

International Business

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Abstract

This assignment provides a business model and analysis for the entry of CiboExpresso into the Chinese café market. In a country dominated by and culturally intertwined with tea, China has a substantial growth projection of 18% for coffee. The market risk for business model has been analyzed. It has been found from the assignment that as it is a small size organization, it will not be able to make high capital investment. Hence, acquisition and Foreign direct investment is not possible for the company. On the other hand franchising requires less capital investment. In addition, this market entry strategy has more control than licensing. Hence this market entry strategy is most suitable for CiboExpresso.

Some recommendations have been provided to the company. The company needs to focus on all important aspects of market entry like product, price, promotion and place. The company needs to focus on developing effective relationship with local coffee suppliers of China and various governmental bodies. The company also has to focus on product quality and service to attract Chinese consumers.

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1. Introduction

In this report, a business model has been developed for the company CiboExpresso. It is an established coffee brand of Australia. It has been found that, CiboExpresso has 33 stores across various locations of Australia (CiboExpresso, 2016). Due to the increased demand of coffee, the company has decided to expand its business operation in China with the help of its franchisee business model. It has been assumed that 4.5 billion cup of coffee would be consumed in the country China every year and the growth rate is 18% (Craymer, 2015).

The business strategy for the company has been developed. In this business strategy, business objectives and goals of the organization have been provided along with rationale behind selecting this particular business model. The risk analysis for the business model has been done with the help of SWOT analysis, PESTLE analysis, ROOT market analysis and CAGE model. Market entry strategy for the CiboExpresso has been discussed. In this section attention has been provided to key issues related with leadership, marketing and human resource management. The financial risk for the company has also been analyzed. Finally some recommendations have been provided so that business model of the organization can be improved.

2. Business strategy

In this section the business strategy adopted by the organization CiboExpresso has been discussed. The rationale behind selecting China for business expansion has been discussed in this section along with business objectives and goals. **Since China is a booming economy and has an enormous production and trade, business meetings are held during the day. A peoper place is required for such informal and formal meetings. CIBO would provide such a place and an**

environment. Risk for the business strategy has been analyzed with the help of SWOT analysis, PESTLE analysis, ROOT market analysis and CAGE model.

2.1 Business objectives and goals

The primary business objective of the company CiboExpresso is to open ten stores in some tier 2 cities of China like Nanking, Tianjin, Wuhan and Chengdu during the first year. In the first year, the company will target top gather market knowledge rather than high profitability. It will also help the consumers to become familiar with the brand CiboExpresso. The company has selected tier 2 cities as they have less labor cost and real estate cost than tier one cities like Beijing and Shanghai. **Moreover, the population and technological development of these cities is high. The geographical location of these cities makes them the vise center and gate of China.** In the next two years, when the management of CiboExpresso is able to gather ample market knowledge then they will look to open 10 new stores in Tier 1 cities of China like Beijing and Shanghai and look to increase profitability.

It is the goal of Beijing and Shanghai to offer a memorable experience to the customers who will come to have their coffee at CiboExpresso. The company is trying to make the store as a destination for coffee lovers, where they can spend their quality time with their loved ones while enjoying coffee with cookies. It has been found that peoples of China like to have their tea or coffee in a quiet and tranquil space (Arenas, 2016). Hence, CiboExpressowil try to develop a calm and soothing environment for the customers. The menu offering will be finely tuned; It will be a balance between the Italian Coffee style with Chinese palate.

2.2 Business model

The company CiboExpresso has planned to enter the Chinese market using franchise model. The major advantage of using this model is that it requires less capital investment. However, just like any other business model it requires to gather market knowledge. For this reason, at first the company is opening 10 stores in tier 2 cities of China. It will help them to gather ample business knowledge. After that, when they will become familiar with the Chinese market, they will open another 10 stores in tier 1 cities of China.

2.3 Rationale

It has been found that franchise brands are developing significantly in China over the last 15 years. From various survey analyses, it has been found that in the year of 2010 there are more than 120 international companies operating in China and there are more than 111,400 franchise store exits in China (National Bureau of Statistics of China, 2014). There are various reasons for which CiboExpresso should select Chinese market.

- ***Consumer class is expanding fast***

It has been found that middle and upper class customers of China can afford to purchase products more than their basic necessities. D'Altorio(2013) stated that, there are many people in China who want to show their wealth by product choice. For example, they like to buy expensive foreign branded coffee to show their status level in society (Arenas, 2016).

- ***International brands are highly regarded in China***

Most of the Chinese customers like to buy products from international brands to their improved quality of products, customer service, and convenience (Barlow, 2013a). It is highly applicable for food and beverage industry.

- *Second and third tier cities are open to franchising*

It has been found that, first-tier cities like Shanghai offers enhanced infrastructure along with business friendly government and internationally standard amenities. These types of cities are easier to enter for newcomers. However, cost of real estate and labor is high in these cities. For this reason, CiboExpresso can select second tier cities of China to expand its business. The second tier cities of China have million of potential customers. In addition, labor and real estate cost of these cities are lower compare to first tier cities of China. Companies like KFC and Papa Jhon's have followed these business trends and started their business in second and third tier cities of China (Barlow, 2013b). CiboExpresso also needs to follow this **trend of alliance with local and international franchisee** to expand its business in China.

2.4 Risk Analysis

2.4.1 PESTLE analysis

<p>Political</p>	<ul style="list-style-type: none"> • The trade relationship between Australia and China is strong. The exchange of prime ministerial dialogue between the two countries has been a high point in the political relationship. • China has entered the World Trade Organisation (WTO).
<p>Economic</p>	<ul style="list-style-type: none"> • The GDP of China has grown from 7.7% to 7.8% from 1999 to 2013 (National Bureau of Statistics of China 2014). • It has been found that the growth rate of

	<p>the disposable income in the Urban area of China is high (Chung, 2014).</p>
Social	<ul style="list-style-type: none"> • In recent years the acceptance of modern trends like coffee culture has been increased in China (Kogetsidis, 2012). • With the change of people's lifestyle coffee consumption rate in China has increased by over 16% compared to the last decade (Shaw, 2015).
Technological	<ul style="list-style-type: none"> • Implementation of e-commerce can help the company to meet the needs of Chinese customers. • CiboExpresso can combine the store experience with online service to improve business operation (Hull, 2012).
Legal	<ul style="list-style-type: none"> • The Chinese government is focusing on improving the legal systems. It includes areas such as protection against unfair competition, protecting rights of consumers, protecting patent (Këllezi, 2013). It has made business easier for companies like CiboExpresso in China.
Environmental	<ul style="list-style-type: none"> • In order to do business in China, the company needs to focus on corporate social responsibility. The company needs to

	<p>concentrate on the sustainable development of the coffee cultivation system in China.</p> <ul style="list-style-type: none"> • CiboExpresso should avoid using paper cups to reduce waste just like company Starbucks.
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Figure 1: PESTLE analysis of CiboExpresso

(Source:Chung, 2014)

2.4.2 SWOT analysis

<p><i>Strengths</i></p>	<ol style="list-style-type: none"> 1. The company provides high value to the customers and the employees. The company creates a culture of warmth and belonging where every customer is welcomed (Craymer, 2015). 2. The company is very careful about maintaining quality of coffee products. The company has strong market position in Australia that will help the company to expand its business in China. 3. The company has a strong brand value. 4. It is a strong competitor in Australia. 5. It is one of the fastest growing companies in Australia.
<p><i>Weakness</i></p>	<ol style="list-style-type: none"> 1. The company has set high price for its

	<p>products due to its high quality. The company has to improve pricing structure. The company needs to understand that people cannot afford to pay \$4 for a single cup of coffee.</p> <ol style="list-style-type: none"> 2. The Chinese government has increased the amount of tax and the minimum wage amount that make it more challenging for the company.
<p><i>Opportunities</i></p>	<ol style="list-style-type: none"> 1. The company can increase its product mix and add different types of juices to attract customers in China. It can include noodles, sushi and other cheap range of healthy breakfast in the store. 2. The company can introduce a new method of delivery system in China named as “mobile pour.” It can be a great opportunity for the company to enhance its distribution channel in China and gather high revenue. It can incorporate drone system for delivery. 3. The company continues to introduce new products to gather attention of all age groups. These products include Smoothies, Frappuccino beverages, tea, different types

	of coffee and pastries.
<i>Threats</i>	<ol style="list-style-type: none"> 1. Increased amount of competition is one of the biggest threats for the company CiboExpresso. Renowned brands like Starbucks already has gathered 15% market share in China (D'Altorio, 2013). 2. The increase of price of coffee beans is possessing great threat for the organization.

Figure 2: SWOT analysis of CiboExpresso.

(Source:)

2.4.3 ROOT market entry analysis

Mode	Advantage	Disadvantage
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Licensing	<ul style="list-style-type: none">• Proper registration would create no bar in exporting or importing products. Delegates would also have a hassle free experience.• Proper documentation and licensing would ensure a smooth running at present as well as in the future.• The company will be out of any legal cases.	<ul style="list-style-type: none">• The process of licensing is time consuming.• Slow processing would lead to late entry in the market.• This may incur some losses but would be beneficial in the long run.
Franchising	<ul style="list-style-type: none">• Offers independence• High rate of success• More security of finance• Franchises have an established image and reputation, ongoing support, and work practices.	

Joint Venture	<ul style="list-style-type: none"> • More access to distribution networks, greater resources such as technology, specialized staff, and finance, and new markets • Enables growth without borrowing funds. • Do not have to hunt for customers. • More flexible 	<ul style="list-style-type: none"> • Medium amount of capital investment is required • Relationship with partner highly matters • Capital recovery is tough
Acquisition	<ul style="list-style-type: none"> • Local knowledge can be gathered • Market entry is faster than any other mode 	<ul style="list-style-type: none"> • High risk of failure • Complexity related with purchasing existed
Foreign Direct Investment	<ul style="list-style-type: none"> • Potential of high profit • More control over brand and business operation • Local knowledge can be gathered 	<ul style="list-style-type: none"> • Require high capital investment • Requirement of highly capable management team • High political risks • High level of complexity

Figure 3: ROOT market entry analysis of CiboExpresso

(Source:)

After making the Root Market Entry Analysis, it has been found that franchising market entry model is most suited for the company CiboExpresso. As it is a small size organization, it will not be able to make high capital investment. Hence, acquisition and Foreign direct investment is not possible for the company. On the other hand franchising requires less capital investment. In addition, this market entry strategy has more control than licensing. Hence this market entry strategy is most suitable for CiboExpresso.

2.4.4 CAGE model

It has been found that CAGE model had been developed by Pankaj Ghemawat. Four factors have been provided in this model that help to understand the challenges that a company has to face while entering a new market. They are discussed below in a table:

Cage Model	
Cultural distance	It has been found that the difference between language, social and cultural value of Australia and China is huge. Cultural differences create impediments in the process of negotiation. It influences the way people think and negotiate. For instance, one culture may consider signing a contract important. For another culture, establishing a relationship may be more important.

Administrative distance	It is a comparison between socialist and a democratic society. During the year of 2000, China has become a signatory to the WTO. The laws and processes of the country have become more aligned with the global market.
Geographic distance	Both the country Australia and china cover majority part of the time zone. Hence, a sound business strategy is required in order to mitigate the geographic distance.
Economic distance	It has been found that economic growth is high for both the countries. Australia is known for its natural resources while China is known for its production capacity (Kwock et al., 2013).

Figure 4: CAGE model

(Source:Kwock et al., 2013)

After analyzing the cage model, it has been found that cultural, social and language differences between these two countries can become a major obstacle of success for CiboExpresso. The CAGE Distance Framework helps companies to identify the cultural differences. The company can analyze the behavior and value of consumers across border and deal with those issues. Administrative Distance helps to identify current legal and political issues between partners. Geographic distance describes the physical and geographical problems. Even though the world has shrunk with the development of technology, it is important to visit their trading partners residing in different places. Economic distance would analyze the fundamental differences relating to distribution of wealth, economy, and power. Most importantly, CAGE framework emphasizes the importance of distance among company, suppliers, and countries.

Because of the CAGE Framework, managers would be able to identify the locations depending on access to consumers, markets, and raw material costs.

3. Market entry strategy

3.1 Leadership issues

It has been found that the management of CiboExpresso has to face six categories of leadership issues. They are mentioned below:

- *Development of managerial effectiveness*

The major challenge that the management of CiboExpresso has to face is related with development of relevant skills among employees. They are such as strategic thinking, time management, prioritization, effective decision making capability and improving efficiency of business operation (Maguire & Johnson, 2013).

- *Inspiring local workers of China*

As there is cultural and language difference between Australia and China, It will become a challenge for the management team to inspire and motivate Chinese workforce. The company has to take necessary steps to make sure that they become satisfied with their job.

- *Team development*

Effective team development can help the management to reduce the cultural barriers. The management has to instill pride in the team. They also need to provide all kind of support and advice them to work smartly.

- *Guiding to change*

With the change of consumer behaviour, it has become necessary for any business organization to adopt change (Olivier, 2013). As the CiboExpresso is has to develop effective strategy to understand and manage change while doing business in China. The management also has to develop strategy to mitigate consequences of change, reaction of employees during change.

- ***Managing internal stakeholders and politics***

In order to do business in China, the company has to develop a team to manage relationship with governmental bodies, unions and other internal stakeholders.

3.2 Marketing issues

The major marketing issues that the company CiboExpresso may has to face in China are such as:

- Communication problem due to language, social and cultural barriers.
- In adequate knowledge about the middle class society of China
- Lack of of reliable market research can also disrupt the business operation of CiboExpresso in China (Olivier, 2015).
- Lack of transparency in the Chinese market can also become a problem for the company
- Finding skilled employees within reasonable cost can become a problem for the company.

In order to overcome these issues, the company can implement some major strategies. They are mentioned below:

- ✓ The company needs to focus on all important aspects of market entry like product, price, promotion and place. The company also needs to make adequate research before entering the Chinese market.
- ✓ The company needs to focus on developing effective relationship with local coffee supplier of China and various governmental bodies.
- ✓ The company has focus on product quality and service to attract Chinese consumers.

3.3 Human resource management issues

While doing business in China, major human resource management issues that CiboExpresso has to face are:

- ***Legal environment***

The company has face problems related with changing regulations of China. For example, In China, foreign economic organizations and financial institutions have no authority to hire employees directly (Olivier, 2015). For this reason, CiboExpresso has to take help from specially designated HR management agencies to hire employees in China.

- ***Business Etiquette and Ethics***

Peterson (2014) stated that, in the last decade, China has made tremendous progress in economy. However, most of the Chinese people think that their job will last for lifetime and it will provide them steady income and profitability. They are also resistant to change (Slater, 2015). Hence, it is the responsibility of the management to support them and influence them to accept change.

- ***Issues related with HR administration***

Recruitment and labour cost are the two major issues that the HR administration has to face in China. It has been found that 10% of the Chinese candidates have the capability to apply in areas such as engineering, accounting and finance. The shortage is more prominent in Tier 2 and Tier 3 cities. In addition, the labor cost in China has raised 12% in the last 10 years (Zhao & Patten, 2016). They also expect high allowance and incentives from their jobs. The company has to take care of all these issues while recruiting employees in China.

4. Financial risks

The major financial issues that the company may have to face in China are described below:

- It has been found that economy's debt of the country China has increased over the past 5 years (Hull, 2012). It has analyzed that the new borrowing is increased by Rmb 6 trillion in the first quarter of 2016. For this reason, less credit is provided to the foreign companies who are trying to enter the market of China.
- Secondly it has been found that foreign companies, that are trying to enter China, have to wait several years to get approval. For this reason, the company has to make cash flow plan in advance.
- In addition moving cash out China can also be a slow process. Këllezi (2013) stated that three set of approval is required to remit funds from China. The company also needs to have Tax clearance certificate and cross-border payment certificate in advance.

5. Recommendation

There are some recommendations have given below so that the company can improve its business model.

1. The company CiboExpresso must arrange business trips, strive for international assignments, and build global project teams. To eliminate cross-cultural differences, the company must indulge in meaningful collaborations with colleagues of peer level from varied cultures. The members of global team must be skilful, knowledgeable, and must have the efficiency to work in different cultural contexts. The company must receive feedback from the customers of different cultural context.
2. The company must take measures for motivating employees. The manager must be equipped in such a manner that he/she is able to engage the employees in productive work and encourage them to utilize their potential to the fullest.
3. Since a company thrives because of its employees, the company must keep a fine balance between incentives, remuneration, and culture. Moreover, the HR department must keep complete track of the three combinations to satisfy the needs of its employees.
4. The price of any product must be in tune with the result of market studies. It must match with the affordability of the target members of the target market.
5. The company must keep a proper track of financial resources and develop a financial management plan to staff, organize, lead, and control an organization.

6. Conclusion

It has been found that the company CiboExpresso has great opportunity to expand its market in China. The company has sufficient time, money, human resources and an appropriate

business model that can help the organization to successfully enter the market of China. However, intense competition from renowned brands like Starbucks poses a major threat for CiboExpresso. In addition, the price of coffee beans is also increasing rapidly. It has become another major concern for the organization. Risk for the organization has been analyzed with the help of SWOT and PESTLE analysis. In addition, the market entry strategy for the company has been analyzed. Issues related with leadership, marketing and human resource management are discussed in this section. Finally, some recommendations have been provided to improve the business model.

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