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Supply chain – marketing integration

How do European SMEs go to China via the New Silk Road

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Abstract

Purpose – The purpose of this paper is to discuss China's New Silk Road initiative as an opportunity for European small and medium-sized enterprises (SMEs) to export to Chinese market. It offers research propositions on redefining the business process of European SMEs and Chinese importers in light of the initiative.

Design/methodology/approach – SMEs' export barriers, particularly in SCM and marketing, are identified through literature review. Then they are discussed in accordance with the measures that New Silk Road proposed.

Findings – Logistic infrastructure development under the New Silk Road significantly lowers the supply chain barrier. Marketing remains a challenge for European SMEs to export to China. This paper argues that the European SMEs and the Chinese importers should create closer collaboration, expand their relationship beyond SCM, and integrate their marketing efforts for mutual benefits.

Research limitations/implications – Several future research areas are proposed in this paper. The authors invite researchers and practitioners to deepen the discussion with empirical evidence.

Practical implications – The New Silk Road has already become a high stake project for many countries involved. Many measures are yet to be defined and the stakeholders, including industries and businesses, should have an influence on their definition. This paper provides the authors' viewpoints on how businesses should act in this initiative.

Originality/value – Despite being an important topic of the world's economy in the recent years, the New Silk Road initiative has rarely been studied in management research, possibly due to lack of evidence. As its development significantly sped up since 2017, it is high time that the research community starts to contribute to the knowledge building in this project. This paper is among the firsts to call for and to propose avenues for future research efforts.

Keywords Marketing, SMEs, Supply chain management, New Silk Road

Paper type Viewpoint

In 2013, China has announced the double trade corridor, reviving the ancient trade route the Silk Road that connected China and the West: Central Asia, the Middle East and Europe. The "Belt and Road Initiative" was officially released in 2015, in which a $900bn infrastructure scheme involving 68 countries was proposed. One of the main aims is to boost global trade (Bruce-Lockhart, 2017). On the other end of the New Silk Road, it presents strategic importance for Europe. Europe has the chance to further leverage its status as one of China's most important trade partners to engage profitably with Chinese and local companies. Europe could also use it to pave the way for new trade opportunities for its many small businesses in the increasingly difficult yet important Chinese market (Loesekrug-Pietri, 2015). In 2015, the Dutch city Rotterdam welcomed its first containers by rail from China. The route shortens the transportation time from around 60 days by sea to about 14 days by land (Lehmacher, 2015). By 2017, there have been more than 6,000 trips between 35 Chinese cities and 34 European cities; there are 57 routes and more than 3,000 annual trips planned and counting (Gu, 2017).

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China's exports are traditionally stronger than those of most of its trading partners (Lehmacher, 2015). The New Silk Road initiative intends not only to support China's export, but also to stimulate China's import in order to satisfy Chinese consumers' increasing appetite for high quality European products, and to improve the capabilities of Chinese enterprises through deepened collaboration. Besides the high-end consumer goods and industrial goods from Europe, which are already the main force of Europe's export, the initiative also seeks to largely expand the trading categories and to democratize the consumption of imported goods (China Daily, 2015). This brings a unique opportunity for Europe's small and medium-sized enterprises (SME), which make up over 99 percent of all enterprises in EU and contribute 57 percent of value added in EU. Large enterprises are traditionally more international than SMEs as it is costly to reach foreign markets (Airaksinen *et al.*, 2015). The New Silk Road initiative also encompasses a number of measures to lower trade barriers and to reduce trade costs, creating favorable conditions for European SMEs to take part in the trade.

Nonetheless, the New Silk Road has high stakes and high impacts on entire value chains. Besides policy-makers and the related industries, the New Silk Road initiative also creates vast avenues for potentially impactful research. In particular, supply chain management (SCM) and marketing are two important areas of barriers to SMEs export. Meanwhile, the New Silk Road initiative's infrastructure development especially emphasizes supply chain facilities and eventual marketing supports. Due to the novelty of such an initiative, new services and new business models are to be elaborated and tested in order to ensure the value realization (Lehmacher, 2015). SCM and marketing play important roles in this process; however, the knowledge directly applicable to this context rarely exists. Therefore, in this paper, we first discuss the implication of New Silk Road for European SMEs, building on the literature of SME export and current operations under the New Silk Road initiative; then, we propose future research areas of relevance and potential impact.

European SME export

Despite attractive benefits, companies face challenges and barriers in exporting their products. Such barriers could be especially significant for SMEs, which have less resource to deal with activities outside their domestic market. On one hand, there are internal barriers related to the company itself and the product. On the other, there are external barriers related to the industry, market, and macro-environment (Cavusgil and Zou, 1994).

Internal and external barriers can both, directly or indirectly, impact on SCM and marketing of exporting SMEs. In particular, previous studies have commonly identified the following issues which may prohibit SMEs from exporting and/or affect SMEs' export performance:

SCM:

- Transportation means and costs: transportation issues include the availability of transportation means, specific storage requirement, delivery time, and the costs associated with transportation and insurance coverage. Inconvenient or unavailable transportation means may prohibit the SMEs from exporting. High transportation costs could affect export performance, and/or affect the company's competitiveness in the foreign market (Leonidou, 2004; Pinho and Martins, 2010).
- Warehousing and inventory management: besides space availability, specific facilities, proper safeguarding, geographic coverage might be required in warehousing. Inventory management has to take into consideration transportation delays, demand fluctuations, unexpected events, product returns and so on (Leonidou, 2004; Pinho and Martins, 2010).
- Distribution in foreign market/logistics: distribution in the foreign market and logistics issues include the access to distribution channels, competition in the distribution

channel, high costs of direct distribution, different distribution network and cost structure, and so on (Leonidou, 2004; Hutchinson *et al.*, 2009; Arteaga-Ortiz and Fernandez-Ortiz, 2010).

Marketing:

- Information of foreign market and customers: lack of reliable information regarding the foreign market, and differences in customers' culture, attitudes and habits make it difficult for exporting SMEs to properly evaluate their business opportunities and to plan their marketing activities (Leonidou, 2004; Hutchinson *et al.*, 2009; Arteaga-Ortiz and Fernandez-Ortiz, 2010; Kahiya, 2013).
- Product adaptation: exporting products are subject to different usage conditions, different tastes and habits, and so on. Adapting products for foreign markets requires deep understanding of the foreign customers; and consequently could increase costs and operation complexity (Leonidou, 2004; Pinho and Martins, 2010; Kahiya, 2013).
- Pricing in foreign market: export has extra costs in terms of product/packaging modification, transportation and administrative expenses, taxes and tariffs, and so on. In the meanwhile, exporting SMEs also have to compete with larger exporters as well as local competitors. Otherwise, SMEs should leverage on various marketing activities to establish themselves in niche market (Leonidou, 2004; Arteaga-Ortiz and Fernandez-Ortiz, 2010; Kahiya, 2013).
- Communication and promotion in foreign market: geographic and psychological differences, different laws and norms, different industry standards, etc., make communication and promotion in foreign market particularly challenging. Assessing the effectiveness of the communication activities and timely feedback could be more difficult in a foreign market as well (Leonidou, 2004).
- Aftersales service and relationship: due to limited human, financial, and allied resources, it is more difficult for SMEs to provide aftersales services, especially when it requires physical presence of personnel and/or spare parts. It is also more difficult for SMEs to establish and nurture relationships with their customers due to information unavailability, language barrier, and so on (Leonidou, 2004).
- Distribution in foreign market (naturally, a mutual issue of both SCM and marketing).

The New Silk Road

The New Silk Road initiative encompasses a wide range of topics including policy, infrastructure and facilities, trade, finance and investment, research and development and cultural communication (China Daily, 2015). In this paper, we emphasize the current development and operations under the initiative that particularly impact on SCM and marketing involved in trade, as summarized in Table I.

The rail cargo operated by China Railway Express provides a new alternative of transportation means between Europe and China. The rail cargo significantly shortens the delivery time to one-third of that of sea freight; while the cost is approximately one-eighth of that of air freight (CIRP, 2017). The 35 Chinese cities in the China Railway Express network have varying frequency and routes of operation. The main inland ports are aiming at establishing regular, frequent and efficient scheduling in order to improve service consistency and to further reduce costs.

Besides rail cargo, the main inland port cities are investing in developing logistics hubs as well. For example, one of the most important port cities, Chengdu, has already built

SME export barriers	New Silk Road measures	Current status
SCM		
Transportation	Rail cargo operated by China Railway Express provides an alternative transportation means	Under steady development
Warehousing	Inland logistics hubs provide warehouse, special facilities, and other value-adding services	Under steady development
Distribution in China	Domestic logistics network and distribution channels	To be integrated
Marketing		
Market information	–	To be developed
Product adaptation	–	To be developed
Pricing	Trade policy adjusts tariffs; "Free-trade zone" policy reduces financial constraints	In place, to be monitored
Communication and promotion	–	To be developed
Aftersales and relationship	–	To be developed

Table I.
SME export barriers and New Silk Road measures

warehouse equipped with specific facilities such as refrigeration. It plans to further develop logistics services, financial services, processing and handling, and distribution services (CIRP, 2017).

Most rail cargo operators are developing their domestic networks as well, so that the containers departed from Europe could be seamlessly delivered to other Chinese cities. Exporters could also exploit the bonded warehouse in many main ports, and to distribute to the market through the domestic logistics networks and distribution channels. Such logistics networks and distribution channels are already established. The port cities are, however, making an effort to integrate the existing networks into the New Silk Road initiative in order to facilitate effective communication between the Chinese service providers and the European exporters.

As we can see in Table I, the current developments and operations under the New Silk Road initiatives have mainly been addressing SCM issues. On the marketing side, the only substantial impact is on pricing. Trade policies are being adjusted to incentivize especially consumer goods (Zhou, 2017). The free trade zones allow products to be imported (and re-exported) without being subject to customs duties until they are moved to the consumers, thus reducing the initial financial constraints on the exporters (Yao and Whalley, 2016). Nonetheless, these measures do not effectively support the exporting SMEs to make the pricing decision. Overall, European SMEs are still facing significant marketing barriers under the New Silk Road initiative.

The role of Chinese importers

According to the China Railway Express operators, the majority of trade flows from Europe are in fact sourced by Chinese importers, who often arrange the transportation, manage warehousing, and act as the distributors in Chinese market as well. Chinese importers are at the forefront of commissioning the rail cargo because of their naturally closer relationship with the China Railway Express operators and earlier access to information. They then monitor the transportation process, which has been streamlined by the railway operators and the inland ports, coordinating with the railway operators. Finally, they manage the warehousing and the distribution of the imported products, leveraging on their logistics network, distribution channels, and eCommerce capabilities. Therefore, the importers are critical partners for European SMEs, who provide vital support for both SCM and marketing in export activities.

However, except some mature trade relationships, often with larger European companies, many European SMEs and Chinese importers still struggle to establish long-term-oriented and mutually benefitial relationship. Cultural distance, communication barrier, opportunistic behaviors, and so on, could hinder the development of such relationship (Nes *et al.*, 2007; Katsikeas *et al.*, 2009; Barnes *et al.*, 2010). However, supportive relationship between importers and exporters are found critical to export performance (Skarmeas and Robson, 2008; Sousa and Bradley, 2009). As the New Silk Road opens doors to more European SMEs and new importer-exporter relationships, the Chinese importers can be the main driving force to lower the marketing barriers for exporting SMEs, and the main actor in the SCM.

SCM-M integration through stronger exporter–importer relationship

The New Silk Road initiative has stimulated the development of infrastructures and services which offer alternatives and lower barriers in SCM for companies wishing to export to China. However, few measures are in place to address the marketing barriers for exporting companies, which can be especially relevant to SMEs which have fewer resources to manage such process. Currently, the Chinese importers are already playing an important role enabling European SMEs to export to China through the New Silk Road, and they are actively involved in both SCM and marketing for the imported products. However, the exporter–importer relationship can be much further strengthened for mutual benefits.

In SCM, the cross-border transportation and customs procedure are already streamlined. The involvement of importers could facilitate effective communication with the railway operators and potentially efficient cargo management due to economies of scale. More importantly, importers can be especially valuable in managing the distribution of imported products in Chinese market. Chinese market is often difficult for European SMEs to navigate due to its vast size, internal diversities, different distribution structure, and so on. Most European SMEs do not have sufficient knowledge and resource to manage the distribution. On the other hand, importers understand the Chinese market much better. They often have established distribution channels and eCommerce platforms. Certain inland ports have services facilitating the distribution in Chinese market, for example, the inland port of Chengdu has a showroom and its own eCommerce platform for promoting products imported through its port. In such case, the importers can also coordinate the distribution efforts more effectively. Through a stronger relationship between each other, European SMEs could benefit from an easier exporting process, lower costs, and less resource constraints, while the Chinese importers could improve efficiency and enjoy economies of scale.

In marketing, there are much less New Silk Road measures directly impacting on exporting SMEs' marketing activities, even if it is one of the most important factors influencing SMEs' export intention and performance. Nonetheless, the marketing barriers could be tackled through a stronger relationship between the exporting SMEs and the importers. With their knowledge of Chinese market and Chinese consumers, the importers could promote mutual understanding of the market opportunities for the exporters, and assist the exporters to define their marketing mix for the Chinese market. On the other hand, the exporters should be more involved in the process to provide support to the importers. For example, the exporters could be cooperative in adapting product according to importers' market intelligence. The exporters should also equip importers with product knowledge for developing marketing communication with the Chinese consumers, and participate in marketing communication wherever resource allows. Through a stronger relationship, the European SMEs can develop more suitable marketing mix for Chinese market, develop market and customer knowledge, possibly build customer relationship, and eventual build brand equity in Chinese market. The Chinese importers over time could develop product specific knowledge and count-of-origin specific knowledge, and improve their marketing competencies.

New Silk Road and business process management research: just a new setting or a new domain? The most notable developments achieved so far under New Silk Road initiative are the railway and other logistic infrastructures. However, new means of transportation of goods merely creates a new setting for the trade between China and Europe. Business process research needs to do no more than validating and updating established knowledge in export and import. Nonetheless, it would be unlikely to achieve significant category expansion and deep economic integration in such approach; and it essentially competes with the existing transportation modes. As the New Silk Road initiative does not aim to simply replace sea/air freight by providing alternative transportation, it requires businesses to reimagine on both sides. Therefore, it potentially creates a new domain for business process research.

In particular, even if there have been plenty studies on SME export and SCM and marketing in export, the New Silk Road opens up new research avenues in these topics. Due to its novelty, very few studies in these areas are available. However, as the infrastructure development progresses and the rail cargo operations continues to increase, the stakes rises for all parties involved. Therefore, it is high time that the research community starts to contribute to the knowledge building in this initiative. Stemming from the above discussion, we propose several research areas in SCM and marketing in SME export, in which the New Silk Road has unprecedented impact on businesses.

What are the business model(s) to be innovated under the New Silk Road initiative? The New Silk Road has made substantial efforts in providing supply chain alternative and in streamlining the supply chain operation. However, there are still significant marketing barriers hindering European SMEs' export activities, and therefore the potential success of the entire project. We have proposed that the Chinese importers should strengthen the relationship with European SMEs and play a bigger role in exporting marketing. Policy-makers both in China and in Europe could also make an effort to develop measure aiming at lowering marketing barriers for SMEs. In either case, traditional export mode will be challenged.

Traditionally, international trade has been studied in a producer-driven vs buyer-driven logic, which explained export-import activities with the search for resource, market and cheap labor (Gereffi, 1994). As Gereffi (2001) later has noted that the rise of internet would cause an evolution beyond the producer-driven and buyer-driven dichotomy, another evolution can be expected under the New Silk Road initiative since the traditional search for resource, market or cheap labor barely explains the motivation for trade in this case. Export has also been considered a low commitment mode of foreign market entry. With increasing level of resource commitment, exporters could explore contractual agreements (licensing, R&D contracts, alliances, etc.), equity joint ventures and wholly owned subsidiaries with their foreign partners (Pan and Tse, 2000). Similarly, such hierarchy may not be sufficient to explain the choices for companies to enter a foreign market as the dynamics between the exporters and importers undergo changes.

Therefore, moving from the traditional trade of good, various areas in current business models could undergo significant changes when companies reconfigure their business process in the new exporting or importing context. Instead of simply being the source of products or the distribution channel, European SMEs and Chinese importers could strengthen and extend their relationships towards certain contractual agreements, particularly aiming at attenuating the marketing barriers. Through such partnership, European SMEs could gain a valuable resource of market knowledge, which allows them to focus on their key activities and to fine-tune their value propositions through a stronger customer relationship. Chinese importers should exploit the partnership to gain product knowledge, develop stronger marketing competences as value proposition, expand their key activities, and develop distribution channels to better connect the manufacturers to the consumers. As Pressey and Tzokas (2004) suggested, affective and calculative relationships between exporters and importers would decline over time, while appreciation of competencies nurtures long-term relationship with mutual benefits. In order to co-create competencies between exporters and importers, new businesses and business models could be born among these changes as well. Profitable and sustainable business model innovations directly impact the success of the exporting SMEs, the importers, and the New Silk Road initiative as a whole.

Which are the contingent factors to be taken into account in business process research under New Silk Road context? European companies, regardless of size, which are already exporting to China, are obviously potentially clients of the New Silk Road's rail cargo. However, focusing on such companies will create a direct competition between the new transportation mode and the traditional ones; and it will not effectively achieve the objective of boosting trade and expanding the trade categories, especially of consumer goods. Therefore, the large number of European SMEs who are not actively exporting yet should be investigated.

We have discussed the factors in SCM and marketing that are inhibiting SME export, and the New Silk Road is changing the dynamics in some of these factors. Shorter delivery time (and shorter cash conversion cycle) compare to sea freight, lower cost compare to air freight, easier access to logistics facilities and distribution channels, and so on, could change the feasibility and attractiveness of exporting traditionally perceived by European SMEs. Whether such change is desirable is yet subject to product characteristics, such as the profit margin, dimension, shelf life, storage requirement, product fit in Chinese market, country-of-origin strength, and so on. As summarized by Leonidou (2004) and Tesfom and Lutz (2006), literature generally suggested that developing or adapting new products for foreign market and quality standards are some of the major product-related barriers for SMEs due to limited resource. However, in the context of New Silk Road, these variables need to be examined under a different light. The initiative is partly driven by Chinese consumers' increasing appetite for authentic, high quality European products. The equilibrium between authenticity of European products and the fit to Chinese market, and the quality perception of the SMEs' products comparing to their high-end-branded competitors' have not been addressed by literature before, which opens up an interesting research area from the marketing perspective. Furthermore, such research could integrate with an SCM perspective to allow the identification of the industries that are most promising to benefit from the New Silk Road initiative. The research results could provide guidelines for policy-makers and the importers, in order to make effective use of their resources. They could also inform European SMEs about their potential market opportunities, and provide them preliminary information to assess their strength and weakness in pursuing the export opportunity.

What is going to be the new price perception? European products traditionally have the "luxury" image in Chinese market, largely because the high-end manufacturers have long been exporting to China. One of the aims of the New Silk Road initiative is to democratize consumption of imported products, by reducing costs in cumbersome process, lowering tariff, and expanding beyond the luxury labels. Pricing in export is no stranger in research community. As Tan and Sousa (2011)'s exhaustive review suggested, despite considerable amount of work done, the knowledge in this field was still rather fragmented and they have pointed out, in particular, that consumer perception of pricing had seldomly been considered in export pricing. In reality, consumers' price perception has been an important factor for the imported (usually high-end) products in Chinese market (Chen and Lamberti, 2015). Pricing of imported products have not been an easy task in China due to asymmetric product information, credibility issue, and so on. It would be a challenge for the European SMEs who are new to Chinese market to identify their right price; it would also be a renewed challenge for incumbent exporters to adjust to the new condition.

In the past many research have studied the symbolic value and price perception of foreign high-end products by Chinese consumers. The market situation may shift when more main-stream, yet unfamiliar products enter Chinese market. On one hand, marketing research could extend the studies of consumers' value and price perception to the new categories imported through the New Silk Road. Marketing research could also investigate how the incumbent European exporters' pricing might be affected by the new market dynamics. On the other hand, the cost structure along the supply chain could be subject to important changes to traditional export and impacts on the exporters' pricing strategy, which could be investigated by SCM research.

What will be the optimal distribution strategy? Distribution and logistics used to be considered a critical difficulty for exporters in Chinese market, due to under-developed infrastructure, fragmented network, bureaucratic restrictions and the vast geographic size (Jiang and Prater, 2002). However, this situation has been dramatically changed in the last decade. The prosperous development of eCommerce and the third-party logistics (3PL) sector in Chinese market has made distribution a lot easier for exporters (Yeung *et al.*, 2012). Cross-border eCommerce, despite a seemingly promising prospect, still struggles with problems such as unreliable and lengthy delivery time, limited transparency on delivery, ambiguous return process, custom bureaucracy and so on (van Heel *et al.*, 2014). New Silk Road's measures, such as delivery trackability, network integration, bonded warehouse and so on, may easy some of these problems. Nonetheless, high competition and regulation (major eCommerce platforms exercise a seven-day guarantee of product return) in delivery service is still pressuring exporters to carefully plan their logistics network, in order to ensure customer satisfaction. Furthermore, Chinese consumers embrace "showrooming" in their shopping process, therefore physical retail space is still important. The New Silk Road initiative is dynamically changing the possible approach to distribution as warehousing facilities and logistics services are being specifically developed for exporters. Current research has not created substantial knowledge in these aspects.

SCM and marketing research should join force in the search of an optimal distribution strategy. On one hand, it should understand how European SMEs and the Chinese importers should leverage showroom and eCommerce to promote imported products that are still novel to the market. It should also understand the optimal service level for order fulfillment. On the other hand, the number and location of warehouses, 3PL and other logistics partner networks, management of delivery and return, and so on, need to be designed in order to balance the market expectation and the operation costs. Policy-makers may also benefit from such research to plan the future infrastructure development.

How should cultural differences be managed? The impact of cultural difference is always a relevant topic in international business. Naturally, for an initiative aiming at encouraging integration among China, Europe, and many other countries in between, culture is an inevitable issue. Cultural difference has already been studied both in SCM and in marketing. In supply chain, culture plays an important role in supply chain partner relationships (Jia and Rutherford, 2010). In marketing, culture has profound impacts on virtually all steps in the marketing process in a foreign market (Magnusson *et al.*, 2013). A stronger partnership between the European SMEs and the Chinese importers should ideally reduce the cultural barrier between foreigner manufacturers and Chinese consumers, with the importers being the cultural bridge. However, cultural barriers between the organizations are also more relevant than ever when a greater integration and a stronger partnership are desired.

Therefore, SCM and marketing research should also take a cultural and organizational perspective. In the case of New Silk Road, it could be a highly stimulating research area. Culture has always been an interesting factor in international management studies (Steenkamp, 2001). However, the current knowledge falls short in the context of New Silk Road initiative. First of all, New Silk Road connects many inland cities directly with Europe, in addition to the traditional sea-port cities. As the inland cities presenting themselves to the outside world, their respective local cultures, which could be rather different from each other, come into play. This affects both the understanding of the market (Chen and Lamberti, 2015), and the relationship between companies (Chan *et al.*, 2010). Most of the current studies have stayed on the national level. Second, Europe is also characterized by diverse national and sub-national cultures. In addition, European SMEs are extremely high in number and are more likely influenced by different cultural factors, such as family, territory, personal believes, and so on. A general "western culture", as being referred to in many studies, not necessarily suffices when the importers deal with partners from different European nations (Gursoy and Umbreit, 2004). Appropriate organizational process, which allows both sides to understand their differences and to seek mutually beneficial middle ground, is essential to a true integration.

Contributing to the shaping of New Silk Road

The New Silk Road is a vast and long-term project with many aspects yet to be defined by the Chinese policy-makers. European counterparts and industries and businesses from both sides undoubtedly should also take part in influencing these definitions. In this paper, we specifically look at the trade opportunities for European SMEs to Chinese market. We argue that even if the current infrastructure development under the New Silk Road Development lowers certain logistics barriers for European SMEs' export, yet more has to be done to lower the marketing barriers as well. We proffer that Chinese importers should expand their role from a traditional supply chain partner to an essential marketing partner, through a closer integration with the European manufacturing SMEs. We discussed several future research areas under this proposal. We warmly welcome future research to contribute to the management and policy making in this impactful project.

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