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Leveraging domestic and foreign learning to develop marketing capabilities: The case of the Chinese company Goodbaby

Purpose

This study explores the role of different learning sources in the process of capability building of Chinese firms (CFs) approaching international markets.

Design/methodology/approach

The paper is based on the case study of the company “Goodbaby”. The primary data sources are two semi-structured interviews with one of the firm’s managers, which have been triangulated with point of sales (POSS) visits, interviews with industry experts, and secondary data such as corporate records, patent and trademark data, industry reports and news articles.

Findings

Both the home-country and foreign markets act as sources of learning to support the development of CFs’ marketing capabilities. Learning at home is triggered by the complexity of the national market and the exposure to foreign entrants. Foreign learning is stimulated by the relationships with leading foreign partners and the exposure to advanced final markets. Moreover, each learning source has a positive effect on the development of CFs’ marketing capabilities in both the market contexts in which they compete, i.e. the home-market and international markets.

Practical implications

CFs’ managers should be simultaneously receptive to the domestic and foreign contexts, as both may support the development of marketing capabilities. CFs’ managers should recognize the learning opportunities embedded in each of these contexts, and identify the markets where these can be effectively re-deployed.

Originality/value

We distinguish between different sources of learning in the context of CFs’ internationalization, and explore their triggering factors and their role in the development of an underinvestigated type of capabilities, i.e. the marketing capabilities.

1. Introduction

Emerging market firms (EFs) have gained leading competitive positions in international markets (Grosse, 2016), dominating global export flows (WTO, 2015) and engaging in significant outward FDI (UNCTAD, 2016). From a theoretical viewpoint, this phenomenon has long left researchers puzzled, as these firms usually lack ownership advantages that would explain their successful international performance (Rugman, 2009). However, a number of studies have highlighted that the strength of these companies lies in their ability to offset their initial competence gap through appropriate learning processes (Guillen and Garcia-Canal, 2009).

While international business (IB) literature has long recognized the importance of the learning processes occurring in the host-country (Eriksson *et al.*, 1997; Johanson and Vahlne, 1977), more recent studies have offered preliminary empirical support to the idea that EFs' successful internationalization cannot be explained only in the light of what they learn in foreign markets (Liu *et al.*, 2014). Rather, it is also driven by the peculiar competences these companies develop in their domestic markets (Hitt *et al.*, 2005; Khanna *et al.*, 2005). On one hand, because emerging countries (ECs) are complex business environments, often characterized by a high internal heterogeneity, they compel domestic firms to develop capabilities that may turn out to be extremely useful when seeking to govern foreign markets. On the other hand, the growing FDI inflows from the advanced world expose EFs to the know-how and capabilities of leading multinationals.

These insights suggest that EFs' learning evolves through a complex process involving different learning sources, whose understanding is critical to explain EFs' capability development. Building on previous research (Hitt *et al.*, 2005; Liu *et al.*, 2014), this paper aims at increasing our knowledge of this realm, by exploring the role of different learning sources, i.e. the home-country and the foreign countries, in the process of EFs' capability building. We focus on a specific type of EFs, i.e. firms originating from China (CFs), and analyze the factors that trigger both types of learning and the effects of each learning source on the development of marketing capabilities (Day, 1994), i.e. market relating mechanisms that enable firms to deploy superior market knowledge and tools to achieve a competitive advantage (Morgan *et al.*, 2009). Hence, this paper seeks to answer the following research questions: "*Which factors stimulate CFs' domestic and foreign learning? How do domestic and foreign learning influence the development of marketing capabilities both in the home-market and in international markets?*".

We contribute to the literature by exploring different *sources* of CFs' learning (i.e. learning from the home-country and learning from foreign markets) and their triggering factors, and by

documenting how CFs redeploy the learning gained from each source both at home and abroad, to ultimately develop a bundle of advanced marketing capabilities. While most internationalization literature has focused on the role of experiential learning that firms amass as they conduct their activities abroad (Johanson and Valhne, 1977, 1990; Erramilli, 1991; Eriksson et al., 1997), this study acknowledges the impact of the learning accumulated at home, thus confirming that learning may occur in different contexts and through different means (Liu et al., 2014). Our findings show that foreign learning is stimulated by the relationships with leading foreign partners and the exposure to advanced final markets, while learning at home is triggered by the complexity of the national market and the exposure to foreign entrants. Hence, CFs do not start their internationalization process without any competence as it could be predicted given the relative underdevelopment of their domestic contexts; rather, actors and conditions in their home-country often provide them with the opportunity to develop capabilities that can be redeployed even in very advanced foreign markets. In addition, while most existing literature has focused on how the learning process triggered by internationalization may help EFs to sustain their foreign market position (Mathews, 2002; Cuervo-Cazurra and Genc, 2008; Milelli *et al.*, 2010; Yuan and Pangarkar, 2015), in this paper we also consider the effects such learning process may have on CFs' own domestic market. In this respect, our results do not only show that the skills CFs learn at home are useful to manage foreign markets, but also that the competencies acquired abroad may be critical to upgrade their competitive position at home, such that opportunities for activating feedback mechanisms may exist. Our focus on marketing capabilities also complements existing literature that has mainly focused on how CFs upgrade their technological competence to address the weak innovation endowment of their home-countries (Mathews, 2006; Luo and Tung, 2007; Awate *et al.*, 2012; Gugler and Vanoli, 2015).

The paper focuses on the case of Goodbaby, a CF operating in the juvenile product industry. Leveraging a fruitful interplay between domestic and foreign learning, Goodbaby has gradually developed critical market-related capabilities spanning from product and distribution management to branding, which have sustained its growth both abroad and at home, and made the firm one of the world's leading durable juvenile products companies, covering nearly 70% of the Chinese market and acting as the largest stroller supplier in both Europe and the US (Lee, 2009; PR Newswire, 2015).

This paper is organized as follows. First, we review the literature on EFs' internationalization, focusing on the role of domestic and international contexts in the learning process. Second, we describe the empirical methodology and the study setting. Third, we illustrate the findings and

develop propositions. Finally, we draw conclusions and implications for CFs' internationalization theory and practice.

2. Literature and theoretical background

According with traditional IB literature, firms enter foreign markets by undertaking a staged process, in which international activities gradually allow to accumulate experiential learning (Eriksson *et al.*, 1997; Johanson and Vahlne, 1977). Moreover, the involvement into foreign operations requires the endowment with ownership advantages (Dunning, 1988).

Typically, ownership advantages lie in the possession of intangible firm-specific assets, which can be effectively exploited beyond the national boundaries. Ownership advantages may differ in their value and nature depending on the investor's country of origin (Buckley *et al.*, 2002). While advanced countries (ACs) act as sources of valuable ownership advantages, ECs do not offer the technological and institutional conditions needed to develop sophisticated resources and capabilities that might ease foreign entry. In this respect, scholars have suggested that emerging market multinationals (EMNEs) enjoy other types of ownership advantages, different from those traditional multinational enterprises (MNEs) from ACs possess, such as "*the ability to function in difficult business environments*" (Ramamurti, 2012: 42). More specifically, EMNEs have been depicted as a peculiar case of MNEs, which invest abroad not to *exploit*, but rather to *access* or *augment* strategic assets (Deng, 2007; Mathews, 2006). Not surprisingly, also their internationalization process differs from what traditional models depict. Far from following a gradual dynamic, EMNEs often accelerate their foreign expansion in order to acquire abroad the capabilities needed to compete globally (Mathews, 2002, 2006; Deng, 2012).

In particular, because their home-countries are characterized by limited factor market development, unsophisticated consumers, non-competitive industries and institutional deficiencies, EFs often initiate their internationalization process starting from more developed countries (Hoskisson *et al.*, 2013) where they can build up competencies by developing wide-ranging relationships with the local business network (Lu, 2000; Golgeci and Arslan, 2014).

The foregoing discussion emphasizes the role of *foreign markets* and, specifically, the importance of the learning dynamics EFs undertake in these contexts to counterbalance the weaknesses of their home-countries (Luo and Tung, 2007). Learning is a fundamental process that assists internationalizing firms. In general terms, the literature on learning is based on two central ideas (Holmqvist, 2004). First, that organizational learning evolves through the interplay of exploitation

and exploration, combining times of trials and experimentation and times of routines development and replication (March, 1991). Second, that organizational learning spans different levels, both within (Argote and Ophir, 2000) and beyond (Larsson *et al.*, 1998) the firm boundaries, thereby involving a wide range of actors with which companies happen to interact. In the IB literature, learning has been traditionally described as the outcome of the progressive accumulation of experiential knowledge about foreign markets (Johanson and Vahlne, 1977, 1990). By engaging directly with the foreign environment, firms become more familiar with the market (Peng, 2008) and more capable of managing their liability of foreignness. More recently, inspired by organizational learning research, IB scholars have recognized that learning is a much more complex phenomenon than originally assumed (Barkema *et al.*, 1996; Luo and Peng, 1999; Petersen *et al.*, 2003). For instance, it has been suggested that non-experiential learning may also be critical for firm internationalization (Forsgren, 2002). Embracing a more comprehensive view of learning, it can be argued that beyond the knowledge that can be directly gained in the host-environment, and in spite of ECs' limited endowment in terms of resources and capabilities, also EFs' *home-countries* may enable significant learning processes, for at least two reasons.

The first reason lies in ECs' inherent complexity (Peng *et al.*, 2008). The characteristics of the local contexts (Meyer *et al.*, 2011) and, particularly, their institutional framework (Brouthers and Brouthers, 2000) critically affect firms' international expansion. ECs are often characterized by high internal heterogeneity, and local specificities in terms of both macro- and micro-environmental factors (Alon *et al.*, 2011a) play a crucial role in firms' strategic evolution (Alon *et al.*, 2011b). Sub-national areas are very diverse among each other in terms of regulations, social and cultural habits, availability and quality of economic infrastructures and institutions. In some countries, such as China, regional differences are so pronounced that they cannot be treated as a single market (Frank *et al.*, 2014). Managing such a diverse portfolio of sub-national markets exposes CFs to challenges that developed-country firms hardly encounter in their domestic environment. As they learn to manage such complexities, CFs develop adaptive capabilities that may turn out to be useful when approaching foreign markets. Indeed, CFs' experience with very complex and internally heterogeneous *domestic* markets may be redeployed as these firms attempt to govern a bundle of diverse *foreign* markets (Day, 2014).

Learning from the home-country may also happen through the exposure to foreign MNEs' operations (Liu *et al.*, 2014). The growing FDI inflow from the advanced world enables domestic firms to observe the know-how and capabilities of leading MNEs, thereby getting to know unfamiliar rivals' competitive practices, which can be effectively imitated or, at least, anticipated. For instance, it has been documented that the intense rivalry between domestic and foreign

companies in China drives local firms to improve their products' quality (Brandt and Thun, 2010) or to position themselves in the so-called "good enough" segment (Gadiesh *et al.*, 2007) to avoid direct competition from ACs' rivals.

Hence, while previous research has mainly focused on the role of foreign learning (Lu, 2000; Luo and Tung, 2007), the processes through which CFs learn at home have been investigated less extensively¹. Our study integrates the role of both home- and foreign contexts in CFs' learning, consistent with recent literature showing that home-country characteristics also play an important role in explaining CFs' internationalization outcomes (Wang *et al.*, 2012).

Based on the assumption that learning generates capability building (Montgomery, 1996; Verona, 1999), we explore how these learning sources are leveraged to develop capabilities that enable CFs to face competitive challenges and opportunities both in the domestic market and in foreign markets. Among the most critical firm capabilities, we focus on those relating to market resources deployment, and precisely to the marketing strategy and execution and to the marketing mix process, i.e. the marketing capabilities. Based on the framework proposed by Morgan *et al.* (2009), marketing capabilities include: pricing, product, distribution, marketing communication, selling, marketing planning and marketing implementation. These ensure effective connections between a firm and its customers (Song *et al.*, 2005), entail knowledge of how markets work and consumers behave, and require firms to effectively use promotional activities (Hitt *et al.*, 2005). Hence, they are critical to govern both domestic and foreign markets. Moreover, because they need to be continuously reconfigured and nourished through new resources in order to adapt to changing environments (Sirmon *et al.*, 2007), they offer an ideal setting to analyze the underlying learning processes. To summarize, the paper addresses the following research questions: "*Which factors stimulate CFs' domestic and foreign learning? How do domestic and foreign learning influence the development of marketing capabilities both in the home-market and in international markets?*".

3. Methodology

Following previous work on CFs' internationalization (Ge and Ding, 2008; Yang *et al.*, 2009; Spigarelli *et al.*, 2012, 2015), we used the case study technique (Yin, 2009) to analyze the factors that trigger CFs' learning processes both in the home-market and in foreign markets, and how these types of learning influence the development of CFs' marketing capabilities. Because case studies allow developing profound knowledge about a specific phenomenon that has not been fully

¹ A notable exception is the paper by Liu *et al.* (2014), which - compared to our study - focuses on the impact of learning on the performance of the *subsidiaries* of EC multinationals.

uncovered by existing theory and empirical research (Gibbert *et al.*, 2008), our objective is not to describe a representative effect, but rather to present a set of findings that may be valid in particular circumstances (Stuart *et al.*, 2002).

To this aim, we focus on the Chinese juvenile product industry, which is still in a relatively nascent stage, but is registering an extraordinary growth rate during the last few years (PR Newswire, 2014). As often happens in many industries in ECs (i.e. household electrical appliances, automotive, wine, coffee, etc.), this study sector represents a “new” market, one that did not exist before the globalization process. It has been “exported” from more ACs, and this implies that firms operating in China are all new from the consumer’s viewpoint and that there are no locally embedded traditions regarding the product use or the purchase process. Yet, in spite of the structural competitive weakness of the local offer, Chinese customers are increasingly receptive to products belonging to this sector, and their purchase behavior tends to be strongly influenced by fashion trends that dominate foreign markets.

Moreover, consumer needs and industry-specific market infrastructures are highly heterogeneous across the country subnational areas, thus requiring a high degree of adaptation. Such situation, characterized by an advanced foreign market and a fast-changing and heterogeneous domestic demand that is increasingly attractive for foreign competitors, makes the analysis of CFs’ different learning sources particularly relevant. Indeed, in such environments, both domestic and foreign markets may offer significant learning opportunities that could be redeployed in other contexts.

Within this new industry, we selected the leading company Goodbaby, a CF founded in 1989 operating mainly in the stroller sector. To ensure triangulation on relevant aspects and crosscheck our results (Yin, 2009), multiple data collection methods, involving both primary and secondary data, were combined.

The primary data sources about the company’s learning processes are two semi-structured personal interviews with one of the firm’s managers, who acts as Chief Industrial Design Director (CDD) and Assistant to President, a role of high rank in Chinese companies, with decision power in several areas. The interviews were collected during two visits to the company’s headquarters in Kunshan in April 2013 and December 2015. The informant was first asked about the history of the company, focusing on the domestic and foreign expansion. Since during both visits it was not possible to interview more than one person inside the company, as suggested by Eisenhardt (1989), the first interview was conducted by two researchers; then, more than two years later, a second interview was conducted by one of the two previously involved researchers. Both interviews lasted approximately two hours, during which detailed notes were taken and later crosschecked. Primary data regarding the company also include visits to 10 Goodbaby mono-brand stores to analyze their

assortment and POS communication, in order to better understand its brand positioning and strategy. Secondary firm data originate from the company's official website and the Chinese and US patent and trademark offices, while archival information was gathered from corporate reports, press releases, analysts' and specialized press reports.

To analyze the marketing context in which the company operates, we also used primary data collected through interviews with three key informants (the CEO of a foreign competitor, the general manager and the export manager of a Chinese distributor), as well as through visits to 24 specialized stores which enabled us to compare Goodbaby's products, assortment and POS communication with those of both domestic and foreign competitors. To gain a deeper understanding of the competitive position achieved by the company in its domestic market, this information was combined with secondary data, collected through competitors' websites and leading e-commerce portals. This allowed to compare the average products' prices and to confirm the assortment width observed inside the stores.

4. An overview of Goodbaby

Goodbaby employs 13,000 workers and entertains relationships with 32 international distributors and 82 brand owners. Its domestic distribution network covers more than 5,000 POSs, including 1,000 mono-brand stores, and commercializes more than 5,000 products². As of 2015, Goodbaby products occupy 34%, 50%, and 24% of the Chinese, US and European markets, respectively. During the last five years, revenues increased by 76.3% thanks to the growth achieved in both the domestic and the foreign markets, and facilitated by the company's own brand development as well as by its brand acquisition strategy³ (Fig. 1). In 2015, global revenues from its own brands represent approximately 73% of overall sales, marking a significant increase compared with the 40.7% and 6.16% registered respectively in 2013 in 2011.

Insert Fig. 1 "Economic and financial data" here

Its multinational presence also involves innovation activities. In 2007, research and development (R&D) centers were established in the Netherlands, United States and Japan, in addition to the one in Kunshan. In 2010, a new center was also settled in Hong Kong. By 2014, following a period of foreign acquisitions, the number of R&D centers increased up to 7, located in Boston, Nuremberg,

² <http://www.gbinternational.com.hk/> (accessed 9 February 2015).

³ In 2014, to face financial losses in the European and North-American markets, Goodbaby launched a new brand in the North-American market, Urbini, and strengthened its international market share by acquiring two foreign brands - CYBEX (founded in Germany in 2005) and Evenflo (founded in the US in 1920).

Vienna, Paris, Utrecht, Tokyo, Hong Kong, and Kunshan. All labs are independent, but their ideas are gathered in Kunshan where the company centralizes the new product development process. In other words, while the foreign R&D centers are involved in local knowledge sourcing, scouting of new ideas and understanding of foreign customers' specificities, the home based R&D center acts as a "hub" for the geographically spread facilities, where the expertise gained by each foreign R&D center is collected, converted in actual products for the different foreign markets and, when possible, further shared among the other centers, through established organizational practices. Relevant inventions are protected in the most important geographical markets. For instance, the company applied for its first US patent in 1996, consistent with the year of entry in the US market, and currently its US patent portfolio consists of 23 utility patents and 6 design patents, suggesting that Goodbaby innovation efforts are not limited to the "hard" side of technology, but also involve the "softer" dimension of design innovation.

5. Findings

To better understand the sources of learning involved in the development of CFs' marketing capabilities, we illustrate the case study distinguishing between domestic and foreign learning. For the purposes of our analysis, we consider domestic (foreign) learning to occur when the development of marketing capabilities is facilitated by the knowledge accumulated while dealing with different actors and conditions in the home (international) market.

For both sources of learning, we analyze the effects on the development of CFs' marketing capabilities in the home and foreign markets.

5.1 Domestic learning

Starting from the domestic learning, our data point to the critical role of the complexity of the home-market. The well-documented internal heterogeneity of the Chinese market (Ma *et al.*, 2013) strongly impacts the juvenile industry. In one of the in-depth interviews with sector experts, a Chinese distributor argued:

«The Southern part of China is more similar to Japan, light strollers are more appealing for consumers, whereas the Northern part is similar to Russia, so there is a higher demand for heavy and thicker strollers. Also color preferences vary across the different areas of China: Southern areas like light colors, whereas Northern areas prefer darker ones. »

In order to cope with the differences in sub-national areas, the strategy that has guided Goodbaby since its foundation is based on «*considering the Chinese market not as a unique market but as an international one*» (CDD, Goodbaby). Especially in the very first years of its activities, the company proved to be very attentive to the heterogeneity of the domestic market, and capable of managing the related complexities by developing a wide range of products that could adapt to customer needs in different internal geographic areas⁴. Accordingly, the company's CDD stated:

«China represents the most important market [...] but it is also the most competitive one, since it is highly heterogeneous and characterized by a complex distribution system. [...] It is extremely big, so if you enter here, you can compete in the global market.»

In this regard, it is possible to identify a first moment of market learning originating in the home-country, which has facilitated Goodbaby's foreign entry in the early stage of its internationalization process and, at a later time, has been useful to manage the diversity of market needs in multinational contexts. In the home-country, the company had developed an ability to orchestrate a complex set of diverse sub-national markets, whose heterogeneity displayed not only in terms of varied customer needs, but also in terms of market access and available economic infrastructure. Compared with such complexity, the North-American market – which Goodbaby entered first – appeared easier to penetrate for several reasons. First, the US distribution system seemed well organized and easy to access and manage, as opposed to the Chinese distribution network where «*contracts need to be negotiated with individual distributors for different areas of the country*» (CDD, Goodbaby). Second, American consumers' needs turned out to be easier to satisfy, as strollers are not perceived as a sensitive purchase, but rather as a commodity. Our informant at Goodbaby argued that, in the stroller market, American consumers do not have very sophisticated product requirements. On the contrary, «*new Chinese consumers from the '80-'90s generations are more demanding, even if their purchasing power is not that high. They tend to spend more time comparing products before purchase, especially by using the Internet channel*».

Moreover, when expanding the international presence beyond the North-American market, the experience accumulated at home in developing differentiated products for very diverse sub-national areas was successfully redeployed to meet the heterogeneous preferences of customers in countries such as Russia, Japan and Europe.

The critical importance of the domestic market as a source of learning also arises with respect to the retailing strategy. In a first phase, Goodbaby spread a variety of flagship stores, corners in

⁴ In 1993, Goodbaby already ranked first in terms of strollers' sales in China (<http://www.gbinternational.com.hk/> , last access 9 February 2015).

department stores, and stores in shopping malls over the Chinese market, an approach which proved successful to allow product trials and customer experience. However, with 642 millions of active Internet users and an advanced logistic infrastructure, China is becoming one of the most attractive markets for e-commerce activities⁵. Hence, the importance of traditional channels gradually shrinks:

«As far as sales are concerned, these [traditional shops] aren't effective channels anymore because many consumers don't go there any longer. Nowadays, in China, 35% of strollers' sales and 55% of car seats' sales are made online. Therefore the Chinese market is very peculiar. I believe that - abroad - stores are still the main channel. » (CDD, Goodbaby)

This has driven the company to evolve toward an on-line focused retailing model, in which the domestic market acts as a test-bed where novel sale and interaction systems can be experimented and “exported” in foreign markets. In other words, since emerging markets tend to follow very abrupt evolution patterns, they often expose domestic companies to phenomena that occur more slowly elsewhere. Because they are forced to learn to deal with these phenomena more quickly, sometimes they eventually manage to leapfrog foreign rivals from more traditional locations.

A second trigger of domestic learning is related to the competition of foreign brands in China, which activated processes of both imitative and adaptive learning. As the interviewed manager declared:

«Foreign brands make competition (in China) higher. Their products have a good quality, and they know how to promote their offer. We can learn from them, for example from Stokke.»

Along the years, learning processes became evident as the exposure to foreign rivals led the company to implement several marketing activities in the local market, spanning from product innovation to sophisticated promotional activities. Nowadays, Goodbaby combines the benefits of being a local brand with its ability to be perceived as more fashionable and with a higher product quality compared to other Chinese brands. With an average price of 1,241.74 RMB, Goodbaby has a low positioning (below the mean, which is 2,422.89 RMB). However, its price is the highest among Chinese brands, which places the company closer to foreign offers. Following the approach of many foreign competitors, the company has developed a broad assortment for Chinese market, which enables to satisfy wide-ranging needs in baby carrying. This seems to signal its ability to

⁵ In 2015, 37% of the population bought something online by pc and 27% by mobile (<http://wearesocial.com/special-reports/digital-social-mobile-worldwide-2015>, accessed 15 December 2015).

learn and replicate successful competitive strategies adopted by more advanced rivals in the domestic market.

Therefore, the foregoing data and discussion suggest:

Proposition 1. *Domestic learning is triggered by (a) the complexity of the national market and (b) the exposure to foreign entrants, and positively influences the development of CFs' marketing capabilities both in the home-market and in international markets.*

5.2 Foreign learning

Goodbaby's relationship with international markets has been widely influenced by foreign partnerships. The first international collaboration was established in 1996 with Cosco, an American company belonging to the Dorel Group, the Canadian leading player in the juvenile sector, which enabled Goodbaby to enter the North-American market (US and Canada) by manufacturing products for its partner. Initially, the products were marketed under the "Goodbaby" brand. However, the brand did not result to be effective in this market because - for cultural reasons - its literal meaning was not appealing to American consumers. Additionally, as declared by the company's President, in the mid-90's, American consumers were willing to buy products *manufactured* in China, but not *China-branded* ones⁶. Hence, during this first international experience, Goodbaby started to learn the importance of branding as it had to cope with a negative brand image, a concern the company never faced in the domestic market. To address this issue, Goodbaby introduced the brand "Geoby", which was used in combination with "Cosco"⁷.

Its international collaboration strategy mainly entailed joint product design and development with international brand owners for products that were subsequently manufactured by Goodbaby, but distributed abroad through the partners' brands and distribution channels. Partnerships with these leading international companies enacted learning processes from foreign countries, which not only granted a facilitated access to distribution, but also allowed the acquisition of superior capabilities in managing long-lasting relationships with different segments of customers in several geographical

⁶ http://news.xinhuanet.com/food/2014-07/21/c_126776095.htm (accessed 8 February 2015).

⁷ Goodbaby applied for its first US trademark in 1995, most likely to prepare its entry in the US market. As of 2016 (<http://www.uspto.gov>, data accessed 13 March 2016), the company has registered a total of 26 trademarks, of which 7 are not valid anymore. It can be noted that the company's US trademark portfolio is very limited compared to that of Cosco, which counts on a total number of 299 trademarks. However, this depends on the fact that, especially at the beginning of its US experience, Goodbaby's products were commercialized through local brands, thus reducing the need to expand the trademark protection.

markets. For instance, the collaboration with Dorel – owner of leading stroller brands such as Quinny, Maxicosi, and Bebecomfort - allowed Goodbaby to enter and gradually establish in the European market.

But the company's foreign experience did not support only its *international* competitive position. Indeed, in 1998, after acquiring Pelican, an American company specialized in diapers, Goodbaby started its *domestic* diversification strategy by expanding in this new product category. At that time, Chinese families did not purchase diapers yet, as foreign companies had just introduced them at a relatively high price. Combining the technical knowledge of the recently acquired foreign company with its own familiarity with the price-conscious Chinese consumer, Goodbaby was able to overcome local skepticism by offering a toll-free line (Chen, 2003). In the 2000s, the company's product portfolio was further extended to include children's bicycles, baby clothes, toys and other durable products.

Meanwhile, the interaction with the US market, which requires basic and functional products, led the company to develop new capabilities related to marketing communication and product development. In 1999 Goodbaby launched a new stroller brand in China, Happy Dino, to differentiate its offer:

«(We launched Happy Dino) for the low segment, because we realized that for certain products we could not use the Goodbaby brand. [...]»

In the same year, Goodbaby's manufactured strollers ranked first in sales in the North-American market⁸. In 2002, the collaboration with Dorel provided an additional push to Goodbaby's international expansion, as the company entered the European market. Yet, this was not an easy step because:

«The demand for product quality by European consumers is higher. They focus more on design and tend to prefer stroller travel systems. [...] The European market is very particular because it is connected with (the more sophisticated) Europeans' lifestyle. »

Travel systems consist of a single product that incorporates stroller, pram, and car seat. As declared by one of the interviewed sector experts, prams were not widespread in China at the time due to different cultural habits, and the use of child-safety seats was not a habit yet. Therefore, travel systems represented a new challenge, but simultaneously a key opportunity for Goodbaby. Again, entering the European market activated new learning processes from abroad relating to product

⁸ <http://www.gbinternational.com.hk/>(accessed 9 February 2015).

development and assortment management, leading to an improvement in product capabilities that could be redeployed in the domestic market at a later time. In fact, inspired by this product solution, in 2005, the company diversified its domestic assortment again by introducing car safety seats, stressing the importance of securing kids inside vehicles through its communication material. This allowed the company to rank first in 2009 for children's car safety seats in terms of units sold and retail value.

The knowledge gained in Europe also helped Goodbaby to face the entry of European rivals at home, as it started to reposition itself in a higher segment to better compete with such sophisticated foreign competitors. Indeed, the interaction with the European market enabled Goodbaby to learn that, in order to develop long-term relationships with the final demand, both the continuous improvement of quality standards and the ability to deliver customer experience were critical. To put these lessons in practice, and particularly to leverage the knowledge accumulated about the European market retailing system, in 2006, Goodbaby started its first flagship store in Shanghai⁹. Moreover, in 2007, it implemented another differentiation move to reach the high-end market, by developing a joint venture with Mothercare, a well-known UK baby specialist retailer, aimed at opening flagship stores in China's most important cities, thereby using foreign partners to strengthen its domestic presence. Through this new channel, the company was able to deploy selling capabilities acquired in its international activities that, according to our company informant, were still missing at home at that time.

The European presence also enhanced the company's communication capabilities, especially as far as branding is concerned. In 2010, Goodbaby started to invest to increase its domestic brand awareness. For example, it served as the exclusive stroller sponsor of Shanghai Expo and renovated its brand image and logo, whose design was developed by a Dutch studio¹⁰. The name was shortened into the initials "gb" «*such that it could be used to indicate other names different than "good baby", like Geoby, or "global baby"*» (CDD, Goodbaby). The font and color were changed, too, but Chinese characters remained unvaried, in order to preserve the established brand knowledge in the local market. Currently, Goodbaby counts on a total of 180 Chinese trademarks¹¹, registered over 42 product categories (out of a total of 45), confirming that the company has progressively developed a relatively broad product portfolio in the domestic market. Moreover, as the company's CDD declared, the relationships with the Chinese market are currently based on the so-called "BOOM" (brand, online, offline, and mobile) strategy, inspired by what their partner Walmart does in the US through the adoption of an "O2O" (online to offline) approach.

⁹ <http://www.chinaretailnews.com/2006/08/01/283-goodbaby-boutique-opens-in-shanghai/> (accessed 7 August 2015).

¹⁰ <http://www.coroflot.com/> (accessed 14 March 2013).

¹¹ Data collected from <http://www.chinatrado.com/> (accessed 22 April 2016).

Therefore, on the whole, the company's management is very satisfied of the learning achievements triggered by the presence in foreign markets:

«The most relevant marketing capability is how to do branding. Before (going international) we were only a manufacturing company that produced for the market, now we also do branding, we provide a concept. [...] If you only produce, the impact on the market is different. How do you “move” consumers, how do you tell a story? [...] In the past few years we have become an OBM (original brand manufacturer), we are not an ODM (original design manufacturer) (anymore).»

Therefore, based on the foregoing data and discussion, we argue that:

Proposition 2. *Foreign learning is triggered by (a) the relationships with leading foreign partners and (b) the exposure to advanced markets, and positively influences the development of CFs' marketing capabilities both in the home-market and in international markets.*

Figure 2 summarizes the dynamic feedback path between the home-market and the foreign markets learning for Goodbaby.

Insert Figure 2 “Home and host learning feedback effects” here

6. Discussion

Answering to the call for more attention to the learning processes underlying EFs' internationalization (Hitt *et al.*, 2005), this paper analyzes the different sources of learning that can be leveraged to support the process of capability building. While previous IB literature has mainly focused on the role of the host-country experiential learning in the internationalization process (Johanson and Valhne, 1977; Erramilli, 1991), we expand the scope of our analysis to emphasize the influence of firm domestic learning. We do so in the context of CFs, which – by definition – originate in weak and underdeveloped market environments and, hence, are expected to search for learning opportunities abroad, rather than in their home-countries (Luo and Tung, 2007; Awate *et al.*, 2014). By analyzing the experience of Goodbaby, a CF in the juvenile industry, we offer some evidence for the idea that beside the importance of foreign learning, CFs may find a critical source of learning in the actors and conditions they need to face in their home-market. These expose CFs to challenges arising from wide-ranging institutional weaknesses, high sub-national heterogeneity in

both demand and supply conditions, as well as from the increasing competitive pressure exerted by advanced foreign competitors. While these challenges exacerbate the complexity of doing business domestically, they simultaneously offer learning opportunities that can be redeployed in international contexts. Hence, CFs are able to turn adverse starting conditions into benefits (Cuervo-Cazurra and Genc, 2008). Our characterization of the home-market as an additional source of learning is not meant to lessen the importance of foreign market learning that, according to our findings, is confirmed as a key enabler for CFs internationalization, operating through the exposure to advanced customer segments and market infrastructures and the interaction with rivals and other value chain partners. Hence, our results complement traditional literature on experiential learning (Johanson and Valhne, 1977, 1990; Erramilli, 1991; Eriksson *et al.*, 1997) by documenting that foreign markets are not the only contexts where firms may learn critical capabilities to succeed in the internationalization process, and by confirming that learning may occur through mechanisms that are not limited to role of experience, but rather include other important factors such as imitation and acquisitions.

In addition to distinguishing between domestic and foreign learning, our study also expands the literature on CFs' learning by informing on the *contexts* in which the capabilities developed through the different learning sources are utilized. In this respect, our findings suggest that each learning source generates benefits for both market contexts (i.e., the home-market and the international markets) in which our study company operates. In other words, domestic learning does not only nourish a firm's ability to manage the domestic market, just like foreign learning does not only sustain a firm's internationalization. Rather, the learning accumulated in each context spills over the other. While it is counterintuitive that these "feedback" effects occur among profoundly different contexts, such as ECs and ACs, they hint at CFs' ability to exploit their learning efforts to the fullest, through a continuous adaptation of their bundle of resources and competences to the specificities of the different contexts they face.

Finally, our study also expands the literature on EFs' competitive upgrading (Mathews, 2006; Mathews *et al.*, 2011; Awate *et al.*, 2012) by focusing on the build-up of marketing capabilities. With few exceptions (Golgeci and Arsalan, 2014), this literature has mainly focused on the processes of technological catch-up through which EFs seek to reach the global innovation frontier, while paying little attention to how EFs improve their market-related resource and competence base. Answering to the call of Tan and Sousa (2015), who suggest that more empirical effort should be devoted to the study of marketing capabilities, our research explores this issue in the context of CFs that choose to actively face the global competitive landscape by leveraging both domestic and

foreign learning. As far as the domestic learning is concerned, our findings shows that, being used to face a complex and dynamic *home-market* helped Goodbaby to cope with the turbulence of *international markets*, by rapidly reacting through the redeployment of marketing capabilities learned at home. In particular, among the marketing capabilities proposed by Morgan *et al.* (2009), our findings suggest that the home-market served as a learning source for the development of *communication, product, distribution, marketing planning and implementation capabilities* (Fig. 3).

Insert Fig. 3 “Learning sources and effects (learning content is described in each of the four quadrants)” here

As far the foreign learning is concerned, our case analysis shows that the exposure to advanced contexts’ actors and conditions, and particularly the interaction patterns triggered by foreign partnerships and acquisitions, have enabled the development of marketing capabilities such as *product, selling, implementation and planning*, although the major impact seems to be related to the *communication skills*.

Looking at our study case in a dynamic perspective, it is possible to detect that the process of capability building triggered by both domestic and foreign learning follows an evolutionary path, in which Goodbaby is first positioned as a non-branded producer and then, by upgrading its communication capabilities, especially with respect to the brand management¹², gradually turns into an original brand manufacturer (OBM), as the economic data also confirm (Fig. 1). Our study contributes to describe the mechanisms driving such dynamic evolution, which have been partially highlighted by other scholars, particularly in the context of emerging countries (Yan, 2013; Lee *et al.*, 2015; Wan *et al.*, 2015). In fact, we show that this CFs’ ability to move from lower value-added activities to the core of an industry’s value chain is facilitated by a fruitful interplay between foreign and domestic learning, wherein learning at home lays the basis for the development of more sophisticated capabilities, which are more likely to be available in advanced foreign markets. Attempts to skip relevant steps in this process are often sanctioned by the market, as the process of capability building can be characterized by time-compression diseconomies. This is what happened to our study company, when it first sought to enter the North-American market with its own brand name, through a premature effort that resulted into lack of market acceptance and, hence, failure. Only after years of collaboration with foreign firms, the company has been able to sell with its own

¹² Based on Morgan *et al.* (2009) classification, one of the marketing communication capabilities relates to “brand image management skills and processes”.

brand and become an OBM. In other words, not all marketing capabilities are created equal. While some can be easily acquired by CFs, other capabilities – such as branding – are much more complex to develop, as they require the company to radically shift the focus of value creation from areas in which they have long invested (i.e., the product) into more unfamiliar domains (i.e. intangible assets) requiring completely different resources and approaches. Hence, using the marketing capabilities classification of Morgan *et al.* (2009), it is possible to suppose that developing marketing planning and implementation capabilities was more challenging than developing capabilities related to the main marketing levers (the classical 4Ps model). This finding goes in the direction of the debate initiated by Tan and Sousa (2015) about the existence of “levels” in marketing capabilities, but more research effort is required in order to shed light on this phenomenon.

7. Implications

This study has implications for practitioners involved in the management of CFs, but also for ACs’ firms. To the first audience, our findings highlight the importance of being simultaneously receptive to the domestic and the foreign contexts, as both serve as critical learning sources when it comes to the development of marketing capabilities. Hence, CFs’ managers should recognize the learning opportunities embedded in each context in which they operate, and identify the markets where these can be effectively re-deployed, thus exploiting their learning investment to the fullest. CFs’ managers should also be aware that not all marketing capabilities are the same. It is therefore critical to distinguish between those capabilities that can be acquired *more easily*, by leveraging the learning accumulated at home, such as capabilities in product portfolio and distribution management, and those capabilities that require a higher effort to be acquired and re-deployed successfully, such as branding and planning, which have to be amassed *gradually* through fruitful interactions with actors and conditions in ACs, before they can be fully internalized within the firm organization.

To the second audience, i.e. companies from developed markets, our findings suggest that their marketing capabilities serve as a source of learning for CFs, both when these capabilities are used to enter the Chinese market and when they are deployed within their own advanced home-countries. Hence, while advanced country MNEs often perceive a higher risk of imitation when operating directly in ECs like China, mainly due to the lower level of intellectual property protection provided in these contexts (Perri *et al.*, 2017), imitation dynamics in reality occur also in the context of advanced countries. Indeed, our findings suggest that it is precisely in such contexts that CFs usually gain access to the most sophisticated marketing capabilities, such as branding. Hence, while bringing an offer to the Chinese market is certainly dangerous for the integrity of advanced country

firms' intangible assets, it is often within the advanced country world that CFs may gain exposure to the most valuable marketing capabilities.

8. Limitations and future research

This study suffers from some limitations. The first limitation is related to nature of case study research. While single-case research can be used to explore a meaningful phenomenon under rare circumstances (Eisenhardt and Graebner, 2007) and often permits insights that allow to draw inferences about other firms (Siggelkow, 2007), it certainly restricts the generalizability of the research findings (Eisenhardt, 1989). In our research, the analysis of how Goodbaby has successfully operated in the domestic and foreign markets, by means of leveraging the learning processes that occurred in both contexts, provides managerial implications for CFs in other sectors, especially those that are considered relatively new by Chinese consumers. Yet, future research should test our propositions in different country/industry/firm settings in order to adequately verify the scope of their applicability since some boundary conditions may apply. For instance, the profile of the home-country could influence the domestic learning effects, as many of the learning processes observed in this study are driven by the high internal heterogeneity that characterizes the Chinese context. Hence, we expect the learning effects documented in this work to be valid in other emerging countries featuring similar degrees of subnational variety along cultural, economic and societal dimensions, such as India.

Another limitation arises from the use of a single informant from Goodbaby company. In order to address this issue, we triangulated the data through interviews with sector experts, POSs visits and secondary data such as corporate records, patent and trademark information, sector reports and news articles. In fact, case studies are empirical representations of particular instances of a general phenomenon that typically leverage a range of data sources to substantiate results by adopting multiple viewpoints (Yin, 2009).

In future studies, we plan to obtain more comprehensive qualitative and quantitative data from multiple case studies, including data on human resource management policies and more extensive information on the orchestration of the R&D function across space and the resulting strategies for knowledge creation and knowledge sharing among units in different countries, in order to be able to generalize findings and enrich our knowledge of the learning and capability development processes in the contexts of EFs.

Despite these limitations, we believe our findings can be used to derive some future research directions, particularly related to the dynamics of learning accumulation and marketing capabilities development.

First, since our case analysis seems to suggest that acquiring specific marketing capabilities – i.e. the implementation and planning capabilities - can be more challenging than developing other competencies – i.e. marketing mix capabilities - future research could investigate what is the ideal timing for the acquisition of different types of marketing capabilities. It is possible that specific types of capabilities need to be accumulated first, to avoid missing the opportunity to develop more sophisticated components of marketing capabilities.

Future research should also better elucidate the temporal dynamics underlying the process through which different types of learning sources are used. Should CFs leverage domestic and foreign learning sequentially, or is an interactive approach, similar to that our study seems to unveil, more fruitful? Scholars could also try to define a “hierarchy” between the different sources of learning, which could vary depending on EF-specific characteristics.

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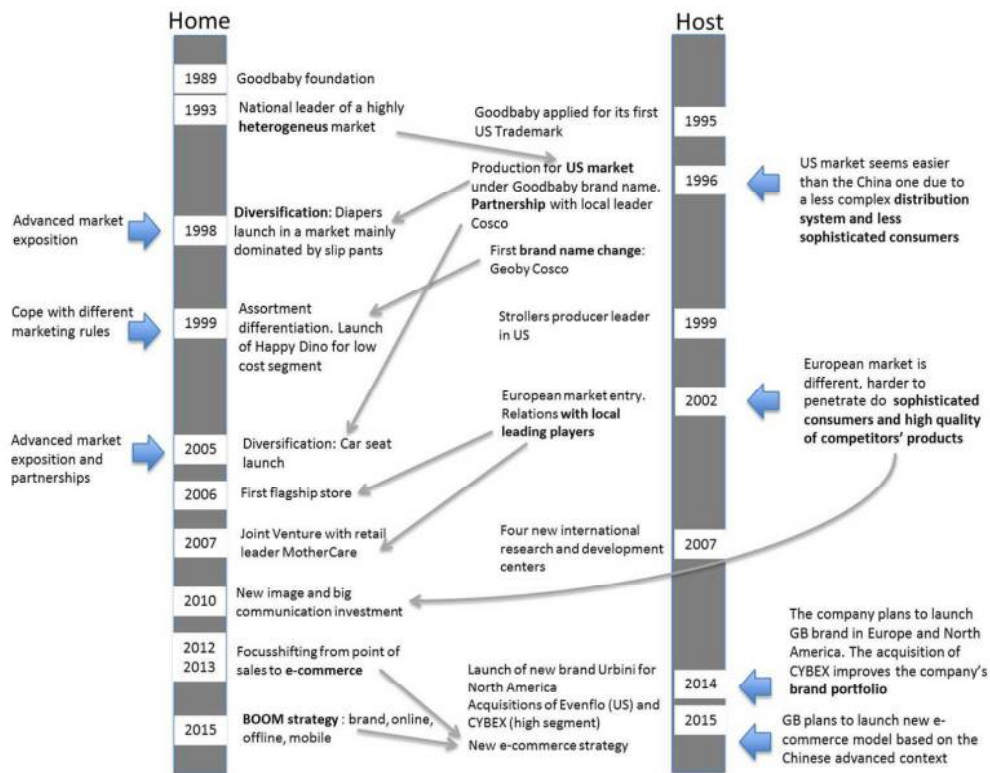
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Figure 1: Economic and financial data

Revenue (US\$ million)	2015	2014	2013	2012	2011	2010	2009
European Market	276.697	259.360	130.872	163.832	157.619	143.208	119.671
North America	361.539	256.447	145.270	171.450	147.049	165.972	128.926
China	173.719	188.993	174.982	167.970	129.003	107.039	94.110
Other overseas markets	84.043	83.501	88.812	83.824	74.414	63.535	48.144
Total	895.997	788.301	539.936	587.075	508.085	479.753	390.851
Percentage of revenues from own brands	73.0%	57.2%	40.7%	7.3%	6.2%	n.a.	n.a.
Gross profit	264.272	196.899	123.820	112.387	86.838	95.716	73.328
Operating profit	40.920	18.661	24.641	28.344	25.996	33.941	28.078
Profit before tax (US\$million)	26,124	13,569	25,126	27,830	24,981	31,726	26,397



249x195mm (150 x 150 DPI)

Figure 3: Learning sources and effects (learning content is described in each of the four quadrants).

		Learning effect (i.e. market in which learning is deployed)	
		Home	Foreign
Learning source (i.e. market in which learning has occurred)	Home	<p>Marketing communication capabilities:</p> <ul style="list-style-type: none"> Imitation of foreign MNEs promotions focusing on emotional and more fashionable elements instead of functionality <p>Product capabilities:</p> <ul style="list-style-type: none"> Enhancing product quality to compete with foreign competitors in the «good enough» segment Following foreign competitors' product strategies, GB developed a wide and deep range of products 	<p>Product capabilities:</p> <ul style="list-style-type: none"> Coping with heterogeneity at home, GB learned how to launch the right products for the right markets, ensuring that product/service development efforts are responsive to customer needs <p>Marketing planning and implementation capabilities:</p> <ul style="list-style-type: none"> Facing complex market at home, where sub-national markets have different market access and available economic infrastructure, GB learned how to approach and orchestrate international developed markets successfully <p>Distribution capabilities:</p> <ul style="list-style-type: none"> Due to the fast evolution of the Internet and e-commerce in China, GB was easier to approach the web in the advanced markets
	Foreign	<p>Marketing communication capabilities:</p> <ul style="list-style-type: none"> Long lasting relationships with final consumers from different geographical markets and different segments Failing with the use of GB brand in US, GB learned the importance of brand image and positioning that was useful in developing Happy Dino To face the sophisticated European customers, GB learned the importance of creating and managing the “intangibles” and to match the values of the brand and communication activities with consumer lifestyle <p>Product capabilities:</p> <ul style="list-style-type: none"> Being exposed to more advanced markets, GB started to sell products not yet available in China (i.e. diapers) <p>Selling capabilities:</p> <ul style="list-style-type: none"> Through the Mothercare partnership GB was able to learn how to properly sell products in the high end segment of consumers <p>Marketing planning capabilities and distribution capabilities:</p> <ul style="list-style-type: none"> Inspired by its US partner Walmart, GB adopted the new O2O model that fits the Chinese fast changing retailing context 	<p>Marketing communication capabilities:</p> <ul style="list-style-type: none"> By imitating competitors' communication strategies in the different markets, GB added the experiential dimension to products <p>Product capabilities:</p> <ul style="list-style-type: none"> By acquiring brands positioned in a higher segment, GB improved the overall brand portfolio.