewees are all from my personal network, and they insist on anonymity. Both of them have worked in the company for several years.

The interviews will be held respectively by the form of individual Skype interview. Though the interviewees are in different positions of SF Express, the questions asked in the interview are the same. Their answers and expression are recorded as primary data of this study.

5.2 Research Implementation

Figure 5.1 shows the basic process of the whole research, starting with designing open-ended questionnaires, and ending up with analysing and summarising the answers.

Questions design in this study means design the questions based on the current situation of the case company in the area of internationalization. Also, the background information of the target market, Brazil, will be taken into account in designing the questions. Besides, some questions about decision-making will be involved, since it is a part of corporate culture.

Interview design refers to designing the interview form, and making appointment with the interviewees.

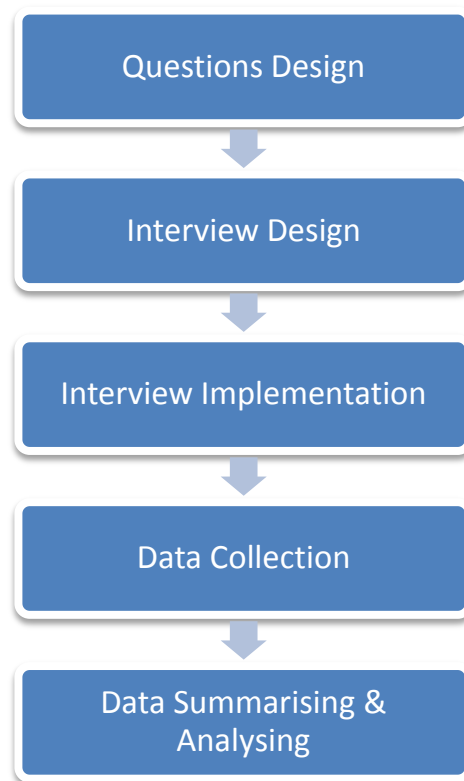


Figure 5.1 Research Process

Interview implementation is the phase that conducts the interviews as planned. Also, paying attention to the way of asking questions, or even the ways of going through a conversation helps get as much as information needed.

Data collection means that answers, expressions and reflections of the interviewees are recorded in real-time in this phase.

Data summarising and analysing refers to the final stage. After the procedure of data collection there will be a summary on the interview and collected data. Then the data will be analyzed and empirical results will be obtained. The research results are based on the interview results and other information collected about the case company and the target market during the study process.

5.3 Reliability and Validity

In order to succeed in gaining research result and completing the research process, a research should be reliable as well as valid. Reliability and validity are both two crucial measurements that researchers use to evaluate the research outcomes. They are different but inter-related.

Reliability

Joppe (2000) has defined reliability as: "...the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable." In other words, reliability is the degree to which an assessment tool produces stable and consistent results.

Although there is a difference in reliability between qualitative research and quantitative research, and some researchers insist that there is no reliability in a qualitative research, Lincoln and Guba (1985) use "dependability", in qualitative research that closely corresponds to the term of "reliability" in quantitative research. Seale (1999) pointed out that examination of trustworthiness is crucial when ensuring the reliability in qualitative research method.

In order to ensure the reliability of this study, theoretical foundations are combined with the interview results and basic information of the target market. The design of questions in the interviews is based on the research problem and research objectives. The implementation of the interviews is seriously executed based on the plan.

Validity

Validity refers to how well a test measures what it is purported to measure. In fact it is a concept that assesses a research or a project in a continuous time period. As Winter

(2000) stated it is “rather a contingent construct, inescapably grounded in the processes and intentions of particular research methodologies and projects”.

In other words, validity is the extent to measure how a test measures the research that claimed to be measured.

In this study validity is proved by a large range of references that are used. Most of the references are about internationalization and entering to new markets among SMEs. Many theoretical studies are well-structured and well-targeted that is feasible for this study. Additionally, plenty of sources found on the internet are used, such as databases and websites which can be confirmed to offered information. Moreover, the interviewees of this study are both veterans in the case company who are familiar with the operating and strategy of the company.

6. EMPIRICAL FINDINGS

6.1 Implementing of the interviews

SF Express always keeps a low profile. Even though the company is the leader of Chinese express market, it is difficult to find much information of the company on the internet, let alone any details about the founder—Wang Wei.

Thus, other than some basic information on SF Express searched for as secondary data, the results from the interviews are regarded as important primary data for this study.

Both the interviewees are from SF Express, positioned as middle-senior executives. Also both of them have worked for the company for several years, having gained deeper understandings of the corporate culture and strategy, even of Mr. Wang Wei. One of the interviewees is responsible for marketing operations, and the other one is doing the work with brand development. Since they are unwilling to be named, the executive of marketing fairs will be labeled as “A”, and the executive responsible for brand developing will be called as “B” in this study.

The individual interviews were arranged at the end of April, in form of a Skype interview. The six open-ended questions are well-designed to illuminate the study objectives. The information needed for the study can be founded behind each question.

6.2 Data collection and analysis

In this part each of the open-ended questions asked in interviews will be presented and explained respectively. Also, other received information from the interviewees is noted. The questions are also listed in the appendix.

6.2.1 The reasons for internationalization

The first question is “Why SF Express started expanding abroad in the past?” This question aims to get the reasons and motivations for the internationalization of SF

Express. Also, some strategies, as well as recognition about internationalization of the company are desired to know.

Mr. A indicated that in fact, SF Express has had the idea of expanding business outside China since the year 2006. SF Express is a company that is always adept in discovering markets and positioning itself in the various markets. Although the Chinese market is big, it has been shared. Unlike other logistics companies, SF Express has its own target group and not relies much on other e-commerce platforms, such as Taobao.com, since the express services of most e-commerce platforms require relatively lower logistics costs. SF Express targets intermediate-end customers who care more about the service quality and less about the price. That is the reason why SF Express can have higher customer loyalty, and as a result it can obtain a relatively stable market share. Meanwhile, SF Express started to consider the market outside China, while other express companies in China were still focusing on the market share in the Chinese market. Moreover, SF Express has earlier noticed the target group of Chinese people living in foreign countries. The Chinese overseas in several countries can offer huge markets to SF Express.

Mr. B's statements showed almost the same idea. With a relatively good growth in Mainland China, SF Express extended its hands over to Taiwan and Macau in 2007 and 2008, which was a good try for expanding. For the reason of stability and short psychological distance, SF Express chose to enter the markets of Southeast Asia first.

Another reason is because of the large number of overseas Chinese in those countries. Many Chinese people live in Southeast Asia as residents, and they might have business dealings with people in China or have contacts with some relatives in China—those are the cases, or called potential markets, SF Express have expected. Also, there is a large number of overseas Chinese living in the United States and Australia. As a result, SF Express developed the major services for the Chinese in China and the Chinese overseas. However, that would not be the final strategy in the way of

internationalization, Mr. B said. It is just the first step. SF Express will figure out other products that meet the real demands of foreign markets. Also, SF Express put efforts on building brand image in the foreign markets, and by doing so aims to increase brand awareness abroad.

6.2.2 Internationalization strategy

The second question is “Does SF Express have plans to expand to other countries?” To ask this question aims to have a vision of SF Express’s internationalization strategy. Additionally, the method SF Express has used to enter into new markets will be involved. From this question the international territory of SF Express can be understood.

Mr. A gave a certain answer to this question. He confirmed, it is just a small step that SF Express has stepped out—there is a long way to go. He said he cannot tell about the plans that SF Express has, because of some reasons with his position now. But in SF Express’s eyes, the markets are huge. In the Chinese market, SF Express has its own target market which does not overlap with the logistics giants’ business; and, it is able to be adequately outstanding among local Chinese express companies. Mr. A believes SF Express will enter new markets soon. It is probable that the entry mode will be the same as previously be, since it is a steady move for the company.

Mr. B indicated that SF Express has a big desire for globalising, and what internationalization has been done by now is just a start. To provide better services is always the principle of the company. Mr. B said, SF Express is a company that has ethnic thinking. It has turned down many requirement of acquisition from large logistics MNEs, such as FedEx and UPS, in early years. SF Express believes it can be a leader in the logistics industry all over the world as a Chinese-based company. Due to this ethnic mind set, SF Express has its own plans entering into new foreign markets.

Still, it has to concentrate on the business in the Chinese market for a while, since it is just in the start-up phase in the global territory of SF Express.

Both Mr. A and Mr. B showed optimistic attitudes toward SF Express's prospects in internationalization. Although it seems to be in a disadvantageous situation when compares with UPS and DHL, it still has its advantages. Both the interviewees believe that in the future, SF Express will become an internationalized logistics-services-provider with clear goals and positioning.

6.2.3 Process of decision-making

It seems slightly improper to have this question, "What is the process of decision-making at SF Express", as the third question. However, this question aims to find out the most important operating conditions, as well as the corporate culture and management approach. These factors are vital to a company, especially to a company that tries to expand overseas, as they are decisive in the selection of entry mode facing a new market. To some extent, they impact the operating of a company.

For this question, Mr. A and Mr. B have almost the same answer. As a private company, the decision-making process is dominated by the founder, Mr. Wang Wei, and his several senior executives. Nevertheless, most strategies are set and tactics made, as well as most decision-making concerning the prime direction of SF Express, are from Mr. Wang Wei's brain. Simply put, Mr. Wang Wei is not only the founder of SF Express, but also the spiritual leader among SF Express's 240,000 staff. It is an actual depiction that SF Express is highly centralized.

The reason for central control is obvious: to hold the company tightly so that it can develop as the way Mr. Wang Wei wants, as Mr. A said. Actually it is quite common in private companies in China. Mr. B added that the reason why SF Express refused the acquisitions by those two logistics giants is that Mr. Wang Wei prefers to hold the most shares so that he can truly control the company. Moreover, SF Express also turned

down several requirements of financing for the same reason. Another reason for the decline is that Mr. Wang Wei wants to develop the company in logistics with undivided attention, instead of caring for the interests of the shareholders.

All in all, the process of decision-making at SF Express is very concentrated to a single person regarding the decisions that outline the direction of SF Express's development. Nonetheless, Mr. A argued, centralized control and company-owned mode of branches could be a strong power when exploring new markets.

6.2.4 The relationship network

The fourth question is about the relationship networks of SF Express, "What kind of attitude does SF Express show in dealing with various relationship networks, for example, does it have a good relationship with the government?" The reason why this question is asked is that as a successful company in China, the company has to have some skills dealing with the relationship with the government or other related companies. Also, from this question can be estimated the capability of SF Express to perform in new circumstances.

Mr. A admitted that SF Express has a good relationship with the local government in earlier time when SF Express was founded. Mr. Wang Wei paid much attention to build the relationship network since the company started to run its own business. Mr. A answered, it is always important for a logistics company to have a good relationship with the local government in China, since there still remains bureaucratic thinking in the government in many places. Also, logistics companies often have dealings with governmental organizations, such as customs. Mr. Wang Wei became aware of this long ago.

Mr. A told a story about SF Express: Prior to the handover of sovereignty of Hong Kong in 1997, a state-owned company, China Railway Express (CRE), wished to open a market in Hong Kong in railway transport, but the person sent to negotiate was

eventually declined by the local customs. CRE learned that there is a local company that has a monopoly of most business all through Hong Kong and Mainland China. Even if CRE opened this line, it could not get enough supply. This company was SF Express.

Mr. B also showed a certain attitude toward SF Express's strategy of relationship network. He indicated that, Mr. Wang Wei clearly knows what is more important than money: mastering core resources and building relations with the government. Many investors have contacted SF Express previously hoping to share a part of it. Mr. Wang Wei has declined most of them, and finally picked out three. These three financiers have certain state-owned backgrounds, including resources of bank loans, and of sea transport or air transport. Thus, he prefers to see these financiers as collaborative partners, as a part of SF Express's relationship network.

As for the competitors in the Chinese market, both Mr. A and Mr. B pointed out that SF Express intends not to compete with many competitors in a certain target market. SF Express tried to uncover its own target market so that customers can distinguish it from others. With the friendly competitive relationship, SF Express can develop quickly without being trapped by competition.

6.2.5 Opinions to Brazilian market

When it comes to the question about Brazilian market, "Based on the situation now, in which way do you think SF Express will enter into the Brazilian market", the question is mere straight forward. This question aims to gain an understanding of SF Express's opinion about Brazil.

Brazil is not an unknown area to SF Express, as Mr. A said. As the largest country in Latin America, also with the largest population, Brazil might be on the future business territory of SF Express. Because of the fact of growing fast, Brazil has been listed onto the plans of many internationalized firms. China and Brazil are both developing

countries, but also two of the few GDP growing regions in the globe. At the moment that expressing services strive to maintain a stable amount of business all over the world, the amount of business in Chinese and Latin American markets is gradually increasing. According to the relevant data last year, the amount of DHL courier services between China and Latin America grew 42%. Meanwhile, Mr. A pointed out, industry analysts expect that in the next 10-15 years, the amount of express services in China and Latin America will continue to grow.

However, he has also pointed out that the infrastructure of Brazil is not as good as developed countries. The same point of view was expressed by Mr. B. They indicated that although there is a relatively high growth speed in the Brazilian market, lacking of construction of infrastructure will be an obstacle when developing business in Brazil. And also, the incomplete market system and bureaucratic government would bring difficulties when exploring the market.

Mr. B pointed out that there are a large number of overseas Chinese in Brazil as well. If SF Express wants to enter into Brazil someday, the overseas Chinese would probably be the target market to some extent, as SF Express had the same approaches in other countries. In his opinion, he thinks Brazil is a good new objective, since the fast growing rate of Brazilian economy means considerable capacity of that country. To some extent, a developing country is easier to enter than the developed countries. Also, as for brand building, it is also easier to help customers to form a positive impression in the developing markets.

Mr. A further pointed that though SF Express is an innovative company indeed, it will not easily step out unless it masteres adequate resources or built up enough networks in Brazil, as Wang Wei is a calm and steady person.

6.2.6 Situation of capital and funds

The final question aims to know whether SF Express has good conditions in profiting, and whether it is able to internationalize. The question is “Does SF Express have the capability—i.e. enough funds and capital to expand?” Furthermore, this question can demonstrate us the operating situation of SF Express.

Both of Mr. A and Mr. B had positive answers. Mr. A said that SF Express has almost one fifth of the whole Chinese market, which is just in the delivery business. Although the cost of air transport is much higher than of other transport approaches, it still has an immense market. Moreover, SF Express accepted three investment companies in 2013 for financing. The estimated financing amount is around 8 billion Chinese Yuan. As for the markets overseas, SF Express pays a lot of attention on them as always. Once it is ready for expanding to another new market, it will undoubtedly expand.

Mr. B mentioned that the turnover of SF Express exceeded 20 billion Chinese Yuan. However, the revenue rate is relative low. SF Express needs money to develop new products such as its own e-commerce platform, SF Best, and SF Airline. With the financial support from those three “strategic partners”, as SF Express calls, the financial situation will get better.

Moreover, SF Express never saved money on what it wants to do. Mr. B raised an example of its technology-oriented style: purchasing HHTs for every courier and setting up a data and information center for supporting and improving the services. Hence, SF Express spends lots of funds for its own technological R&D and product development every year, as well as for uncovering new markets—these three are essential expenses of SF Express.

6.2.7 Summary of interviews

With relatively stable market share in the Chinese market, SF Express has started to expand international business operations since 2006. Uncovering markets and positioning itself are the aims as SF Express targets, and targeting on the overseas Chinese is the first step in internationalization. The next step for SF Express would probably be developing more products that met the local market demands.

Also, SF Express has clear ideas about internationalization in the future. It has huge territory plans for future globalising, since what has been done so far is just a small area of the world. People showed optimistic attitudes toward SF Express's extension over the world. However, SF Express prefers to have adequate preparations before entering into a new market, such as enough funds and completed network. In addition, SF Express intends to move steady when internationalizing and thus, it is probable for the company to have the same strategy toward another new market to some extent.

As for the internal situation, the process of decision-making is quite centralized at SF Express. The senior executives and the founder of the company hold the highest power of decision-making. Moreover, most primary decisions concerning direction of developing come from Mr. Wang Wei. Wang Wei is the real entrepreneur and, at the same time, the spiritual leader in this company. In fact, it is quite common for private companies to be highly centralized in China, for easier management. This might give an explanation for why SF Express declined acquisitions from multinational logistics companies, or investments from most investors.

When it comes to the external networks, SF Express shows endeavor in this area as always. Since the establishment in 1993, the company has realized the importance of external network. SF Express has always had a good relationship with the local government in China. Mastering core resources and building good relationship network are greatly recognized in SF Express's strategy. Also, well-working competitive

relationship with competitors supports the company's development. Thus, it could be a huge competitive advantage when expanding business overseas.

Apparently, there is positive opinion to the Brazilian market at SF Express. As the largest market in Latin America, Brazil is on the list of future plans for SF Express. In addition, there is a huge population of overseas Chinese in Brazil, who would be the target market of SF Express when it starts the business in the new market. Although there are obvious drawbacks in the market, such as poor and uneven infrastructure construction, an undesirable bureaucratic government and an incomplete market system, it is still of big capacity.

At last, about the financial capability, SF Express does very well and has been profitable for several years. In order to develop more products and invest more capital into the areas SF Express pays most attention to, the company finally accepted external investment from several investors. SF Express does not loss money, but in this way it means the company will gain more funds and more possibilities on developing its technological activities, as well as uncovering new markets and broadening business.

6.3 SWOT Analysis

With the results of interviews and information collected from other sources, it is possible to evaluate the movements of SF Express in entering the Brazilian markets. Other than assessing the probability entering into Brazil by SWOT analysis, a suggestion of entry mode will also be given.

6.3.1 Analysis

Figure 6.1 shows the SWOT analysis entering into the Brazilian market by SF Express.



Figure 6.1 SWOT Analysis of SF Express entering into the Brazilian market

Strengths

Fast-speed and high-quality services. SF Express put efforts on the improvement of speed by establishing network connections, utilizing the high-tech data computing system and investing much on R&D, both inside China and outside China. The technology-oriented mode assures its fast speed and safe delivery, which are definitely core competitive advantages of SF Express.

Effective and efficient management. So far, the 7800 branches of SF Express in China and overseas are all company-owned—that means, the company has tight control of every branch in every region, and each courier is a member of SF Express. For the branches overseas, SF Express entered the markets by setting up sole ownership subsidiaries. This could ensure that the command and guidance from the headquarters are executed by branches to the greatest extent.

Good sense of uncovering markets and positioning. In China, SF Express started to explore its own target market long ago, trying not to overlap business with other competitors. In the overseas markets, SF Express also tried to find out the breakthrough point when entering new markets, such as focusing on overseas Chinese. Besides, with steady steps, SF Express always prepares well before making new entries, as enough researches and inspections are foundations for good positioning.

Good relationship with local government. It has been proved that SF Express is able to establish good relationship with the local governments. This capability is vital when going into a new market—there are always great benefits in being on good terms with the government, especially for bureaucratic governments in hierarchical societies.

Financial supports. With the new financial investments, SF Express has relatively adequate funds expanding business overseas. Undoubtedly, substantial money would facilitate SF Express's internationalization.

Weakness

A relatively small company. Although SF Express impressed the Chinese market, earning sizable profit every year, and expanded to several countries, it is still a small company comparing with multinational logistics giants. Small size refers to a lack of influence and low brand awareness, which means difficulties in gaining share overseas.

Lacking of internationalizing experience. SF Express just started its internationalization in 2006. It is much earlier than the other Chinese logistics companies did, but much late comparing to other international logistics giants. In such short the period from 2006 to today, SF Express has gained little experience exploiting international networks or other resources. Also, SF Express suffers a lack of experience in international operations.

Single service provided in overseas markets. Since the stable strategy and specific target market, SF Express has only an offer of service when entering a new market, the delivery service. After the amount increased in this market, SF Express would try to develop new product. During the start-up period, only one service provided might create less influence in the market, making the growing speed slow to some degree.

Opportunity

Big market with fast growth. Brazil is the largest country in Latin America, with 200 million-population which is also the largest size among the Latin American countries. Brazilian market is one of few growing markets in the world. Huge market potential provides opportunity for SF Express entering into the market. Additionally, the demand for express and courier services is increasing with market growth. This great demand can also help SF Express survive in the market at the start-up period.

Large number of overseas Chinese. There are a large number of overseas Chinese in Brazil, more than 156 thousand. In previous expansion of SF Express, it targeted on overseas Chinese, primarily providing services between China and residential Chinese. A large number of overseas Chinese in Brazil offers SF Express the same strategy execution, being as backup of the company's survival in the new market—overseas Chinese is the stepping stone for this new market.

Market improvement from government. As a member of BRICs, Brazil has caught a lot of attention in the recent years. However, Brazil suffers from poor infrastructure and incomplete system for a long time, as we all known. However, in order to change this situation, Brazilian government has made efforts to improve the investment environment for several years. The more and more sound circumstances provide SF Express with better solutions to entering the market.

Threat

Existing strong competitors. The Brazilian market is not an unknown market to the world, at least not to the logistics giants. They have vigorously entered into Brazil many years ago; thus, they have strong power in the market, with accumulation over many years. Comparing to them, SF Express is undoubtedly small size, and is new to the already shared market. It could be a strong threat when SF Express is facing the competitors, and wants to have its share of the market.

Poor infrastructure and incomplete market. Complicated terrain in Brazil results in unbalanced development, both in economic and in population growth. To some extent, poor infrastructure does impact a company's development, especially a logistics company that relies nearly on infrastructure more. Moreover, imperfect government regulation and an incomplete market system can also hinder a company's extension in the market.

6.3.2 Discussion

With the help of the SWOT analysis, it is possible to clearly understand the current situation of SF Express. The strengths of the company are obvious and advantageous, covering from physical performance to intangible property. The weaknesses are also noticeable, including the relatively low brand awareness and influence. Moreover, lacking of experience of operating overseas with single service provided would also impact the company's development.

For the opportunities in the Brazilian markets, SF Express relies on them. A huge market with fast growth is a good environment for developing a business. Many overseas Chinese can also be the target group, as a breakthrough point to the market. However, the Brazilian market is incomplete with poor infrastructure, which might hinder SF Express's development as well. In addition, the competitors operating in Brazil are great obstacles for the company gaining a market share.

However, though the external barriers would hamper SF Express's developing to some extent, and the obvious weaknesses of case company would drag its process, the strengths of it are considerable for opening the new market, let alone great opportunities the market provides. Simply put, it is worthy trying to enter into the Brazilian market in an active and positive way.

Internal factors and external factors both affect SF Express's entry into Brazilian market. When it comes to the choice of entry modes, as Ekeledo and Sivakumar (1998) indicated, generally there are two entry modes for soft services companies: sole ownership and joint venture. With earlier expanding experience, SF Express intends to establish a wholly owned subsidiary, either in Southeast Asia or in the United States. Thus, when entering into the Brazilian market SF Express could make the same decision. Sole ownership is good for a logistics company with a technology-oriented mind. Owning a wholly owned subsidiary in Brazil can quickly develop own networks, which SF Express pays much attention to. In addition, with the financial support from investors, SF Express can receive better assistance when establishing the branch in Brazil.

In the words of Parmentola (2011), "Chinese firms intend to survive when they first step into a new market". Since the market in Brazil is not well-developed, and SF Express lacks brand awareness over the market, SF Express has to find a special but stable way to make its market entry. Hence, the strategy of targeting on local Chinese people is good point.

The Brazilian market is underdeveloped, with bureaucratic government and less rational regulation. Fortunately, SF Express has familiar experience of building a good relationship with the local government. Relationship and network building are also indispensable elements in SF Express's strategy. Although SF Express has the awareness of noticing the problem, the markets between China and Brazil are different. Hence, the company should pay more effort into the relationship work.

Therefore, from the perspective of surviving in the Brazilian market, SF Express could select a steady advancement by choosing the entry mode of a sole ownership, and then focus on the overseas Chinese first. Setting up good relations with the local government is what SF Express has to work on at the same time.

7. CONCLUSION

7.1 Answers to research problems

This thesis has chosen a case company for studying its internationalization process. For a specific market, things cannot be generalized. This study evaluated the movement of the case company into the Brazilian market, and gave suggestions for choosing an entry mode as well as market positioning.

As for the main research problem raised in chapter one, the study here gives a certain answer by solving the three sub-questions: current situation of SF Express, market background of Brazil and primary strategy of development of the case company.

Based on the individual interviews with executives of the case company, much information was collected and analysed. With analysing the current situation of SF Express by using a SWOT analysis, the study found that apparently the strengths and opportunities faced are more valuable than the weaknesses and market threats. To expand the business to Brazil is of risk, but also of a possible high return at the same time. In addition, with the support internally and externally, entering into a new market would become easier.

Choice of entry mode is also one part of the research objective. As a logistics company, SF Express has its own ideas about internationalization. From the interviews, it is learnt the process of decision-making and part of corporate culture in the company, and understand why SF Express chooses to set up company-owned branches in China. In fact, in the overseas market, SF Express has been using the same strategy as a result of influence from the decision maker.

Owning sole-ownership branches overseas can ensure a service company tight control the service provided. Especially for the case company, there has been much technological know-how, which is firm-specific and a competitive advantage. With

sole ownership a company can avoid the risk of leaking know-how. For SF Express, since it got financial support for developing and expanding, with the additional potential resources of investors, it does not suffer much stress from lack of money. Thus, it is better for SF Express selecting sole ownership as its entry mode.

7.2 Suggestions

Since it is accessible to enter into the Brazilian market, SF Express would consider how to reach higher profits and gain more market share. Based on the interviews and SWOT analysis, to exert the strength and exploit the opportunities are the best strategy for SF Express.

Firstly, establishing good relations with the local government is important. Brazil is a developing country facing the same problem of bureaucratism and governmental supremacy as China. Thus, to have good relation with the government is considered as a great assistance to business. SF Express has the experience of dealing with relationships, which is definitely a competitive advantage that should be exerted. This would require more input, no matter on the capital or human resources.

Secondly, the focus should be on the market. Because of strong competitors, SF Express cannot gain market shared immediately. At this point, SF Express has to develop in its own way—find its own target market, and finish positioning. Overseas Chinese are a large group of customers in Brazil around 150,000. SF Express can focus mainly on this group first. Since the brand awareness of SF Express is high in China, some overseas Chinese might have heard of it, or even used it in China before. On the other hand, most overseas Chinese have a national mind set, which urges them support companies from China as a priority. This phenomenon assists Chinese companies in growing, and full applies to SF Express.

Since the special geographical economy of Brazil, locations of the branches could be beneficial to choose from the developing cities, such as São Paulo and Rio de Janeiro.

With a relatively larger population and better infrastructure, business would be easier to start. In addition, there are more overseas Chinese in largest cities, providing better environment for SF Express in the start-up phase.

At last, to build up the brand should be done. Comparing to other competitors in the Brazilian market, SF Express is unfamiliar with local residents. After first targeting the overseas Chinese group, it is better for the company to build its brand awareness in the market. Although there are many overseas Chinese in Brazil, they cannot fulfill SF Express's development in a long period. Thus, it is necessary to increase brand awareness in Brazil, looking for other target groups as well. Also, to provide more products is a good approach in attracting customers. From a longer-time perspective, the value-added services provided in Mainland China can be copied into the Brazilian market as well.

REFERENCE

Ahokangas, P. (1998), "Internationalization and resources: an analysis of processes in Nordic SMSs", doctoral dissertation, Universitas Wasaensis, Vaasa.

Amal, M. and Filho, A.R.F. (2010) "Internationalization of small- and medium-sized enterprises: a multi case study", *European Business Review*, Vol. 22 No. 6, 2010, pp. 608-623.

Bartlett, C.A., & Ghoshal, S. (2000). *Transition management: Text, cases, and readings in cross-border management*. (3rd ed.) Singapore: Irwin McGraw-Hill, (Chapter 1).

Calof, J. and Beamish, P.W. (1995), "Adapting to foreign markets: explaining internationalization", *International Business Review*, Vol. 4 No. 2, pp. 115-31.

Carneiro, J., Rocha, A., and Silva, J.F. (2008), "Challenging the Uppsala Internationalization Model: a Contingent Approach to the Internationalization of Services", *BAR*, Curitiba, v. 5, n. 2, art. 1, p. 85-103.

Child, J., Ng, S.H. and Wong, C. (2002), "Psychic distance and internationalization: evidence from Hong Kong firms", *International Studies of Management & Organization*, Vol. 32 No. 1, pp. 36-56.

Community Tool Box, (2014) Available on the internet: < URL: <http://ctb.ku.edu/en/table-of-contents/assessment/assessing-community-needs-and-resources/swot-analysis/main> >

Dawson, C. (2002), *Practical Research Methods*, New Delhi, UBS Publishers' Distributors

DHL Logbook—Brazil (2014), Available on the internet: <URL: <http://www.dhl-discoverlogistics.com/cms/en/course/trends/america/brazil.jsp> >

Dunning, J. H. (1979) "Exploring Changing Patterns of International Production. In Defense of the Eclectic Theory" *Oxford Bulletin of Economics and Statistics*, 41 (4), pp. 269-295

Ekeledo, I. and Sivakumar, K. (1998), "Foreign market entry mode choice of service firms: A contingency perspective", *Academy of Marketing Science. Journal*; Fall 1998; 26, 4; ABI/INFORM Complete, pp. 274

Erramilli, M. K. (1991) "The Experience Factor in Foreign Market Entry Behavior of Service Firms", *Journal of International Business Studies*, 22(3), pp. 479-502

Gjellerup, P. (2000), "SME support services in the face of globalisation", concerted action seminar, Opening address, Conference Proceedings, Danish Agency for Trade and Industry, Copenhagen, pp. 16-28.

Glaister, K.W. and Falshaw, J.R. (1999), "Strategic planning still going strong", *Long Range Planning*, Vol. 32 No. 1, pp. 107-16.

Helms, M.M. and Nixon, J. (2010) "Exploring SWOT analysis –where are we now? A review of academic research from the last decade", *Journal of Strategy and Management*, Vol. 3 No. 3, 2010, pp. 215-251.

Hill, C. W. L (2009) *International Business* (7th ed.), McGraw- Hill Education, 2009

Hollensen, Svend (2001) *Global Marketing: A Market-Responsive Approach*. Harlow: Prentice Hall.

Jeannett, J-P. and Hennessey, H.D. (1998) *Global Marketing Strategies*. Boston: Houghton Mifflin.

Johanson, J. and Mattsson, L.-G. (1993), "Internationalization in industrial systems – a network approach, strategies in global competition", in Buckley, P.J. and Ghauri, P.N.

(Eds), *The Internationalization of the Firm: A Reader*, Academic Press, London, pp. 303-22.

Johanson, J. and Vahlne, J. (1977), "The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments", *Journal of International Business Studies*, 8, 1977, pp. 23-32 .

Johanson, J. and Vahlne, J.-E. (1990), "The mechanism of internationalization", *International Marketing Review*, Vol. 7 No. 4, pp. 11-24.

Johanson, J. and Wiedersheim-Paul, F. (1975), "The internationalization process of the firms: four Swedish case studies", *Journal of Management Studies*, Vol. 12, pp. 305-22

Joppe, M. 2000. *The Research Process*. Accessed 25.02.1998. <http://www.ryerson.ca/~mjoppe/rp.html>

Kontinen, T. and Ojala. A, (2010) "Internationalization pathways of family SMEs: psychic distance as a focal point", *Journal of Small Business and Enterprise Development*, Vol. 17 No. 3, 2010, pp. 437-454.

Learned, E.P., Christiansen, C.R., Andrews, K. and Guth, W.D. (1969), *Business Policy: Text and Cases*, Irwin, Homewood, IL.

Lincoln, Y. S., & Guba, E. G. (1985) *Naturalistic inquiry*, Beverly Hills, CA: Sage. pp.300

Lommelen, T. (2004), *A Learning Perspective On Internationalization: Progression in the Internationalization of Logistic Services Providers*, Germany: Limburgs Universitair Centrum.

Madsen, T.K. and Servais, P. (1997), "The internationalization of born globals: an evolutionary process?", *International Business Review*, Vol. 6 No. 6, pp. 551-81.

Multinationals: Determinants and Evolution”, *International Journal of Management* Vol. 28 No. 1 Part 2, pp. 369-395.

Neuman, W. L. (2000) *Social research methods – Qualitative and quantitative approaches*, Allyn and Bacon Pub (4th ed.)

Nordström, K.A. and Vahlne, J.-E. (1994), “Is the globe shrinking? Psychic distance and the establishment of Swedish sales subsidiaries during the last 100 years”, in Landeck, M. (Ed.), *International Trade: Regional and Global Issues*, St Martin’s Press, New York, NY, pp. 41-56.

Oviatt, B.M. and McDougall, P.P. (1995), “Global start-ups: entrepreneurs on a worldwide stage”, *Academy of Management Executive*, Vol. 9 No. 2, pp. 30-44.

Parmentola, A. (2011) “The Internationalization Strategy of New Chinese

Reid, S.D. (1981), “The decision-maker and export entry and expansion”, *Journal of International Business Studies*, Vol. 12 No. 2, pp. 101-12.

Root, F.R. (1987), *Entry Strategies for International Markets*, Lexington Books, Lexington, MA

Ruzzier, M., Hisrich, R.D., Antoncic, B. (2006) “SME internationalization research: past, present, and future”, *Journal of Small Business and Enterprise Development*, Vol. 13 No. 4, 2006, pp. 476-497.

Schüler-Zhou, Y. and Schüler, M. (2009), “The internationalization of Chinese companies—What do official statistics tell us about Chinese outward foreign direct investment?”, *Chinese Management Studies*, Vol. 3 No. 1, 2009, pp. 25-42.

Seale, C. (1999) “Quality in qualitative research”, *Qualitative Inquiry*, 5(4), 465-478.

SF Express Website (2014), Available on the internet: <URL:
<http://www.sf-express.com/cn/en/> >

Snap Survey—Quantitative research (2014), Available on the internet: <URL:
<http://www.snapsurveys.com/qualitative-quantitative-research/> >

Sousa, C.M.P. and Bradley, F. (2006), “Cultural distance and psychic distance: two peas in a pod?”, *Journal of International Marketing*, Vol. 14 No. 1, pp. 49-70.

Stier, J. (2002), “Internationalization in higher education: unexplored possibilities and unavoidable challenges”, paper presented at the European Conference on Educational Research, University of Lisbon, 11-14 September 2002.

TNT Express Website (2014), Available on the internet: <URL:
<http://www.tnt.com/portal/location/en.html> >

Welch, L.S. and Luostarinen, R. (1999), “Internationalization: evolution of a concept”, *Journal of General Management*, Vol. 14, pp. 36-64.

Wikipedia—América Latina Logística (2014), Available on the internet: <URL:
http://en.wikipedia.org/wiki/Am%C3%A9rica_Latina_Log%C3%ADstica >

Wikipedia—Brazil (2014), Available on the internet: <URL:
<http://en.wikipedia.org/wiki/Brazil> >

Wikipedia—DHL Express (2014), Available on the internet: <URL:
<http://en.wikipedia.org/wiki/Dhl> >

Wikipedia—SWOT analysis (2014), Available on the internet: < URL:
http://en.wikipedia.org/wiki/SWOT_analysis >

Wikipedia—Vale S.A. (2014), Available on the internet: <URL:
http://en.wikipedia.org/wiki/Vale_S.A.>

Winter, G. (2000). A comparative discussion of the notion of validity in qualitative and quantitative research. *The Qualitative Report*, 4(3&4). Retrieved February 25, 1998

Appendix 1

Open-ended questions for interviews in Chinese

- 1 在较早的时候，为什么顺丰速运就开始往国外发展了？
- 2 顺丰速运有计划进军其他国家吗？
- 3 在顺丰速运里，做决策的流程是什么？
- 4 顺丰速运对于关系网络的处理是什么样的态度？比如说，它与政府的关系好吗？
- 5 基于现在的状况，你认为顺丰速运会采取什么样的方式进入巴西市场？
- 6 顺丰速运有能力扩张吗——也就是说，它有足够的资本吗？

Appendix 2

Open-ended questions for interviews in English translation

- 1 Why SF Express started expanding abroad in the past?
- 2 Does SF Express have plans to expand to other countries?
- 3 What is the process of decision-making in SF Express?
- 4 What kind of attitude does SF Express show in dealing with various relationship networks, for example, does it have a good relationship with the government?
- 5 Based on the situation now, in which way do you think SF Express will enter into the Brazilian market?
- 6 Does SF Express have the capability—i.e. enough funds and capital to expand?