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Abstract

Purpose – This paper aims to examine how three firms set up distribution networks in China and India. The authors highlight the criticalities in this process and the modifications necessary to adapt the firms' distribution networks to the local conditions of both markets. Firms entering emerging markets (EMs) must deal with specific business and environmental conditions that can jeopardise their ability to succeed. The establishment of a proper distribution network is among the most pressing priorities for entering firms.

Design/methodology/approach – The case study approach was used to analyse three European firms in the furniture sector.

Findings – The results show that several adaptations of already-tested solutions were necessary to cope with the specificities of both markets. Such adaptations differently involved the three layers that form the firms' distribution network: actors, activities and resources. Theoretical and managerial implications are derived from the results.

Research limitations/implications – This paper considers only three firms, which belong to the same sector and target a similar market segment (the high-end market). Therefore, the conclusions can be generalised only under certain conditions.

Originality/value – This paper contributes to the development of international marketing literature by specifically studying distribution networks in EM contexts.

Keywords Emerging markets, Made in Italy, Distribution network, Entry node, Furniture

Paper type Research paper

1. Introduction

Emerging markets (EMs) have become of high interest throughout the world economy. Their strong economic and demographic growth and the relatively light effect on them of the economic downturn started in 2007 have dramatically increased their attractiveness to firms from advanced markets (Europe and the USA) seeking business expansion opportunities (United Nations Conference on Trade and Development, 2013). Despite EMs' economic relevance, many Western firms have difficulty to understanding, entering and expanding them (Arnold and Quelch, 1998; Dawar and

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Chattopadhyay, 2002; Petzer and De Meyer, 2013; Akbar *et al.*, 2014). Existing literature shows that firms entering EMs must cope with specific environmental and institutional factors that can jeopardise their success, such as dysfunctional marketing institutions and the absence of sales intermediaries (Khanna *et al.*, 2005).

Some recent research has focused on Western firms operating in these areas (Wright *et al.*, 2005; Meyer *et al.*, 2009). Distribution is among the most critical marketing issues for firms entering EMs because of the underdevelopment of logistical, distribution and retailing infrastructures (Kumar, 2009; Lenartowicz and Balasubramanian, 2009; Cavusgil *et al.*, 2012) and the unique features of local consumers (Bijapurkar, 2007; Petzer and De Meyer, 2013). However, most studies over-emphasise the entry moment and the choice of the entry mode but neglect how firms behave after these first steps (Welch and Paavilainen-Mäntymäki, 2014; Sandberg, 2013; Prashantham and Young, 2011). Understanding post-entry dynamics and, in particular, the process of establishing a distribution network can yield a more comprehensive understanding of how business networks are created and evolve in such market contexts and how firms adapt their marketing strategies to the peculiar conditions that characterise EMs (Agndal and Chetty, 2007; Johanson and Vahlne, 2009; Timlon and Hilmersson, 2009).

This paper contributes empirical evidence to this theme by describing the process of establishing distribution networks in the Chinese and Indian markets carried out by three Italian firms. In a partial response to the call issued by Johnson and Tellis (2008), this research is aimed at deepening understanding of the marketing processes related to the internationalisation of Western-based companies in EMs. Specifically, the research objective is to understand the extent to which the three firms analysed in this paper adapted each dimension of their distribution network (i.e. actors, activities and resources) (Gadde, 2010) in response to the unique challenges and features of EMs.

The paper is organised as follows:

- Section 2 presents a review of the relevant literature and the theoretical framework used for empirical analysis.
- Section 3 provides details about the research design, data collection and methodology used in this study.
- The three cases are presented in Section 4 and discussed in Section 5.
- Finally, Section 6 discusses the theoretical contributions, limitations and managerial implications of the paper.

2. Literature review

2.1 Diversity of EMs and its impact on firms' marketing strategies

EMs presently offer unique opportunities for firms pursuing international growth strategies. Despite the recent decline in the growth rates of EMs, international predictions by both the World Bank (2013) and the International Monetary Fund (2013) hold that EMs will lead global development over the next decade. Many Western-based firms experience difficulty in engaging in EMs. Some scholars argue that these difficulties arise primarily from differences in norms, uses and behaviour which create cultural and market barriers to knowledge flow across markets, especially distant markets (Sousa and Bradley, 2006; Wagner, 2005; Salvador *et al.*, 2014).

Other scholars attribute these difficulties to specific environmental conditions that characterise EMs and affect firms' strategic behaviours, including their mode of entry

(Meyer *et al.*, 2009; Ionascu *et al.*, 2004), decision-making processes (Peng, 2003) and creation of business partnerships (Luo, 2001). To capture such peculiar environmental conditions, scholars frequently use such terms as "institutional distance" and "institutional void" (Khanna and Palepu, 2010). This last refers to the unique, unfavourable conditions and constraints that characterise EMs and directly affect entering firms' strategic decisions and performance (Kostova and Zaheer, 1999; Dawar and Chattopadhyay, 2002; Xu and Shenkar, 2002; Henisz, 2004; Ferreira *et al.*, 2009; Brouthers, 2013).

While advanced countries provide a range of institutions to facilitate the functioning of markets, developing countries' political and social systems and product, labour and capital markets "fall short in a number of ways", creating "a prime source of the higher transaction costs and operating challenges in these markets" (Khanna and Palepu, 2010, p. 6). Firms from advanced countries operating in EMs, then, must handle additional difficulties stemming from institutional conditions to which they are unaccustomed. As well, EMs are characterised by a strong heterogeneity, not only across countries but also within each single country (Sheth, 2011).

Recently, the discussion in marketing literature has turned to the implications of the special characteristics of EMs. From an ontological perspective, Wright *et al.* (2005, p. 2) urge scholars to consider:

> […] the extent to which theories and methodologies used to study strategy in mature, developed economies are suited to the unique social, political, and economic contexts as well as firm characteristics of emerging economies.

Similarly, Burgess and Steenkamp (2006) propose using EMs as natural laboratories to challenge current marketing theories and develop new ones. More recently, Sheth (2011) has suggested that, to accommodate the specificities of EMs (categorised in five key dimensions: market heterogeneity, socio-political governance, unbranded competition, chronic resource shortages and inadequate infrastructure), firms should completely rethink their marketing strategies, policies and practices.

From a strategic perspective, Arnold and Quelch (1998) and Dawar and Chattopadhyay (2002) argue that, to achieve higher penetration in EMs, multinational firms must adapt their marketing programmes. Jansson *et al.* (2007, p. 965) state that:

> […] firms are therefore likely to be more successful if they adapt their behaviour to the institutional contents of the unfamiliar network and the specific institutions in that specific local market.

Steenkamp (2005) contends that the cultural and economic specificities that characterise EMs pose challenges which require entering firms to invest additional effort in market analysis and research and adaptation of marketing strategies. Schlager and Maas (2013) suggest applying *ad hoc* segmentation techniques combined with institutional effects to capture the variety of consumers in EMs. Finally, Sousa and Bradley (2006) propose that firms entering physically distant markets adjust their strategies and acquire additional knowledge.

2.2 Configuring distribution networks in the context of EMs

Distribution is among the most critical and problematic marketing issues for firms seeking to establish themselves in EMs where institutional voids can seriously affect the effectiveness of distribution strategies (Arnold and Quelch, 1998). For example, the under-development of logistical and transportation infrastructures can increase delivery costs and cause unwanted delays. The lack of modern distribution facilities can make distribution less effective. The presence of relatively unsophisticated, family-run operators embedded in the local culture can complicate access to local channels of distribution, even as difficulties in enforcing sales contracts can limit firms' sales expansion (Dawar and Chattopadhyay, 2002; Bandyopadhyay, 2004; Khanna *et al.*, 2005). In addition, distribution systems in the fastest-developing areas can develop and re-configure quickly (Dong *et al.*, 2010), while those in less developed, often rural areas, do not evolve at all (Hounhouigan *et al.*, 2014). Sehgal *et al.* (2010) show that even large multinationals, such as Unilever and Danone, might have to make unexpected changes to their distribution strategies to accomplish acceptable results in EMs.

The traditional operational definition of a distribution strategy is a firm's ability to structure, manage and exert control over its distribution channels and partners (Alon *et al.*, 2012). This definition envisions the management of business relationships within a distribution channel as a conflict in which the channel leader struggles to control its distribution partners and to minimise the level of uncertainty in its business relationships (Anderson and Coughlan, 1987; Ford, 2002).

A different view of distribution which focuses more on co-operation and less on governance and control issues emerges in the work of scholars who have adopted a network perspective or intend to study business relationships more in depth (Bandyopadhyay, 2004; Mouzas, 2006; Khojastehpour and Johns, 2014). These researchers frequently use the concept of distribution network to describe the creation of value in distribution channels through the coordinated activity of different actors. In a distribution network, a "confederation of specialists" (Anderson *et al.*, 1997, p. 61) co-organise distribution activities and use shared resources to achieve common goals. A distribution network has three dimensions: actors, activities and resources (Ford, 2002; Lenney and Easton, 2009; Gadde, 2010). The actors dimension refers to entities (e.g. exporters, distributors and agents) that contribute to value creation in the distribution process. The activities dimension consists of the coordinated actions carried out by the actors (e.g. order fulfilment, sales, inventory management and post-sales), and the resources dimension to the bundle of resources and capabilities on which the actors rely to carry out the distribution activities (Jensen, 2010; Mattsson and Johanson, 2006; Hulthén and Mattsson, 2010).

Studies which apply the distribution network framework to analyse firms' distribution strategies in EMs tend to focus on only one of the three dimensions. For example, Anderson and Coughlan (1987) observe that, when entering Asian markets, firms tend to structure their distribution channel differently and to rely more on local distributors than in advanced markets. A decade later, Arnold and Quelch (1998) find that multinationals entering EMs tend to be less integrated and rely more on independent distributors. Dong *et al.* (2008, p. 509) highlight a certain stability provided by such distribution networks and recognise that "the ability to maintain stable and enduring relationships with independent local distributors [...] provide[s] an important competitive advantage for multinational manufacturers".

Other studies concentrate on the activities dimension. For example, Arnold and Quelch (1998) find that, when entering EMs, firms tend to shift management of marketing activities, of which they retain control elsewhere, to local distributors, who presumably have a deeper understanding of the local market dynamics. Achieving coordination and strategic alignment with local distributors and using appropriate influence strategies, thus, become necessary to gain competitive advantages in such markets (Bandyopadhyay, 2004; Dong *et al.*, 2010). Such outsourcing, though, can have negative consequences, especially when local distributors neglect the resources (third dimension) necessary to maximise return on investment, such as marketing skills and experience (e.g. marketing orientation, product and market knowledge and communication capabilities). On the theme of the importance of resources for entering and operating in EMs, (Hyvonen and Tuominen, 2007; Baack and Boggs, 2008; Vianelli *et al.*, 2012; Bortoluzzi *et al.*, 2014). While providing meaningful contributions to the understanding of the peculiarities that characterise distribution in EMs, these studies fail to provide an integrated, comprehensive representation of the three dimensions and their interaction during the establishment of distribution networks.

Another research stream has considered the importance that business networks in general have in the context of EMs, especially for entering firms. Among the most valuable work in this stream, Salmi (2000) adopts a network approach to analyse the entry process of a company into an EM (Estonia) during a period (1991-1994) characterised by high environmental turbulence. Salmi (2000) concludes that network building in an EM is an especially time-consuming activity because the lack of trust-based facilitation mechanisms at the interpersonal level between entering firms and local business partners creates difficulties in knowledge transfer. Jansson and Sandberg (2008) confirm this result. After analysing 116 Swedish small- and medium-sized firms (SMEs) trading with Baltic counterparts, they conclude that local partners with poor market knowledge can seriously hinder the internationalisation process of the entering firm. For instance, Guercini and Runfola (2010) describe how a medium Italian fashion company effectively expanded its presence in the Chinese market through close collaboration with a local distribution partner that acted as an entry node for the Italian company, providing it with access to local business networks.

Overall, a large majority of such studies focus on the entry moment and neglect how firms dynamically manage their marketing-related processes after entering an EM (Johnson and Tellis, 2008). Our paper contributes to this theme by examining in depth the process of distribution network setting up carried out by three firms in the context of two of the most important EMs worldwide: China and India. We do so by addressing the following research questions:

RQ1. How can companies set up a distribution network to penetrate an EM?

RQ2. How, and to what extent, can companies adapt actors, activities and resources in response to the unique characteristics of EMs?

3. Methodology

To answer these research questions, we analyse through the case study method (Yin, 2003; Eisenhardt, 1989), three Italian firms' process of establishing distribution networks in two EMs: China and India. According to Dubois and Gibbert (2010, p. 130), this method is especially well suited for analysing industrial networks that "do not constitute closed, bounded or clearly defined systems".

The companies considered in this study are Calligaris, Moroso and Snaidero. All the three are Italian middle-sized companies operating in the furniture sector. The three companies' distribution networks are the units of the analysis. In particular, in this paper, we focus on how the three firms set up and dynamically adjust the three dimensions of their distribution networks (actors, activities and resources) over time to establish themselves in the two markets, seize the market opportunities offered and adapt to these markets' internal weaknesses.

The three firms selected share certain features. First, they sought to establish solid distribution networks in Far Eastern Asian markets. Second, they had well-established business relationships in the European and North American markets, which permits analysing if and how the specific institutional context of EMs forced adaptation of the distribution strategies already used in advanced markets. Third, these firms belong to the same industry (furniture) and are similarly sized (medium), which eliminates bias due to heterogeneity in industries and different resource endowment related to size. Given the paucity of official data on Italian firms exporting in EMs, we selected the firms based on informal relationships. Additionally, previous studies confirmed the presence of these features in the firms and supplied information about the value of the knowledge we extracted from the firms' stories.

At the time of the study, the firms sought to penetrate various EMs and had a sporadic presence and low penetration in both India and China. We decided to focus on the India and China markets because of their huge economic importance at the global level and attractiveness to European exporters (Johnson and Tellis, 2008). Although widely considered EMs, China and India show significant internal differences in economic development and distribution infrastructures, including in the furniture industry. In both markets, modern and archaic distribution formats coexist (Luk, 1998; Goldman, 2001; Dong *et al.*, 2008), and the latter does not convey the symbolic value typically attributed to Made in Italy products (Vianelli *et al.*, 2012). The major focus given in this paper to the Indian market reflects the companies' strategic decision to expand their business relationships in that market. At the time of the interviews, India was experiencing a boom in the construction market, and Indian consumers highly appreciated Italian furniture.

The furniture industry is among the most export-oriented industries in the Italian economy. The three firms produce different products (kitchens, chairs and sofas) but experience the same problems in setting up a distribution network while targeting similar distributors: agents and dealers in the business-to-consumer (B2C) market segment and business agents, interior designers, architects and developers in the business-to-business (B2B) market. Table I summarises the three companies' profiles.

In the analysis, we collected, compared and merged multiple sources of data (face-to-face interviews, balance sheets, corporate website contents and specialised magazines). Data were also drawn from interviews in which representatives of the involved companies had participated for previous research from 2000 to 2012. For the

Case descriptives	Moroso	Snaidero	Calligaris
Headquarters location	Tavagnacco (Italy)	Majano (Italy)	Manzano (Italy)
Year of establishment	1952	1946	1923
Employees (2013)	140	480	580
Offering	Luxury sofas and seating	Kitchen (dining furniture)	Home furnishing (dining, living, sleeping, working, lighting and accessories)

Table I.
Case descriptives

specific purposes of this study, additional in-depth interviews were conducted with export and marketing managers from May 2012 to June 2013. The companies' main distribution partners in the Indian market were also interviewed directly in the Indian market (Table II).

The interviews for the study were held in both Italy and India. In Italy, interviewees were selected based on their position in the firm (e.g. marketing manager, area manager, division manager and chief executive officer) and their sales area (e.g. European and Asian area managers). In India, we interviewed selected distributors in the area of Bangalore, which had the highest strategic importance to the Italian firms. In detail, we interviewed a main distribution partner of Calligaris and visited two retail stores in Bangalore. For Snaidero, we interviewed the firm's main distributor for the southern Indian market, one developer in the contract market and a freelance Italian architect living in Bangalore. We did not have opportunities to visit or interview Moroso's distributors in EMs, but we gathered information about them from primary and secondary sources. General knowledge about the Indian context was obtained from direct interviews with two representatives of the Indian–Italian Chamber of Commerce. All interviews were recorded, transcribed and shared with the research team.

Data collection and analysis were conducted in three phases. First, data on the general international evolution of each firm and, second, on the firms' distribution networks in the Indian and Chinese markets were collected. Finally, a draft of the case study was prepared and sent to the firms for refinement, suggestions and validation (Dubois and Gibbert, 2010; Eisenhardt, 1989).

4. Results

4.1 Moroso

Moroso is a medium, family-owned company that produces high-quality designer furniture (sofas, armchairs and accessories) for the high-end market. The company has a long-standing reputation as a design-setting company devoted to quality production. While its production activities are based entirely in Italy, its sales side is highly internationalised, producing 70 per cent of revenues from foreign markets. The company typically enters new markets through a consolidated network of sales agents. These intermediaries, who are formally independent from the company, provide Moroso with new distribution partners (usually multi-brand dealers) willing to develop

Interviews	Moroso	Snaidero	Calligaris
Interviews with Italian managers	Area manager Asia Total of 3 interviews – 6 hours	Marketing manager and B2B division manager Total of 5 interviews – 12 hours	Area manager India Area manager China Total of 4 interviews – 4 hours
Interviews with Indian distribution partners	None	Distribution partner in India Developer partner in India Architect in India Total of 3 interviews – 4 hours	Distribution partner India 1 day interviews – 5 hours

Table II.
Case description – interviews

long-term distribution partnerships and to reserve part of their shop floor for the company's products. Moroso has established sales subsidiaries in the most important world markets: the USA, United Kingdom and Singapore. The company places flagship stores and showrooms near multi-brand stores in locations strategically important for marketing purposes, such as Milan, London, Amsterdam, New York and Singapore. The communication function of the flagship stores – to foster brand image and awareness – is as important as their distribution function.

Moroso's distribution strategy is highly selective. All retailers are chosen carefully and treated as business partners. They are asked to invest in their sales premises (renewal and expansion), if and when needed; to dedicate some sales personnel to Moroso, depending on the retailer's size; and to exhibit at least a minimum amount of products in their stores. In return, Moroso provides retailers with facilities, merchandising materials and sales staff training.

Although Moroso is a highly export-oriented firm, it exported almost exclusively to the European and North American markets for decades. It only recently considered Asian markets, in particular India and China, as potential sales market because of the economic crisis in the European Union and USA and the troubled economic situation in many Southern European markets (Spain, Portugal, Greece and Italy). Moroso took its first significant step towards Asia in 2009 when it opened a sales subsidiary in Singapore, a recognised global hub for interior designers and architects of high importance to the firm.

Moroso made its first, tentative entry into the Indian market three years earlier, in 2006, through an independent Indian agent. This actor had extensive experience in the furniture industry and seemed to have an ideal profile for the Italian firm. However, Moroso terminated the business relationship only two years later because, in the company's view, the local agent had performed below expectations in growing sales and establishing a network of contacts in the market. This experience helped Moroso better understand the ideal profile it needed in the Indian market. It slightly revised its selection criteria, giving more importance to local distributors' "insidership" in relevant local business networks and less to experience in the furnishing industry.

Moroso found a new distribution partner in 2010: an Indian entrepreneur running an import–export, house–paint supplies business between India and Italy. This actor had no experience in the furniture sector but possessed characteristics Moroso valued more. First, he had a deep familiarity with both Indian and Italian culture (his job required spending several months a year in Italy). Second, he had knowledge of the local (Indian) norms in the contract market, perhaps the most promising market segment for Moroso. Third, he had an extensive network of contacts among Indian architects and business developers. These characteristics proved to be especially helpful in shortening the entry phase and speeding market growth, helping Moroso quickly gain legitimacy in the B2B market and access to local networks of business facilitators.

Moroso had a different experience in the B2C market. From its first failure, the company learned that Western-based companies face difficulties gaining legitimacy in the Indian market and must make changes to how they manage distribution-related activities. Specifically, the firm had to make significant investments in training shop assistants who frequently lacked specific professional competences and were characterised by high turnover. These personnel had to be trained to effectively transfer to potential consumers – many of whom had never bought a Made in Italy product – the product and brand dimensions (brand identity, brand meaning, positioning and values) assumed to be understood in more advanced markets. For example, although consumers in advanced markets value that Moroso's sofas are entirely handmade by skilled craftsmen, this information had no particular value to Indian or to Chinese consumers who frequently purchase local, handmade products and mentally associate handmade with poor quality. Consequently, Moroso had to make many adaptations to the messages delivered to consumers.

In addition, the Italian company soon realised that it knew little about Indian and Chinese consumers, their preferences and even how they use sofas and other furniture in their daily life or about local business networks and the right way to approach them, especially in the Chinese market. The company asked its distribution partners to play a different role than those in Europe and USA. Beyond organising and managing sales activities, distribution partners needed to provide the company with additional services, particularly market information and new business contacts. Thus, over time, distribution partners assumed a critical role for the company. They serve as more than simple distributors. They are Moroso's local antennas in the Italian firm and pass to penetrate local business networks, especially in the B2B market segment.

Figure 1 illustrates the most important components of Moroso's distribution network in Italy, India, China and the UK, including the main actors in the Indian distribution network (i.e. agents, retailers, developers and architects), even those outside the Indian market. Many key contractors operating at the global level have premises in London.

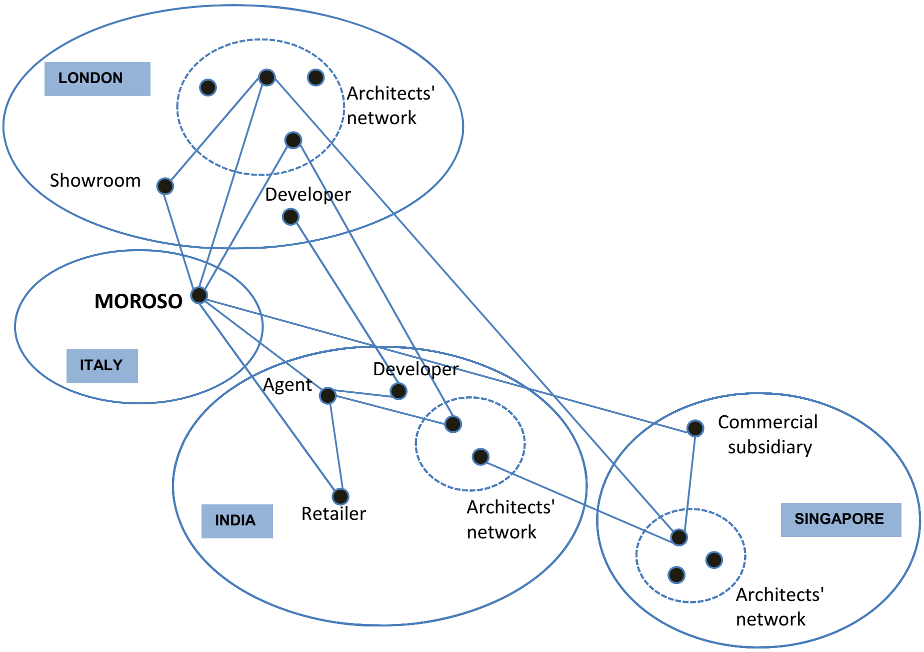

Figure 1.
Moroso's distribution network in India

4.2 Snaidero

Snaidero is an Italian producer of modular kitchens and heads an industrial group of eight companies across Europe. The company sells its products in approximately 60 markets and has abundant international experience. Snaidero has a well-established process for entering new markets. First, it looks for potential distribution partners, either directly or through its network of agents who are informed of the Italian company's minimum requirements for distribution partners. After signing a distribution agreement, Snaidero makes gradual steps and related investments to maximise the retailer's revenue potential. To extend its presence in new markets, the company normally relies on its brand awareness, which is high among industry specialists, and the country-of-origin effect (Made in Italy).

Similarly to Moroso, Snaidero sought to extend its international expansion from the European and American markets. In 2005, the company first entered the Chinese market following the process described but obtained unexpected unsatisfactory results in revenue generation. Convinced that the failure was mainly due to the uniqueness of Chinese consumers, the company shifted its focus to other Asian markets, such as Laos, Thailand, Vietnam and India.

Snaidero approached India differently for several reasons. First, Snaidero found the Indian B2C market segment to be less structured because of underdeveloped distribution and logistical facilities and a different product culture. Second, new apartments in India were sold mostly under turn-key conditions (already furnished). The company's main customers were not private citizens but construction companies. At this time, India's residential construction industry was experiencing a boom, so the company decided to focus almost exclusively on the B2B market segment. This segment was relatively new to the firm, which drew revenues mostly from the consumer market segment.

To exploit the opportunities in the Indian market, Snaidero had to establish new business relationships with local builders and project developers. However, the company lacked the recognition and market knowledge to deal with such business partners. Figure 2 shows the final outcome of the company's process to set up a distribution network in southern India (Bangalore area). Here, details of the challenge that the company had to overcome are presented. In 2009, Snaidero found a distributor in Bangalore to whom it asked to develop the local contract market segment. The Indian market is not internally uniform, and the largest cities (Mumbai, Delhi, Bangalore and Hyderabad) account for the biggest part of the total market. Each city, though, is a distinct market requiring local management. The distributor proved to be well-connected to local business networks and provided the Italian company with a major business opportunity to furnish new apartments in the high-end market segment. The distributor (Bangalore distributor in Figure 2), which is also a retailer, put the Italian company in contact with a project developer in Delhi (Delhi developer partner in Figure 2). The project developer was coordinating all the furnishing activities for the main building contractor and immediately seized the opportunity to collaborate with an experienced, well-recognised company and leverage its experience and taste. After receiving approval from Snaidero, the developer partner hired a freelance Italian architect (Bangalore freelance architect in Figure 2), who moved to Bangalore to support the Indian developer in furnishing the apartments and providing décor tips to Indian private buyers.

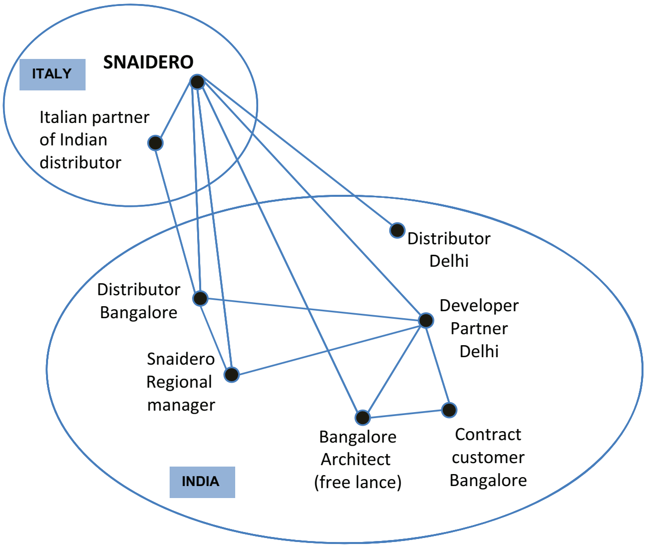

Figure 2. Snaidero's distribution network in India

Snaidero maintains direct contact with all the actors in its distribution network. Business relationships are managed partly by the company's staff in Italy and partly by a regional manager (an Italian living most of the year in India) who supports local business and distribution partners in further developing the market. This manager is not formally employed by the company but has a strong commitment to it. The regional manager proved to be so effective at developing the local market that Snaidero decided to replicate this organisational solution in other markets, even more advanced ones, to develop its presence in the B2B market segment. In an organisational evolution, Snaidero recently decided to institutionalise a separate sales department at its headquarters dedicated to developing the global contract market segment.

Figure 2 displays Snaidero's distribution network as described. This figure is intended to illustrate a possible configuration of a distribution network in the Indian contract market segment but cannot be generalised to the entire market, in which the company is not yet fully present.

4.3 Calligaris

Calligaris is an Italian company that has been operating in the furnishings sector since 1923. Calligaris heads a global group of four units, including its headquarters in Italy, a production plant in Eastern Europe (Croatia) and two sales branches, one in the USA and the other in Japan. The domestic market (Italy) is the company's leading market but accounts for less than the 50 per cent of its sales. Its foreign sales are concentrated in European markets, especially France, the UK, Germany and Russia. Calligaris reaches 90 markets through a network of 120 independent points of sale.

The firm started to expand internationally during the 1980s. It first targeted foreign markets in France and Germany, followed by all European markets and, finally, North America, where it established a sales branch. In the European and USA markets, Calligaris manages a multi-channel distribution network involving simple distributors and business agents who act as intermediaries and more structured, selected distribution partners, with whom the company develops direct, long-term business relationships.

Calligaris first moved to expand into the Asian markets in 1997 when it attempted to enter the Chinese market through a strategic alliance with three Italian furniture firms. None of the firms had prior experience in the Chinese market. The coalition paid for its lack of knowledge with poor financial returns that led two partners to withdraw from the market, breaking up the coalition.

Calligaris decided to remain in the Chinese market but without a direct presence. It found a local importer and established a contractual agreement with no particular liabilities for either party. The business relationship was interrupted in 2001 by the Asian financial crisis. Only in 2009 did Calligaris decide to re-enter the Chinese market, this time adopting a more systematic approach than previously. Particular care was given to selecting a proper distribution partner which had specific characteristics: financial resources to commit to the process of market expansion and deep knowledge of the market and needs of local consumers.

The company decided to enter the Indian market at the same time. It found a business partner which had an established distribution network in the furniture sector and was willing to commit financial resources to market expansion. This situation met Calligaris's objectives, so the company decided to give the partner the full exclusivity in the Indian market and to delegate to it most local marketing activities, such as management of sales force and organisation of promotion activities and events. However, distributor's strategies shortly started to diverge too much from Calligaris's. While the Italian company aimed to increase its brand awareness in the market, the distributor was committed to promoting its own brand, even to the detriment of Calligaris. Consequently, the trade agreement broke up, and Calligaris found itself restarting from scratch.

The company decided to select multiple distributors with less market power and to increase oversight of local marketing activities. To do so, it sought partners willing to reserve retail space for Calligaris's products and to co-organise events promoting the Italian brand to affluent clients, interior designers, architects and project developers (Figure 3). Managing this kind of distribution format is far more complex than managing many simpler trade agreements in the European market. However, Calligaris expects the model to yield higher returns. It took similar actions in the Chinese market, gradually replacing former distributors with new distribution partners, available and capable of supporting the Italian company's strategy.

Branding emerged as another important issue with which Calligaris dealt in the Chinese and Indian markets. The company's brand has a good reputation in advanced markets, especially among industry specialists, but not in EMs. Therefore, the company decided to exploit the country-of-origin effect. In both markets, Calligaris stresses its Italian origins to transfer to its products values associated with Made in Italy products (stylish, fashionable and well-manufactured products) through an appropriate layout, in-store merchandising, new catalogues and sales-force training.

4.4 Analysis

A comparison between the process of setting up of distribution networks in EMs by these three companies gives evidence of some common traits. All the firms initially did

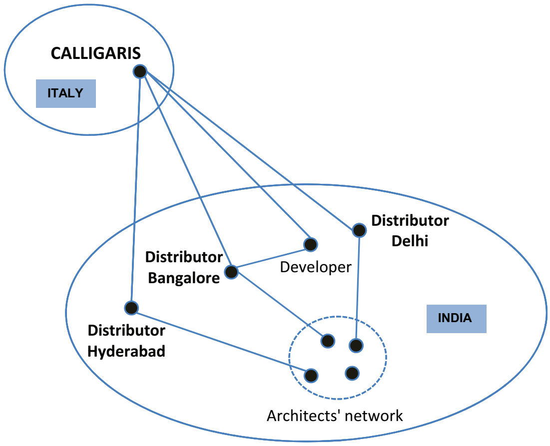

Figure 3.
Calligaris's distribution network in India

not consider fully the specificities and particular challenges posed by the Chinese and Indian markets and frequently attempted to apply solutions and routines already implemented in other markets, particularly more advanced markets. Only after collecting unsatisfactory results did the firms perceive the need to reshape their strategies and configure their distribution networks differently. Hence, on-site learning appears to be crucial in the processes described. The learning process proved to be critical in informing the revision process, as initial failures pushed firms to take a step back; to re-assess the market specificities and opportunities; and to identify and fine-tune different combinations of actors, activities and resources to handle these specificities. Thus, looking at EMs from the perspective of advanced markets sometimes provided a misleading picture. Indeed, the companies discovered at their own cost the risks connected with the simple replication of distribution solutions tested in completely different market contexts.

Further, all the companies managed the establishment process in co-operation with local distribution partners. Although some of those local partners changed over time, collaboration proved to be extremely effective at facilitating the initial configuration and subsequent re-modulation of the distribution networks. It is unlikely that three companies would have achieved similar results by acting alone. On the contrary, distributors showed to act also as brokers – or entry nodes in the definition provided by Jansson and Sandberg (2008) – for the entering firms, by providing them with information and business contacts that showed to be important in reducing their initial "liability of foreignness" (from the markets and their rules) and their "liability of outsidership" (from relevant business networks) (Johanson and Vahlne, 1977 and 2009).

In terms of adaptation of actors, activities and resources, not all dimensions of the distribution network required the same level of adaptation. Indeed, at the structural level – the actor dimension – the distribution solutions adopted by the three firms did not differ much from the ones normally used in other market contexts and, especially, in more advanced markets. Further, the structure of the actor layer did not change significantly over time.

What we found really changed was the role played by actors. That brings us to the second dimension of the distribution network: the activity layer. At this regard, all the firms went through a substantial revision of the division of labour among distributors. Firms oversaw activities that, in other markets, they used to delegate to retailers, such as the design of the store layout and the training of shop assistants. Indeed, one of the most critical activities companies had to perform was training retailers to "educate local consumers" (in an expression used by two firm officials interviewed) to understand what Italian design means and what values a Made in Italy product delivers.

These modifications proved to be necessary because of the internal characteristics of the targeted markets. First, a significant portion of Chinese and Indian consumers had never bought Western furniture and needed to be informed about its peculiarities. For example, distributors reported that Chinese consumers tended to assume that the heavier the furniture, the higher the quality. This principle does not hold true for modern Western furniture intended to provide consumers with more aesthetic benefits than solidity. As well, the concept of modularity is difficult to understand in markets where most products are single, integrated pieces. Second, in China and India, entrant companies frequently suffer from strong, unbranded competition (Sheth, 2011) requiring local distributors to put additional effort into explaining to potential consumers the reasons for buying a highly priced product.

We found no case of full delegation of marketing activities to local retailers; instead, co-management was strongly prevalent. Market development (e.g. opening new points of sale) is a different story: while normally the three firms directly control this activity in more advanced markets, they had to depend heavily on local distribution partners with more knowledge of business dynamics in both China and India. In this sense, local partners were expected to act *de facto* as independent entrepreneurs.

As far as the need for adaptation at the resource layer, first of all we can observe different characteristics sought in distribution partners in the two markets studied. Differently than the three firms expected based on their experience in more advanced markets, extensive experience in the furniture sector did not serve as a valuable asset in Indian and Chinese distributors. Instead, relational capital proved to be far more critical in supporting firms in setting up and expanding their distribution networks. Financial resources and a strong entrepreneurial attitude were also important, complementary resources that provided effective support to firms' market expansion and compensated for distributors' lack of internal product knowledge.

A second finding concerns the evolution undergone by some resources, of which the case of contextual market knowledge is representative. During the entry phase, the three firms relied heavily on their partners' market knowledge and shifted to them management of several activities, particularly the expansion of the local business network (e.g. to new buyers, retailers and architects). In more advanced markets, companies rarely outsource this strategically important activity to distribution partners. However, in EMs, the firms attempted to accelerate the development of market knowledge to gain greater, though not complete, independence from local partners, which required more co-participation in the decision-making process.

To do so, Snaidero first appointed a local area manager for South-Eastern Asian markets and then replicated this organisational solution – proven to be especially effective in these markets – even in more advanced markets. Thus, unlike previous studies that identified several cases of reverse innovation in the product dimension (Govindaryan and Ramamurti, 2011), we found an example of reverse innovation in the organisation of the distribution network.

5. Discussion and conclusions

Despite the recent uncertainties in the global outlook (International Monetary Fund, 2015), EMs are still expected to generate the fastest growth in the coming years and to attract the majority of foreign direct investments at the global level. Thus, the importance for Western firms to be active players in such markets is unquestionable. In addition, at this regard, a proper management of the distribution lever is a key factor to succeed in EMs (Khanna *et al.*, 2005).

However, establishing a sales network in such markets can be anything but easy. The literature has highlighted that even large multinationals sometimes get to unsatisfactory results in such context because of the undervaluation of the specificities of the markets and because of a sub-effective establishment of the distribution network there (Arnold and Quelch, 1998; Sehgal *et al.*, 2010).

The results of our study shed new light on this delicate phase of firms' international expansion and allowed us to derive some theoretical contributions that can enrich our general understanding. Among those, we found that internationalisation knowledge initially mislead firms. Internationalisation knowledge refers to firm' management of the internationalisation process in different countries based on accumulated experience (Blomstermo *et al.*, 2004). It supports such abilities as searching for strategic business partners and relevant information, identifying business opportunities and managing business relationships with foreign partners and business activities to achieve the highest returns (Prashantham and Young, 2011; Welch *et al.*, 2007). The epistemic nature of internationalisation knowledge lends support to the expansion of firms into any new international market (Eriksson *et al.*, 1997; Li *et al.*, 2004). However, in the present case studies, international knowledge did so only partially. Previous experience supported the entry phase but led firms to replicate in a path-dependent fashion distribution structures developed in and for advanced markets that proved to have limited applicability in the context of EMs. Hence, our evidence support conclusions drawn by Steenkamp (2005) about the need for firms entering EMs to deeply adapt their marketing strategies to meet the specific peculiarities and respond to the challenges posed by such markets; our study adds to this discussion the importance for firms of learning fast from their mistakes and to recover by revising initial strategies. That really makes a difference between an unsuccessful and a successful "mistaker". Moreover, better understanding of internationalisation knowledge's role in facilitating, instead of preventing, the international expansion of Western firms in EMs is needed, especially for firms entering such markets for the first time. In general, our findings tell us also that the feedback collected by firms in EMs can in turn stimulate a subsequent adaptation of the marketing strategies carried out in more advanced markets (Burgess and Steenkamp, 2006).

As far as the three network levels considered in the research questions, the structure of the actors used in EMs does not have to be different compared to the one already used in other markets. In this sense, our study complements the results obtained by Anderson and Coughlan (1987) and Arnold and Quelch (1998) that found multinationals doing exactly the opposite, giving to the distribution networks settled down in EMs a totally different shape. At the activity level, we believe our results contribute to enrich and update the results obtained by Arnold and Quelch (1998) about the shift of marketing activities to retailers by entering companies, that we found only in part. For sure, we can confirm the need to achieve a proper strategic alignment with local distributors, as previously highlighted by Bandyopadhyay (2004) and Dong *et al.* (2010) among others. At the resource level, the local partners appear to be crucial in sustaining the firm's market entry, emphasising the importance of several resources and capabilities that entering firms should look for in local distributors operating in EMs, in line with the findings obtained by Jansson and Sandberg (2008).

Our study also highlights the importance of the entry node figure in supporting firms in establishing distribution networks. This finding extends the body of knowledge focused on the entry phase to the subsequent establishment of a distribution network (Agndal and Chetty, 2007; Johanson and Vahlne, 2009; Timlon and Hilmersson, 2009; Pinho, 2013). This research shows that the knowledge-brokering activity performed by the entry node is especially useful in helping firms establish their business networks in EMs and overcome their initial liability of outsidership (Jansson *et al.*, 2007; Johanson and Vahlne, 2009; Hilmersson and Jansson, 2012).

Our results have also several managerial implications. First, while setting up distribution networks, firms should carefully consider the impact of the specificities of EMs and assess to what extent the knowledge and experience accumulated in other markets can be useful in establishing a distribution network in a different market context. Underestimating the impact of EMs' specificities can result in failure or slower market penetration, whereas relying on the knowledge and experience of local distribution partners can speed the process.

Second, entering firms in EMs should devote special attention to thoroughly evaluating distribution partners' resources and abilities. EMs typically are highly entrepreneurial. Therefore, relational capital and entrepreneurial spirit are extremely relevant for local distribution partners and can matter more than previous experience in the sector in supporting entering firms' market expansion.

Third, firms should adopt a medium-term perspective when entering EMs. Achieving a return on investments likely will not occur for several years; more likely, firms will spend a considerable amount of time working alongside their distributors. Collaborating with distribution partners is a key factor in accelerating the process of acquiring legitimacy in the market. Entering firms and local distributors must verify the alignment of their visions and strategies.

This study has some limitations which suggest directions for future research. First, we purposefully analyse three highly homogeneous firms. It could be fruitful to investigate if and how firm characteristics influence the management of distribution network in EMs by analysing firms of different sizes (e.g. micro and very small) in different industries. Second, this study analyses China and India jointly. Further research should consider the heterogeneity between the two countries and within each individual country (e.g. among cities in a country). Third, this research examines how firms define a distribution network in the first phase of market penetration. Further research could consider how distribution networks evolve once foreign firms have achieved a solid reputation in the market. Future studies could investigate more deeply the evolution of distribution networks to identify the success factors that emerge over time.

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