Danish Crown in China - An exploration of the strategy of Danish Crown in China

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MASTER THESIS
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Abstract

In 2016, Danish Crown (DC) announced their plan on building a processing plant in Pinghu, China. The thesis has explored the shift in DC's entry strategy and whether the shift is sustainable in the long run. This was done by studying 3 distinct levels: Industry level, firm level and institutional/consumer. On the industry level, it was found that DC faced a highly competitive environment where many competitors were fully integrated. However, DC has managed to overcome this by partnering with Alibaba. On the firm level, it was found that DC's capabilities have allowed them to remain competitive in an ever-changing environment. Finally, on the institutional level some current issues were explored, e.g. the ongoing African swine fever crisis as well as the Food safety law and how the lack of guanxi can have on the daily operations. It was also found that there are significant changes happening in the consumer behavior which is becoming more westernized with a higher demand for foreign products.

The paper then explored the three components of the entry strategy: Motives, timing and mode of operation. It was found that the motives were a mix of several objectives, but the most important were market development and learning objectives and the motives were highly influenced by the changing consumer behavior. Furthermore, DC entered in the window phase as a first mover which allowed them to reap benefits such as brand awareness and preemption of critical resources. They chose a greenfield investment for control reasons but also because there were no suitable factories in China. However, DC also entered China through a strategic alliance with Alibaba and the partnership provided DC with several benefits including distribution channels and an easier way through the regulatory environment and potentially, a more favorable treatment from local authorities.

Afterwards, the sustainability of the strategic shift was explored on two levels, a theoretical level and a more practical level. From the theoretical point of view, it was found that there was a solid backing in the way DC have structured their strategy and operations but from a more practical view, there were some concerns to the future of the operations. Currently DC are experiencing a period with fewer fatten pigs that are sent for slaughtering in Denmark, this leads to a decrease in price per kilo of pork, which then again leads to fewer pigs fattened – a self-enforcing crisis. At the same time, DC are under pressure from Spanish competitors which have overtaken DC in the amount of pork exported globally. Finally, DC is reliant on good country relations between Denmark and China in order for the strategy to be a success – there are frightening examples from Canada and Norway what bad relations can mean for industries.

Introduction

It has only taken 4 decades for China to go from a poor developing country to the 2nd largest economy in the world. Equally impressive is it that China is set to surpass the US as the world largest economy by 2030. No other country has experienced such an economic growth. The Chinese economy has quadrupled in only 15 years. The real GDP growth rate of China has on average been 10%. The results of this economic boom are that more than 800M have been lifted out of poverty and that China has now become a global economic power. China ranks first on the IMF estimate of GDP size in PPP terms. Moreover, China is the biggest value-added manufacturer, merchandise trader as well the biggest foreign exchange reserves (Morrison, 2018).

The economic boom has also been accompanied by an increasing openness for foreign companies. The increased openness coupled with the economic boom has resulted in many foreign companies catering to the Chinese market. Several Danish companies have entered China with success including Carlsberg with several Chinese breweries, Grundfos with 20 sale offices in China and Bestseller with impressive 7800 stores throughout China and on the Chinese shopping holiday Singles' Day they sold for DKK 1bn. The Danish agricultural industry is also present: Danish Crown (DC) is the largest agricultural company exporting goods to China – accounting for 24% of total Danish food export.

China is an important market for DC and they are beginning to consider China their 5th home market after Denmark, Poland, England and Sweden. DC have exported to China since 1998. Currently, DC is able to export a container filled with pork carcasses and offal every hour 365 days a year to China. The total value of exported goods was some DKK 4.7bn in 2017, which further highlights the importance of China. The vast majority of the meat, 80 – 90%, is sold to Chinese factories for further processing. The growth is expected to continue the coming years as the Chinese demand for pork increase and need for imported meat is expected to grow due a production deficit. Currently, DC's export to China is primarily carcasses and offal but the Chinese consumption of pork is changing. In the past years there has been change from buying pork from wet markets where the pork is sold in bulk parts to consumers buying processed pork such as pork chops, bacon and ham not only in wet markets but also as packaged products in a supermarket.

The willingness to pay (WTP) for high quality products is also on the rise, and so is the demand for products with high food-safety standards. Furthermore, ecommerce is playing an ever-more important role in the sale of food products. We are witnessing the Chinese consumers change to become like their western counterparts.

DC has seized the opportunities in the ever-growing and ever-changing market by announcing it will invest DKK 400M in a processing plant in Pinghu, China – a substantial shift from their earlier strategy. The factory will rely on frozen pork shipped from Denmark which is then thawed and further processed before it is shipped to distributors. The strategic move will allow DC to move up the value chain by selling a value-added product. In contrast, DC currently sells carcasses – a intermediate product – and let distributors and processors handle further value adding activities. With the creation of the processing plant and the contract with Alibaba, DC will sell a finished product to the end-consumer, which will allow DC to strengthen its already well-renowned brand in China. By selling the end-product DC will also obtain a bigger part of the profit pie by moving up the value chain. Processing the carcasses internally also allows DC to benefit from the world-class food safety. Moreover, the factory will allow DC to control a bigger part of the value chain and thereby also benefit from the world class food safety and it will also create brand awareness. The factory became operational and ready for production in August 2019. It is expected to account for 7 -10% of DC total sale in China.

The strategic shift is not only marked by the processing plant but also by new partnerships and distribution channels. DC initially signed a contract with Alibaba for distribution of their products. This contract has evolved into Alibaba buying all products from the coming plant for the next 5 years and selling them not only at their online supermarket but also through physical supermarkets in the Shanghai region under the “Danish Crown” brand – as mentioned earlier, this is contrasted by the current situation where DC cannot expect to obtain brand recognition from the end-consumer and does not distribute with products directly to the end-consumer. The contract is estimated to generate a turnover of at least DKK 2.3bn over 5 years and if the factory is a success, it is expected to pave the way for the opening of more processing plants. However, there are some doubts of the future sustainability of the operations, e.g. DC is reliant on a single distributor and in Denmark, DC is suffering from fewer pigs fatten for slaughter.

DC’s reorientation in China has resulted in the following research question: *What explains Danish Crown’s strategic shift in China and is this shift sustainable?*

I have formulated some questions that reflects the main chapters of the thesis.

- What does the literature tell us about strategy and entry strategy?
- What are DCs global capabilities and strategies? (Independent variable)

- What country and industry challenges and opportunities do the Chinese market present? (independent variable)
- What is DCs strategic shift in China? (dependent variable)
- What explains the strategic shift of DC in China?
- Is the strategic shift sustainable?

In the following section, the methodology and philosophical considerations are introduced. This is followed by a literature review which reviews literature on entry strategy, the dependent variable. Following this, a section on the three levels that influence the entry strategy. After this the literature is synthesized to introduce the analytical framework. Afterwards, the history of DC and their operations is introduced, the independent variable. The next section reviews the changes in the 3 levels that have affected DC. The next section analyses the entry strategy of DC and how the 3 levels of analysis have affected the entry strategy decision. This chapter ends with a conclusion on the entry strategy decision of DC. The paper then moves on to reflecting over the sustainability of the shift. Finally, the over-all conclusion of the project is presented.

Philosophy of Science & Methodology

Research philosophy concerns itself with themes that relate to the development of knowledge and the nature of knowledge itself. Throughout my research I will be making assumptions, and the research philosophy I adopt will shape the way which I view these assumptions. In other words, research philosophy is how I believe data about the research question should be obtained, analysed and used in the thesis.

The philosophy I adopt will be shaped by practical considerations such as time, however, the main influence will be what forms of knowledge I consider acceptable – Do I only rely on data about an observable reality and thereby search for casual relationships and regularities within these data or do I believe that it is necessary to understand differences between humans in our roles as social actor? Is the research value bound? Am I, the researcher, a part of what is being researched and thereby accept that the research is subjective or am I undertaking the research independent of the data I have collected and thereby maintain an objective stance of the research? It questions such as these I will answer in this section about the philosophy adopted for the project. The following parts will discuss the epistemological and ontological considerations of the philosophy of science positivism. Finally, I will discuss the implications and possible shortcomings of working with a positivistic mindset throughout the paper.

Epistemology & Ontology of Positivism

Epistemology is the study of the nature of knowledge - How is knowledge defined, what can we know and what are the limits of knowledge? Questions such as How we know what is true? and how do we know when we have identified the truth? (Saunders, Lewis, & Thornhill, 2009)

As noted in the above I have chosen a positivistic approach. This will be seen in research setup because using existing literature the paper tests empirical observations about DC. The aim of the testing is to confirm or reject the findings of the theory. Another goal of the research is to create law-like generalizations. This also means that the theoretical concepts presented are operationalised in order to be able to measure the change. Moreover, I maintain independency of the study and thus have no impact on the object being studied – a key feature of positivism. The study will also proceed in a linear manner and one section will be completed or substantially completed before moving on the next section (Stokes, 2011b).

Positivism implies that only data can stem from observable phenomena and that data is collected from empirical observations whereby the data can either be verified or falsified. In the collected data I search for regularities and casual relationships in order to create law-like generalizations. The thinking is governed by theory and hypotheses throughout the paper. It is also implied that all processes can be reduced to physiological, physical or chemical events – even social processes which are simply a relationship between actions and individuals. There is therefore a belief in reductionism and hence a belief that phenomena can be reduced to its simplest elements – I only study a single-unit of DC, not the entire organization nor the entire pork industry (Saunders et al., 2009; Stokes, 2011a).

Ontology is the study of the nature of being. In its most general terms ontology identifies things that exist. It addresses questions such as What is existence and what is the nature of existence? Another central question to ontology is how we perceive social entities – subjective or objective? The answer to this question is contingent on the philosophy of science – in our case positivism. Positivism is based on objectivism and thus see social entities exist in a reality that is external and independent of its social actors and thereby also that social phenomena and their meanings have an existence independently of social actors (Saunders et al., 2009).

Having discussed the foundations of positivism I briefly recap and discuss what methods and research approaches are used in the paper. Using the philosophy of positivism such implies that data is only trustworthy if I obtain it through observation. As a researcher I shall undertake the research in a value-free way and remain independent of my data and be purely objective. Being independent refers to that I maintain minimal interaction with participants while undertaking the research. The study is based on facts and the world is external and objective to my research.

The focus of my research is concentrated on describing and explaining the phenomenon rather than on understanding and interpreting. Using existing literature to create questions to answer my research question – these questions are then answered during the research processes in order to attempt to answer the research question (Dudovskiy, 2018; Saunders et al., 2009).

Deductive reasoning

The thesis will primarily be conducted with a deductive reasoning. There will be notions of inductive reasoning in certain sections – especially when reflecting on the theory and what theory can learn from the study undertaken. Deduction is one of three forms of logical reasoning, the others being induction and abduction, which together with observations form the basis of all types of research (Saunders et al., 2009; Stokes, 2011a).

A deductive approach involves testing existing theory. It is the predominant research approach in natural sciences where natural laws are the basis of an explanation and laws can explain the occurrence of phenomena as well as predict when these phenomena occur.

Applying a deductive approach means that the analytical framework along with questions constructed at the beginning of the research and are then afterwards applied to the data collected. Hence, the developed framework is used to comment on the data collected to decide to what degree the given case fits with the constructed framework

The approach follows the path of logic closely by starting with theory that leads to a new hypothesis. The generated hypothesis is then tested by comparing it with the observed which will then lead either confirming the hypothesis or a rejection of it. If the hypothesis is rejected changes are proposed to existing theory (Saunders et al., 2009; Stokes, 2011a). Moreover, it has been chosen due to the nature of the research. I want to test theory: I go from a general level, the theoretical level, to a specific level, the observations. Also, the approach enables me to explain a causal relationship between concepts and variables. Furthermore, I am looking for objectivity and causations rather than subjectivity and I value numerical estimation over a narrative description.

The above can also be seen in the research setup. I use theory to develop the analytical sections. I then synthesize the theory to develop an analytical framework that is used to test the collected data with the final goal of finding generalizations. It highlights why the deductive approach is often used by positivistic research – the search for generalization and testing of theory coupled with the search for causality and relationships fits well with the foundations of positivism (Dudovskiy, 2018; Saunders et al., 2009; Stokes, 2011a).

Methodological considerations

I am aware that there are shortcomings of choosing positivism as a research philosophy. By relying on experience as a valid knowledge sources I reject concepts such as cause, time and space as these are not based on experience. Moreover, it is questionable whether I can remain value-free in the research – is being value-free actually a particular value position? Others criticize positivism for its acceptance/reliance on status quo – the research can lack deeper knowledge of more specific issues and how the focus is becoming narrower and narrower to the extent that the causal relationships tested do not reflect the complex situation (Hallebone & Priest, 2000; Stokes, 2011b).

Despite these shortcomings of positivism, I am interested in finding generalizable trends over time related observable objective phenomena that have affected not only DC but also other Danish food businesses opportunities for operating successfully in China. There is an abundance of theory because the literature field on strategy, entry strategy is widely debated and well explored making it suitable for a deductive approach.

Data collection

The majority of the data for providing background knowledge has been obtained through secondary sources such as DC’s annual reports as well internal employee magazines and company news. Furthermore, Danish newspapers have had a large number of articles concerning DC’s Chinese expansion. Moreover, trade organisations websites such as Landbrug og Fødevarer, Danish Industry Association and the Danish Chamber of Commerce have provided general information on Danish exports to China and current consumer trends. Likewise, I have examined foreign trade agricultural organisations for reports geared towards pork exporting to China. The Danish Ministry of Foreign Affairs has likewise published reports on market access and specific reports on the demand for Danish agricultural products in China. Websites dedicated to pork production have also provided valuable background information on the Chinese pork sector. Major multinational banks such as Rabobank and Singapore Development Bank have also published various reports on pork in China which also contribute with numeric data and further extending the background knowledge needed.

Collection of primary data

I initially contacted DC in hopes of collaboration, but they were unable to meet the request. However, I have several e-mail correspondences with Søren Tinggaard, Vice President DC Pork and leader of the factory project. I have also had a semi-structured brief phone interview with him. Through him I have gotten primary data on the operation through questions. I have also gotten some background knowledge on China. He has also answered question on the future of the operation.

The CEO of Scandinavian Farms Pig Breeding, Jørgen Lindberg, has also been contacted through email where he has answered question about their operations as well as background information on China and what possibilities he saw in the market. Through these e-mail correspondences I have gotten confirmation on findings in the secondary data.

I attempted to contact other persons and organizations who had an interest in the new strategy, but with no answer unfortunately. I also reached out for the people in my network who lives in China in hopes of getting in touch with a Chinese firm, but not answer. Below is table of who I have contacted and whether I obtained an answer or not.

Table 1: List of persons and companies contacted.

Name	Organization	Position	Type of medium	Answer
Niels Knudsen	ESS-Food China	Vice president	E-mail	None
Lao Jiuchi	Landbrug & Fødevarer	Special China consultent	E-mail	None
Landbrug & Fødevarer China department	Landbrug & Fødevarer	N/A	E-mail	None
DC Pork	DC	N/A	E-mail	Yes, not able to collaborate.
Søren Tinggaard	DC Pork	Vice President	E-mail and telephone interview	Yes
Jørgen Lindberg	Scandinavian Farms Pig Breeding	CEO	E-mail	Yes
Arla	N/A	N/A	E-mail	Yes, but unable to answer questions

Research design – Case Study

This study is designed as a case study. A case study is a detailed examination of a single phenomenon. It is a strategy that involves an empirical investigation of this single phenomenon within its real-life context. Case study research uses multiple sources of evidence. Case study research is particularly well suited to answer 'Why?' questions and to a lesser degree 'What?' and 'How?'. Yin distinguishes between three types of strategy-exploratory, descriptive and explanatory - for case study research and four types of case study design based on two dimensions: Single case vs multiple case and holistic case vs embedded case (Yin, 2003).

This study is designed as an explanatory single holistic case study. It is explanatory case study as I want to understand the phenomenon of Danish MNCs entering China. The case of DC strategic reorientation is suitable because DC has launched a new strategy and is Denmark's 2nd largest exporter of goods to China. In order to understand this, I examine changes in strategy and the global competitive environment over time. The paper seeks to establish casual relationships between the strategy and changes in the micro, meso and macro environment.

There is only one unit of analysis which is DC and it is therefore a holistic case. The rationale for a choosing a single-case design rather than a multiple-case is that the case of DC in China represents a unique case. DC is the first Danish food business to establish a production in China. Furthermore, the paper presents a critical case for testing well-formulated theories on a real-world phenomenon (Saunders et al., 2009).

Triangulation

Case studies rely on multiple different data sources and the data sources are both quantitative and qualitative it is necessary to perform data triangulation. During data collection I have triangulated data in order to secure the validity of the data. I attempted to confirm the content of articles by examining other newspapers articles and industry reports. I have therefore conducted what is known as data triangulation. Furthermore, through the email correspondences I have conducted methodological triangulation by using two different methods for gathering data.

Having triangulated the data in different ways I believe that the data is valid, although it is an inherent disadvantage that there is a lack of primary data. However, as DC is one Denmark's biggest food companies there is a lot of media coverage of their expansion in China. Moreover, agriculture is still a major topic of interest in Denmark thus there is also an amplitude of data available. The triangulation of data has also led me to new data sources which I have previously not considered and thus also improves the veracity of the findings.

Criticism of case studies

There are a number of advantages as well as a number of disadvantages/misunderstandings to case study research. This section will briefly examine a number of them. A key advantage of case study is its ability to zero in on real life situations and tests theory directly in relation to the phenomenon as it unfolds in practice. Moreover, case study integrates both qualitative and quantitative data in the data analysis providing a deeper understanding of the phenomenon. Case study therefore values all data equally and is therefore non-prejudicial on data. Another advantage is that the data is collected and analysed within the context of the phenomenon rather than in an artificially created setting (Zainal, 2007).

As much praise there is for case studies as much criticism it has received. Flyvbjerg (2006) argues that most critics postulate that case study's theoretical assumptions, reliability and validity are the issues of concern. Critics thus question the status of case study as a scientific method. For instance, Murphy (2014) concludes that findings and conclusions of a case study can neither be confirmed or denied in terms of utility and truth. Murphy therefore questions whether a case study can provide anything other than a story. In line with Murphy is Campbell and Stanley in Flyvbjerg (2006) where they argue that findings single-case studies are nothing but illusory when subjected to deeper analysis.

In the paper by Flyvbjerg (2006) focuses on 5 misunderstandings of case research. I shall not go through them all but especially misunderstanding 1,2 and 4 are interesting to this paper. These three misunderstandings are:

1. General, theoretical (context-independent) knowledge is more valuable than concrete, practical (context-dependent) knowledge
2. One cannot generalize on the basis of an individual case; therefore, the case study cannot contribute to scientific development.
3. The case study contains a bias toward verification, that is, a tendency to confirm the researcher's preconceived notions.

On the first misunderstanding Flyvbjerg (2006) argues that practical knowledge is more valuable than predictive theories because these cannot be found in the study of human affairs – social science has not been able to produce context-independent knowledge and in final instance therefore has nothing but context-dependent knowledge to offer. Hence, the statement of Flyvbjerg (Flyvbjerg, 2006).

On the second misunderstanding he argues that it is often possible to generalize on the basis of single study and therefore single-case studies can contribute to scientific development. For instance, Galileo rejected Aristotle's law of gravity without basing his conclusions across a wide range of observations nor were they carried out in large numbers. He further argues that generalization is overprized as a source of scientific development while on the other hand, the power of example is underrated (Flyvbjerg, 2006).

Finally, on his 4th misunderstanding he claims this is false has case studies are as rigorous as other research designs. They are different but not less rigorous. Moreover, it is a misunderstanding that case studies are characterized by verification as it rather falsification that is the goal of case studies. Hence, he argues that there is no greater bias towards verifications that other research methods – but rather on the contrary – there is bias towards falsification of the researchers preconceived notions.

In the conclusion of the paper, he highlights that the corrections of the misunderstandings are not a rejection of studies that use large sample or entire populations as both approaches are necessary to further develop the social science field. He also notes that social science is problem driven rather than driven by methodology. The methods best suited for answering a research statement should be used and these methods mostly a combination of moth qualitive and quantitative (Flyvbjerg, 2006; Mills, Durepos, & Wiebe, 2010).

Justification of research design

For the above reasons I have chosen to a case study as the research design. I believe that the use of multiple methods is able to provide a better understanding, moreover as the paper is examining a single phenomenon the case study is well suited. Although positivism favours the use of quantitative methods it is possible to use qualitative methods too, if for nothing else to confirm the findings from the quantitative data. I thus believe there is a clear coherence between, positivism and the chosen methods and research design.

Internal and external validity

First, the internal validity. The independent variables have caused a change to the dependent variable. However, factors such as technology and the ongoing trade-war can also have affected the dependent variable. Nonetheless, I believe that the framework has explanatory value. Ideally, I would have been able to have a control group and a treatment group to control for confounding variables.

External validity: To what extent can the findings be generalized? There are several studies that suggest that the Chinese consumer behaviour and these studies have been conducted independently of each other. Moreover, both S. Tinggaard and J. Lindberg agree that there are changes occurring.

Other food businesses are likely to experience the same increase in demand. However, as the studies which have concluded that there are changes, the studies have not been conducted through naturalistic observation but in controlled settings which can question their validity but as there are several studies who find similar conclusion as well companies experiencing these changes, their external validity is acceptable.

Literature and analytical framework

In this chapter the paper discusses theory that can help answer the research question: *What explains Danish Crown strategic shift in China and is this shift sustainable?* To answer this question the paper will look into entry strategy, however in order to fully understand this we need to understand the concept of entry strategy.

This chapter will therefore proceed as follows: An overview of what entry strategy is and its components: Entry objectives, the timing of entry, hereunder first-mover advantages and timing of entry in oligopolistic industries and finally, entry mode. Afterwards, the paper adapts Peng et al. (2009) strategy tripod where they combine the three leading perspectives: 1) industry-based competition, 2) firm-specific resources and 3) institution-based view, which together provide a comprehensive understanding of strategic decisions of a firm. Finally, the paper presents the analytical framework which will be used in attempting to find a probable answer to the research question.

What is entry strategy

The entry strategy of a firm is a set of fundamental choices that it is faced when entering a foreign country. These choices can be grouped into three categories:

- Entry objectives – What are the reasons to enter the country? The strategic objectives.
- Timing of entry – When to enter
- Mode of entry – Mode of operation and which legal form (Lassere, 2012).

Especially the mode of entry and the timing of the entry is contingent on wide number of external and internal factors. These include choice of entry mode: Should the firm enter as a joint-venture (JV) or through acquisition or make a greenfield investment? Moreover, the timing of entry can be critical to the success of operations: First movers can obtain a plethora of advantages but at the same time operate in a more uncertain environment while followers face less uncertainties and are able to benefit from others establishing critical infrastructure but they also risk that the first mover has pre-empted the resources. These two categories can also be seen as a jigsaw puzzle where each piece is contingent on the other to create a good fit. The firm therefore must see the different external and internal factors in conjunction with one another. Entry mode is therefore contingent upon factors such as timing and location as well logistics, among other things (Lassere, 2012).

The mode of entry is not only contingent upon the above factors but also has a dimension on intensity of the investment versus the control of the foreign operations. For instance, where a wholly owned subsidiary based on a greenfield investment offers the strongest control it is also the most intensive form of investment whereas a distribution agreement offers low control and relatively low intensity of investment. We must also see the entry mode as a trade-off between the cost of the investment versus the need for control over the investment. Likewise, government policies of a host country affect the entry mode decision.

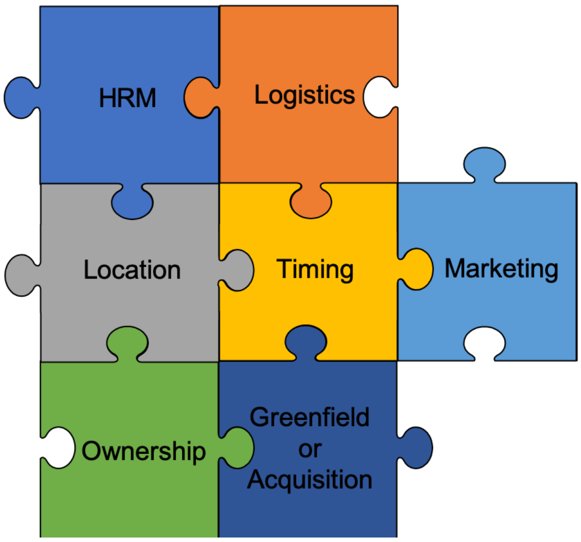

Figure 1: The building blocks of an entry strategy. Adapted from Peng & Meyer (2016).

Entry objectives

Why do firms enter in the first place? It is generally agreed that the reasons for entry can be placed in 4 major groups: Market development, resource seeking, learning and coordination objectives. The objectives are not necessarily independent of each other and thus a company may enter with several objectives. Market development objectives are about capturing size and growth opportunities; to a certain extent all countries offer such a potential. There are certain key countries which are more critical than others. A key country is a market that is necessary to establish a global presence, for instance China and the UK. Market development objectives seek to introduce new products or services to customers and are seen as the most common entry reason. Companies with these objectives often have questions like "Where are our potential customers and how do we reach the customers in a superior way than our competitors?" (Lassere, 2012; M. Peng & Meyer, 2016).

Resource access objectives aim to access a key resource in a given country that be natural or human resources. Thus, an investment with such objectives is to exploit the resources in the country by setting up an operational asset. With respect to access to human resources, we can also view such objectives as efficiency-enhancing objectives which aim to reduce the company's overall production costs by setting up in a country where labor costs are low and there a good transportation linkage. Investors considering resource access or efficiency-enhancing objectives are concerned with questions such as where to find the resources sought for? How best to secure access to these resources? and how can we lower the total cost of our product while also retaining good transportation linkages? (ibid).

Companies may also enter a country with learning objectives. Entering for learning reasons is happens in state-of-the-art industries where a foreign investor obtains knowledge and competences with its mere presence – and entry can happen even though the long-term outlooks for the market are not favorable as the objective is not to establish a subsidiary but rather to change the parent organization by obtaining access to the knowledge base of the country. We can understand learning objectives as a capability-enhancing investment. Investors gain access to new knowledge and technological know-how by entering the country. Finally, the coordination objective happens in so-called hub countries where regional coordination of activities happens because of locational and infrastructural advantages of the country (Lassere, 2012; M. Peng & Meyer, 2016).

Now that we have explained the four major types of objectives for entering, we move onto the timing of entry where we further discuss the choice of entering as a first mover, follower or through acquisitions.

Timing of entry

The timing of entry is contingent upon the risk willingness of a company as well as the window of opportunity. It is also contingent upon the entry objectives explored above. For instance, companies with market development objectives are likely to enter as first movers to obtain certain advantages that later movers do not acquire. However, first movers also face certain disadvantages that become late mover advantages. According to Lassere (2012) there are four phases to international market entry with respect to market development objectives:

- The ‘premature phase’: During this phase a significant investment in a country will not generate sufficient long-term revenue to justify an investment because of lack of demand and/or purchasing power. Some developing countries fit these characteristics. Although a significant investment is not advisable, but this does not mean that no investment should be made – rather the investment should be of limited commitment such as a distribution agreement or a representative office.
- The ‘window phase’: This phase is characterized by an increase in sales and market potential. However, at the same time the competitive landscape has not yet been established. It is in this phase the choice between being a first-mover or a follower is taken. As previously mentioned, there are both advantages and disadvantages to being be a first mover, which we discuss below (Lassere, 2012).
- The ‘competitive growth phase’ is characterized by a growing number of competitors who have taken advantage of the window phase. These competitors are competing for their share of a rapidly growing market. Entry in this phase requires a high degree of risk willingness and a significant investment is needed or a highly differentiated product. One way to overcome the late-comer barrier is through an acquisition or JV. However, as discussed previously it is possible that the first mover have already pre-empted such possibilities
- Finally, the ‘mature phase’. At this point the market has matured and competition is well-established. Therefore, acquisitions are generally the only way to enter the market. However, another way to enter is attempting to exploit the incumbent inertia by responding to a changing market or customer needs with a new and innovative product if the incumbent has not responded (Lassere, 2012; Lieberman & Montgomery, 1988)

First-mover advantages and disadvantages

Lieberman et al. (1988) explores the concept of first mover advantages. The authors argue that the first-mover advantage primarily stems from three sources: 1) technological leadership, 2) preemption of assets and 3) buyer switching cost. Within each of the three sources there are some mechanisms. In technological leadership these include advantages that are derived from experience or learning. It can also stem from success in patent and R&D development races, especially if the technological advantage is largely a result of R&D expenditures. In these races it is often the first mover that gains an advantage because they patent the innovations or maintain trade secrets. However, these patent races only provide an advantage in few industries such as the pharmaceutical industry.

First-mover advantages from 'preemption of assets' stem from preempting competitors in acquiring scarce assets whereby the first-mover gains an advantage by controlling already existing assets rather than those created by new technological development. These assets can be both physical resources and other process inputs. However, the assets can also relate to positioning 'space' such as geographic space, product space or shelf space. Another form of preemption is by preemptively investing in plant and equipment. The greater output capacity of the incumbent firm can deter other firms from entry due to ability to sell products at a lower price while still remaining profitable (Lieberman & Montgomery, 1988; M. Peng & Meyer, 2016).

Finally, advantages from switching cost relate to buyer switching costs where late entrants must invest extra resources to change the consumers mind. The switching cost can stem from transaction costs or investment that the consumers make in order to adapt to the first seller's product. Other switching costs arise from supplier specific learning from the consumer because over time, the consumers adapt to the characteristics of a given product and its supplier and thereby find it costly to change to another product by another supplier. The imperfect information from buyers regarding product quality and consumer choice under uncertainty is also a factor in creating first-mover advantages. In such cases the consumer may rationally stick to the first brand they encounter that fulfill the requirements in a satisfactory manner. Particularly for low-cost convenience goods brand loyalty may be strong because the benefits of switching are rarely great enough to justify the additional cost incurred. It is in these cases where the first mover can gain an advantage by establishing a reputation on quality and other product properties. If we look in the field of psychology, we find that the first product introduced received a disproportionate amount of attention in the consumers' mind whereby late entrants must have a vastly superior product and/or spent large sums on advertising to change the consumers' mind (Lassere, 2012; Lieberman & Montgomery, 1988).

Lou & Peng (1998) have conducted an empirical investigation and confirms that there is evidence that a first mover can obtain significant competitive advantages, especially in transitional economies such as China. They found that earlier entry into transitional economies leads multi-national enterprises to gain more over time in terms of for example, profitability and market expansion. Moreover, an early entry is beneficial in terms of sales growth and competitive performance as well as financial performance indicators such as profitability, asset turnover and risk reduction (Luo & Peng, 1998).

There are also certain disadvantages for first movers as Lieberman & Montgomery (1998) elaborate on. One, is the ability of the late-movers to free ride on the investment of the first-mover's investment in areas such as R&D and infrastructural developments. This ability to free-ride affects the size and durability of the pioneering company's profits and therefore reduces its incentive to make first-mover investments. Another is how first-movers may suffer from shifts in technology and customer needs due to a process known as 'creative destruction', where existing products are replaced by innovative products by new first-mover companies. The threat often occurs while the product is still in its growth phase and it is thus difficult for the incumbent firm to discover. It is not only the product market that is changing. Customers' needs also change which creates opportunities for later-comers unless the first mover remains alert and responds to such changes. The authors also discuss incumbent inertia which makes it difficult for the company to respond to environmental changes and competitive threats. The inertia is often caused by the incumbent's unwillingness to cannibalize existing product lines, lack of organizational change or because the firm is locked into a specific set of fixed assets (Lieberman & Montgomery, 1988).

Entry mode: How to enter?

The choice of equity vs non-equity mode

The mode of entry is the format used to enter a foreign market. As mentioned in the introduction to this section the mode of entry is a trade-off between a control dimension and the intensity of the investment. For instance, it could be a choice between a greenfield investment with strong control and a higher investment intensity or licensing agreement with low investment intensity and weak control. It is a choice between a non-equity mode such as licensing agreement and export agreements which often reflects a smaller commitment to the market or equity-mode which requires a bigger commitment with harder-to-reverse decisions. Equity modes include majority JV and greenfield investment and acquisitions and provides the company with certain advantages through internalization which reduces the risks and costs of by bringing market transactions in house.

Equity modes are preferred if a company wishes to transfer intangible assets. This is because many companies' competitive advantage is based on intangible assets. However, companies also face asymmetric information regarding the value, content and usage of the intangible assets. The asymmetric information of these intangible assets is a classic source of market failure. The more a market is characterized by asymmetric information, the likelier it is that a company chooses an equity mode in order to internalize these transactions. Furthermore, the transfer of tacit knowledge that requires 'learn by doing' and direct physical interaction is nearly always only feasible with equity modes. Hence, companies competing on the basis of especially technology, brand names and other intangible assets will prefer equity modes over contractual arrangements.

Once the company has chosen to proceed with entry through equity there are still decisions of what entry mode to choose. The different equity modes vary in terms of control, commitment, risks and return. Thus, it is clear that the choice of entry mode is contingent on many things that there is no ideal solution that fits all companies. Moreover, each company to decide what entry mode fits their global strategy, the country risks and what opportunities the country possesses and what capabilities the company has itself. It is also a question of what entry modes is allowed in the given country. Some countries still require companies to enter through a JV with a local company.

Strategic alliances

An alternative to M&A and JV is strategic alliances though some argue that JVs are also a strategic alliance. The paper understands a strategic alliance as an agreement between two or more organizations who agree to share resources and/or knowledge in the pursuit of mutually beneficial objectives while remaining separate entities (PwC, 2016). Moreover, a strategic alliance is less involving and less permanent than a JV where two companies normally pool their resources to create a separate entity; a corporate child (Lassere, 2012; PwC, 2016). Empirical research has found several positive outcomes for companies engaging in strategic alliances, among these are greater return on equity, higher return on investments and higher success rates if compared to the performance through M&A (Todeva, Chaharbaghi, & Knoke, 2005). Strategic alliances should be seen as a hybrid organizational form that blend hierarchical and market elements.

The motives entering strategic alliances are plethora ranging from increase in productive capacities, to reducing uncertainties in internal structures and external environments to achieving a competitive advantage that enables greater profits or to provide them with future opportunities. The strategic motives vary according to firm-specific characteristics as well as factors stemming from the external environment. It is noticeable that the level of cooperation between the firms appear much less influenced by benefits stemming from internalization – rather it is the current market position of the firms and their joint capabilities. Therefore, the decision cannot be determined by the reason itself nor through current environmental pressures. For an alliance to be successful basic trust is required and so is mutual understanding, unrestricted learning and interorganizational knowledge-sharing in order to accomplish a high level of joint decision making at not only the strategic level but also the operational levels (Todeva et al., 2005).

There are also some risks involved with global strategic alliances even though they can be mutually beneficial, especially when both markets and hierarchies are inefficient. Das & Teng (1998 p. 493) observe that: "*the essentially fickle and tentative nature of partner cooperation should not be overlooked"* and because of this, strategic alliances might be considered *"(...) fundamentally self-defeating, unstable and transitional in nature".* This is perhaps why analysts find high-levels of instability and dissolution in strategic alliances with failure rates approaching 50% (Das & Teng, 1998; Todeva et al., 2005).

However, when alliances succeed, they operate as vessels for transferring and creating new organizational knowledge and capacities either through exploitation as one partner acquires another partner's knowledge or through mutual experience as the partners learn through cooperation during implementation of a collaborative agreement. Stuart (2000) investigated alliances impact on innovation rates (measured as number of patented granted) and economic growth (annual sales of semiconductors). He found that firms with alliances had superior performance compared to those with no alliances. Specifically, he found that alliances with large and innovative partners improved baseline innovation and growth rates, especially for young firms and smaller firms partnering with big innovative corporations. Stuart (2000) also found that alliances can be more than just vessels for the exchange of resource and know-how. They can also act as vessels that express social status and recognition and are most likely to happen if at least one of the companies in the alliance is a large organization with a strong track record of reliability and previous accomplishments. Finally, he concluded that his study offers further evidence that confirms that alliances can improve firm performance and that this gain is influenced by the strength of the attribute profiles of the firms involved (Stuart, 2000; Todeva et al., 2005).

Now that we have discussed strategy and entry strategy, we move on to discussing the factors that shape the entry strategy decision.

Strategy Tripod

The preceding section discussed the concept of entry strategy and its elements, including mode of entry, entry objectives and timing of entry as well as how industry concentration can play a role in understanding firms timing of entry. However, it is clear that there are several other factors that affect the components of entry strategy. These factors can be grouped into three overarching categories: industrial-based competition (IBC), firm-specific resources and capabilities (FRC) and finally, institution-based view (IBV) conditions and transitions. The influential papers by Peng et al.

(2008,2009) argues that combining the three perspectives leads to a superior of understanding a company's strategic choices. The following section therefore primarily builds on the framework advanced by the above-mentioned authors but will also incorporate other sources (M. W. Peng, Sun, Pinkham, & Chen, 2009; M. W. Peng, Wang, & Jiang, 2008).

Institution-Based View

Institutions matter because *"[They] directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy"* (Peng et al., 2009, p. 63). When institutions work seamlessly, they are nearly invisible, and on the contrary, when market-supporting institutions are absence, their absence is nearly conspicuous. It is thus clear that institutions cannot simply be treated as background or control variables (M. W. Peng, Sun, et al., 2009).

IBV is underpinned by two forces. The internal forces point out that the institutional theory compensates for the little effort to establish context in IBC and FRC views. These theories focus too much on market demand and technological changes and too little on the influence of (institutional) environment while the external forces have focused on how institutions matter compared to the IBV and FRC that respectively focuses on cost-leadership and firm specific resources and capabilities that are hard to imitate (M. W. Peng, Sunny Li, Pinkham, & Hao, 2009).

Through the lens of IBV we see strategic choices as driven not only by industry conditions and firm capabilities but *also* as reflection of the formal and informal constraints of a given institutional framework that managers confront.

We can see the emergence of the IBV from a SWOT-Analysis. The O&T: Externally the rise of the new intuitionalism in social sciences opens an opportunity for further understanding of firms' strategic management. Internally, the strategy field has been threatened by a lack of focus on context in existing literature. The strategy field needs to understand and embrace that institutions matter and continue research on how they matter. In terms of S&W: The strength of IBV is its novelty, continuity and scope and the main weakness is that it can be too encompassing and broad. It thus clear that IBV has a place in strategy research and that institutions must be seen not only as things in the background but must to be brought to the forefront of an analysis.

Industry-based competition

The paper will now continue by exploring IBC, a field pioneered by Michael Porter in the late 70s and the early 80s. Porter argues that there are five forces that shape strategy; threat of new entrants, bargaining power of suppliers, threat of substitute products or services, bargaining power of buyers and rivalry among existing competitors. Porter argues that a company should position itself where the competitive forces are weakest. In what follows the paper explores the framework in detail. The framework can be seen in figure 2. After having discussed Porter's Five Forces, we move on to discussing another aspect of IBC, oligopolistic competition.

The Five Forces Framework

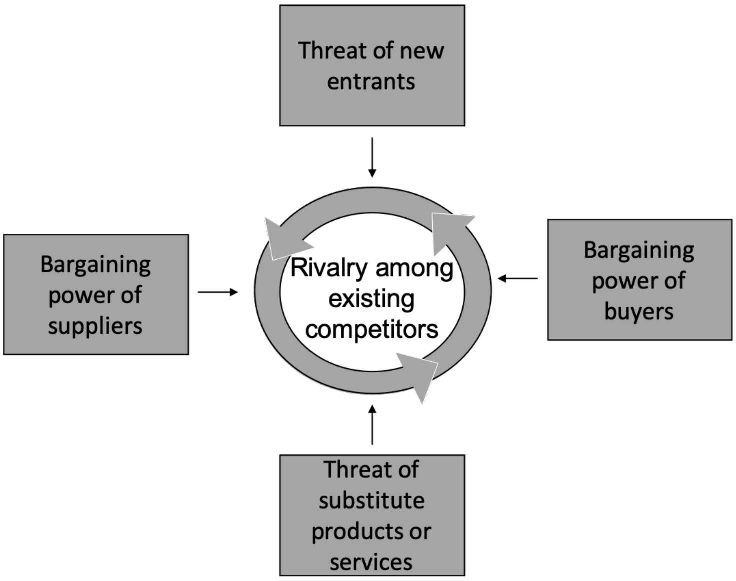

Figure 2: Five forces that shape industry competition. Adapted from Porter (2008)

The framework was first introduced by Porter in 1979. The framework started a small revolution within the field of strategy and still today continues to inform business practices and academic thinking. Porter's framework deals with the misconception that success stems from simply being the best and that competition is a direct contest between rivals. Competition is not about beating your rival rather it is about earning the profits. (Magretta, 2012).

As mentioned, there are five forces that shape the competition within an industry. In order to sustain a competitive advantage and long-term profits it is natural that a company keeps tabs with it nearest competitors, but Porter argues that there are four other forces that shape the competition in separate ways:

- Customers can force down prices by playing rival firms up against each other (Bargaining power of buyers)
- Suppliers can hamper profit if they are able to charge higher prices (Bargaining power of suppliers)
- Aspiring entrants looking for market share can drive up the investments required to stay competitive and maintain profits. (Threat of new entrants)

- Substituting products that serve the same need can lure customers away. (Threat of substitute products or services) (Porter, 2008).

An analysis of the industry can reveal the roots of an industry's current profitability while at the same time provide a framework for anticipating and influencing future competition and profitability. It explains the industry's average prices and thereby the average industry profitability that one is trying to beat. Moreover, Porter (2008) suggests that there are several factors that affect the industry but cannot be considered forces, these include 1) industry growth rate - high growth rates does not always mean that it is an attractive industry, 2) governments are best understood by analyzing their policies influence on the five forces and 3) complementary products and services - Complement products are important when they affect industry demand, but as with government policies, they do not necessarily determine the industry's profitability because the presence of complementary products can be both good and bad and should thus be understood as how they affect the five forces (Porter, 2008).

It is important to know that industry structure is dynamic not static. The five forces can change over time – buyers' or suppliers' power can change. Technological or managerial innovations can affect the threat of new entrants by changing barriers to entry. Moreover, changing government regulations can also affect barriers to entry and the intensity of rivalry. Likewise, competitors' change in strategy also has the potential to change the overall industry competition (Harvard Business School, u.d.; Porter, 2008).

Oligopolistic competition

The above focused on IBC through Porter's Five Forces. Another way to examine industry competition is through the lens of oligopolistic reaction (OR) theory. The following section will explore the concept of OR which was proposed by Knickerbocker in 1973 and is another motivation for location choice - Firms investment in a given country to match a competitors move (Head, Mayer, & Ries, 2002; Nayak & Choudhury, 2014).

In more and more industries, the industry concentration has increased dramatically to such an extent that the key players in the industry now compete on the same markets worldwide. This increased concentration has led the rivaling companies to use FDI as a tool to establish and maintain their competitive position compared to their rivals by:

- Acquiring assets in foreign markets to increase their market share at the expanse of their global competitors

- Employing a preemptive strategy by investing in access to critical resources in foreign markets ahead of their global competitors.
- Retaliating against competitors' aggressive moves in their market by undertaking "tit-for-tat" investments elsewhere (Hansen & Hoenen, 2016).

Moves such as these are examples of what is meant by OR. Head et al. (2002) defined OR as "*The decision of one firm to invest overseas raises competing firms' incentives to invest in the same country"*

Certain conditions are necessary for OR to occur. For instance, when a high degree of uncertainty about cost in a foreign market exist, a risk-averse oligopolist is likelier to establish manufacturing plant in a foreign country once a competitor has already invested here. Thus, strong risk aversion and high degrees of uncertainty are required for OR to occur. With less uncertainty, there is less incentive for entering a foreign market and matching a rival investment. In a situation where uncertainty exists but the rival firm is risk neutral, the decision not to follow a rival into a foreign market is reinforced (Head et al., 2002).

Strategic interactions and rivalry are intensified in emerging markets. These emerging markets are becoming critical global markets in oligopolistic industries. – these markets have extraordinary opportunities - especially because the established markets of the advanced economies are consolidated and offer a limited growth potential (Hoenen & Hansen, 2013).

The notion 'follow-the-leader' can be used to describe such actions. Firms replicate each other to minimize the threat of foreign cost advantages. There is empirical evidence that show how firms matched rivals' strategic investments even though ROI was at best uncertain. Similarly, there is proof that firms in oligopolistic industries react to a competitor's investment by establishing subsidiaries in each other's market leading to a 'exchange-of-threat' situation. These decisions to either follow or curb a rival can be seen as global chess game. Game theory provides a way to understand players behavior when their fortunes are interdependent. In this situation we can understand it through a chess game – one players decision affects the other players decisions. Therefore, these strategic interactions are made to provide the company with a specific position versus competitors. Hence, MNCs invest in assets and positions in given locations because it provides them with pawns in the future games – not for the properties of the specific asset. Knowing this, it is clear that a firm's decision to internalize and enter foreign markets cannot always be explained by a TCE - or resource-based perspective – rather the contrary. Firms can estimate that the risk of losing out to rival is a lager risk than financial losses (Hoenen & Hansen, 2013).

Hoenen & Hansen suggests a conceptual model of foreign market entry strategy with 2 propositions. The first proposition is that drivers that relate to the strategic interaction between the key players in an oligopolistic industry have a curbing effect on the dominant view that foreign entry is driven by efficiency and resource-based motives.

The second proposition argues that motives related to strategic interaction between the key players in an oligopolistic have a direct effect on MNEs' foreign market entry strategy. This proposition relates to situations where sales-, cost reductions- or learning potential-motives cannot explain the market selection, timing or entry mode decisions of the MNEs. This affects the way companies define assets. In oligopolistic industries the MNEs strategic market positions are also considered an asset. Consequently, in such industries it is the need to gain control of a strategic position that drives the internationalization process (Hoenen & Hansen, 2013).

This provides a new perspective on understanding companies global entry strategy. Accordingly, we can see that not all entries can be explained by the dominant theories and motives, but we must also consider the industry constellation when exploring the motives. The paper now moves on to the final dominant perspective of strategy FRC.

Firm-specific resources and capabilities

This view emphasizes the need for firm-specific knowledge resources which enables a firm to gain and maintain a competitive advantage. Frameworks to understand FRC include dynamic capabilities and the VRIO framework introduced by Barney (1991). The VRIO states in order for a firm to obtain a competitive advantage a resource or capability must be: Valuable, rare, costly to imitate and the firm must be organized to capture value. If these conditions are not met the company can at best achieve a temporary competitive advantage.

Dynamic Capabilities

According to Teece *et al.* (1997) dynamic capabilities (DCA) are routines, organizational or strategic and serve to create new resource configuration in the firm. DCA can thus be seen as a sort of process that serves to integrate, reconfigures and also gain and relinquishes the resources of a firm (Adam & Lindahl, 2017; Teece, Pisano, & Shuen, 1997). Teece *et al.* (1997) define DCA as "*the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments"* (Teece et al., 1997). Essentially, we understand DCA as an organization's capacity to meaningfully create, expand and modify its resource base. Therefore, capabilities are fusion of a firm's skills and processes because the value of process is non-existent if the firm does not possess the skills needed to perform the process and vice-versa. If there is no effective processes the value of a skill is very limited (Adam & Lindahl, 2017). According to Teece *et al.* (*1997)* DCA will follow a path that is determined by the organization's history in a manner characterized by idiosyncrasy. Teece (2007) argued that organizations today no-longer compete in who has the best processes but rather in who has best process improving capability. In order to be able to compete in today's business environments it is necessary to improve processes continually (Adam & Lindahl, 2017; Teece, 2007).

The framework consists of a number of key concepts which are illustrated in figure 3 and further defined blow.

Path dependency

Teece *et al*. (1998) argues that the trajectory of a firm is understood as function of its current positions and paths ahead. The authors furthermore emphasize that *"bygones are rarely bygones"*, thus an organization's previous history matters as it will to some degree constrain and affect its future behavior (Adam & Lindahl, 2017; Dosi, Teece, & Chytry, 1998). It is therefore necessary to examine a company's past to understand its future.

Sensing, seizing and transforming

Dynamic capabilities can be grouped into three types of activities and adjustments:

1. Sensing: How can an opportunity be identified and assessed?
2. Seizing: How does the company implement the sensed opportunity? What resources are mobilized to address the opportunity and capture its value?
3. Transforming: The process of resource configuration in which the organization is constantly renewed (Adam & Lindahl, 2017; Teece, 2007).

Through DCA the company is constantly able to adapt to changes in locations and business environments (Teece, 2007).

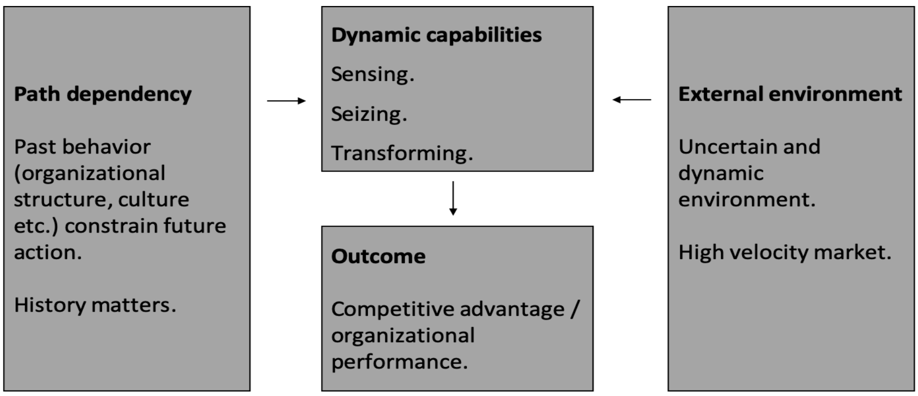

Figure 3: Dynamic capabilities framework. Source: Adam & Lindahl (2017).

Analytical framework

Now that we have explored the three leading perspectives on strategy, it is clear that each perspective alone is insufficient to explain the strategic choices of a firm - Some choices are rooted in institutional theory, while others stem from industry-based perspectives and finally, some stem from the capabilities that the company has. It is the interplay between these three perspectives that shape the strategic choices of a company, just as argued by Peng et al. in 2008 and 2009 (M. W. Peng, Sun, et al., 2009; M. W. Peng et al., 2008).

The examination of above literature on not only entry strategy but also on the three strategic perspectives has led to the following analytical framework with the research question: "*What explains Danish Crown's shift in China and is this shift sustainable?*". The question is answered by understanding changes

1. Changes in country factors (The institutional level & consumer level)
2. Changes in the Industry (The industry level)
3. Changes in firm capabilities (Firm level)

… and how these three levels and their interaction are assumed to explain the entry strategy. This can be illustrated graphically as seen in figure 4.

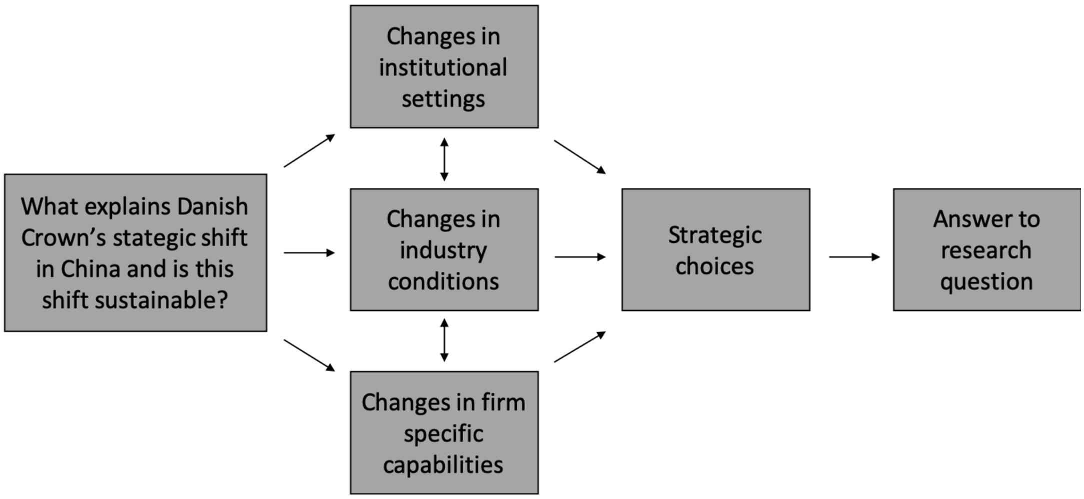

Figure 4: Analytical framework. Adapted from Peng et al. (2009).

It is hard to see each level in isolation as changes in each of the three levels affects the other level as we shall see in the next chapter. For instance, changes in the institutional level has led to changes at the industry level and vice versa. Likewise, the changes in the industry has prompted changes in the firm specific resources. The framework is heavily inspired by the Strategy tripod by Peng as mentioned previously. The framework is used in the following way: First, changes in FRC is examined to understand what capabilities DC have. This is followed by an analysis of the Chinese pork industry through a Porter's Five forces and oligopolistic reaction theory. Finally, the changes in institutional settings and the changing consumer behavior is examined. Then, the entry strategy will be examined, and it will be discussed how the changes in the 3 levels have affected the decisions.

Firm Specific Capabilities and Resources

This section starts by introducing DC. Afterwards, it assesses the capabilities and resources that DC possesses through VRIO and DCA.

The case of DC

First this chapter will provide an historical account of DC. Since is since used to provide an overview of the capabilities and dynamic capabilities that DC possesses.

Today, DC Group is an international food producer with production and sales throughout the world. DC is a joint-stock company owned by the cooperative "Leverandørselskabet Danish Crown Amba" which consists of approx. 9,000 Danish farmers who also deliver the pigs and cattle to the slaughterhouses. The organisation is built on the cooperative idea that one farm equals one vote (Danish Crown, U.d.-b).

DC has four overall business units: Agriculture, who raises the animals; Fresh Meat, who slaughters the animals (The main companies in this division are DC Pork, DC Beef and KLS Ugglarps); Foods, who further process the slaughtered animals (The major companies in this division are Solokow, Tulip LTD & Tulip Food Company) and finally, Casings, who sells casing throughout the world (DAT-Schaub is the main company and a world-leader). These business units cater to four markets: the food industry, retail industry, foodservice and the pharmaceutical industry (Danish Crown, 2018a). The entire group had a revenue of DKK 61bn, resulting in a profit of 1.36bn in fiscal year 17/18 and nearly 29,000 employees worldwide. The result of FY 17/18 is significantly worse than FY 16/17 where the annual result was more than 2bn. The performance of the DC Group is primarily challenged by the Tulip UK. More than 90% of DC's revenue is generated outside of Denmark (Elkjær-Larsen, 2014).

Tulip LTD have long had a troubled presence. In 3 years, the company has lost more than DKK 700M – despite a yearly turnover of around DKK 10bn. The problems of Tulip LTD have a significant part in explaining the worsen fiscal performance of the DC group. In FY 2017/2018 DC also depreciated fixed assets in Tulip for DKK 288M. The performance of Tulip LTD vs DC Group is illustrated in figure 5 (Attrup, 2018g; Danish Crown, 2017a, 2018a).

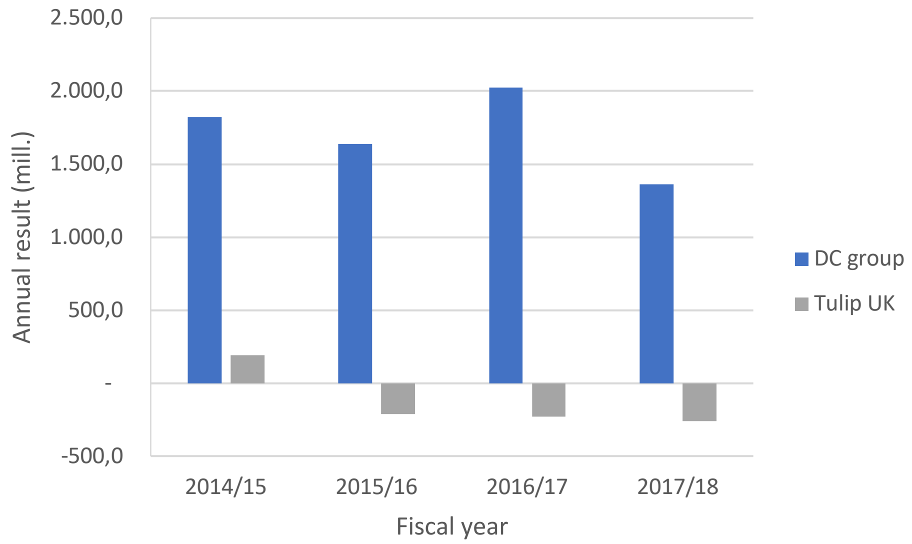

Figure 5: DC group and Tulip's annual result 2014-2018. Sources: Danish Crown (2016,2017,2018) and Attrup (2018).

DC slaughtered 23M pigs and 0.9M cattle in 2018, up from 21M and 0.7M in 2017. This makes DC Pork division one of the biggest global players and the largest European player in the abattoir industry and the world's biggest exporter of pork (Elkjær-Larsen, 2014), and the beef division a leading European player (Danish Crown, 2018a). The slaughtering and casing business units accounted for 86% of the EBIT-result. Danish Crown operates production facilities or sales offices throughout most of the world, including US, Brazil, South Africa, China and Australia (Danish Crown, 2017a, 2018a). In 2018 DC invested 1.3bn in fixed assets where 0.3bn was invested in domestic abattoirs. The biggest single investment in fresh meat was the China factory. The remaining investment were used on processing plants in the UK and Poland (Danish Crown, 2018a).

However, it is doubtful that the founders who in 1887 established what would be DC, were aware they laid the foundations of what would become a global meat company. The company was founded in Horsens by 500 farmers who started the company as a cooperative. The first year the company slaughtered 23,400 pigs and sold 550,000 kgs of pork, resulting in a profit of DKK 75,400 (Danish Crown, u.d.-e). In 1902 several meat companies joined forces and began exporting bacon to the UK and quickly Denmark became the most important supplier of bacon to the UK. Even today, more than 125 years after the beginning, the UK remains the biggest export market for DC (Danish Crown, u.d.-c, u.d.-e).

Ever since the company was founded it has a strong record of exporting pork products – up until the 1970's the main growth driver was bacon (Danish Crown, u.d.-e). In the period from the beginning of the 1900's to the 1970's there was a huge growth in the number of slaughtering companies in Denmark. A report from 1963 concluded that there were too many small and unprofitable abattoirs. A modernization of the production facilities required investments that the small abattoirs were unable to meet and at the same time the report concluded that the over-all goal should be to have one big abattoir. This report started the structural evolution that occurred over the next 30 years and was led by process improvement and automatization. If the companies were to achieve economies of scale they had to merge – if a company was not competitive it had to accept a merge with another company. This meant that only the strongest companies survived and thus resulted in a dramatic decrease in the number of slaughterhouses (Christensen, 2012; Elkjær-Larsen, 2014). During a period of some 20 years, DC as we know today was formed. In the 1980s there were still some 20 slaughterhouses remaining in Denmark – dominated by two players Tican and Tulip. In this period Tulip changed name to DC and merged with a significant number of other companies. The result was that by 2001 there were only 2 slaughtering companies in Denmark: DC & Tican.

The 2000's marks a new era for DC – the era of globalization and is characterized by a growing industry concentration occurring through horizontal and vertical integration. DC acquired a number of companies in Poland, England, Germany and Sweden. Among these was the Polish Solokow who they bought through a JV with HKScan (Danish Crown, u.d.-a; Elkjær-Larsen, 2014). DC initial entry in England was not driven by market-leader motives but rather to secure access to the market.

In 2005 DC opened the world's most modern and advanced slaughterhouse in Horsens, Denmark. The factory is equipped with robots, automatic and technological advanced machines (Berlingske, 2005). In 2011, DC bought Germany's 4th largest abattoir, D&S Fleisch (Elkjær-Larsen, 2014). In 2014 DC bought HKScans' part in Solokow to become the sole owner of the company (Elkjær-Larsen, 2014; Feldthaus, 2014). The trend continued in more recent years too. In 2015, DC announced they would merge with the Tican, the 2nd largest (and only remaining Danish abattoir), however later the same year the merger was cancelled because of concerns from the national competition authorities (Jensen, 2015; Lund & Vorre, 2015). The acquisitions have been driving from a cost-saving perspectives and increase in the value-added (Elkjær-Larsen, 2014). In 2017 DC bought the primary producer 'Easey Holdings Ltd' in the UK which provided DC access to British raw material (Danish Crown, 2017b). Many of DC subsidiaries have continued the trend with buying competing companies or companies with value adding activities, e.g. Tulip bought DK Foods, a pepperoni producer and Solokow bought Gzella Meat Group (Danish Crown, 2018c, 2018h).

DC has a had presence in China since 1998 through distribution agreements for the sale of carcasses and offal. The importance of China for DC has gradually grown and in 2016 they announced their plans to construct a processing plant. The plant was officially opened the September 11th, 2019 some 18 months after the initial ground breaking (Attrup, 2000; Danish Crown, 2019a).

Capabilities of Danish Crown

It is clear that DC have some capabilities and resources that can be characterized as being VRIO. This also seen through that DC have been able to survive as a global player in Denmark, even though that the regulatory framework of Denmark leaves DC with a competitive disadvantage.

However, DC has been able to overcome these throughout automatization and the ability to provide homogenous products with world-class food safety - It is this combination of human resources and tangible asset that make such processes VRIO.

Another VRIO resource of DC is the organizations ability to maintain good relationships with its stakeholders. For instance, in many Asian countries the need to for good relationships to maintain business running smoothly is essential – DC has access to over 100 markets word-wide – and, in some cases they have unique market access compared to MNEs from other countries.

However, some of these capabilities also lie in the organization's ability to continuously adapt to change, as explored the DCA framework below. Some these capabilities can be described through the DCA framework.

Dynamic capabilities of Danish Crown

Path dependency

DC have experienced some troubles in their business operations, for instance, the Russian ban on pork from the EU and the problems with their UK operations as well as the cancelled merger with Tican. It appears as if DC is not constrained from their past but have learned from the failures in order not to repeat them. The organization has been adapted as needed.

Sensing

DC have sensed the need for change and emerging opportunities continuously. They have evolved their presence from a national player to a northern European player to now a global player. The changes have occurred because DC sensed it was necessary to remain competitive.

Seizing

How have DC seized the opportunities? DC have mobilized resources to either seize the opportunities through mergers and acquisitions or J/V. When the opportunity has been seized, DC has also readily adapted their organisation to achieve synergy throughout and maintain performance. Moreover, DC sensed the need for more automatization and has continuously invested in these technologies.

Transforming

The organization of DC has continuously adapted to the changes caused by the sensing and seizing activities. DC is constantly reviewing their intangible and tangible assets to assess whether change needs to happen. DC have constantly made sure that their assets have been adapted to secure a strategic fit. For instance, DC sold their operations in the UK because of years of unsatisfying results and the need for continuous investment, however, the sale will not affect DC sales to China as DC will still deliver the raw-material for the plant but at the same time they can also sell to processors in the UK.

It is clear that these DCA are a result of the constant need for change in a fast-paced and ever-changing market where the environment is dynamic and uncertain. Moreover, it is clear that these DCAs of DC, live up to the criteria of VRIO.

Summary

DC has evolved from being a small local company to a global company with a yearly turnover of more than DKK 60bn and more than 20,000 employees worldwide. DC has been able to stay on top of the game despite competitive disadvantages with the operations in Denmark. This setion has contributed to answering the RQ by assessing what capabilities and resources DC commands. It was found that especially food safety processes and the organizational flexibility could be considered VRIO. These capabilities can have contributed to DC operations in China by providing a competitive advantage over competing firms.

Changes in industry conditions

This chapter will provide an overview of the pork industry with the main emphasis on the Chinese market but a section on current developments in the global pork market is also needed to create a greater understanding of the Chinese industry. In order to provide an understanding of the forces that dominant the competition in the industry a Porter’s Five Forces analysis will be conducted.

Trends in the global pork industry

In 2018 the global pork production amounted to ca. 121M metric tons. Of these, the EU accounted for approximately 24,300 TMT, while the US produced approximately half of that; 11,942 TMT. That makes the EU and the US the worlds 2nd and 3rd largest pork producer. Within the EU, Spain and Germany are the biggest producers of pig meat The biggest producer is China who produced more than twice of that of the EU, 54,040 TMT (Deblitz, Verhaagh, & Rohlmann, 2018; United States Department of Agriculture, 2019).

In 2017 the global trade of pork totaled 8.3 mil. tons – valued at more than EUR 18bn. Noticeably, however, is that these volumes represent a mere 7.5% of the global production (Van Fernejj, 2018). Like for global pork production, the trade is also dominated by a few countries; EU, US, Canada and Brazil – who together account for more than 90% of the trade. In 7 years, the trade has grown by more than 37% (Van Fernejj, 2018). The growth is primarily driven by China who have increased their imports significantly (Reuters, 2019; The Development Bank of Singapore, 2017).

The bulk of the trade is primarily still dominated by frozen products, but changing consumer habits have changed the product assortment of the companies and importers have been changing their requirements and specifications of the meat imported (Van Fernejj, 2018).

The global pork industry is dominated by major players who either have a fully-integrated supply chain setup – from squeal to meal or partially integrated, known as "integrators" or "contractors". Contractors or integrators contract the production of their hogs out to independent growers. There is a tendency towards fully integrated companies, partially explained by contract enforcement costs. Fully integrated companies own the farm and contract staff to manage the farms. The fully integrated setup allows producers to control every step of the value chain: From conception and birth, to slaughter, processing and packaging. For instance, the largest US producer, Smithfield Inc., raised 35% of the pigs used in their operations in 2004. In 2015 the number was up to nearly 82%. The remainder was contracted out to independent growers. Similarly, the US producer Seaboard, raised over 60% of the hogs processed at their plant in Oklahoma (Attrup, 2018b; Reimer, 2006).

The table 2 below shows the 10 largest processors of pork measured by their annual number of heads slaughtered.

Table 2: Largest companies based on heads slaughtered. Sources: (Bro, 2015; Serra-Kopp, 2019; Vion Group, Undated; WATTAgNET, 2017, Undated)

Company	Country	Number of heads slaughtered (mill.)	Notes
WH Group	China	51.8	Owns 100% of Smithfield Foods and 73% of Shuanghui Development
Danish Crown	Denmark	25	Operations in Denmark, UK, Sweden, Poland & China
JBS USA	US/Brazil	24	Pork processing subsidiary of the international food conglomerate JBS S.A
Tyson Foods Inc	US	21.6	Data includes IBP and Hillshire
Tönnies	Germany	20.8	Includes processing data from Tican & SB Pork
Wen's Food Group	China	17	
Yuron Group	China	16	
Vion Group	Netherlands	15.6	Operations in Germany and Netherlands
Hormel Fooods	US	13	
Coren	Spain	10	Frigolouro is the processor arm of the Coren Group

It is noticeable that 3 of the 10 largest companies are Chinese. WH Group has fueled its growth by major acquisition such as that of Smithfield Foods. The WH Group acquired the world's largest pork producer Smithfield Foods in September 2013 for USD 7.1bn. The acquisition is the largest FDI by a Chinese company in the US and allowed WH Group to access technological know-how of Smithfield as well as world-class genetics and the valuable brand names of Smithfield Foods (Pei, 2013; Slane, 2013).

In 2015, another major US pork producer, Cargill Pork, was sold to another foreign company JBS USA, a subsidiary of JBS S.A, the world's largest meat processing company. The acquisition was valued at USD 1.7bn. The acquisition was motivated by JBS USA desire to expand its business within prepared and value-added products. By acquiring Cargill's JBS became the 2nd largest producer of pork in the US, after Smithfield Foods (Aylward, 2015).

DC has continued the trend of the major pork producers and processors consolidating. DC has consolidated its position in Eastern Europe through the acquisition of Gzella Meat Group, a deal worth approx. DKK 1bn. Furthermore, DAT-Schaub, a subsidiary of DC, has acquired majority stake in 5 companies throughout Spain and South America. More recently, DAT-Schaub has acquired the majority stake in Shanghai Natural Casing company (Attrup, 2018d; Danish Crown, 2018d, 2018i)

The above highlights an industry in consolidation. It shows the strong competition that is in industry – it is a tough battle to remain profitable and to secure market share. The competition is happening through the processing arms of the companies.

The consolidation has also led to several of the biggest producers competing in the same markets. WH Group subsidiary Smithfield has several production plants in Poland where DC also have two subsidiary companies. Tönnies is also present in Poland with 3 production locations. Coren group is also active in Poland. The trend of the competitors competing in the same market is even more obvious if we look to China: All of the European and American companies are exporting to China (Atlántico, 2017; Mano, 2019; Tönnies, U.d.; U.S. Securities and exchange commision, u.d.).

The take-overs, mergers and acquisitions are driven by diverse motives. Some of the acquisitions are used to secure market access or to consolidate a market-leader position or to obtain valuable brands. However, especially Shuanghui (WH Group) acquisitions of Smithfield can be explained by learning objectives and as a way to improving its domestic pork business. WH Group is expected to benefit from the knowledge that Smithfield possesses and through technological know-how transferred from Smithfield to the WH Group, especially in the area of meat processing (Y. Zhang, Rao, & Wang, 2019). JBS' acquisition of pork processor Cargill allowed JBS to consolidate its position in the US while also gaining access to geographical areas suitable for pork production and two state-of-the-art processing plants (Aylward, 2015).

Having provided an overview of the major trends and competitors in the global pork industry, the paper will narrow its focus to the Chinese Pork Industry. In order to understand what competitive environment DC faces during their re-entry in China, a Porter's Five-Forces analysis will be conducted. The section will continue as follows: An analysis of the pork industry in China and finally some comments on the implications that the industry situation may have for DC.

Five forces of the Chinese meat industry

Threat of substitute products or services:

China still remains the world's largest pork consumer, however the outbreak of ASF has resulted in changes in meat consumption. In the first six months the output of poultry rose by 5.6%, beef 2.4% and lamb 1.4% - however at the same time the total meat output fell 2.1% in the same period (Patton, 2019). Moreover, there are several evidences that vegetarianism is on the rise. Numbers from Euromonitor shows that from 2013 to 2018 the number of people who identify themselves as vegetarian rose by some 5% – from approx. 53,833M to 56,580M - approx. 4-5% of the entire population (Euromonitor, n.d.; Nuse, 2017). Rabobank estimate that due to outbreak of ASF, pork production might have reached its all-time peak and with at least a 5-year expected recovery time from the current ASF outbreak, consumers will have gotten used to consuming other proteins. However, the report still assesses that pork will remain the most widely consumed protein (Pan, 2019).

It is clear that pork is an easily substituted product as other meat products and vegetables are essentially able to satisfy the need. However, pork has a strong position in the Chinese diet and culture – in mandarin the word for "meat" and "pork" is the same and this is not expected to change (The Economist, 2014).

Based on the above it is assessed that the threat of substitution remains low. There are changes occurring, but these changes should not yet be perceived as serious threat – China is expected to remain the largest consumer of pork for years to come.

Threat of new entry

The threat of new entry puts a cap on the potential profit on the industry. It should be noted that it is the *threat* of entry – not if it actually happens – that keeps profitability down.

There are significant barriers to enter in the Chinese pork industry. The main barriers are government regulations and access to suppliers and distribution channels – but also to a certain degree brand loyalty. There are also considerable capital requirements depending on the mode of operations.

We start by examining the government regulations. There are stringent government regulations regarding importing food to China. On a country to country level it is necessary to maintain good relations as arbitrary decisions on banning certain countries from exporting occur or the addition of new requirements for export certificates are required despite a believe that everything was in order – it took DC's subsidiary, Tulip, 10 years to obtain an export certification (Attrup, 2018e; Kirby, 2019). There are warnings from several official foreign government institutions who warn about arbitrary Chinese regulatory enforcement for foreign companies (Abe & Sugawara, 2014; U.S. Department of State, 2019).

Depending on the entry mode capital requirements range from medium to high, however, with the changing consumer habits and the current ASF outbreak the Chinese market is an attractive destination for new companies. It is estimated that the threat of new entrants is medium. Furthermore, it is clear that there are some entry barriers that make it harder for companies to enter the industry, for instance the highly integrated setup of many of the biggest companies and the ever-changing government regulations, but at the same time the sheer size of the Chinese market and the distrust in local companies makes it an attractive market.

Access to suppliers and distribution channels:

In China many of the pork producers are fully integrated – having control from pig breeding to slaughtering to distribution channels. The biggest pork producer in the world, WH Group, also operates their own sales channels (The Development Bank of Singapore, 2017; WH Group, u.d.). The highly vertically integrated supply chain makes it hard for a company to enter without a partner. Thus far most foreign companies have entered through distribution agreements with processors thus not having control of the product reaching the end-consumer (The Development Bank of Singapore, 2017). However, many of the major players also buy pork in the spot market – in 2016 WH Group acquired about 1/3 of its pork from intermediaries which were mostly individual small hog farmers (Y. Zhang et al., 2019).

There are also companies who enjoy privileged access to distribution channels. In 2017, Smithfield signed an exclusive agreement with JD.com for the sale of their products online (Xinhua, 2017). The Brazilian meat company JBS signed an agreement with Win Chain, an Alibaba subsidiary, worth USD 1.5bn – however, according to Søren Tinggaard (personal communication, 27 march 2019), the deal was never realized due to disagreements over how the distribution was handled. (Beek, 2018). However, at the same time several of the Chinese companies are using imported meat – this is increasing at the moment due to the widespread impact of ASF and an increasing gap between meat demanded and meat supplied. China produced 96% of the pork demanded before the spread of ASF (S. Tinggaard, personal communication, 27 march 2019) (China Policy, 2017; Pan, 2019).

Brand loyalty is increasing in China but there is a bigger focus on value than on the brand, nonetheless the major players all have 4–5 pork brands and consumers are willing to pay a premium for well-known brands (Bai, 2017). Foreign companies are at an advantage compared to domestic companies, as reports points to the fact that Chinese consumers prefer imported meat over its domestic counterpart (Lai, Wang, Ortega, & Olynk Widmar, 2018; Strak, 2018).

The power of suppliers

The more power the supplier has the bigger part of the profit they are able to capture. The power of suppliers in the pork industry in China depend on the type of farming chosen by the processor and on the integration level of the processor company. For the major players there are two common modes of farming and two different level of supplier power: Industrial scale farming and company + farmer.

Under the first mode the processor has control of the entire supply chain and owns the farm where pigs are bred. Under these circumstances the power of the supplier is low because the supplier is an integrated part of the company. This type of business model is growing, and further consolidation is expected in the industry as government regulations tighten and small-hold farmers are bought up (Schneider & Sharma, 2014; The Development Bank of Singapore, 2017). A trend that is expected to accelerate as Chinese labour costs rise. It is estimated that large-scale hog farms use labour six percentage points better than the small-scale hog farms and the small-scale farmers are therefore no longer competitive and are forced to either merger, accept take-overs or shut down the operations all together (Elkjær-Larsen, 2014; Y. Zhang et al., 2019).

Under the company + farmer model, a farmer uses certain services of the processor such as its seed stock, feed and veterinary services. In return for this the farmer is responsible for raising the pigs. In this arrangement the power of supplier is higher. (Schneider & Sharma, 2014; The Development Bank of Singapore, 2017). The farmer can choose not to sell his pigs to the company and in certain cases it can be more profitable for the farmer to sell his pigs to another buyer – the processor is thus more depend on the farmer in this model than in a wholly integrated supply chain. Under this form of farming the buyer also faces higher switching cost because the buyer has invested in the farmer and his facilities and finding new farmers can be a difficult task. However, at the same time the suppliers of pork also face a high switching cost thus nulling the initial power that they may have held (The Development Bank of Singapore, 2017).

The power of suppliers is medium. It is clear that small-scale hog farmers have the opportunity to choose to whom they sell their pigs, but at the same time the threat of take-over through backwards integration is very much existent.

The power of buyers

The flipside of powerful suppliers are powerful buyers. They are able to squeeze the margins in the industry by pressuring the suppliers to either reduce prices or increase the quality of their products. In the pork industry there are two types of buyers: Pork processors and supermarkets. The power of pork processors depends on the farm mode chosen. If it is a wholly integrated setup there is no buyer power, as the company controls every facet of the supply chain, including quality and price. If the company + farmer approach is the chosen, the buyer must have a certain degree of power as pigs can be seen as a standardized product and there are several other pig farmers. It is estimated that for every kg of pork sold, the farmer receives 60% of the value, earning an average profit of a mere 7%, thus the threat of backward integration is not big as the profit margins are not attractive. However, the risk is there. It is estimated that due to food safety concerns there will be an increasing consolidation in the industry. In sum, buyers do possess a certain amount of power over suppliers.

Grocery chains on the other hand have great power over suppliers. There are several producers of pork and all producers deliver a similar product. If suppliers demand too high a price, the grocery chains are able to switch to another supplier. At the same time, brand loyalty remains at best medium, thus the customers will not punish the grocery chains for not carrying certain brands (Bai, 2017). At the same time, the grocery chains are constantly pushing for higher quality products and lower prices (Elkjær-Larsen, 2014). If the grocery chains assert too much power, there is a threat of forward integration, where suppliers integrate the grocery chains into their supply chain, whereby they are able to control the entire supply chain, from breeding to slaughtering to selling to the end-consumer (The Development Bank of Singapore, 2017).

If the trend of wholly integrated pork companies continues, we must expect that the buyers get less and less power as the threat of forward integration continues to grow. However, at the same time it is not unlikely to see some of the grocery chains to sign exclusive agreements with some sellers, which will increase their power (The Development Bank of Singapore, 2017; Y. Zhang et al., 2019).

Rivalry among existing competitors

The competition in the pork market is high and the market is highly fragmented despite an increased consolidation. The number of slaughterhouses has decreased from 23,430 in 2010 to 3979 in 2015. The slaughtering is characterized by an overcapacity with resulting lowered profitability. China Yurun is believed to have a utilisation rate of only 11.9% which is significantly below the break-even utilisation rate of ca. 30% (The Development Bank of Singapore, 2017).

By the end of 2020 this number is expected to have decreased to 1785 (Frost & Sullivan, 2016). In the market for fresh pork there are numerous players. The top 10 comprises only for 5.1% of the total sales. Of these 5.1%, WH Group accounts for 37.71%, China Yurun for 23.03% and the remaining 8 players for 39.26%. The market for processed pork meat is slightly more consolidated with the top 10 accounting for 15.6% of the market share. Respectively, WH Group & China Yurun holds the first and second place of this market as well (Frost & Sullivan, 2016; The Development Bank of Singapore, 2017). Because of the attractive margins it a highly competitive market. The Shuanghui brand of WH Group has a profit margin of ca. 20% (The Development Bank of Singapore, 2017).

The competition is based on premiumisation and diversifying the product mix rather than on price, thus according to Porter (2008) it is a positive sum rivalry and is expanding the market because competition is mainly not on price but on serving different consumer needs which benefits all competitors in the industry (Porter, 2008).

This final part on rivalry among existing competitors concludes the analysis of forces that shape competition. The following part will focus on the implications for DC based on the above analysis.

Implications for Danish Crown

The above analysis points a clear picture of an industry that is attractive and that has an unsatisfied demand for the products that DC will offer. One of the biggest hurdles for DC to overcome is securing proper distribution channels for its products. The current distribution channels do not permit DC to serve the end-customer which is their wish with their new strategy. DC has overcome this by signing an agreement with the Win Chain brand of Alibaba – an agreement that secures DC exclusive access to their only platform for 5 years. The deal with Alibaba also allows DC to create brand awareness which is important in a fragmented market where brand loyalty is only mild at the minute, but is expected to increase (Beek, 2018; The Development Bank of Singapore, 2017). Furthermore, DC capitalizes on the expected growth in the processed meat market – but at the same time they will continue exporting carcasses and offal to distributors for further processing, allowing them to play on two horses simultaneously thus spreading the risk.

It is clear that there is a strong rivalry among existing competitors in the industry, but as noted in the section on changing consumer behaviour, there are strong evidence that Chinese consumers are willing to pay a premium for imported meat. Moreover, the Chinese consumers have a distrust in local producers – the current spread of ASF is not helping domestic producers - further providing opportunities for DC (Søren Tinggaard, personal communication, 27 march 2019) (Lai et al., 2018). It is estimated that the industry only produces 30-35% of the numbers before the ASF – this also means that the global production volume has fallen by 35% because of the crisis. This has resulted in a growing supply deficit which provides even more opportunities for foreign companies and attractive growth rates and profits. DC especially has a competitive edge among foreign companies because of its world class food safety standards and their ability to deliver homogenous standardized products that cater to the individual markets.

On contrary, the ASF outbreak is not only an opportunity but also a threat. The threat of substitution is become bigger due to the outbreak as consumers are switching to other proteins such as poultry (Pan, 2019). Moreover, DC must navigate in an ever-changing market which is changing technologically and structurally. DC must also be wary of changing government relations where bad country to country relations can have an adverse effect on their business (Kirby, 2019). The time-limited contract may pose problems, but at the same time the demand for high food safety and imported products is only set to increase in the coming years (D. L. Ortega, Wang, Holly H, Wu, Laping, 2009).

In sum, it is clear that there are opportunities for DC with its new strategy for their processed pork line but there might be some troubled waters mainly due to outbreak of ASF which is expected to cause a global supply deficit (McCracken, Pan, & Sherrard, 2019).

Ecommerce market

China is currently experiencing a change in the way consumers buy their food. They are changing from buying their meat products in wet markets where meat was sold as larger slabs rather than individual cuts towards buying their meat in a supermarket where it is packaged in smaller cuts ready to use. At the same time, consumers are buying more and more of their grocery purchases online. The ecommerce is especially interesting for this paper because DC with partnership with Alibaba allows them to potentially reach the 466 yearly users of Alibaba (Danish Crown, 2018b). Today, groceries bought online represent some 5% of the total grocery sale and is expected to increase, especially among young people aged 15-25 years (Danish Crown, 2017c).

Grocery ecommerce

The ecommerce market for food is huge in China and provides opportunities for domestic and foreign firms that should not be missed. The following section will provide an overview of the ecommerce market for food in China as well as the opportunities it provides.

The top 10 is dominated by two players who share approx. 80% of the market between them. The two players are Alibaba Group with Taobao & Tmall, with a market share of more than 60%. The Alibaba Group is also the world's largest ecommerce company – the Alibaba Group has since 2015 sold for more than Wallmart, e-bay and amazon – combined (Danish Crown, 2018f). The 2nd player is JD.com with a market share of ca. 19%. The remaining 8 players of the top 10 have between 3.2% market share to a mere 0.7%. The value of the B2C ecommerce market in 2017 was USD 499bn and is projected to reach USD 950bn by 2022. China is the largest ecommerce market in the world and the US ranks 2nd, some 7% behind in 2017. A graphically representation of the top countries is seen below in figure 6 (Bernard & Chen, 2017).

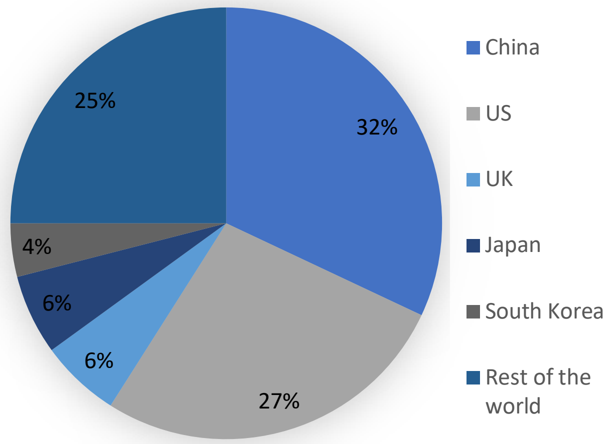

Figure 6: Top 5 ecommerce markets 2016. Adapted from Bernard & Chen (2017).

There is some disagreement on the value of fresh food ecommerce in China. Some sources estimate the market value to be roughly USD 62bn in 2018, surging to USD 2.8 trillion in 2023 (Robert, 2019).

Other sources are more conservative in their valuation, estimating a value of approx. USD 22bn – a growth rate of ca. 60% compared to 2017 (Trapp, u.d.; Xinhua, 2017). Euromonitor (2019) estimate the total value of online sales of food and drinks to CNY 242.9bn, a 28% value growth in 2018 (International, 2019). In a market report conducted by Agriculture and Agri-Food Canada it is estimated that in 2016 the e-grocery market was worth USD 23,9bn and estimates that by 2021 the value will have increased to USD 47.7bn. The majority of online purchases are done through mobile phones rather than on laptops or PCs (Bernard & Chen, 2017).

China is expected to remain the largest food ecommerce markets for years to come since there is a significant difference between China and other countries. The chart below illustrates the top 10 e-grocery markets in 2016 and illustrates the size of the Chinese market.

Food ecommerce remains challenging in most countries but in China it is an attractive market valued at USD 23.9bn. The 2nd largest market is the UK valued at USD 8.9bn in 2016. The top 10 markets are seen in figure 7 below.

PwC's report 'Total Retail 2017' estimated that 62% of Chinese consumers prefer to research grocery products online and the same proportion prefers to purchase groceries online. On a global scale these numbers are respectively 29% and 23% (PwC, 2017). Despite the increasing market size, only e-grocery shopping still only accounts for 6.5% of total grocery sales. Within the e-grocery category in China in 2016, the majority of sales were of packaged food (>76%) while the remaining stems from fresh food and drinks (Bernard & Chen, 2017). The attractive market has made supermarket like ALDI enter China and in April 2017 ALDI opened a distribution centre in Shanghai in partnership with Tmall Global (Dawson, 2018; Hancock, 2019).

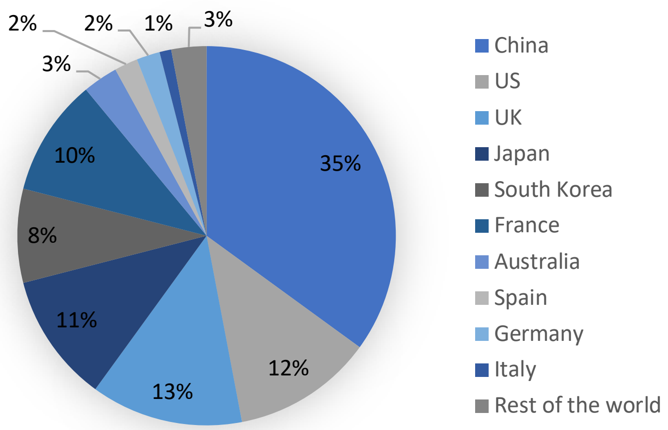

Figure 7: Top 10 egrocery markets 2016. Adapted from Bernard & Mengchao (2017).

Trends and growth of grocery ecommerce

The development in food ecommerce has been driven by upgrading of logistics capabilities throughout China. In 2017 some 200 cities had same day or next-day delivery through either JD Logistics or the Cainiao alliance of Alibaba Group (Bernard & Chen, 2017; PwC, 2017). However, logistics remain the biggest challenge for fresh food ecommerce in China. The perishable nature of food provides high requirements for the transportation environment. Transportation cost of online bought food reaches 25-40% of total cost, compared to less than 5% for conventional purchases. However, development is happening quick and several distribution models are still being tested. (PwC, 2017).

There is room for significant growth in low-tier cities. Consumers in lower-tier cities spend more than their high-tier cities counterparts. In these low-tier cities there are some 160M who has yet to begin shopping online. Moreover, low-tier cities are home to 74M online shoppers more than high-tier cities (Wei Wang, Lau, & Fang, 2016).

Summary

This chapter briefly presented an overview of the global pork industry with a focus on the biggest companies. Afterwards, five forces analysis on the Chinese meat industry was conducted. The biggest threats for DC are accessing distribution channels, but DC have overcome this by partnering with DC. DC can expect tough competition, but at the same time have an innovative product with a rising demand. Through the alliance with Alibaba, DC also gains access to the growing ecommerce market which is expected to growth significantly in future years. DC hopes to disrupt the ecommerce market for meat through their alliance.

Changes in institutional settings

This chapter starts by examining the changing political environment of China, then explores the concept of guanxi, followed by food safety law (FSL) and African swine fever (ASF). Afterwards, the paper examines the changing consumer habits, among these, WTP and the changing Chinese diet, and finally the demand for imported processed food.

In China the political environment is ever-changing. This can present difficulties for companies to operate in. The meat industry has been hit by scandals in recent times. In March 2013, it was found that illegally processed pigs had been making it onto the Chinese market for years, even though farmers are required to dispose of dead pigs by sending them to processing pits, however black market dealers intercepted the chain, butchered and processed the pork in illegal factories and then eventually re-introduce the pork into the legal market. After the government cracked down on this, more than 15,000 dead pigs had been drifting down Shanghai rivers (Crouch, 2018; Davison, 2013).

Perhaps, because of these scandals, the authorities have been strengthening regulatory frameworks on environmental issues and food safety issues. Therefore, documentation of processes and workflows are becoming important. The demand for documentation is not unusual for European businesses – especially not for food companies due to perishable nature of their products.

The political changing environment is also reflected in the changing nature of regulations. Companies will be presented the regulations, but questions asked about these, will generally result in a blurred answer and not a concrete answer. Moreover, the regulations presented will still contain a lot of grey zones, which puts companies in a limbo of deciding to proceed or not proceed. What a breach of regulations entails, is often first decided when the authorities have an actual breach (Holmström & von Homeyer, 2018).

Moreover, the political agenda is sensitive in China. Disputes on a national level can affect the business environment. For instance, when Norway awarded Liu Xiaobo a Nobel prize in 2010, their exports of salmon to China plummeted and China seized all political contact with Norway. As a result Norway did not dare to replace their ambassador as they feared China would not accept him (E. Huang & Steger, 2017). Likewise, when Canada arrested Meng Wanzhou, China banned the import of pork from Canada – officially due to forged documents – but the ban came when tensions were already high due to the arrest of Wanzhou (Bloomberg, 2019).

Regulations can be seen as a competitive instrument to keep players out of the market – regulations change quickly and sometimes of political reasons. Even though the new regulations are published and it is easy to stay updated, the difficult part I understanding how to comply with regulations as the risk of being banned is always present (Holmström & von Homeyer, 2018).

The role of networks and relationships: Guanxi

Guanxi is a Chinese term for networks or relationships that open the door for new opportunities. The more guanxi a company or person has the more favorable position. Perhaps, guanxi is better understood as "*it's not what you know, but who you know*". Guanxi can assist MNCs in obtaining sources of information on government policies and regulation but can also be of great value in corporate brand building as well as enlarging market share and even provide employee motivation. However, guanxi is also associated with corrupt practices such as bribery and corruption It is therefore important for MNCs to build up trust in order to manage business successfully in China. Without guanxi, it becomes difficult to operate a business smoothly (Kenton, 2019; Yang, 2011).

One way of building this guanxi is through strategic alliances which also provides assistance in navigating regulative, societal and cultural environments. Alliances can also result in preferential treatment from local authorities which can entail preferential access to government resources as well as favorable tax treatment and private sector priority for market access. The intensity of an investment also matters; if a company shows it is there for the long run by investing in infrastructure and domestic resources – showing it is not just exporting – that it contributes to the GDP, they are likelier to obtain a good relationship with authorities (Holmström & von Homeyer, 2018; Pearce II & Robinson, 2000).

Luo (1997) confirmed the empirical effects of guanxi, suggesting that guanxi has a positive impact on MNEs accounting and marketing performance and as a result MNEs that are able to build and maintain their own guanxi networks can gain a competitive edge over competitors Guanxi is a major dynamic force in the Chinese society and can be observed as a second currency – it permeates the economic sphere and is – as illustrated in the above – a key force to corporate success. (Luo, 1997).

Food Safety Law

The next section will cover how China's FSL have evolved. Until 2009 China did not have a legislation explicitly concerned with food safety. Before the 2009 FSL, the latest food law dated back to 1995 and was called "Food and Hygiene Law of the People's Republic of China". It was concerned with sanitary issues that occurred in the food industry – hence it was not explicitly concerned with food safety. The 2009 law contained ten chapters and a 104 articles and repealed the 1995 Food Hygiene Law of 1995 (L. Zhang, 2009) (Jiang, Stigter, & Monnikhof, 2018) . The law is response to the melamine milk scandal where infant milk powder was altered to contain the industrial chemical melamine - melamine is a compound used in the making of plastic and for coatings. The scandal affected some 300.000 babies and caused 6 deaths. Several Chinese dairy companies were involved in the scandal (Y. Huang, 2014; Jiang et al., 2018).

In 2015 the 2009 FSL was updated and replaced with a new law. The new law is designed to improve the food safety in China and restore the Chinese consumers confidence about food safety in both domestically and imported food products. The law affects the entire supply chain – from the producer to the retailer and provides rights for the consumers, importers and exporters worldwide. The 2015 FSL marks a step in the gradual implementation of FSLs with elements which are found in the international normative repertoire for food safety policies and laws.

Snyder & Kim (2018) argue that despite the complexity of FSL 2015 it does not establish consumers the right demand to demand safe food nor does it require producers and sellers to provide safe food for the ordinary consumer – however, there are requirements for producers if they wish to sell their foods under certain standards such as green food or organic food, which appears to counterintuitive to the overall goal of the FSL.

Moreover, Chinese food companies wishing to export their products are required to comply with the food safety standards of the country that they export to. It is thus a two-level game has both domestic and international implications. It means that the foreign consumer is favored over the domestic consumer. This also means that domestic consumers must accept that domestic products have a lower standard than those which are meant for international sales (ibid).

The FSL 2015 can be seen as a move towards FSL that are closer to those of the EU and the US – indeed, there is considerable convergence with EU and US FSL in many areas - and it adapts policies that are widely seen as being part of the international normative repertoire. However, it also contains several specific Chinese characteristics and the law is formed by Chinese history and cultural traditions. The FSL still faces several challenges in ensuring its effectiveness. Some of these challenges are ensuring how different levels of government can cooperate to ensure traceability.

Another challenge is creating an adequate infrastructure when the FSL is also faced with severe constraints in human, technical and financial resources.

How will the law be implemented and how will compliance be ensured in an industry where 98% of the business employ 10 or less – and in a society where law is known to play a secondary role in the social ordering? How is public awareness created about the law and what role will the media play? Lessons from Brazil show that FSLs must be constantly revised and updated; that there is a continuous investment in food safety research and that national monitoring systems must be created. The most important push for improved food safety and effectiveness of FSL is public education and awareness (Lepeintre & Sun, 2018; Snyder & Kim, 2018).

The effectiveness of the FSL 2015 in the long term is yet to be determined – both in terms of improving food safety but also in terms of improving consumers' confidence in domestic producers, however there is evidence that point towards an increased confidence in domestic producers but at the same time there is an increased WTP for imported products – two trends that seem mutually exclusive (Hong Kong Trade Development Council, 2018; D. L. Ortega, Wang, Holly H, Wu, Laping, 2009; Pingali, 2007).

African Swine Fever

Perhaps, as a result of the lacking regulatory capacity and the lack of self-compliance, the ASF broke out in China in August 2018. ASF is fatal animal disease that effects pigs and wild boars with a fatality rate of almost a 100% (FAO, 2019). The outbreak was reported in Shenyang, a northeastern city of China. It is believed that the disease was introduced by an ASF infected Eastern-European country through smuggled pork or offal (T. Wang, Sun, & Qiu, 2018).As of June 2019, more than 1,1M pigs have been culled in an attempt to manage the outbreak in 32 regions. At the moment there is no safe and effective vaccine to prevent infection neither is there any medicine that is able to treat the disease (FAO, 2019; Gale, Dormido, & Leung, 2019).

The disease has also affected consumption patterns among consumers and processors over the safety of pork. Rabobank estimates that pork consumption has dropped by as much as 10 to 15% and that we have seen the peak for pork consumption. The ASF is also set to increase preference for imported pork meat over locally produced pork. Even though, that the consumption of pork has reached its peak it is still believed pork will be the most important consumed protein (Pan, 2019).

Changes in consumer behaviour

The Chinese consumer behaviour is changing. They are changing the way they eat, how and where they buy their food. Moreover, there is an increased demand for high quality products with a higher food safety and other characteristics. At the same time the consumers are becoming willing to pay more for these product characteristics. It is important to review these changes in order to better understand the changes occurring on a country & institutional level. Noticeably, these changes affect not only the country & institutional level but also firm specific factors.

Willingness to pay

Several studies document that Urban Chinese consumers' WTP for pork that is characterized by several attributes such as traceability and food-safety certification labels and country of origin labelling has increased in later years. Before we look at the paper which have conducted research on WTP, we first define the concept.

WTP measures how much a given consumer is willing to pay for a product or service. The WTP corresponds to the reservation price of a consumer. Thus, WTP is a method of setting the price of a given product or service. The concept has been around for more than a century. WTP was initially designed to determine the price of pure public goods and services. Today, the concept still has uses in several diverse scientific fields, e.g. environmental sciences and social sciences. Within marketing WTP is interrelated with concepts such as reference price and acceptable price. It is also connected with other variables that influence the decision making such as satisfaction and loyalty. As noted, earlier WTP is defined as the maximum price a buyer is willing to accept to pay for a given number of goods or services (Le Gall-Ely, 2009). WTP is interesting as it accurately estimates a WTP for a new product in order to formulating strategies and developing new products (Anderson, 1992). The following section reviews literature on WTP for food with certain characteristics.

Liu et al (2018) investigated consumer preferences for food traceability using best-worst scaling method. The authors found that for the case of pork that the attributes "picking/slaughtering date" as well as "history of illness and taking protective measures" were the most preferred attributes with a standard score of 0.4324 and 0.419 and a Best-worst score of 227 and 220, respectively. The least preferred attributes were transportation and retail information with a standard score of -0.3657 & -0.3771 and a best-worst score of 192 and 198 (Liu, Li, Steele, & Fang, 2018).

Wu, Wang, & Zhu (2015) reached a similar conclusion to the of Liu et al. (2018). Wu, Wang, & Zhu go a step further and conduct a real choice experiment in order to determine if there is a WTP for specific attributes relating to traceability. They examine four attributes; 1) farming information,

2) slaughter and processing information, 3) distribution and marketing, and 4) government certification They find that the attributes government certification information and farming information are those attributes which the consumers are willing to pay the most for. The consumers are willing to pay RMB 2.024 more per 1/2 kilo of pork if it has farming information and an additional RMB 2.112 per half kilo if it has government certification information. Consumers are also willing to pay more for the attributes 2 & 3 but to a significant lesser degree (Wu, Wang, & Zhu, 2015).

Wu et al. (2015) have also investigated the WTP for pork with certain traceability and safety attributes, basing their results on a survey conducted among 1489 consumers in seven Chinese cities, Chengdu, Changsha, Zhengzhou, Ning, Wuxi, Jinan and Harbin which are all cities with more than 4 M inhabitants. The cities were all designated pilot cities for the Chinese Ministry of Commerce project of constructing a meat circulation traceability system. The authors found that quality certification was the most important attribute followed by appearance and traceability information. The preferred levels for the above attributes were "government certification", "very-fresh looking" and "Traceability information covering farming, slaughter and processing, circulation and marketing", respectively. It is noticeable that there was a significant higher WTP for "government certification" than "International third-party. The authors also found significant heterogeneity among the attributes preferred by the consumers. The consumers' WTP and preferences where significantly influenced by their age, gender, monthly household income and education level.

Finally, they note that young male consumers with both high education and income had a high preference for pork that had "international third-party certification". They conclude that consumers had a high WTP for the appearance attribute but also find that especially young consumers or consumers with high income and education were more willing to pay for "international third-party certification" and traceability attributes (Wu, Wang, Zhu, Hu, & Wang, 2015).

The WTP to pay for government certification is also confirmed by Ortega et al. (2011) who in a choice experiment on the purchase of UHT milk find that consumers are more willing to pay a premium for UHT milk that has government certification (RMB 3.55), which is followed by the product's brand with RMB 2.07 and finally private certification(RMB 1.72) (D. L. Ortega, Wang, Olynk, Wu, & Bai, 2011)

Similarly, Zhang et al. (2012) studied consumers in Nanjing and they had a WTP 16.7% more for traceable pork. The authors, like Wu et al. (2015), find that there is a significant heterogeneity among consumers. Middle- and high-income consumers were found to upwards of 25 % more likely to purchase traceable foods. Likewise, younger consumers aged ≤ 35 were found to be more likely to buy traceable food (C. Zhang, Bai, & Wahl, 2012).

Lai et al. (2018) investigates how urban Chinese consumer's risk perception affect their WTP for food safety environmental stewardship and animal welfare. Similar to the articles examined above, the authors found an increased WTP for not only food safety information but also for environmentally friendly practices, domestic labelled pork. The preference for imported pork is greatest in Shanghai while in Beijing the preference is greater for domestic pork. They conclude that among the attributes tested, food safety claims on the packaged pork provide the best opportunities for gaining a price premium in both Beijing and Shanghai – the perceived value of food safety was more than double that of other tested attributes (Lai et al., 2018). The above coupled with risk perception of pork, they find that consumers who believe they are likely to get sick from eating pork are willing to pay a higher price for food safety attributes (Lai et al., 2018).

In Shanghai the consumers value animal welfare and environmental attributes not because of an increased food safety or a better taste, but due to the wellbeing of the animals raised. Consumers in Beijing also value these attributes but their WTP premium is lower than in Shanghai. The authors argue that the difference in WTP is explained through differences in demographics and local culture. Shanghai is perceived more a western city than Beijing. The two cities are therefore not homogenous in consumer preferences but heterogenous – even among consumers with similar income levels (ibid).

Ortega et al. (2011) reach the same conclusion – Chinese consumers are concerned about the safety of the pork they consume and are willing to pay a premium for a guarantee for safe pork. The consumers are willing to pay a significant premium for government certification programs; however, consumers are also willing to pay a premium for pork certified by a third-party, albeit a smaller premium than for government certified meat. Even though there is increased food safety awareness the authors find the premium consumers are willing to accept for food safety attributes vary considerably (David L. Ortega, Wang, Wu, & Olynk, 2011).

There are several authors who also reach the conclusion that consumers will accept to pay a premium for food safety. For instance, Zhang, et al. (2013) found consumers pay the biggest premium for government-certified safe foods but also accepted a premium for well-known brands (Bai, 2017). Ortega et al. (2009) find that consumers have a higher WTP for frozen imported pork and country of origin should be visible on product packaging (Bai, 2017; D. L. Ortega, Wang, Holly H, Wu, Laping, 2009).

Other authors who have examined consumers WTP include Sun, Wang & Zhang (2017) who examine consumers' WTP for different traceability systems. Zheng, Xu, Wang, & Song (2012) who examine the evolution of food traceability system in Beijing and also examine factors that affect consumers' perception of these system. Both papers find WTP is greater for traceable pork. Yu, Gao & Zeng (2014) examine consumer WTP for green food[1], The study uses 408 samples of payment card survey data. The data stems from two cities, Shijiazhuang, a major urban city and Qingxian County, a small county. In line with the other studies they find that younger people are willing to pay more safe food. Moreover, it is found that there is a significant variation between WTP in rural areas and urban areas. In Shijiazhuang consumers accept a greater premium for green pork than those in Qingxian. On average, the consumers accepted a premium of 40% more for green meat than for traditionally produced pork (Sun, Wang, & Zhang, 2017; Z. Wang, Mao, & Gale, 2008; Yu, Gao, & Zeng, 2014; Zheng et al., 2012).

Where the above studies have examined consumers WTP, a study by Zhao et al. (2010) examine consumers' willingness-to-buy (WTB) traceable foods. They found that the consumers WTB was generally not high. Those who are WTB traceable foods in general only accept a premium of 9-12% for traceable foods compared to traditional food.

The authors found that a lacking trust in accuracy of the information and a higher price were the main reasons why consumers did not buy traceable foods. Consumers stated that it should be the manufacturer who bear any additional cost of traceable food, not the consumer. In Beijing where traceability systems were introduced earlier than in Xianyang (2nd city in the study) there was a higher concern for food safety and a higher confidence in food traceability systems. The authors argue that this is likely explained by higher income- and education levels in Beijing. Lastly, they also found that consumer WTP was the highest in Beijing (Zhao, Qiao, & Chen, 2010).

The literature reviewed above paints a clear picture: There is indeed a demand and a corresponding WTP for traceable food and government certified labelling. The literature also all agree that the demand is stronger among the urban Chinese consumers, especially the younger consumers in the urban areas. Some of papers also show that food safety coupled with a recognized brand is the combination which commands the highest premium. Consumers are also willing to accept a premium for imported meat as documented by Ortega et al. (2009).This is supported by Ma et al. (2016) who find that consumers are WTP more for imported pork. D. Hayes from Iowa State University, says that

[1] Green Food is an eco-label and is a middle way been traditional farming and organic farming. There is a reduction is chemical use and medication in order to prevent any toxic contamination of foods. There are certain criteria that producers most meet to be certified green food (Paull, 2008).

U.S. Pork from Smithfield Foods sells at double the price than that of domestic pork (Ma, Verkuil, Reinbach, & Meinert, 2017; Smith, 2017).

Changing consumer behavior – The convergence of the Chinese consumer

The former part examined the WTP for safe food and imported food in order to show how the consumer behavior is changing. This part will explore various motives related to the purchase of imported products, among these the increasing westernization of the Chinese diet.

Del Giudice et al. explore how culture influences the Chinese diet. The main hypothesis is that the propensity to consume foreign food products is a function of not only socio-demographic characteristics of consumers but also the values of individuals and dietary habits. The authors found two segments that were likely to buy foreign food - these two segments account for more than 1/3 of the population. These consumers are ready for exotic tastes and confirm China as a destination for European food products. Moreover, the authors argue that the broadening cultural horizon is affecting the Chinese food consumption behavior and the emerging social classes in China are expressing a growing demand for processed foods.

The authors conclude that their paper confirms that China is indeed ready for European food and especially consumers situated either in the urban middle class or the upper income brackets should be seen as the target group for imported food products (Del Giudice et al., 2016).

Curtis et al. (2007) studied consumer preferences for western-style convenience foods in China using processed potato products as an example. The authors note that increasing demand of western-style convenience food has also been associated with a rise in dining out and increased patronage in supermarkets compared to traditional wet markets. They find that there is a substantial potential for western-style convenience food in China, especially among young female consumers. In line with the other studies, especially consumers with a high-income are more willing to try western-style foods. The study relies on data from 2002 thus the convergence has been going on for a while (Curtis, McCluskey, & Wahl, 2007).

Pingali (2007) explores the diet transformation in Asia in two separate stages: (i) income-induced diet diversification & (ii) diet globalization and westernization as well the consequences of these trends on the diet. He explains that initially when rapid economic growth occurs, diets begin to diversify however the diet still maintains its predominantly traditional features. However, with economic growth also comes increased globalization and urbanization, and when these factors take effect the adoption of significantly different diets that are no longer similar to the traditional eating habits take place (Pingali, 2007). In the first stage, the main driver of change is income growth which affects demand for different types of food – from inferior foods towards a more varied diet consisting of higher nutritional foods. The processes of urbanization and globalization bring dietary change but also a more general changes in in lifestyle.

Consumers' WTP is affected by their income, and as their incomes rises so does WTP for convenience that gives more time for wage-earning activities. Consumers begin demanding more processed food with less preparation time. The demand for these products is typically related to the number of women entering the labor force.

Thus, the new dietary habits are closer to western dietary habits, which also implies that they are very different from those that were developed locally over generations. The new habits mean that consumers are showing strong preferences for meat or fish, dairy products, temperate foods and highly processed convenience foods and drinks. These are available in an increasing number of supermarkets and fast food outlets. The rapid spread of these supermarkets and fast food chains are a key driver in reinforcing the newly adapted habits. The new habits all have a higher protein and fat content in common compared to the traditional diets which emphasized the importance of carbohydrates.

The new habits are found especially among younger people who are beginning to form their life-long dietary habits. These trends are mainly ongoing in the urban centers of major cities where former large markets are now being overtaken by retail supermarkets which means an increased availability of the westernized food. The decreasing cost of transportation and communication coupled with increased trade liberalizations drive the convergence (Pingali, 2007).

Although the diet transition is primarily happening in the middle-class there are increasing evidence that the transition is also happening among smaller and poorer households (ibid.). Pingali (2007)'s findings are in line with the above studies who find a latent demand for westernization in China and most emerging markets.

The supermarkets and fast food chains reinforce the Westernization of the dietary habits. The trend is that supermarkets replace the urban markets and street food sellers in urban areas – in 1999 supermarkets occupied 30% of the urban Chinese markets and 2 years later, 2001, the share was 48%. Western fast-food chains are also expanding not only in urban centers but are also increasingly appearing in smaller towns. In 1987 McDonalds had 3 restaurants in China, 10 years later (1997) they had a total of 184. In only 4 years (2001) this number had increased to 392. One year later the number had increased to 546 and by 2022 McDonald's are expected to have 4500 restaurants by 2022 (Pingali, 2007; Pisani, 2017).

Like Pingali (2007), the Development Bank of Singapore (2017), found that the convergence is driven by rise in disposable income, increasing urbanization and the expanding middle class. The estimate the demand for processed pork will grow at CAGR 6% between 2015-2020 (The Development Bank of Singapore, 2017).

Veeck & Burns (2005) investigated factors which influence the Chinese consumers' changing dietary habits. Tie results confirm the trend of increasing westernization, especially among busier and/or wealthier consumers who take advantage of the new and more expensive alternatives compared to their traditional time-consuming meals. Some consumers see time as value and therefore something that can be bought. There are some interacting pressures that slow down the adaption of western food habits, e.g. buying produced that has just been picked or killed. There is also still a trend of maintaining family-oriented identity and lifestyle. These pressures influence not only what Chinese perceive as "fresh" but also their WTB processed foods. Processed foods clash with the family-oriented trends which originated when the pace of life was slower. The increase in westernization is explained by the willingness to abandon these old traditions and use the increased income to buy time. It is not only the presence of money and lack of time that explains the convergence. Furthermore, many of western foods introduced are radically different and consumers need to develop a willingness to let the processed foods replace the long standing traditions (Veeck & Burns, 2005).

Demand for imported packaged food

A research article by HKTDC Research explores the demand for packaged imported food. They find that there is a rising demand for imported packaged food and beverages. From 2008 to 2012 the market for packaged food and beverages grew on average by 15.2% per annum compared to a global growth of 4.1%. The value of imported goods in this category grew from USD13.4 bn in 2008 to an impressive USD35.1 bn in 2012.

The article argues that the reasons for this growth in imported goods is found in the mainland Chinese consumers distrust in domestic producers: "(…) *their first choice is imported products in original packing, followed by foreign brands produced on the mainland. Domestic brands are their last choice"*

The demand for imported food is driven not only by food safety concerns but also by a desire to try foreign foods and beverages with unique tastes to please not only oneself but also friends and relatives and to show-off at social occasions (Hong Kong Trade Development Council, 2013) (HKTDC).

In a 2018 report, the HKTDC find that the confidence in domestic producers has gradually returned. Although 38% of the respondents answered they had on average bought more imported foods than earlier, the purchase was driven by suitability of the imported product rather than food safety concerns. In Beijing and Shanghai 45% and 43% of the interviewed responded that they were indifferent to whether the product was imported or produced domestically as long as the product was suitable. Thus, even though there is a gradual return in consumer confidence in domestic brands, there is still a majority who prefers imported products or products produced by a foreign producer locally. This is also reflected in that only 17% and 13% of the respondents in Beijing and Shanghai respectively, responded that they had had a higher consumption of domestic food products in the last 2 to 3 years (HKTDC, 2018).

In their new report, they find that consumers are driven by a pursuit of global flavors. This reflects a new attitude among the Chinese consumers who a having been exposed to foreign and domestic markets are now ready to try different flavors. In their survey, HKTDC found that 78% of the respondents agreed to the question “I like to try different packaged foods to experience various global flavors” and 77% agreed they liked trying crossovers and new flavors which are currently being launched in great numbers. This reflects that consumers have a preference for global flavors driven by their willingness to sample new products.

The report finds that consumers are less inclined to buy bulk goods with a greater value for money but moving towards buying products in smaller and/or individual packages with modern designs. A majority of respondents stated that packaging materials reflects food quality (HKTDC, 2018).

The studies and reports examined above have focused on different aspects of consumer behavior, however, they all tend to agree that there is an increased demand for western foods and that the Chinese diet is currently evolving. The literature contributes the changes to increase income and lack of time and the rising middle-class. These changes provide opportunities for foreign companies.

Summary

In this chapter, the paper has examined the role of institutions and how they provide a constantly changing regulatory environment – a challenge for foreign firms. Moreover, it examined the role of guanxi in China and looked at how guanxi can be obtained. Strategic alliances and real contribution to the GDP can lead to good guanxi. It was found that guanxi can lead to superior performance compared to MNEs with no guanxi. The Chinese responses to food safety were examined and the effectiveness of its new FSL was discussed and the lacking institutional capacity was found to be one of the biggest challenges along with the diverse industrial landscape of China. Finally, the biggest ongoing issue in China, the ASF was explored along with the consequences of the outbreak on a consumer level. However, it is clear that issues such as the ASF not only affects the country and consumer level but also on an industry level. The ASF outbreak is also believed to increase the preference for imported meat – an advantage for DC. Later, consumer WTP for food safety and for imported meats and found that in general there are significant evidence that consumers are willing to pay more safe and traceable foods. Moreover, it explored the changing consumer behavior and the increased westernization of the Chinese diets as well as the reasons for this Westernization. Afterwards, the opportunities these changes give to DC are WTP more for imported meat and meat with high food safety standards. This enables DC to sell more valuable cuts to the consumers. If DC manages to build a brand, they will also benefit from the increasing brand recognition. The biggest challenge for DC on the country level is that pork consumption is currently declining due to the ASF.

Explaining the re-entry of Danish Crown in China

In this chapter, the paper explores the new entry strategy of DC. For each of the 3 major components (Motives, timing and mode) the evolution up till the new strategy will be described, and afterwards the explanation of the new entry strategy.

Entry Motives

Historical evolution of DC motives in China

DC has been present in China since 1998. In 2004 DC exported pig-ears worth 400M, up from 300M in 2002. The main export product to China has been China products such as pig heads, ears, hooves and bone pieces as well as offal. Later, DC have begun shipping carcasses, spareribs and pork bellies. DC have had very limited direct sales to consumers. The vast majority has been sold to distributors for further processing. In 2012, DC signed a contract with Chinese Shineway on exporting 20.000 ton worth some 100-150M. At the same time Chinese VP W. Qishan encouraged DC to increase their exports to China (Andreasen, 2005; Danish Crown, 2012; Elers, 2011).

With the new strategy, DC will continue selling to distributors but through their new factory DC will sell processed pork directly to the consumer through Alibaba. Thus, until the change in strategy in 2016, DC's primary objective was two-fold: China provided an opportunity to sell products that were unattractive in Denmark while at the same DC was able to learn about the Chinese consumer before taking the next move (Andreasen, 2005; Elers, 2011).

Explaining the motives of re-entry

There are 4 main entry objectives: 1) market development objectives, 2) resource access, 3) learning objectives and final 4) coordination objectives. The following section will go through each of them.

Market development objectives

China has been an important market for DC for many years. They have experienced 2-digit growth rates for several years and China remains one of DC biggest export markets (Olesen, 2014). Coupled with consumer habits that are moving towards its western counterparts and distrust in domestic producers provides massive opportunities for DC. It is thus clear why DC re-entered China with a strategy of serving the market through a local production with foreign goods. The strategy brings together the best of both worlds: Danish raw material with world-class food safety and high quality and the ability to cater to the local market with the new factory. It is therefore arguable that one of the entry objectives of DC was market development. The new strategy allows DC not only to serve a new customer base in a superior way than their competitors, but they are also able to rapidly respond to changes in the market. The growing importance of China is also illustrated by the numbers: China is the biggest market by volume (Rasmussen, 2017).

Resource access objectives

If we view resource access objectives from the point of view that companies enter foreign countries to access cheaper labor, it is understandable why it could be considered that DC entered with such objectives – especially when looking at the past. DC has long argued that in order to maintain competitive it has been necessary to outsource jobs to mainly Germany and Poland, due to high wages and high excise. Refslund (2012) estimated that DC has outsourced between 1600–2000 jobs as a minimum in the period from 2003–2012, likewise Børsen reported in 2013 that the number of people employed in DC has fallen from 15.000 to 9.000 (Refslund, 2012; Schilder, 2013). The average yearly wage of Danish industry slaughter is around DKK 335,000 – a Chinese worker at a factory typically earns around CNY 65,000/year, which is around DKK 63,000 with a conversion rate DKK/CNY 0.

96769 (Nationalbanken, u.d.; Rudbeck, 2014; Trading Economics, 2018). However, there are signs of shortage of skilled labor in China, but nonetheless, with a factory situated in the greater Shanghai area, it is unlikely that attracting labor would be difficult (JPMorgan Chase & Co, 2016). At first sight it appears that access to cheap labor would be a plausible entry objective. However, this is unlikely when we examine the strategy further. The factory is based on Danish produce; a big part of the labor-intensive work is already conducted in Denmark. Moreover, with a production time of 10 weeks from farm to work it is hard to meet demand quickly and adapt to new developments at a satisfying pace. Finally, the factory in Ringsted - where the products were produced before the new factory became operational – only produced a very limited range of cuts that were frozen and skin-packaged. These products were completely different and with a very limited output compared to the products from the factory in China. (S.Tinggaard, personal communication, 1. March, 2019).

Could DC have expanded their current production facilities and thereby served the Chinese market equally efficient? This scenario appears unlikely for two reasons: 1) The products sold would no longer be fresh – it is impossible to keep individual pork cuts fresh for 10 weeks unless frozen, and 2) the changing buying habits of Chinese consumers are demanding more fresh meat, thus the first reason effectively cancels out the ability to serve the changing demands of Chinese consumers (The Development Bank of Singapore, 2017).

Noticing the above, there are too many factors that simply make it unlikely that the new factory is a cost-saving opportunity. Moreover, CEO Jais Valeur noted in an interview with Børsen that the factory is a prerequisite for DC to compete in the global market-place – and thereby also a prerequisite for DC to exist in its current form in 10 years' time (Børsen, 2018). Furthermore, it is possible that if DC opens more plants in China, it would create more employment in not only China, but also Denmark as more personnel would be required to prepare the meat before shipment to China.

Learning/capability-enhancing objectives

According to Lasserre (2012) companies may enter with learning-reasons in markets with state-of-the-art technology. The slaughtering industry in China is not characterized by such technology – cf. the motives for WH Groups acquisition of Smithfield in the section on the Chinese Slaughtering industry. However, the e-commerce industry in China is state-of-the-art unlike anywhere else in the world (Bernard & Chen, 2017). The partnership with Alibaba provides DC with a unique possibility to gain knowledge and technology know-how of how the e-commerce distribution channel functions in China. The partnership has also paved the way for DC investing significant funds in improving the digitalization of the entire DC Group – from marketing to slaughterhouses to the farmers who delivers the raw material (Sørensen, 2017). The knowledge and technological know-how gained can potentially benefit the entire organization, therefore we must also consider these objectives when understanding their strategic re-orientation.

Coordination objectives

Finally, we have the coordination objectives where a company aims to set up a hub for global or regional development. DC themselves have talked about looking at their factory and operations in Pinghu as a strategically placed hub for future potential factories in China. The location of Pinghu does provide locational advantages with its proximity to both port and airports (Attrup, 2018c). Shanghai is already one of three major ports for DC's operations in China, the other two being Shezhen & Tianjin (Folkevirke, 2015).

What motives explain the new strategy?

While the four strategic objectives of entry are different in their analytical form, they are not mutually exclusive. It is not possible to determine one single entry objective for DC and their strategic reorientation. Rather, it is arguably a mix of primarily market development objectives, learning and capability enhancing motives. The over-all driver of the entry strategy, however, must be the changing consumer habits of the Chinese consumer as well as the growing urbanization and income of the Chinese population.

Timing of entry – when to enter

Historical evolution of DC presence in China

As mentioned in the part on motives, DC has had presence in China for more than 20 years. However, up until 2014 did not mention plans on establishing production in China. In 2014 DC were looking for a local player to establish production with, based either on local produce or imported from Denmark. The quest was driven due to the strategic importance of China (Olesen, 2014). However, it was not until late 2016, DC announced their official plans on establishing a factory in China as part of the 4WD strategy (Danish Crown, u.d.-d).

Explaining the timing of entry

To understand why DC announced their factory and opened it some 2 years later, it is necessary to examine the 4 phases of international market entry. Timing can also be explained through OR. In essence, the timing is the choice of being a first mover or a later mover.

Phases of international market entry: Why the strategic move at this point?

Premature phase

The question of why DC did not establish foreign production earlier can be explained by the first phase: The market was simply not ready for DC's new strategy of selling westernized products. There was not enough demand to achieve a satisfactory return of investment until recently where the consumer convergence began picking up pace. The market was satisfactorily served by selling carcasses and offal to distributors rather than moving up the value chain through an intensive investment. However, the market has not remained static – it has evolved to become similar to its American and European counterparts (Pingali, 2007).

Window phase

As time has passed and globalization has hit China, so has the convergence of the consumer needs (Pingali, 2007). This evolution of the consumers' need has also meant that the market has developed its potential and is starting to take-off, but the competition is not well-established. It is in this phase DC had to choose whether to take chance and reap potential benefits of first-mover advantages or to wait. As we know, DC chose to establish production during this phase and also managed to become a first mover. DC is expecting to reap significant market share through being first mover; Vice-President of DC Pork has noted that back when the decision was made there were no other competitors who were establishing factories (Rasmussen, 2017). Moreover, in China there is a brand awareness on fresh meat, and DC is able to reap the benefits of this through their new factory – and they are currently alone on the market with such products (S. Tinggaard, personal communication, March 23, 2019; Zhang, Rao & Wang, 2019). Through their position as first mover, they have also been able to secure a contract with the largest ecommerce player on the market and thereby to some degree pre-empt distribution channels.

The brand awareness that DC is able to create with their factory also increases the buyer-switching cost. Lieberman (1988) argued that the first products introduced receive a disproportionate amount of attention in the consumer's mind and late movers must have a superior product or advertise more frequently or creatively to win over consumers. Furthermore, for convenience products brand loyalty is strong and consumers seldom find the cost of searching for alternatives great enough to justify the time occurred searching for a new product (Lieberman & Montgomery, 1988). Luo (2019) also points that DC can expect to achieve resource access advantages such as privileged access to information and better access to skilled labor (Luo, 2018).

The partnership with Alibaba was not yet established when DC announced their plans of a China plant, so it is clear that DC also played with high stakes entering China without any distribution agreements on hand, however shortly after the announcement of their new strategy, DC was approached by the Alibaba group (S. Tinggaard, personal communication, February 18, 2019).

Competitive growth phase

Why not wait with entry until the market potential had been fully uncovered? The answer to this is in part explained by looking at the disadvantages of being a later mover. The competition is already established and fierce – there are many competitors competing for a market share. DC would risk entering a market where they were unable to establish themselves in a competitive position without significant investments. Convincing consumers to prefer the DC brand would also require significant efforts. As exclusive distribution agreements are somewhat common in China, they could also face a situation where they would not have access to the most attractive distribution channels (Xinhua, 2017).

However, DC would have entered a market that was in a significant growth phase and where the potential of the market had been uncovered. The risks of negative returns on investment would be lower and the investment in upgrading cold-chain logistics and other infrastructural investments had been conducted by rivals (Lassere, 2012; Lieberman & Montgomery, 1988). It is possible to overcome these disadvantages through either acquiring a competitor or joining forces with one of them through a JV. Whether this would be an option for DC remains hypothetical, but when DC was asked why they chose a greenfield investment and not a J/V or an acquisition they stated that there are no factories that are able to meet the production standards that the company require (S. Tinggaard, personal communication, March 28, 2019).

Mature phase

Entry in this phase requires either acquiring an industry player or a very innovative product. As noted above acquiring an existing company was a not a possibility. The brand awareness in China would also have made it hard for DC to enter in this phase.

Oligopolistic reaction

This section will explore DC's entry strategy through OR – a follow the leader behavior. Oligopolistic reaction thus states that a firm may invest in a country to match a rival's move (Head et al., 2002).

An oligopoly is an industry characterized by a small number of firms where none of the firms can keep the other firms from having significant influence (Chappelow, 2019).

The thesis started with a hypothesis that the new China strategy was a result of OR proposed. However, as the study progressed it was clear that this was not the case. If we look at the industry from a Chinese perspective, it is hard to argue that the competitive situation can be described as an oligopoly. The Chinese slaughtering industry remains rather fragmented. There are only few large players, however, these large players only share some 5–10% of the market and the rest is split between dozens of slaughtering businesses (The Development Bank of Singapore, 2017). If we look at it on a global scale, it is a different picture. There the industry is concentrated. The former CEO of DC Group, K. Johannensen, noted that in his early days he knew every company director in Denmark, which then eventually changed to European leaders – and now it is moving towards the leaders of the global companies. In the table on major players shown in section on industry competition, it can also be seen that there a relatively few big players. There is therefore some signs of an industry getting more concentrated – perhaps even moving towards an oligopoly (Elkjær-Larsen, 2014).

However, this picture changes once again if we look to the processing part of slaughtering. Despite DC being Europe's largest pork processor they only command a market share of around 4% and their global market share is equivalent or lower (Elkjær-Larsen, 2014). As mentioned in the industry section all the major competitors do compete head to head in key countries – DC's subsidiary Sokolów is market leader with Grupa Kapitałowa Animex Foods, a Smithfield subsidiary (Beek, 2019).

Furthermore, as DC was the first international player to construct a processing plant in China and coupled with the low market share it is hard to argue that decision to construct the plant was driven by oligopolistic perspectives (The Development Bank of Singapore, 2017). It is arguable that the Chinese market is now sufficiently mature that the costs of operations are calculable. Moreover, as DC was first in the market, the proposition of OR does not hold place. Head et al. (2002) found that OR can happen when there is uncertainty about cost and the oligopolist is sufficiently risk averse *and* that another oligopolist has already constructed a factory. here are signs that the industry is heading towards an oligopoly with only a few larger players, but it is not the case at the moment – it would require several M&As among smaller and larger players. (Elkjær-Larsen, 2014).

Entry mode: How to enter?

Historical evolution of DC operation mode in China

Since 1998, DC has served the Chinese as an exporter, primarily selling to distributors. The market was also primarily served with China goods which are sold at prices significantly higher than in the nearest markets. There was no need for a greater presence in China as the market was not yet ready for a bigger investment before the announcement of the plant in 2016, moreover the market was served profitability through distribution agreements.

Explaining the change in entry mode

With the new strategy DC entered with a greenfield investment, but how do we explain this decision?

Greenfield Investment

Initial, DC stressed that the operations in China would be with a local partner (Olesen, 2014). However, by late 2016 where the plant was first announced, this had changed. DC would construct their own factory. As mentioned in the section on timing of entry, DC was not able to find a partner that lived up to the standards of DC (S. Tinggaard, personal communication, March 28; Danish Crown, u.d.; 2012). A wholly owned subsidiary also provides DC with full control of the operations and increased flexibility. However, this operation mode also entails more risks in terms of criticism relating to cultural and economic sovereignty. A way of overcoming this by local managers Moreover, DC still needs to be warry of the need for guanxi – perhaps this was another reason for choosing to collaborate with Alibaba?

Global Strategic Alliance

At the same time, however, DC did actually enter China with a local partner. The agreement with Alibaba is arguably a partnership. Moreover, if we consider this a strategic alliance, we can look at why DC entered through such an alliance. The agreement with Alibaba is a non-equity-based alliance focusing on distribution. The agreement is mutually beneficial. DC obtains several distribution channels for the products, and by selling their products they also create a brand awareness. The agreement allowed DC to circumvent the integrated nature of the industry. The agreement also provides DC with a partner who navigate in the changing regulatory, societal and cultural environment. Moreover, Hölmstrom & Von Homeyer (2018) argued that partnering with a local company can also provide favorable treatment from the local authorities .

On the other hand, DC's products already cater to a large group of customers at Alibaba and is one of their most valued brands. As alliances can act as vessels for knowledge-transfer this also plays well with the argument that DC entered China for learning objectives. DC can also expect improved baseline innovation and financial performance as Stuart (2000) has argued that partnerships with technological advanced firms often create such effects (Stuart, 2000). DC is hoping to be able to disrupt the market for grocery in Shanghai through its alliance with Alibaba (Dansk Selskab for Virksomhedsledelse, 2018).

It remains to be seen whether the alliance with Alibaba will be successful, but it is understandable why DC were excited for the agreement. It does seem to offer many possibilities and the literature on strategic alliances has also documented the performance of successful alliances (Todeva et al., 2005; Weber-Rymkovska, Bhaiji, Rassloff, & Zinke, 2017).

Summary

What explains DC re-entry into China? The motives are a combination of mainly market development and learning objectives. The new factory allows DC sell in a new market characterized by movements towards western dietary habit. By partnering with Alibaba, DC gains new insights on not only the Chinese consumer but also on ecommerce on a general level. The timing can be explained through the desire to achieve first mover advantages. Currently, DC is the only international player with a processing plant which allows them to take advantage both of the change in consumer behavior, but also the preference for imported meat as well as create brand awareness. DC entered through greenfield investment in order to achieve full control over the operations and maintain flexibility, but also because no Chinese factories live up to the food safety standards of DC. Through the partnership with Alibaba, DC gain access to several distribution channels, including the growing egrocery market. Moreover, it is important to acknowledge that DC will continue the export of China goods and carcasses and that the factory is "only" expected to account for some 7-10% of the total China sale.

Implications and limitations of the study

This chapter is based on the results of the analysis and has 3 purposes, examine the implications for 1) Danish firms and 2) implications for the theory and finally 3) Limitations of the analytical framework

Implications for Danish Firms

Some Danish firms are already benefitting from the changing consumer behavior in China. The distrust in domestic producers have benefitted Arla, who experienced rapid sales growth in infant formula. Moreover, the interest in food quality and trying new products have led to a general boom in the sale of food products. This is also illustrated by Tulip who now sells their products in more than 3100 stores throughout China (Danish Crown, 2018j; Landbrug & Fødevarer, 2017; Sommer, 2018).

Implications for theory

Which of the three levels in the tripod have aided most in explaining the entry strategy of DC? All of the three levels have to certain degree affected the entry strategy, however, especially the need for guanxi and the changing consumer patterns and demand for food safety have had the biggest part in explaining the shift in strategy. The guanxi DC possesses with the Chinese authorities have aided in making daily operations and obtaining permissions relatively easy. Arguably, the guanxi can also help DC in succeeding with their strategy. Moreover, the new strategy is a result of the changing consumer habits with demand for traceability and food safety.

Limitations

To what extent can the analytical framework explain the changes in DC's sales to China? The analytical framework does not account for technological changes that can have increased the sales. Neither does the framework take into the account the ongoing China-US trade war where China has increased tariff on US pork. Nor has it accounted for how big an impact ASF has had on the sales – it is unclear how much ASF has mattered vs how much the change in consumer preferences has mattered.

Is the shift sustainable?

In this chapter the paper explores the last part of the research question: Is the shift sustainable? DC is currently experiencing very satisfying growth in China and there are a number of reasons for this success. The changing consumer habits are one of them including the distrust in domestic producer, another is the current issue of ASF in China and finally, the strategic alliance with the Alibaba Group is yet another. However, what does the future look like for the new operations of DC in China? In this section some issues that could affect the future operations are examined – both theoretical issues and practical issues.

Theoretical point of view

The literature on entry strategy illustrates that cross-border alliances are an effective way of entering emerging markets, among these China. The partnership with Alibaba has provided DC with local knowledge and provides them with insights into the Chinese consumer habits, which DC can then adapt their production to meet. By collaborating with Alibaba, they also gained access to distribution channels (Khanna & Palepu, 2010; Lassere, 2012). It could appear that DC would be in a vulnerable position when they only have one buyer of their products, however, in the deal with Alibaba, DC has ensured that they are able sell to other parties if Alibaba cannot take the whole production (Danish Crown, 2018e).

Using strategic alliances as an entry strategy is often a gamble. Failure rates of strategic alliances are often 50% or more (Russo & Cesarani, 2017). Many firms have benefitted from strategic alliances but equally many have failed (Zhou, 2005). Despite this track record, a report by PwC (2015) showed that 75% of surviving firms considered either a J/V or a strategic alliance as an entry mode. PwC argued that the main reason for this is: "*Foreign companies pursuing consumer opportunities in China often require the experience and resources of a local partner to negotiate the local market... conversely, Chinese partners are looking beyond China. (PwC, p. 11, 2015)*"

It thus appears that both DC and Alibaba have good reasons for making their partnership work as it is mutual beneficial. However, should the agreement with Alibaba fail, it is important to consider two factors: 1) DC still have a factory that is experiencing increasing demands and with DC's long presence in China and their attractive brand it is unlikely they would not be able to secure agreement with other purchasers, 2) DC's new strategy in China is also a continuation of their old strategy; DC's shipment of offal and china goods remain unchanged and will still account for the majority of their sales – these shipments amount to 250,000 tons a year and is the most important source of revenue in China. The factory is only expected to account for 7-10% of the sales in the country or around 1% of DC's total sales (S. Tinggaard, personal communication, March 2 & September 3, 2019). It would of course be a poor situation if the partnership with Alibaba is terminated, but all things considered, it is likely that DC would be able to sell production from the factory to another buyer, perhaps in smaller quantities in the beginning, but the mix of DC workers and agency workers means the factory is geared towards fluctuations in demand (Danish Crown, 2018e).

Nonetheless, should the worst-case scenario happen, and the factory closes temporarily due to lack of sales channels, DC would still have their biggest revenue generating activity in China: the sale of offal and carcasses Thus, if the partnership is terminated, it appears that the strategy is sustainable as DC is not entirely dependent on the new factory.

According to Luo (2007) to succeed in China, a company must move from "foreign investor" towards becoming a "strategic insider" – a step that DC is beginning to take. DC views China as a key market to overall corporate success. Luo (2007) argued that a shift is happening because of changes in not only competitive parameters but also in regulatory parameters. Although many of the points Luo makes are not applicable to DC some of them indeed are. Luo argued that these shifts in competitive and regulatory parameters have led to a shift in dominant strategies; "*from (1) parent integration to national integration, (2) production relocation to value chain localization, (3) competence transfer to competence building, (4) competition to coopetition, (5) repetition to adaptive diversification, and (6) alliance building to restructuring"* (Luo, p. 19, 2007). Some of these strategies can also be seen in DC. For instance, the 2nd strategy: DC has localized certain elements of their value chain to China. The China division has significantly increased their presence in China and now also features a R&D development team that is tasked with adapting products to local demand. We are also seeing signs of DC building competences in China. DC is building their own brand in China and they are bringing a new innovative product to the market. They are securing distribution channels for their new products – not only with Alibaba but also with other distributors if necessary. Through their recruitment and learning strategy of bringing future department leaders to either Denmark or Germany to develop the competences to what DC requires they are building local human capital. Their coaches will then follow them to China for a period of 2–4 months so they can receive continuous support and coaching (Danish Crown, 2018b; Luo, 2007; S. Tinggaard, personal communication, September 3rd).

Arguably, DC is also engaging in cooperation with local suppliers in order to reach a large number of consumers. This is happening through long-term agreements which reduces the logistic costs for both sides and stabilizes downstream activities and fosters trust between the partners (Luo, 2007). Finally, we are seeing signs that DC is moving repetition to adaptative diversification. Luo (2007) argued that MNCs who entered China prior to the early 1990s with primary products that were similar to their core products at home, with little or no adaption. Although this is not the case for DC who has primarily catered to the Chinese market with offal and carcasses, DC is with their new strategy adaptatively diversifying – they are increasing both the scope and the scale of business tailored to the mass-market. They are adapting their locally produced goods to the unique preferences of the Chinese consumer. The new factory also means that DC is building up volume and dominating the market through first-mover advantages, in order to compensate for the higher cost although this may not be strictly necessary in the Chinese market, due to the significantly higher WTP for imported and safe meat (cf. Lai et al. (2018). Moreover, it is not unlikely that DC will reinvest and further diversify elsewhere in China and thus replicating the strengths of their operations elsewhere (Lai et al., 2018; Luo, 2007).

Luo (2007) further argued that for a company to succeeding in being a strategic insider the company must be: "*(1) proactive in seizing and benefitting for emerging opportunities; (2) offensive in localization and adaption; (3) prospective in sharpening organizational legitimacy and indigenous reputation and (4) deliberate in maintaining strategic flexibility and managing operational risks (Luo, p. 29, 2007)"*.

This is exactly what DC have done: 1) They seized the opportunity of a new latent demand by constructing a processing plant, 2) DC localized the plant where the demand is strongest, 3) the new strategy also entailed strengthening the China organization with several new staff functions, some arguably employed by local workers and the creation of the factory staffed with local workers and department managers who will be trained by European acquiring highly valued knowledge which strengthens the indigenous reputation, and finally 4) DC have maintained flexibility by making sure that if Alibaba cannot take the whole production they can sell their production surplus to other buyers. Moreover, DC has managed their risk in China by starting with one factory to see if the market is ready for their new strategy, but at the same time they are willing to build more factories should the demand require it (Danish Crown, 2018e, 2018g).

If we look at the sustainability of the factory from the viewpoints of Luo, DC have followed the path to becoming a strategic insider which is the best way to secure success in China. Shankar et al. (2008) offer similar advice to those of Luo. As seen in figure 8, they offer 6 rules on how to succeed in China.

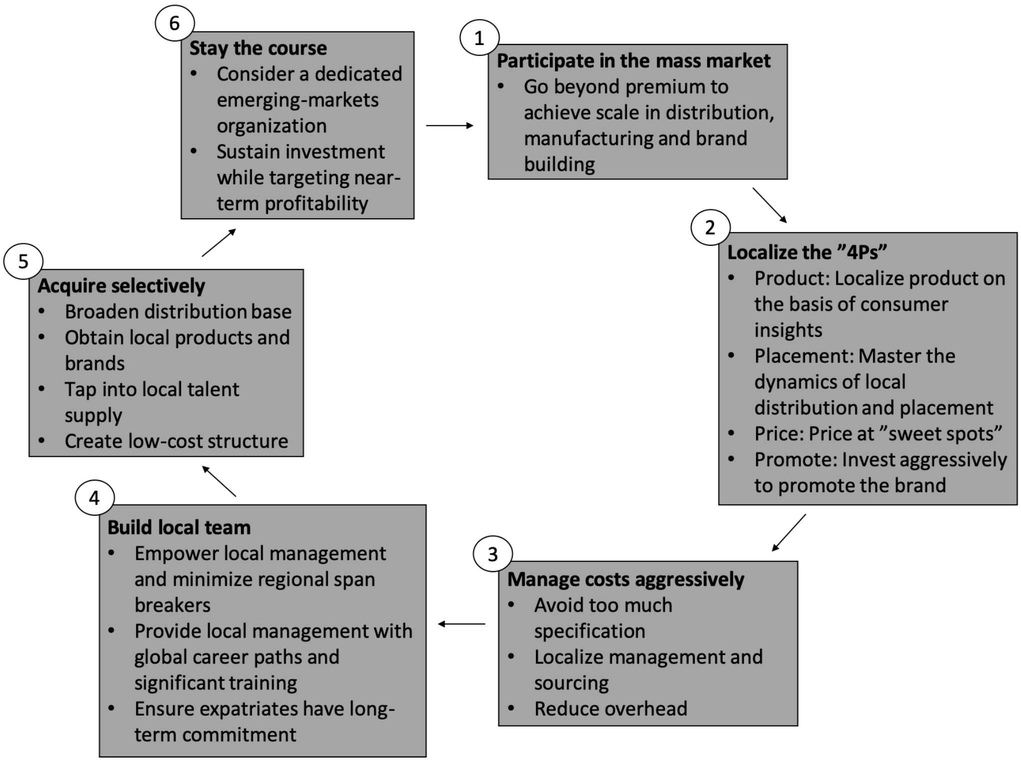

Figure 8:Keys to Emerging-market Success. Adapted from Shankar et al. (2008).

We can see that DC have followed some of these rules, but not all of them can be applied to DC.

1) Participate in the mass market - DC's new strategy is two-fold: The continuation in export of offal and carcasses to distributors caters to a mass-market, while the new products from the processing plant targets a smaller, but, growing market
2) Localize the "4Ps":
   - Product - The products from the new plant will be localized to fit the taste of the Chinese consumer.
   - Placement - Through the partnership with Alibaba, DC gains distribution channels both for ecommerce and supermarkets. Alibaba is the leading player in ecommerce and they also have several physical stores in major Chinese cities.
   - Price - Due to the increased WTP from the Chinese consumers the products from DC will be priced some 30-40% higher than domestic products (Attrup, 2018a).
   - Promote - Since the beginning of the agreement with Alibaba, DC have conducted marketing in cooperation with the group (Bang, 2018).
3) Manage cost aggressively: Not entirely applicable for DC. Sourcing locally is not an option as the whole point is gaining competitive advantage through food safety and high-quality Danish products. The acquiring of a local producer was not an option. DC needed to train own

employees and moreover, no factories lived up to the standards of DC (S. Tinggaard, personal communication, March 27, 2019).

4) Build local team: The factory is staffed with domestic workers and only the factory manager is an expatriate (Danish Crown, 2018g). Moreover, the organization behind the factory is headed by a Chinese director (Danish Crown, 2019b).
5) Acquire selectively: This is not applicable to DC at the moment. With the current market obtaining local products and brands does not create an advantage. Nonetheless, Scandinavian Farms is a Danish company in China that operate pig farms in China under Danish framework conditions on food safety and animal welfare. S. Tinggaard was asked whether he saw perspectives in DC collaborating with the company to which he answered that the in theory it is good idea, but that the project has not been able to receive a price that reflects the additional production costs(personal communication, march 27, 2019).
   Create a low-cost structure: DC cannot afford to compete on price due to high overheads of the operational mode. The point of broadening distribution base is currently not necessary with a 5-year distribution agreement.
6) Stay the course: DC have two organizations that support their operations in China – both are dedicated to the China operations. They have built capabilities that are geared towards the Chinese market (Shankar, Ormiston, Bloch, Schaus, & Vishwanath, 2008).

Threats in the internal and external environment

From a theoretical standpoint the sustainability of DC's re-entry into China appears solid but there are some other issues that could potentially affect the future of DC's new strategy including the ASF. As described in the section on country factors and the section on industry factors, the ASF has devastated the Chinese pork industry and thereby provided big opportunities not only for DC but also for other European producers of pork, who have been able to sell their surplus production of pork to China. However, the opportunity has the potential to turn into threat. First of all, we look at the opportunities it has provided DC with. The price that DC pay for a kilogram of pork has reached its highest in several years.

In Week 35 of 2019, DC paid their farmers upwards DKK 12.00 per kilo of pork – when 2019 began DC only paid DKK 8.30 per kilo of pork. Even though there is an increased domestic production and import in China they are unable to fulfill the supply gap that ASF has caused in China. There is no expectation that this trend of ever-increasing export will change soon (S. Tinggaard, personal communication, March 28, 2019; McCracken, Pan & Sherrard, 2019). The threat for DC is close and real: outbreaks were reported in Poland, resulting in the culling of 8000 pigs (OiE, 2019). If the virus hits Denmark it would be a disaster and all export of pork would most probable be banned which would be a catastrophe not only for DC, their farmers and families but also for the entire economy (Shike, 2019).

Danish Crown is currently suffering from a decline in pigs delivered to the slaughterhouses. It has become more profitable to export piglets than to fatten the pigs in Denmark due to better framework conditions and lower wages in countries such as Germany and Poland. The number of pigs slaughtered in Denmark has fallen by 1.9% since late 2018 until now. In order for DC to maintain their competitiveness it is vital that the production capacity at the plants are fully exploited. If the trend continues it can lead to a fall in production deteriorates DC's revenue, which can results in a lower price paid to farmers for their pigs, and the farmers then lower their production even more – thus a self-reinforcing process (Attrup, 2019). When confronted with this trend, S. Tinggaard (personal communication, September 3, 2019) whether this would have any effect on their China operations which he denied and noted that he expected a political solution to this problem. Despite the denial, a decrease in production must be taken seriously as it does have the potential to effect DC's future operations.

Finally, on the global scale DC is feeling the pressure – especially from Spain. Some 10 years later Spain a self-sufficiency grade of 85%. Today, this has increased to some 130% which has resulted in an export boom from Spain. The Spanish pork sector is dominated by integrator companies who owns every part of the supply and value chain from breeding pigs, piglets, fattened pigs to feed production, slaughtering, processing and sales. The farmer still owns the land and the pigsty, but it is the integrator company that decides how the pigs are taken care of and fed as well as the quantity of pigs and when they should be slaughtered (Attrup, 2018f). A model DC are not able to replicate because the company is a cooperative owned by the farmers and if DC were to construct such an integrator-model they would engage in direct competition with their owners (S. Tinggaard, personal communication, March 1, 2019). If the most attractive elements were applied in Denmark it could result in an additional revenue of DKK 56 per pig (Attrup, 2018f). The better competitiveness of Spanish companies can be seen in their exports. In 2010 Spain exported some 200,000 tons, where Denmark exported approx. 550,000 tons. However, in only 6 years Spain (2016) have managed to export significantly more than Denmark (In 2016, Spain ca.700 TMT compared to Denmark ca. 600, TMT). Therefore, DC is under pressure to reduce their cost in both production and processing so they are capable of continuing to compete with Spanish companies (Attrup, 2018b).

When S. Tinggaard was asked what he saw as the biggest threat to the new operations in China, he mentioned the political climate between Denmark and China, fearing that a bad climate could influence the Danish export to China and thereby the strategy. However, DC do appear to have good guanxi with local authorities, but it is doubtful whether this would be able to outset potential conflicts on a country to country level (S. Tinggaard, personal communication, September 9, 2019).

The likelihood of such problems is hard to tell, however, both Canadian and Norwegian companies have felt the consequences of such problems.

Summary

Is the strategic shift sustainable? From a theoretical point of view yes: DC have engaged in a partnership with a dominant local player that provides DC with distribution and marketing channels. The partnership also provides DC with consumer insights that will be used on the new factory to adapt to local preferences – a key factor to success according to Luo (2007) and Shankar et al. (2008).

Moreover, with the new strategy it is also a continuation of their already successful strategy of exporting offal and carcasses to distributors in China. On a more pragmatic view there are some challenges in the environment where DC are challenged. Especially the ASF is a big threat if it continues to spread in Europe. DC are also facing problems with a decreased supply of pork and competitiveness on a global scale. Whether these will prove a threat to the sustainability of the new China operation remains to be seen.

Overall Conclusion

This thesis has answered the research question: "*What explains Danish Crown's strategic shift in China and is this shift sustainable*?". I answered the question by examining three different levels of analysis: The institutional/consumer-, the industry- and the firm level and how these three levels have affected the entry strategy of DC. I examined the various objectives of an entry strategy and argue that especially market-development objectives and learning objectives are the main reasons why DC re-entered China. I found that especially institutional/country factors affected the reasons on why to re-enter China and that Chinese consumers have a preference for imported meat and WTP for this.

Moreover, the timing of entry was primarily driven by the country factors, but also by industry factors: there are currently no competitors offering a similar product and DC were able to seize a first mover advantage by entering now. Operations mode: DC considered entering with a partner, but it was not possible if they were to uphold the food safety and production standards - there were no suitable factories. In brief the entry strategy can be summarized to: DC re-entered China with market development and learning objectives. DC entered now to seize a first-mover advantage and because the consumer habits have changed to become more Western. DC entered with a greenfield investment as there were no suitable partners.

I then discussed whether the shift in strategy was sustainable from both a theoretical point of view as well as a practical. I found that from a theoretical standpoint there is a solid backing for DC's new operations. From a practical position I found that there are some potential threats in the external environment. I argued that the ASF presents a big threat to the entire company if it spreads to the rest of the world. I also found that they are facing problems with a falling number of pigs slaughtered – a problem which currently does not affect DC but has the potential to do so in the long run. Finally, I examined the pressure DC is experiencing from Spanish competitors who have overtaken DC in regard to their export to Asian countries. If DC adapted core elements of their competitors, DC's suppliers could receive a significant value gain in pork sold. Finally, the threat of escalating problems on a country to country level were discussed. It remains to be seen if China can deliver the success DC is looking for – but the strategy appears well-adapted to the challenging Chinese market.

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