



appsco
Cloud made easy

Bachelor Thesis

BI Norwegian Business School

A study of entrance to the Chinese
cloud computing market for AppsCo

International Marketing
EXP 2900

Fudan University May 9th 2014

This paper is done as a part of the undergraduate program at BI Norwegian Business School. This does not entail that BI Norwegian Business School has cleared the methods applied, the results presented, or the conclusions drawn.



Andreas Løken

Andreas Løken



Mathias Lie Wessel

Mathias Lie Wessel



Stine T. Andersen

Stine Therese Andersen



Tonje S. Kvaløyseter

Tonje S. Kvaløyseter

We certify by our signature/printed name that this is our own work. The work has not, in whole or in part, been presented elsewhere for assessment. Where material has been used from other sources it has been properly acknowledged and referenced. If this statement is untrue I acknowledge that I will have committed an assessment offence. I also certify that I have taken a copy of this assignment, to be made available upon request, which we will retain until after the Board of Examiners has published results.

Acknowledgements

The authors of this bachelor thesis wishes to express their gratitude to important contributors.

First of all, we would like to thank AppsCo for giving us the opportunity and have faith in us to write our thesis on the company`s behalf. The founder and owner Geir Karlsen, and co-owner Frode Stenberg has been incredibly patient and helpful during the process.

We would also like to thank Pål Bråthen, Commercial Consul and Director for Innovation Norway Shanghai, for introducing us to AppsCo. The authors got to know Pål last summer, after participating at a conference arranged by Innovation Norway. We highly appreciate all the guidance and help along the process of writing our thesis from both him and his staff.

We would like to show our deepest appreciation to Daniel Douglas Paul from ChinaNetCloud, and Dan Bjørke, entrepreneur and expert on Chinese Business Law. They have enlightened us on the Chinese market, introduced us to events and important incubators within the industry. Also a thanks to Alexander Levi and Xiaomin Qu from Wikborg Rein, which helped us to get a clarity in the chaos of laws and regulation when it comes to entering China. All of this was highly helpful for our thesis.

Last, but not least, we would thank our supervisor Sangeeta Singh, for all her help and guidance throughout the whole process.

Executive Summary

This thesis is a result of a cooperation with AppsCo. AppsCo is a cloud computing provider. The company host and provide the infrastructure and technology required to be able to offer and access the cloud service. The aim of this report has been to map out the cloud computing market in China, find out if there is a market for their solutions and if AppsCo should enter China.

The thesis has analysed the cloud computing industry in China and its most important players. From the competitor analysis it becomes clear that there are no competitors that offers all the same solutions as AppsCo. However, there are several national and international competitors such as Amazon AWS, Microsoft Azure and Aliyun that offer similar solutions as AppscO.

Through the internal scan of AppsCo, it becomes clear that their financial resources are limited, further development of the solutions are required and key management people do not have the capacity to be present in the market. This will effect the recommendation for a suitable entry strategy. It also becomes clear in the thesis that AppsCo furfils all the criterias of a born global. The discussion about AppsCo being a born global is based on the in-depth internal analysis conducted.

Secondary research together with interviews based on the Delphi method, has been conducted in order to gain a deeper understanding of the cloud computing market in China. The findings indicate that there is enthusiasm among the customers for the solutions that AppsCo provides. The results from secondary and primary research made the foundation for the evaluation of two entry strategies for AppsCo.

Based on the internal and external analysis combined with more in depth secondary research and Delphi interviews, the recommendation for AppsCo is to develop their solutions and strengthen their finance, before entering the Chinese market. When this is done the most suitable entry strategy for AppscO is through a WOFE.

Table Of Content

Acknowledgements	ii
Executive Summary	iii
Table Of Content	iv
Figure Overview	v
Abbreviations and Explanations	vi
Chapter 1. Terms of References	1
1.1 AppsCo	1
1.2 Thesis Request	2
1.2.1 <i>Research Aim</i>	2
1.3 Research Questions	3
Chapter 2. About Cloud Computing	3
Chapter 3. Situation Analysis	4
3.1 Internal Analysis	4
3.1.1 <i>Employees</i>	4
3.1.2 <i>Internationalization Through Utilization of Network Relationship</i>	5
3.1.3 <i>Customer Relationship Management</i>	5
3.1.4 <i>Research and Development</i>	6
3.1.5 <i>Solution and Production</i>	6
3.1.6 <i>Sales and Marketing</i>	7
3.1.7 <i>Safety Concerning Cloud Services</i>	8
3.1.8 <i>Financial Resources</i>	8
3.1.9 <i>Born Global</i>	8
3.2 External Analysis	10
3.2.1 <i>Cloud Computing in China</i>	10
3.2.2 <i>PESTEL Analysis</i>	10
3.2.3 <i>Competitor Analysis</i>	12
3.2.4 <i>Porter 5 Forces Analysis on the Cloud Computing Industry</i>	15
3.3 SWOT- Analysis	18
3.4 Summary and Plan of Action	18
Chapter 4. Methodology	19
4.1 Use of Data	19
4.2 Delphi Method	19
4.4 Limitations	23
Chapter 5. Strategy Development	24
5.1 Critical Factors of Success	24
5.2 Entry Strategy	24
5.2.1 <i>WOFE</i>	25
5.2.2 <i>Joint Venture With a Local Partner</i>	26
5.2.3 <i>Criteria for Assessing the Options</i>	27
5.3 Possible Choice of Entry Strategy	32
5.3.1 <i>Financial Considerations and Expenditures within the WOFE</i>	33
5.3.2 <i>Marketing Tactics</i>	34
5.3.3 <i>Target Group</i>	37

Chapter 6. Conclusion and Recommendations	38
6.1 Recommendations	38
6.2 Future Recommendations	39
6.3 Suggestions for Further Studies.....	40
Chapter 7. Bibliography	41
Chapter 8. Appendix	52
Interview Guide	52
Summary of Findings	56
<i>Discussion with Daniel Paul Douglas</i>	61
<i>Discussion with Dan Bjørknes</i>	71
<i>Discussion with Pål Bråthen</i>	78
<i>Discussion with Austin Wang</i>	81
<i>Guided Exhibition at ShanghaiCloudValley Center</i>	83
<i>Discussion with Alexander Levi and Xiaomin Qu</i>	87

Figure Overview

IaaS Paas SaaS.....	Page 2
Cloud Computing.....	Page 4
Organization Chart.....	Page 4
Inbound Marketing.....	Page 7
Table of Competitors.....	Page 13
Porter Analysis Overview.....	Page 17
SWOT Analysis.....	Page 18
Project Process.....	Page 19
Table of Experts.....	Page 20
Table of Attended Events and Exhibition.....	Page 21
Criteria of Assessing the Option – Overviev.....	Page 32

Abbreviations and Explanations

Alibaba Group = *A leading company which operates online and with mobile marketplaces in consumer and business-to-business commerce. They provide cloud computing and other services, as well. The company possesses many subsidiaries in China.*

Alipay Network Technology Co, LTD = *A leading independent third-party payment platform, and is a subsidiary of the Alibaba Group.*

Cloud services = *Services that are made available to users on demand through the Internet from a cloud computing provider's servers.*

Dashboard = *Organizes information in a way that is easy to read and have a clear overview on a website or frontpage.*

Fapiao = *Invoice, in addition to be a record of a transaction. It is a way for the Chinese government to monitor the tax paid through any transaction.*

Feasibility analysis = *A document who needs approval from the government, which will evaluate the business plan and growth possibilities of the company. The document should contain business scope and invested capital.*

Guanxi = *In Chinese business, the word is understood as the network of relationships between various parties, which cooperate and support one another.*

Hardware = *The physical components that makes a computer system. Can be installed both on the inside and connected to the outside of a computer.*

IaaS = *Infrastructure as a Service*

IDC = *Internet Data Center*

ICP = *Internet Content Provider. A permit issued by the Chinese Ministry of Industry and Information Technology. The license was made by the Telecommunications Regulations of the People's Republic of China.*

MOCA = *Ministry of Commerce Approval*

NIST = *National Institute of Standards and Technology*

On-premise software (OPS) = *A type of software installed and operated from a person's in-house server and infrastructure, for instance Microsoft Office 365*

Open source software = *Software which can freely be used, changed and shared by anyone. Offered to the public at no cost. Distributed under licenses that are in compliance with the Open Source Definition.*

PaaS = *Platform as a Service*

PRC = *People's Republic of China*

SaaS = *Software as a Service*

SAIC = *State and Administration of Industry and Commerce*

Server = *A computer or device on a network that manages network resources.*

Software = *The non-tangible component of computers.*

Tier cities = *No official formula of what a tier city falls in. Commonly refers to as a collective term of the city's key characteristics of the city, including its economic development, provincial GDP, advanced transportation systems and infrastructure and historical and cultural significance.*

VATS = *Value-added telecom services*

Web applications = *Any application that uses a web-browser as a client (the program the person uses to run the application)*

XaaS = *Collective term for services, such as IaaS, PaaS and SaaS*

Chapter 1. Terms of References

1.1 AppsCo

AppsCo AS is a Norwegian cloud computing provider. The cloud technology is a service where a provider can apply to user, and the user can hire storage, applications or other services through the cloud. AppsCo host and provide the infrastructure and technology required to be able to offer and access their cloud service. AppsCo was founded in Norway in 2013 and there headquarter is based in Sarpsborg, Norway. In addition to there headquarter, AppsCo have offices in Belgrade (Serbia), Bratislava (Slovakia) and Boston (USA). AppsCo has 23 employees allocated between the four offices. 19 of the employees are full time staff. The company has been expanding rapidly both in employment and office-wise, AppsCo expects this trend to continue. Appsco established themselves in Belgrade and Bratislava based on two critical factors: highly skilled technicians and lower wages. AppsCo frequently visits Silicon Valley in order to keep up with the newest technology, trends in the market and which markets that are growing. The trends in the market indicate that China is showing growth within the cloud industry and AppsCo strongly wishes to explore their options of entering the Chinese cloud computing market.

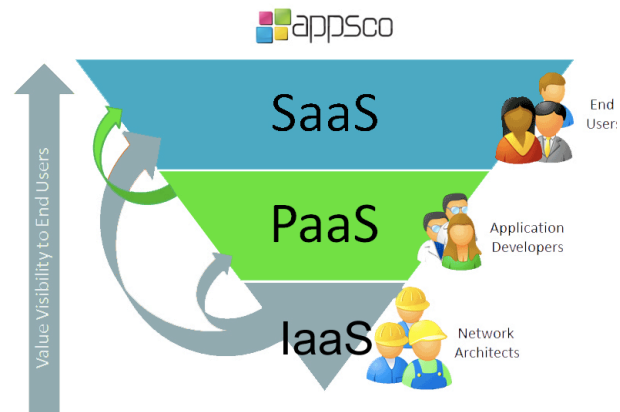
The Solutions AppsCo Provides

AppsCo provides two types of solutions. Their main product and focus is to provide the user with a single sign-on dashboard called *MyAppsCo*. The dashboard gives access to all web-applications used in one place, both for work and personal use. The single sign-on, means that when users first log in to AppsCo, you are logged in to all your web applications.

The second service AppsCo provides is *AppsCo Marketplace*. AppsCo Marketplace has applications that are pre-integrated into *AppsCo Dashboard*. By browsing the Marketplace there are several applications for private or company use. If the application that is needed do not exist on Marketplace, users can create their own or AppsCo can develop the application. The application can become private or sold at AppsCo Marketplace. AppsCo CRM will keep track on the

customers, the financial division and IT Service Management. For companies who want to build next-generation web applications for tablets or mobile devices, AppsCo provides the most comprehensive development toolset to support the entire lifecycle of web applications. To make it clear, to use the solutions AppsCo provides, the users log into the web page: www.appsco.com.

The company operates within the IaaS, PaaS and SaaS models - all implemented in one offering service. AppsCo is the first company to have integrated all three models into one platform. This can give them first-mover advantage. The business idea of the company is to provide a complete all-in-one platform where customers can use, create and sell web-based applications.



1.2 Thesis Request

Based on what the directors of AppCo and the authors have discussed, the problem definition for this project is as follows:

- *Should AppsCo enter the Chinese market? And if so, based on the findings in this thesis, what will be the most suitable entering strategy be?*

1.2.1 Research Aim

Based on AppCo's project request, the aim of this thesis is as follows:

- *To outline the cloud computing market in China, and explore the market opportunities for AppCo's solution within the Chinese market.*

1.2.2 Research Objectives

The research objectives are stepping-stones on the way to achieve the overall aim. If one manages to meet each objective, one will meet the overall aim. The two objectives for this thesis are as follows:

- *To explore if there is a market for the cloud computing solutions that AppsCo is providing.*
- *To find an appropriate entering strategy for AppsCo if they should decide to enter the Chinese market.*

1.3 Research Questions

1. What is the current situation in the Chinese cloud computing market?
2. What are the risks when entering the cloud computing industry in China?
3. What are the attitudes towards cloud computing as a service in China?
4. Who are the main competitors in the Chinese market?
5. What are the most common payment methods, when purchasing online, in China?
6. What are the laws and regulations regarding an entrance to China?
7. What characterizes the purchasing process in the Chinese business culture?
8. Is it possible to enter China and simultaneously protect the company's intellectual property right?

Chapter 2. About Cloud Computing

Based on the complexity of the cloud computing market and its industry, the authors have chosen to examine this industry in depth, in order to develop significant understanding about the cloud computing industry and market.

Definition of cloud computing:

“Cloud computing is a pay-per-use model for enabling convenient, on-demand network access to a shared pool of configurable and reliable computing resources (e.g., networks, servers, storage, applications, services) that can be rapidly provisioned and released with minimal consumer management effort or service provider interaction.” (NIST)

Cloud computing refers to applications and software gathered and distributed to different platforms, which is geographically independent, One should only need to pay for the time the services are used and how much you store. Cloud computing, is a synonym for distributed computing over a network. This means the ability to

run a program or an application on many connected devices at the same time. In common usage, the term "the cloud" operates as a metaphor for the Internet.

The cloud model consists of three Delivery Models and four Deployment Models	
<p style="text-align: center;">Delivery Models</p> <p>Software as a service (SaaS): Software as a service (SaaS) is focused on renting out applications to users that use it over a subscribed time. The application is owned by the provider that makes the user pay for the amount of time they want to be able use the application. SaaS gives you little space to build something of your own. The provider is responsible for the maintenance of the application. (Levinsson 2007 p. 17).</p> <p>Platform as a service PaaS: Platform as a service (PaaS) is similar to SaaS; it focuses on the rental of infrastructure and platform, where consumers build their own applications with programming tools provided by the provider. The services include servers, operating systems or storage space and the help with building an application. PaaS also gives room for maintaining the application on own terms. (Cloud security alliance 2009).</p> <p>Infrastructure as a service IaaS: IaaS is when providers are handling only the infrastructure for a user, and the user can run and develop software within the hired cloud infrastructure. The user can run operating systems and applications on their own terms, maintain the storage and deploy the network they want by hosting firewalls (Mell & Grance 2009 p2-3).</p>	<p style="text-align: center;">Deployment Models</p> <p>There are four different deployment models unrelated to what service model is used, these are deployment models that can be applied to all of them;</p> <ol style="list-style-type: none"> 1. Private cloud - Only used by one organization and is only managed by them. The infrastructure is handled by the organization or a third party. The private cloud could be an intranet or email system that only users within the organizations can use and have access to. (Mell & Grance 2009 p. 2-3) 2. Public Cloud - Available to the general public, often for free and with a payable option. The service cloud be provided by many like: government, businesses and unions. A good example is the providers of free online storage (Dropbox) (Mell & Grance 2009 p. 2-3). 3. Community cloud - Used by communities that consist of many organization or other users. A very good option when forming partnerships (Mell & Grance 2009 p. 2-3). 4. Hybrid Cloud - A joint cloud between private, public and community clouds. An example could be that a public cloud exists within an organization for all employees and within this cloud is a private cloud only accessible for managers. (Mell & Grance 2009 p. 2-3)

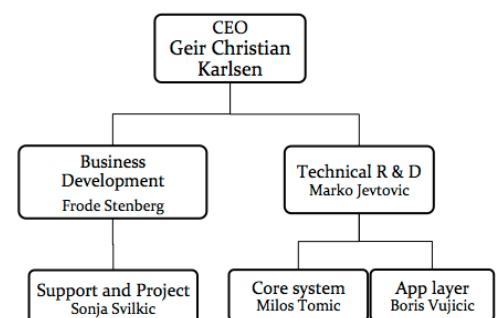
Chapter 3. Situation Analysis

3.1 Internal Analysis

AppsCo has only been on the market for one year. Despite their rapid growth they are still in the development phase. This has resulted in limited access to secondary data. In order to seek out the main micro factors regarding the company, the authors have used Frode Stenberg, to gather primary data used in this thesis.

3.1.1 Employees

Recruitment takes place through recruitment companies, additional to AppsCo's own developed selection process. The newly hired employees get placed in teams, and receive a



mentor, which leads to an early implementation of AppsCo's business ideas and culture. In information-based industries, like software, the collective knowledge of the employees can be considered as a primary asset of the business, even though it still remains intangible.

In AppsCo's case it is the high-knowledge and educated workforce that is needed to obtain efficiency and application/IT-development. This equals a valuable capability of AppsCo. Their employees represent a core strength and are a critical factor of success in their rapid expansion. The further expansion of the workforce should continue with the same selective process, as AppsCo's ability to utilize the workforce effectively is critical for future success.

3.1.2 Internationalization Through Utilization of Network Relationship

Over the years, the founder of AppCo Geir Christian Karlsen has established a large international network. Karlsen acquire important knowledge in building strong partnerships with suppliers and partners. The founder has high experience in building companies within the IT-industry, with management in Norway and technical workforce in other countries. Through Karlsen, AppsCo has access to legal advisors, also in international contexts.

Karlsen's ability to build and maintain solid relationships, networks and business models nationwide is valuable assets for the company. The existing networks can be utilized as an advantage, when it comes to further development of the company. The access AppsCo have to legal resources can be beneficial as regulations and laws differ, concerning licenses and surveillance.

3.1.3 Customer Relationship Management

All users of the solutions that AppsCo provides will automatically be under the *AppsCo CRM System*. AppsCo will possess a full overview of their customers, employees and how they operate within their AppsCo account. All customers that create applications and are selling it at AppsCo Marketplace, will have their own "app-owner-panel". This panel will help the "app-owners" keep track of usage

and how much their application has sold for. The providers of AppsCo will also establish a “master account” which will give them control over customers with an “app-owner-panel”.

The AppsCo CRM-system can assist in increasing the customer satisfaction level. The fact that AppsCo uses their own services as a CRM-system is considered a strength, as it shows the variety in which their product can be utilized. The use of their own system to provide managers with a clear overview of both the staff, and their customers represents an essential strength. The value of a CRM-system is seen as a primary asset for companies. AppsCo will save expenses from gathering offers from CRM-providers and buying a CRM-system.

3.1.4 Research and Development

AppsCo works after internationally recognized methods and standards for software developing. The company has a strong R&D-department in Belgrade, with skilled engineers. This is considered as a strength. The different offices communicate with each other regularly. AppsCo have a goal to continuously develop their services to gain a stronger competitive advantage. AppsCo's current performance and ability to utilize these resources is considered an important capability within the company. Based on the dynamic change in this industry, the research and development will be a critical part of keeping up with competitors and the evolving market.

3.1.5 Solution and Production

The production is the creation of new applications, further development of the dashboard and consultant services. One of the core strengths of AppsCo's solution is the non-existing physical location of the services. The low development of the core solution (the development of web applications for the *Marketplace*) is seen as a weakness. Based on the largest customers of AppsCo, their services offered are custom made solutions. The custom made solutions have been executed with great results and is considered as a point where AppsCo is strong, and where positive word-of-mouth spread can appear. The corporation states that work and private life is merging, as people tend to work from home and bring *home to*

work. The AppsCo dashboard covers the idea with different views, based on location, with the private and shared cloud.

3.1.6 Sales and Marketing

Sales

AppsCo is a corporation, which both seek the B2B- and B2C-market. This is considered as a strength, and enables AppsCo to reach a greater part of the market. As of now, small and medium enterprises (SME) are considered as AppsCo's target group. AppsCo's main goal is to make the sales processes automatic. Automatic distribution indicates that the customer discovers AppsCo, tries a demo and if the software satisfies the customer's needs, he pays and use the solution. The automatic sales process will release time and effort to other work related areas. AppsCo also offers support on every area, which can be seen as a security if problems arise.

Marketing

AppsCo have not activated specific measures towards marketing. The focus is directed towards inbound marketing. This method covers each step taken, tool used and lifecycle stage from stranger to customer. Inbound marketing have four stages: attract, convert, close and delight, which includes specific tools to attract new customers.



That AppsCo do not possess a marketing department is considered as a weakness. A marketing department might improve marketing efforts to more rapidly attract customers to try their demo. The authors understanding of inbound marketing presents an image of low customer contact in the initial phase, which can affect the sales process. This is a weakness, as personal relations both in the B2B-market in general and in China (*Guanxi*) is extremely important. An argument in favour of this model is the Chinese frequent use of social media. A marketing department

can create or develop better customer relations, as this may be weakened by the automatic sales process. AppsCo claims they eventually want to develop a marketing department, which indicates that thought and orientations regarding the need for such a department.

3.1.7 Safety Concerning Cloud Services

There are great concerns in the cloud computing industry, regarding security. Potential hacking of systems and accounts increases scepticism towards using cloud as storage. As a consequence AppsCo are developing a voluntary two-factor authentication (ID-piece – similar to web-bank-piece). This will increase the security level and indicates good market orientation. If the user loses the ID-piece he will miss the advantage of cloud storage and use of cloud-available solutions. AppsCo can use this security measure as a potential sales argument and decrease scepticism to online storage.

3.1.8 Financial Resources

Due to lack of monthly and quarterly reports from AppsCo the authors have not been able to perform a thorough evaluation of the company's sales performance and cash distribution. Information given from AppsCo shows that they are in a process of continuously pursuing new investors. It is hard to conclude how strong AppsCo's financial resources are, but the authors assume they are in a weak position. On the other hand, AppsCo's investments and expansion indicates a sensible and wise distribution of financial resources.

3.1.9 Born Global

AppsCo has established themselves abroad over a short period of time and are seeking new markets. The founder Geir Karlsen is viewing the world as a marketplace from the beginning and uses his aggressive entrepreneurial mindset to pursue international markets immediately. The authors find it essential after assessing the internal analysis, to discuss whether AppsCo is a Born Global, in order to answer the research aim.

“It has been proven that businesses who are born globals, has a number of characteristics that set them apart from more traditional multinational companies”
Knight and Cavusgil, 1998

AppsCo meets all these characteristics:

- They have fewer financial and other resources: If AppsCo get the investments they need, the Chinese market is seen as a potential next step.
- They are established by technology and market-oriented individuals who have substantial international contracting operations: The CEO Geir Karlsen is a founder of two successful web based software companies in Norway, and two outsourcing units in Eastern Europe. The co-owner Frode Stenberg has high experience from technology companies and the international market.
- They are established with a new product or innovation. Both Karlsen and Stenberg are positive that the solutions AppsCo offer is unique. They are confident that no other cloud providers offer the same solutions, but because of the size of the Internet they cannot be completely certain.
- The innovation is based on advanced technology, differentiated design or especially high quality. As previously mentioned AppsCo operates within all the three cloud computing models: IaaS, PaaS and SaaS. It is based on high quality and advanced technology.
- Internationalization is usually carried out based on the utilization of network relationships. Karlsen has developed an international network over many years. AppsCo is currently working to utilize existing network.
- They use advanced communication technology to achieve its international goals. AppsCo has developed a chat solution that encrypts all traffic and various forms of file sharing opportunities. They run their own systems for project management and data storage that makes the solution accessible from anywhere with high security.

The market growth and innovation rate of the cloud computing market is extremely high. If AppsCo does not follow the international market they will be outperformed, also in the domestic market.

3.2 External Analysis

3.2.1 Cloud Computing in China

China has the world's largest Internet user population. There were over 618 million Internet users and 494 million mobile Internet users in 2014 (ZDNet, 2014). The market value of China's cloud computing services increased by 73 percent in 2012, compared to the previous year. In 2013 the market value was expected to reach \$6.3 billion (ZDNet, 2014). As a consequence, global cloud companies race to take advantage of the growing Chinese market.

The market for cloud computing companies tends to flow more freely between the borders in the western countries. This is not possible in China with decent performance, since international links often are overloaded and congested through few ocean cables, to other parts of the world. Long distances reduce data speed and makes hosting inside Mainland China important, because of the *Great Firewall of China* (Lexology, 2013). Chinese organizations cannot access international professional subscription-based XaaS-tools located outside of China. As a result, companies that serve Chinese users must have servers inside China. All Internet servers are housed in data centers, and are called IDCs (Internet Data Center).

3.2.2 PESTEL Analysis

-Political Forces-

China's political system offers both possibilities and challenges for AppsCo's potential entrance into China. Although a great liberalization process have opened possibilities for more FDI, the country still operates with strict restrictions and regulations for foreign cloud computing providers.

There are two general areas surrounding complex regulatory environment for Internet companies in China: website licensing and website content controls. All websites and systems using HTTP, must be registered with the local government. Online services that requires payment, an ICP-registration is necessary for both local and foreign companies. If AppsCo opens a website in China without a valid

ICP License, the government will after an initial time shut down the website until AppsCo can provide a valid license. (Lexology, 2013)

After signing the WTO-agreement in 2001, China agreed to open certain areas for foreign providers. Cloud computing is specially mentioned under the 2011-12th Five-Year Plan of the government. The highly regulatory government in China still affects the benefits of foreign investments, where it presents an unclear future outlook.

-Economical Forces-

China is growing rapidly, and holds the 3rd largest economy in the world. The economic situation and development can be closely linked to the political governance (Trading economies, 2014). According to an IDC report, China's IT spending was expected to reach U.S. \$173 billion in 2013 (Thewhir, 2013). This increase in IT-expenditures was due to the growing demand of IT-consumers. As labor costs in China are increasing rapidly, there is a growing demand to make business operations more efficient. Consequently, in China there is an increased focus on development, business optimizing and cost structures.

Since cloud computing providers requires payments online, it is important to bear in mind that only 20% of the Chinese population owns a credit card. Therefore it is necessary for Chinese cloud companies to require an upfront fee, or a quarterly payment to ensure their income. The ultimate solution for cloud computing companies is Aliplay + online bank transfer (UnionPay). Majority of the cloud computing companies in China use a combination of the two, which is the most preferred and widely used online payment method (Chinese Seo Shifu , 2014)

-Technological Forces-

The opening of a market-oriented economy have lead to a rapid technological progress in the Chinese market. The industry is driven by technological change and innovative solutions. There is a clear increased focus on improving security measures and on-premise software and hardware replacements. China has a large

number of R&D-institutions, which indicates that the country is well equipped for advanced research and innovative development.

China has a global reputation of replication of different products, such as software. The problem concerning companies choosing low-cost illegal software is improving, and a preference for genuine software and legal products has increased (Forbes, 2012).

- Legal Forces -

The service providers within the Chinese cloud computing industry must adapt to local regulations concerning labor, competitiveness, security and products, which can vary from province to province.

Currently it does not exist any specific legislation that directly addresses cloud computing in China. The PRC Telecommunications Regulations (TR) and other related policies will affect the cloud computing services. The majority of cloud computing services is likely to be categorized as Value-added Telecom Services (VATS) under TR, since these services are provided through network facilities, like the Internet (Lexology, 2013).

28th December, 2012 the Standing Committee of China's National People's Congress(NPC, China's top legislative body) passed the decision on strengthening network information protection. A series of new laws and regulations were enacted to regulate issues of data protection. There was introduced new concrete punishments, such as fines and incarceration (EURObiz, 2014). These implementations and the membership in WTO decrease the risks for cloud computing service operators.

3.2.3 Competitor Analysis

AppsCo stated previously this year (January 2014) that they have no competitors, when it comes to the all-in-one product they offer; *Dashboard with single-sign-on and Marketplace*. The technology that lies behind is also considered. The authors see the importance of investigating the Chinese cloud market, and if it reveals

similar competitors, that AppsCo is not aware of. The difficult part about doing a competitor analysis for AppsCo in China, is to determine how strong the competitors are.

The technology that lies behind considered and evaluated to show their presence within them:

	IaaS	PaaS	SaaS
AppsCo	X	X	X
1. Amazon AWS	X	X	
2. Microsoft Azure	X	X	
3. Aliyun	X	X	

There are many cloud computing companies present in the Chinese cloud industry. After assessing all the alternative competitors, the companies with similarities to AppsCo and the technology they provide, became the main focus of the research. The companies mentioned in the table above is considered as the most relevant and will be evaluated to which degree they are competitors to AppsCo.

- 1. Amazon AWS -

Amazon AWS is the biggest competitor in the Chinese market. They offer several of the same services as AppsCo. *Amazon Workspaces* is similar to *AppsCo Dashboard* and *Amazon Appstream* has some similarities to *AppsCo Marketplace*. There are some differences that distinguish these two players apart. The differences are; AppsCo Dashboard is for both work-related and private web applications. Amazon Workspaces is more work-related, even though they can implement pre-configured and inhouse web applications (Facebook, LinkedIn, Dropbox). What Amazon offers, which AppsCo do not, is optimized network performance. Meaning, the consumers will experience high quality and efficient use of the Internet, even if the wifi reception is low. AppsCo Dashboard offers a Single-Sign-On, which is AppsCo's greatest distinction to Amazon Workspaces.

The differences between the second services they both provide; Appstream and Marketplace, is easier to clarify. They both manage the infrastructure for the developers. Appstream makes it available to stream the application content

through Amazon AWS, whereas AppsCo Marketplace is a place to sell the application.

Appstream also focuses on applications for games and not only work-related web applications, as AppsCo Marketplace does. The Dashboard and Marketplace is more connected than Amazon`s Workspaces and Appstream.

Amazon AWS has already started penetrating the Chinese market, through establishing network and attract customers. In addition, Amazon possesses a stronger brand name than AppsCo. The authors will categorize them as the closest competitor to AppsCo in the Chinese market.

- 2. Microsoft Azure -

Microsoft Azure entered the Chinese market through a partnership with 21Vianet Group, Inc. in March 2014. It took Microsoft over two years from the process started until they were in the market. Microsoft provides their customers with a *platform as a service*, where they do the maintenance of the infrastructure. Microsoft Azure can integrate on-premise applications and data into the cloud, which is their main sales argument. If AppsCo enters the Chinese market, potential customers may have been taken, but as a salesargument, Azure customers can implement the service within AppsCos Dashboard.

Microsoft has a strong brand image, experience and technology. The authors do not see Microsoft Azure as a competitor, yet. However, in the future they may be a potential competitor, based on their early entrance in the market and their resources to develop similar solutions. AppsCo should keep close attention on Azure`s development.

- 3. Aliyun -

Aliyun is the only domestic company considered in the analyse. However, the authors do not see Aliyun as a direct competitor. The reason why they are assessed, is that they are listed as Amazon AWS`s largest competitor in China. Since the authors see Amazon as a highly potential future competitor, it is necessary to pay attention to Aliyun as well, as the market leader in China.

Currently, Aliyun only provides services within the gaming and financial accounting industry, with main focus towards mobile devices. However, they possess the resources, capabilities and technology to develop several of the services AppCo provides.

Through thorough research the authors could not find any direct competitors to AppCo, based on the services offered. It is important to be aware of potential competitors that may appear unexpectedly. The rapid change in the cloud computing industry and technology in China indicates that sooner or later an exact competitor will appear.

3.2.4 Porter's Five Forces Analysis on the Cloud Computing Industry

- Industry Competitors -

It exist several industry competitors in the Chinese market, as discussed in the analysis above. The industry is dominated by domestic competitors and some major international providers. The high number of providers will increase the price competition between existing cloud companies within China. As an example, Aliyun, claimed they would cut prices up to 35 percent on their services after Amazon AWS entered China. (China Daily, 2014) Amazon AWS and Aliyun is considered as the strongest competitors in the industry. They have the resources and capabilities to further develop a similar solution to the service AppCo provides. The competitors within the same service-area have high product differentiation, which leads to a fragmented market and results in low rivalry.

The number of providers is significant in the Chinese cloud industry, but the differentiation in solutions results, in a Medium threat of industry rivalry.

- Potential Entrants -

The Chinese cloud computing market represents an increasing demand for cloud computing services. Many cloud computing companies wish to enter the Chinese market, but conditions like government regulations restricts new entrants.

Regulations for foreign investment, license barriers and regulatory challenges, creates high barriers of entry. This decreases the threat of new entrants.

Potential new entrants must invest time, resources and do substantial research, which affects the possibilities of an entrance.

With this in mind the threats of new entrants are set to Medium/Low.

- Threat of Substitute Products -

The main substitute for cloud services is OPS, this based on its long existence and therefore is integrated into a significant number of Chinese companies. Many companies choose this solution, since it equals a one-time cost for the company. If a web-connection is unavailable, the in-house users still have access to company information. On the other hand, if the machine or server crashes, information will be lost. The difference with cloud computing is that all the work is stored and available online, but OPS must be installed on the devices. What increases the threat of substitute products in the Chinese market might be the reluctance to change from currently installed systems and change of operating routines.

Open source software is another form of substitute. This is software collectively-developed and accessible to everyone, free of charge. It can be freely used, changed and shared within a framework, however it contains a low level of customization. Open source software is not able to drift as an IT-infrastructure or customize solutions in the same way AppsCo can.

With this in mind the threats of substitutes are set to High.

- Threat of Buyers Bargaining Power -

Secondary data collected, indicates a growing market, which means stronger bargaining power to the customers. The buyers bargaining power will increase in parallel with more cloud computing providers entering the market. This may lead to an increased price competition within the industry. However, the services and products are highly differentiated, which indicates decreased bargaining power of

buyers. Chinese buyers tend to be price sensitive and disloyal, this implies that cloud providers in China will end up competing on price, and not on differentiated products. The service offered, will decide the switching costs. A change within IaaS-services must be thoroughly assessed, when the buyer is dependent on the provider as the foundation to drift buyer's system. In PaaS and SaaS the buyers have low switching costs, which increase their bargaining power.

The buyers are currently not able to dictate the conditions. Since this industry is in the growth phase we consider the buyers bargaining power as moderate, while it will increase alongside with the competitiveness in the industry.

With this in mind the threat of bargaining power is set to Medium

- Threat of Suppliers Bargaining Power -

The only real supplier cloud computing companies requires, in all three segments (IaaS, PaaS & SaaS) is electricity. If the Chinese utility company were to raise the costs of electricity, it would not only affect AppSCO, but the whole industry. The price of electricity can vary depending on consumption.

AppSCO would need to require servers through data centers in order to host their solutions. However, it is a tendency where the server suppliers are not in a position to bargain on price. The reason is the decreasing demand for servers, a consequence brought by the cloud and open source services. In the past all companies needed servers to maintain their in-house solutions. With a decreased need for servers, the cloud providers have a big impact on the bargaining power of the supplier, because of their need to sell servers to remain solvent.

With this in mind the threat of suppliers are set to Low/Medium.



3.3 SWOT- Analysis

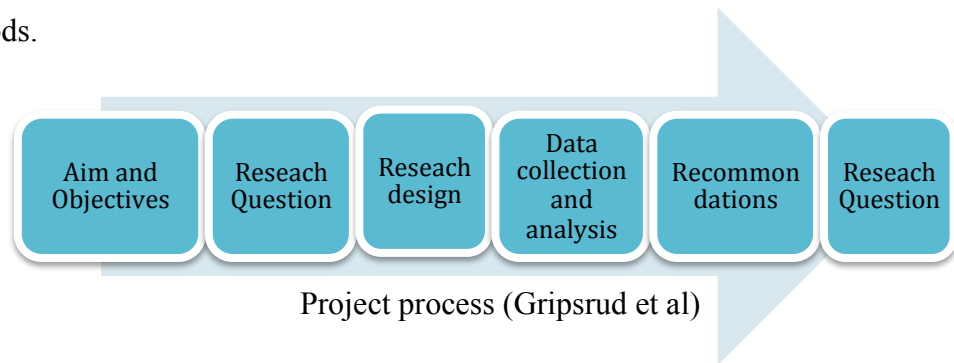
Strengths	Weaknesses
<ul style="list-style-type: none"> • Offers a unique cloud computing service. • Founders Geir Christian Karlsen's international network. • Corporate commitment. • Engineers with exceptional knowledge and competence. • Multiple user capability. (Private / Public cloud). • Utilized CRM system implemented in the service. • R&D department. 	<ul style="list-style-type: none"> • Low brand awareness. • Weak financial recourses. • Security within data privacy. • Newly established (1 year old). • Services dependent on Internet / Wi-Fi. • Low knowledge regarding China. (Business culture and consumer behavior). • Low development of Marketplace
Opportunities	Threats
<ul style="list-style-type: none"> • The 12th five-year plan emphasizes cloud computing strategic importance. • Large investments by the Chinese government. • 618 Million Chinese Internet users. • Economical and Technical growth in China. • Growing cloud computing industry at present time. • Growth in market demand. 	<ul style="list-style-type: none"> • Government; <ul style="list-style-type: none"> • Legal regulations and policies. • Website content control. (Consequence = loss of data). • Restrictions for foreign providers. • Censorship. • Few international Internet cables. • High entry barriers into China. • Replication/copying. • Hacking • Innovating competitors.

3.4 Summary and Plan of Action

AppsCo have a unique cloud computing service, engineers with strong competence and a good utilization of these resources. The authors see a great potential in product development and growth through expanding to other markets. The significant threats in China from copying of technological know-how and products, is significant, alongside government regulations and policies. The external environment in China poses various opportunities for AppsCo. To be able to evaluate if this is the right time for AppsCo to enter China, and potentially which entry strategies to choose, the authors need clearer insight on government regulations, policies and experiences from experts. The next step will be to obtain data from primary sources, in addition to supportive secondary data.

Chapter 4. Methodology

In this section, the methodology of the research process will be presented and discussed. Figure 1 shows the development of the research process. As the aim, objectives and research questions of the research were already established in section 1.2, the following sections will discuss the chosen research design and methods.



4.1 Use of Data

To be able to make recommendations and answer the problem area, both primary and secondary data will be used. The primary data are qualitative, collected through discussions with experts and from influential employees at AppsCo. The Delphi method will be used through an interview guide with mainly open-ended questions. It is outlined so the experts can feel free to elaborate around the variety of areas, cloud computing in China presents. The interview guide will work as guidelines, but will be adapted to the field the interview object are experts in. We will lead the discussion into a direction based on which subjects we need deeper insight on.

Our secondary data was obtained through sources, such as articles and market reports, with a mix of internal and external information.

4.2 Delphi Method

“Delphi is a hybrid survey design that aims to reach consensus on important issues” (Clibbens, 2012, p. 38). This is basically a method of using expert opinions to help make decision about practices, needs and goals (Thomas et al., 2011). All of the interviews can be found in the appendix. The Delphi approach

consisted of five separate expert interviews, with the aim of getting several experts' opinions on defined topics (Clibbens, 2012).

We chose an explorative design, based on low background knowledge about China and cloud computing. The outline of the data collection was as an in-depth interview, as personal experiences and opinions were of interest. As an interviewer or leader of the discussion the authors paid full attention to the interview object, as he/she were given time to respond with comments and ideas. The discussion leader responded and led the discussion to the preferred direction. The team followed the protocol recommended by Gripsrud, Olsson and Silkoset (2011, 90) regarding in-depth interviews. The authors adjusted the interview to a dialog discussion, which created a casual atmosphere and resulted in valuable information obtained.

4.3 Findings

Discussion with Experts

Name	Position	Company	Expertise within	Date and duration	Purpose
Daniel Douglas	Business manager	ChinaNetCloud	Server management, cloud computing & server consulting	18.04.14 150 min	Introduction about the industry in China, challenges and security.
Dan Bjørke	Founder	NorVisdom consulting	Entrepreneurship and Chinese business law	25.04.14 180 min	Chinese business culture.
Austin Wang	Representative	Microsoft Azure	Experience with entering China with a cloud computing company	25.04.14 20 min	An insight into a potential competitor.
Pål Bråthen	The Commercial Consul and Director	Innovation Norway	On supporting Norwegian companies entering China	30.04.14 90 min	Experience with how Norwegian companies have succeeded in the market.
Alexander Levi & Xiaomin Qu	Lawyers	Wikborg Rein	Chinese laws and regulations	05.05.14 60 min	Clear our findings on laws and regulations in China.

Events and Exhibition

Name	Event	Industry	Date and duration	Purpose
MobileMonday	Business presentation from mobile-industry related companies	Mobile devices and applications for smart-devices	21.04.14 180 min	Get an insight in the mobile-devices community in Shanghai as findings has lead us to believe that consumers are adapting towards smart-devices in China.
Shanghai Cloud Valley	Guided exhibition-tour	Cloud Computing	25.04.14 60 min	Learn about their organization, competitors in the market and cloud computing community in Shanghai.

The next points will present key findings, the authors have obtained from the primary data. The key findings are gathered from all the interview objects. The full summary is placed in the Appendix-section, if further elaboration is desirable. The information not included in this section is still considered valuable and provided throughout the thesis.

- Key Findings -

- An overall positivity to AppsCo's product, as it was considered both cost and time efficient. Features such as customizing the application package, buying and cancelling application after necessity and file sharing with all departments, which provided supervision, were regarded as highly strong.
- The Chinese procurement process and employment model tends to be hierarchical, where the manager controls all decisions and his word is final. Employees works collectively, but mostly after what the manager request.
- To obtain Chinese customers, services must be translated into Chinese.
- SME's is considered as the most recommended target group.
- China experiences increasing wages, and as a result engineers is hard to retain. The demand for helpful and efficient solutions is increasing.
- Chinese customers tend to be price sensitive and brand disloyal.

- Government rules and regulations are substantial and non-controllable for entrants.
- The firewall surrounding China is a great concern for foreign providers. The need for control, protection of local merchants, censorship and political issues are reasons behind the firewall.
- The government is also proactive and heavily investing in technology and cloud computing, through sponsoring companies, which helps cloud companies establish themselves (SCV-ShanghaiCloudValley). Increasing positivity to learn from new entrants and international standards to develop current operating systems. A preference to leading foreign providers to collaborate or join a Chinese domestic company.
- AppsCo have two options for entering China with their solutions: a WOFE and a Joint Venture (further elaborated in chapter 5).
- An ICP-license must be acquired (one per company, serves the whole country), to charge AppCo's services.
- There are two alternatives for obtaining an ICP-license:
 - 1) AppsCo can either find a local partner in possession of the license, or a partner that can provide it for them. The Chinese partner will in both situations own the ICP license and have the ownership of hosting the service in China.
 - 2) Through a WOFE AppsCo must apply for the license to the government.
- Entrance to tier 1 and tier 2-cities should be considered as these are gradually maturing and internationalising.
- The protection of intellectual property right and measures to prevent copying of product, idea and technology, is extremely important before entrance, and extremely hard.
- There are great differences regarding payment methods, compared to western solutions. There is no credit mark system and difficulties of demanding money after a provided service. This indicates it must be possible to shut down a service, to collect payments afterwards (Payment methods are further elaborated in the PESTEL-analysis).

- Cloud computing is a growing market, while a potential entrance generally demands strong financial and human resources, time and a long-term commitment.
- The importance of servers within Mainland China is crucial to gain speed, connectivity and accessibility.
- Significant cultural differences between Norwegian and Chinese business culture when it comes to communication, body language, conflict avoidance, relation focus and hierarchical business systems.
- All companies must be in possession of a company stamp, to give properly valued documentation. An important aspect for Chinese companies is, who in the firm, physically is in the possession of the stamp. This can not be lost at any circumstances.
- The Fapiao is also mentioned, which is important when conducting business in China. This receipt proves your company are legit and the customer has bought a real service, in which they can write off on their taxes.

4.4 Limitations

More interviews could have strengthened the thesis, but the group had limited access to respondents and time. This can affect the reliability of the findings (Gripsrud, Olsson and Silkoset). The findings cannot be automatically generalized, and needs further testing to develop clear conclusions. The authors feel that the information and findings obtained through the research, can serve as a strong indication to key factors in the Chinese cloud computing market and a potential entry strategy.

Chapter 5. Strategy Development

5.1 Critical Factors of Success

The suggestions in critical factors of success is based on findings from previous analyses in the thesis. It may seem as a recommendation, however it is factors that need to exist in order to succeed in the Chinese market.

- The authors find it necessary to look at China as a continent and not as a country.
- Secure the technology, growth and act quickly in the market. Register Patents and Trademarks to secure the technology and avoid copying.
- Everything has to be translated into Chinese characters. It exist several international English speaking customers in 1st tier cities, but they prefer to read in Chinese characters.
- The Chinese payment culture through the Internet is different from western countries. Be aware of the differences as this may affect the company and income.
- The servers has to be located in Mainland China, in order to reach the whole Chinese market.
- Obtain an ICP license, which enables the company to do business in China.
- Have Chinese salespeople.

5.2 Entry Strategy

AppsCo have previously entered new markets through *WOS (Wholly Owned Subsidiaries)*. WOS has worked as a successful entry mode in these markets, due to experienced leaders, a valuable network and low entry restrictions. However, strict rules and regulations regarding IT in China are caused by the government in order to protect domestic companies and Chinese interests.

The authors have evaluated the many possible entry strategies through the model “*A hierarchical model of choice of entry modes*” (Andrew Harrison 2010). After assessing the possible strategies within the model, and evaluated previous analysis and requirements, the authors conclude that AppsCo’s solution do not naturally fall within the non-equity modes. None of these modes are suitable for a potential entrance into China for AppsCo. Based on this, the authors eliminated these strategies, and concluded that the entry strategy must be based upon an *Equity FDI-mode*. Within this category the two strategies *Joint Venture* and *Wholly Foreign-Owned Subsidiary* (WFOE in China) are found most applicable based on previous analysis and requirements. An important aspect is that the much needed ICP-license is only available in these two strategies. The further recommendations regarding entry strategies will be done of the bases of the following two.

5.2.1 WFOE

The first possible entry strategy is to establish a Wholly Owned Foreign Enterprise (from now on referred to as WFOE), which is a *limited liability company wholly owned by the foreign investor(s)*. AppsCo will be established as a subsidiary - *AppsCo China*, in the category; *Consultancy (or Service) WFOE*. AppsCo can freely conduct its business in China like any other Chinese domestic company.

AppsCo would keep full control over the brand, the solution they provide and the technology. When operating as a WFOE in China, AppsCo must meet the requirements of Chinese business law and other governmental regulations. When being a foreign company operating in China, it would be extremely valuable to have a legal department, additional to a trusted Chinese lawyer. Fees and application procedures will vary, depending on which tier city or province AppsCo will enter the market with.

With a WFOE AppsCo will have to provide own research regarding several characteristics; where to enter the market, where to locate their offices, establishment of network in the industry, legal requirements and how to meet

potential customers. It is several organizations that can help kickstart the networking in China, as Innovation Norway and ShanghaiCloudValley.

Establishment of a WOFE includes several advantages; they would be independent and entitled to experience freedom in terms of implementation of strategies of the parent company, without involvement of Chinese partners. The advanced technology, employee expertise and competence will be secured within the company. AppsCo would have full control of human resources and hopefully experience great efficiency in operations, management and future development.

WOFE would be the preferable entry strategy for any company that is likely to expand into a significant business that will handle tasks, such as sales and marketing, technical or customer support or localization of products. However, setting up a subsidiary can be difficult and costly, and generally require extensive filings, registrations, and the notarization of key documents.

5.2.2 Joint Venture with a Local Partner

The second entry strategy is to establish an Equity Joint Venture with a local partner in China. The Chinese authorities encourage foreign investors to use this form of entry strategy, where it can give an easier and quicker entrance to the market. A normal operation time for a joint venture is limited to a fixed period of time, from 30 - 50 years, but the Joint Venture can be stopped whenever one of the parts want to. Regarding Joint Venture, the main issue is to find a reliable partner. As a foreign business seeking a Chinese partner, the most important issue not to overlook is the legal license agreement they will make with their new partner.

Establishment of a Joint venture includes several advantages; A Joint Venture with a local partner can help create a good relationship with the government which can result in avoidance of bureaucratic difficulties. AppsCo can potentially use the local partner's significant knowledge of the local market, existing workforce, facilities, additional to network and channels for sales and distribution.

A joint venture can help AppsCo enter industrial sectors which exclude wholly foreign-owned investment.

5.2.3 Criteria for Assessing the Options

The authors have developed five criterias to compare the two options. The criteria are as follows:

- *Risk*
- *Control over Brand, Idea & Technology*
- *Legal requirements*
- *Time consuming*
- *Learning*

- *Risk* -

Regardless of which entry strategy AppsCo decides to enter the Chinese market with, there are crucial risks within both strategies that should be closely considered.

WOFE

Regulations, new laws and fundamental information regarding the industry, may be caused by the Chinese government without any further notice. The authors see this as a high risk when entering the Chinese market with a WOFE. Since the government has shown great interest and financial support towards the industry, the authors see this as unlikely to happen in the nearest future. It will be crucial for *AppsCo China* to be up-to-date on all Chinese regulation regarding corporate law and information relating foreign companies in China.

“The Chinese market can seem very big, and can often be compared to another universe”.

Dan Bjørke, April 25th, 2014

The language barrier and the cultural differences are so explicit from the western business culture that it can be seen as a risk to enter China with a subsidiary company all alone. AppsCo will enter China with no knowledge about the market, how to compete or where to begin. The Chinese people and market are different

from the western world in almost every aspect. They have a different way to interact and approach each other, both on a social and business level. It is crucial when doing business in China that AppsCo is aware of this. The examples are many, and AppsCo should familiarize themselves with these differences.

Based on the risks presented above, the authors see the risks associated with using WOFE as an entry strategy as Medium.

Joint Venture

If entering the Chinese market by establishing a Joint Venture, it is essential to find a reliable partner. It is important that AppsCo evaluates their potential partner thoroughly, and develops an agreement to secure AppsCo's brand image, idea and technology. When cooperating with a Chinese partner there is likely to exist language barriers, conflicting interests and different views on management style. It would be wise to have a close monitoring of the Joint Venture-operation by a representative who knows both China and the Chinese market. The partnership should be based upon AppsCo providing the technology and services. The Chinese party will provide the ICP-license and knowledge about the Chinese market. The various points mentioned must be taken into consideration.

Based on the risks presented above, the authors see the risks associated with Joint Venture as an entry strategy as High.

- Control Over Brand, Idea and Technology -

Regardless of which entry strategy AppsCo chose, it is essential to register its patents and trademarks with the appropriate Chinese agencies and authorities for the rights to be enforceable. Even though China is within the international agreements (WIPO, Berne and Paris Convention) to protect intellectual property, it is crucial to make sure your patents and trademarks are secure in China.

WOFE

A dilemma of being a Born Global is the need for control. This can lead AppsCo to a stigmatization of the the company's development, due to the need for control

of the whole company and all its processes. The lack of experience in the Chinese market will create a risk of making decisions on wrong or thin grounds. This can be a consequence of the controlled needs of corporate resources, which could have been used on more productive areas. Another dilemma is the need for rapid market introduction. By not quickly obtaining a foothold in China, the product idea could be interpreted by more resourceful already established competitors. For AppsCo this is critical, as they do not know the market or their new potential customers.

With this entry strategy, the control over brand, idea and technology will be Medium.

Joint Venture

To prevent copying and secure AppCo's services, it is essential not to share the technology with their new Chinese partner so the idea not will be plagiarized. This can be implemented in the legal contract the two parties write. But it is important to consider that in Chinese business culture relationships are more valued, rather than a signed agreement. By establishing a Joint venture with a local partner, AppsCo can end up having less control over its brand and a fear of being copied.

“There is nothing that prevents employees of the local partner to steal the idea, if they have access and understands the technology. You can sue them and take them to court, but at the end of the day, if the technology is gone, it is gone.”

Alexander Levi and Xiaomin Qu, Wikborg Rein

With this entry strategy, the control over brand, idea and technology will be Low.

- Legal Requirements-

In China the government requires a lot of documentation, especially from foreign companies. The authors believe it is necessary to elaborate and make clear the legal requirements for the two strategies.

Post business license steps

The registration steps apply to both of the entry strategies. In addition, the Joint Venture license agreement should be submitted with the application's documents.

Step 1: Prepare feasibility study report and other documents as incorporate certificate from the parent company, to MOCA for approval. MOCA will issue approval letter and certificate.

Step 2: Bring the documents from step 1 to the register office SAIC. After approval, the business license will be received.

Step 3: It is necessary to provide other certification certificates from four different bureaus. (Tax, statistic)

Step 4: Get the police to approve your company's stamp. Further elaborated in Chapter 4, Findings.

Step 5: Create bank accounts

The authorities carefully inspect all documents presented to them and may ask for clarification or changes.

There are no exceptional differences in legal requirements, in addition to adding the license agreement for the Joint venture. The legal requirements demand a lot of planning, which in turn will require considerable time and resources.

"Most companies underestimate the process of entering China, and simply offering a product/service ready is not sufficient. The preparations knowledge is crucial."

Pål Bråthen, Innovation Norway, April 30th.

Based on the arguments presented above, the authors see the legal requirements as High to Medium when entering with a WOFE, and High with Joint venture.

- Time Consuming -

A lot of development in the industry is taking place in China, at this time. As Daniel Douglas claimed: *"2014/2015 is a good time to enter the Chinese cloud*

market". The authors are concerned with estimating how much time it takes to enter the Chinese market.

Duration time

1. The duration time for step 1 and 2 of legal requirements takes approximately 1 to 2 months
2. From preparation of the feasibility study report (step 1) to when the bank accounts is open (step 5) take about 3 to 4 months.
3. The approval time of ICP license, 1 to 2 months. There is not possible to apply for ICP license before the WOFE is approved and established.

Total duration time: Approximately 6 months.

When entering with a WOFE it is important to consider the time it takes to establish a network of customers. When entering with a Joint Venture, it is important to remember that it is time consuming to find a suitable partner and the development of the license agreement. This entry strategy is the most time consuming strategy. If chosen, they should estimate at least 3 months to develop the legal license agreement.

Based on the arguments above, the authors find WOFE as Medium and Joint Venture as High, regarding how time consuming these entry strategies are.

- Learning -

The challenges of marketing and being a Born Global for AppsCo is their vulnerability, both because of its limited resources, and because they tend to make mistakes. One suggestion is to leave the marketing efforts to a strong third party in the critical introduction phase. Later, when they gain enough resources, they can enter the market with their own marketing of the brand. This increases the possibilities to get a positive learning spiral with market contacts, the return of experience and accumulation of learning internally, and ultimately control over their own development.



WOFE

If AppsCo establishes a WOFE and creates the subsidiary *AppsCo China*, the learning curve will only be accessible by AppsCo. They will not share their learnings with anyone. AppsCo will have full control over the process, information about the market, their own network and financial costs.

Based on the arguments presented above, the authors see the learning of using WOFE as an entry strategy as High.

Joint Venture

A local partner in the cloud computing market will make it difficult to gather market-data and feedback. Since AppsCo must be present with a full time representative in China, they will have access and insight about the market and gain more control. This will maintain the learning curve. They cannot rely solely on the local partner, especially not in China.

Criteria of assessment	WOFE	Joint Venture
<i>Risk</i>	Medium	High
<i>Control over Brand, Idea & Technology</i>	High	Low
<i>Legal requirements</i>	High/ Medium	High
<i>Time consuming</i>	Medium	High
<i>Learning</i>	High	Low
Total impression		

Based on the arguments presented above, the authors see the learning of using a Joint Venture as an entry strategy as Low.

5.3 Possible Choice of Entry Strategy

The authors of the thesis would recommend AppsCo to establish a WOFE - *AppsCo China*, as a possible choice of entry strategy. After assessing both entry strategies the authors saw several positive and negative sides of the criterias, however they are confident that a WOFE would be the best long-term strategy.

There was a split among the experts about the best suited strategy for AppsCo. Daniel Douglas, Dan Bjørke and Austin Wang recommended Joint venture. Alexander Levi, Xiaomin Qu and Pål Bråthen were certain, by experience from Norwegian companies entering China, that becoming a WOFE is arguably the most beneficial strategy.

The criterias that the authors consider the most important were *risk, time consuming, control over brand and learning*. It is fewer risk, less time consuming, the control over the brand will be intact and the learning curve is higher with a WOFE. AppsCo is depending on having key management people in the subsidiary company and market. The core strength a Joint Venture offer is the great market knowledge presented through a partnership. The authors recommend AppsCo to attract and obtain Chinese employees, which possess solid knowledge about the market. This enables AppsCo to get a deeper insight in the market without having to consider a Chinese partner. AppsCo will retain complete control and ownership over their brand, idea and technology. The benefits of establishing their own network and remain control is crucial.

Last but not least, the authors believe a WOFE will provide greater efficiency in operations, management and future development. In chapter 6, *Discussion and Recommendations*, the authors will provide further suggestions to AppsCo.

5.3.1 Financial Considerations and Expenditures within the WOFE

The cost of establishment in China is the same as in any other country, but there are more required documents before entrance. It is recommended to invest with an ulterior motive that the company will not bring in revenue before after 6 months. Hopefully after 6 months the company will be receiving revenue, and the WOFE can spend from their own funds. They will use their registered capital as their working capital. The invested capital should include calculated rent, hiring costs, salary, server expenses and data-centers in mainland China.

It is difficult to transfer the capital from the parent company to the subsidiary and calculate how much they will spend during the first 6 months. If it is new investments to the subsidiary company, the government requires documents, and

approval is needed. It is important to calculate future expenses and provide enough invested capital.

“A client, a Norwegian software company, invested RMB 500,000. They had estimated an increase from 5 to 11 employees in three years. At current time they are only present in Norway and China.”

Alexander Levi and Xiaomin Qu, Wikborg Rein

The tax rate depends on the location the WFOE is registered and the industry it operates within. Usually the tax rate lies between: 15% to 25%. The company must hire an account firm to every month handle the accounting.

During the research the authors did not find more expenses, but usually one need to calculate more to several different registration fees. The required invested capital depends on the business scope.

5.3.2 Marketing Tactics

The Four Cs

When using a WOFE as an entry strategy, AppsCo will have a high involvement in the marketing dimension. The authors finds it valuable to present a marketing tactic that AppsCo can use to gain more insight into the Chinese market. In the following plan, the authors have developed tactics based on Lauterborn's four Cs, discussion with experts, in addition to the internal and external analysis.

With an increased focus on the customer, the model provides a framework for companies, which want to increase their customer base and repeating customers. The Cs reflect a client-oriented marketing philosophy and is better adjusted to needs of smaller businesses that yet have not obtained a strong brand-name equity. We find the model suitable for AppsCo as the customers of the Chinese cloud computing market may appear diffuse, to some point.

Consumer Wants and Needs

Lack of time, resources and availability resulted in not being able to interview potential Chinese customers of AppsCo's solutions. AppsCo was as a consequence presented to our interviewed experts, for reviews and opinions concerning their product offerings and potential Chinese customers. The experts were international and all had a positive view on AppsCo, while they also saw benefits of using their solutions within their companies. Despite the positive impression there was raised concern whether the Chinese companies would have been equally positive. The experts saw a tendency to reluctance to change current systems and wrong usage of systems.

“A Chinese firm that operated with a CRM-system, printed out all the information from the previous year and deleted the information from the system each year in January. This resulted in loss of the core advantage of the CRM system, the storage and clear overview.”

Dan Bjørke, April 25th, 2014

This stresses the importance of using representatives to help assist in advising and learning usage of the AppsCo product to potential future Chinese customers. The hierarchical system in the Chinese business culture makes it critical to sell AppCo's product to top leaders of the companies. If AppsCo decides to enter China, the product or service should reflect AppsCo's value, *“cloud made easy”*. This core value should be reflected when AppsCo is targeting the Chinese consumers wants and needs. It is critical for AppsCo to do substantial research around these wants and needs, as they may differ from western preferences. The development of their service offerings should then be based on the information obtained. More consultants and guidance will be needed, concerning the Chinese market, compared to AppsCo's current markets.

Cost to Satisfy

AppsCo Marketplace, is as mentioned, the sales place for all the web-applications within the AppsCo Dashboard. The fact that customers can customize their own dashboard, instead of buying packages, (Microsoft Office) can satisfy the customers and make it more desirable. On Marketplace, it is the application-

developers who decide the price, and not AppsCo. AppsCo should suggest a price level or provide information about the Chinese market in which the developers are selling their applications. They are dependent on customers buying web-applications through Marketplace, and attract these customers to use AppsCo's solutions for creating applications. Chinese users tend to be price sensitive, because of this the authors recommend the price level to be under main competitors. AppsCo offers the possibility to rent/lease web-applications for a certain period of time, and customers can buy applications after own needs. This is a good and cheap alternative for companies with low start-up capital. The switching costs from current operating systems are also low, which is in AppsCo's favor.

Communication

Market surveys and communication with customers are important to cover areas of improvements and customization of the solution to the Chinese market. The initial goal of an automatic sales process and inbound marketing may lead to a decreased two-way communication between the supplier and customer. In the initial face, this will pose as a critical point, as creating good and strong relations are one of the most critical success factors for new entrants to China. The identification and further communication with potential Chinese customers might increase brand awareness.

Two-way sales meetings with potential customers should be accompanied by a Chinese representative, as this can create higher trustworthiness and indicate understanding of the Chinese business culture.

Convenience to Buy

Since the payment-method in China is different, AppsCo should make the purchasing as convenient as possible. AppsCo's solutions is as mentioned located online, which is convenient in China as there is a substantial amount of internet users. It can serve as a great benefit for AppsCo, as China is of substantial size, and the cloud delivery increases the convenience to buy.

According to the chosen entry strategy, AppsCo's solutions should firstly be targeted and marketed in 1st and 2nd tier cities. After successful establishment,

AppsCo might extend their market to 3rd and 4th tier cities, based on the development in these areas.

Uncontrollable Elements

To apply the 4 Cs in its marketing tactics, AppsCo must consider the impact of the *uncontrollable elements* of the marketing mix. The uncontrollable elements include degree of unemployment, new technologies, the threat of displacement, competitors, government regulations and change in consumer preferences. As mentioned earlier some of these points are a great concern in China, as the government affects certain areas, which can result in AppsCo losing control over the consumers and market.

5.3.3 Target Group

Based on findings provided in previous analysis in this thesis, the target group AppsCo seeks is Small and Medium Enterprises (SME's). Findings indicate that AppsCo should work towards the same target group in China. The industry and market is extremely wide and diffuse, and the authors believe, along with the experts, that if AppsCo enters China, they will see a huge difference in their customer portfolio.

Chapter 6. Conclusion and Recommendations

The purpose of this thesis is to answer the research aim:

- *To outline the cloud computing market in China, and explore the market opportunities for AppCo's solution within the Chinese market.*

6.1 Recommendations

After elements gathered from the analysis, findings, discussions and secondary data, the authors clearly see a market for AppsCo in China. However, in answering the problem definition; *should AppsCo enter the Chinese market*, the authors believe it is too early for AppsCo to enter, at this moment.

The authors recognize AppsCo's ability to enter other countries in Europe, however the Chinese market is different from any other market. It requires substantial resources and presence of key management, which they believe AppsCo do not have the capability for, yet.

AppsCo is in a process to further develop their solutions. This process should be completed before entering China. The Chinese market will require an adjustment of the product, like all fonts changed to Chinese characters.

The authors have received little information, but got the impression (due to their continuous search for new investors) that AppsCo's financial situation is weak. This is a supportive strong argument towards not entering China, until required financial resources has been met. The authors conclude that it is a high level of uncertainty through difficult framework and dependence of obtaining the ICP license. This makes it all unpredictable and complicated.

The authors recommended an entry strategy, even though AppsCo are advised not to enter China. This is because of the future plan the authors have in mind and based on the fact that they are a Born Global. The author's further recommendations will be through goals and measures. These will be based on what AppsCo need to improve internally, before an entrance to China in the

future. It is important that these changes are made within a certain time frame, when it is essential to enter the market before it matures.

The authors sincerely believe that AppsCo possesses significant strengths and that the Chinese cloud computing market offers great opportunities for the company. The uncertainties and risks currently operating in the Chinese market, outweighs the many opportunities it offers. The authors are optimistic about the future outlook of AppsCo as an international business and have done an evaluation on which areas to further focus on. In a long term-perspective, there is strong indications and reason to believe that a successful future entrance into China is possible.

6.2 Future Recommendations

This section presents future recommendations for AppsCo, in order to increase the possibility of a successful entry to China. The authors will present proposals of goals and actions for internal preparation, before AppsCo eventually can enter China successfully.

- Strategic Measures of Recommendation -

- Establish an own marketing department to improve marketing efforts and to rapidly attract customers.
- Further develop the solutions and prepare programming, translation and customization of website and services into Chinese.
- Cooperate with Innovation Norway through their Shanghai-located incubator.
- Establish a good relationship with ShanghaiCloudValley in order to develop networks and find potential customers. This will strengthen one of the weaknesses of being a WOFE, since SCV has a good relationship with the government.
- Contact ChinaNetCloud for help and consultancy regarding operating servers in Mainland China, in order to secure stable uptime and connectivity.
- Improve the website. Post cases AppsCo have worked on, so the future customers understand the depth of what AppsCo offers.
- Increase financial resources through investors.

Concrete Recommendations of Future Goals

Strategic Operative Market Goal

- *Enter China within 2016.*

In order to achieve this goal, it is necessary to start the process of applying to become a WOFE within May 2015. The authors recommend to first enter 1st tier city - Shanghai as a starting point.

Short-Term Strategic Goals (1-2 years)

- Have a strong understanding of Chinese business culture.
- Developed a strong and clear overview of potential Chinese customers.
- Established a significant network with local Chinese cloud computing companies.

When these strategic measures of recommendations and Short-Term goals are met, an entrance to China is possible and recommended by the authors.

Long-Term Strategic Goals (2-5 years)

- Established AppsCo Promoter Offices in China, in order to connect with customers and the market.
- Be established within all 1st tier cities (Shanghai, Beijing, Guangzhou, Shenzhen).

6.3 Suggestions for Further Studies

The author's greatest wish is for AppsCo to find the study and recommendations valuable for their business. The group experienced limitations when contacting Chinese customers, additional to time and resources. To help AppsCo's further development and insight into the Chinese market, there are areas in which should be further investigated:

- It is necessary to seek out, potential cloud computing customers to gain a clearer insight and understanding of the market.
- Through the thesis different companies are presented. These can be contacted in order to help AppsCo's establishment. Further investigation to find potential customers helped by these companies, is essential to look into.

Chapter 7. Bibliography

About. (201..) *Hardware*. Retrieved January 8th. 2014.

<http://pcsupport.about.com/od/termshh/g/hardware.htm>

Tim Fisher.

About. (201..) *Web Applications*. Retrieved January 8th. 2014.

http://webtrends.about.com/od/webapplications/a/web_application.htm

Daniel Nations.

Amdlaw Group- *Definition of a Born Global Firm* - Retrieved May 8th. 2014.

<http://www.amdlawgroup.com/what-is-the-definition-of-a-born-global-firm-international-business-law-case-study-2/>

Ali Baba. (2014) About Ali Group. Retrieved March 15th. 2014.

<http://news.alibaba.com/specials/aboutalibaba/aligroup/index.html>

Alipay. (20..) *Payment methods*. Retrieved April 30th. 2014.

<http://ab.alipay.com/index.htm?Nummain=34>

Amazon. (2014) Homepage of Amazon Web Services. Retrieved February 15th.2014.

<http://aws.amazon.com>

Amcam. (2014) Tier cities in China. Retrieved March 2. 2014.

<http://sme.amcham-shanghai.org/faq/what-meant-first-tier-second-tier-and-third-tier-cities>

AppsCo. (2014) *Homepage of AppsCo*. Retrieved January 3. 2014.

www.appsco.com

Bitium. (2014) *Homepage of Bitium*. Retrieved April 3th. 2014.

<https://www.bitium.com/site/product/>

Borad Group. (2013) *China Cloud*. Retrieved March 26th. 2014.

<http://www.broad-group.com/report/china>

Board Group. PPT. regarding Cloud development and challenges in China.

http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&ved=0CH8QFjAG&url=http%3A%2F%2Ftrpc.biz%2Fwp-content%2Fuploads%2FDatacenter-and-Cloud-developments-and-challenges-in-China3.pptx&ei=qoBDU5WEJamI4gSNxYDIBA&usg=AFQjCNHVXrhqe88G3uj3AU2GLo0hl4vAAg&sig2=YQjPL-pyzGFWOAUZC_UFTQ&bvm=bv.64367178,d.bGE

China Briefing (2013) *China's 'Fapiao' Invoice System*. Retrieved March 5th. 2014.

<http://www.china-briefing.com/news/2013/08/13/understanding-chinas-fapiao-invoice-system.html>

China Briefing. (2013) *Cost of WOFE*. Retrieved March 12th. 2014.

<http://www.china-briefing.com/news/2013/09/30/costs-of-running-a-wfoe-in-china.html>

China Business review (2014) *Lenovo purchase IBM server*. Retrieved March 19th. 2014.

<http://www.chinabusinessreview.com/lenovo-agrees-to-purchase-ibms-low-end-server-business-for-2-3-billion/>

E.J. Thomas.

China Business review. (2010) *China VATS market*. Retrieved April 25th. 2014.

<http://www.chinabusinessreview.com/the-value-added-telecom-services-market-ripens/>

Christine Kahler & Weizhen Li.

Curve Communications. (2013) *The 4 C's*. Retrieved April 18th. 2014.

<http://www.curvecommunications.com/2013/05/the-four-cs-of-marketing/>

Stephanie+

China Daily. (2014) *Amazon*. Retrieved March 19th. 2014.

http://europe.chinadaily.com.cn/business/2014-01/02/content_17209299.htm

Meng Jing.

China Daily. (2008) *Three telecon giants*. Retrieved May 1. 2014.

http://www.chinadaily.com.cn/china/2008-05/25/content_6709799.htm

China SEO Shifu. (2014) *Chinese Payment methods*. Retrieved April 2th. 2014.

<http://chineseseoshifu.com/blog/online-payment-methods-china.html>

Nichole Zhang.

China Trademark Office. (2014) *Cost of Trademark & Patents*. Retrieved March 12th. 2014.

<http://www.chinatrademarkoffice.com/index.php/about/fee>

Chinese School. (20..) *Guanxi*. Retrieved May 2^h. 2014

<http://chinese-school.netfirms.com/guanxi.html>

Vincent Lo

Cloud Security alliance (2009) *IaaS, PaaS, SaaS*. P 17th. Retrieved February 20th.2014.

<https://cloudsecurityalliance.org/csaguide.pdf>

Board of Directors.

Cloud Times. (2011) *Cloud Companies*. Retrieved March 17th. 2014.

<http://cloudtimes.org/2011/11/30/top-paas-saas-and-iaas-cloud-companies-by-cloudtimes/>

Cloud Times. (2012) *Future of cloud adoption*. Retrieved March 16th. 2014.

<http://cloudtimes.org/2012/07/14/the-future-of-cloud-adoption/>

Xath Cruz.

Cloud Times. (2013) *Security threats*. Retrieved may 1. 2014.

<http://cloudtimes.org/2013/03/07/csa-report-top-nine-cloud-security-threats-in-2013/>

Saroj Kar.

Cloud Times. (2014) *Security concerns*. Retrieved may 1. 2014.

<http://cloudtimes.org/2014/01/13/mcafee-labs-report-big-data-and-cloud-security-top-concerns-for-2014/>

Saroj Kar.

Cloud Times. (2014) *Computer Economics Report*. Retrieved March 17th. 2014.

<http://cloudtimes.org/2014/02/20/computer-economics-report-cloud-computing-saves-15-in-it-budgets/>

Saroj Kar.

Computer World. (2014) *Challenges forging players face*. Retrieved April 20th. 2014.

<http://cw.com.hk/feature/chinas-cloud-market-challenges-foreign-players-face>

Melissa Chua

Eurobiz. (2014) *Cloud computing in China*. Retrieved March 26th. 2014.

<http://www.eurobiz.com.cn/up-in-the-clouds-cloud-computing-in-china/>

Forbes. (2012) *China & Piracy*. Retrieved April 3th. 2014

<http://www.forbes.com/sites/kenrapoza/2012/07/22/in-china-why-piracy-is-here-to-stay/>

Kenneth Rapoza.

GB Times. (2014) *Social Media in China*. Retrieved May 3rd. 2014.

<http://no.gbtimes.com/life/sosiale-medier-i-kina>

Google. (20..) *Industry Research*. Retrieved February 15th. 2014.

<https://sites.google.com/site/businessandtheinternetwiki1010/home/industry-research>

Hubspot. (2014) *Inbound Marketing*. Retrieved February 16th. 2014.

<http://www.hubspot.com/inbound-marketing>

IEEE Computer society. (2010) *Is Cloud Computing trustworthy?* Retrieved march 8th 2014.

<https://www.computer.org/csdl/mags/sp/2010/06/msp2010060014.html>

Ivàn Arce.

Infosys. (2009) *Cloud Computing.p.2* Retrieved January 8th. 2014.

<http://www.infosys.com/cloud/resource-center/documents/cloud-computing.pdf>

Dargha Ramkumar.

Learning Tree International. (2010) *Perspectives on Cloud Computing*. Retrieved Jan 5th. 2014.

<http://cloud-computing.learningtree.com/2010/11/28/cloud-computing-services-and-alternatives/>

Lexology. (2013) *Cloud Computing in China*. Retrieved March 19th. 2014.

<http://www.lexology.com/library/detail.aspx?g=e4d06703-2032-4ee5-8a5a-94e0e8c0f977>

Wang Rui & Qiu Shaolin.

Library of Congress. (2013) *NPC Decision on Network Information Protection*. Retrieved May 1. 2014.

http://run.unl.pt/bitstream/10362/6166/1/Neves_Marta_Correia_Neto_2011.pdf

Marketing Donut. (...) *Marketing vs. Branding*. Retrieved March 19th. 2014.

<http://www.marketingdonut.co.uk/marketing/marketing-strategy/branding/branding-and-marketing-what-s-the-difference->

Marketplace Motivations.(20..) *The 4 P's. vs. the 4 C's*. Retrieved April. 18th. 2014.

<http://www.marketplacemotivations.com/articles/magazine-articles/54-marketing-the-four-p-s-or-the-four-c-s>

Mariette Kussmaul.

Microsoft Azure. (2014). *Homepage*. Retrieved February 15th. 2014.

<http://azure.microsoft.com/en-us/>

Netcraft. (2013) *Cloud Computing China*. Retrieved April 3. 2014.

<http://news.netcraft.com/archives/2013/09/13/building-the-great-cloud-of-china.html>

Wenxiao Yuan.

NIST. (2009) *About Cloud Computing*. Retrieved January 8. 2014.

http://csrc.nist.gov/organizations/fissea/2009-conference/presentations/fissea09-pmell-day3_cloud-computing.pdf

Peter Mell & Tim Grance.

Nist. (2009). *Deployment models*. P. 2-3.

<http://csrc.nist.gov/publications/nistpubs/800-145/SP800-145.pdf>

Peter Mell & Tim Grance

Opensource. (2014) *About Open Source*. Retrieved January 8. 2014.

<http://opensource.org/>

Path to China. (2014) *Equity Joint Venture*. Retrieved March 12th. 2014.

http://www.pathtochina.com/reg_jv.htm

Path to China. (2014) *Wholly Foreign Owned Enterprise in China*. Retrieved March 12th. 2014.

http://www.pathtochina.com/reg_wfoe.htm

RackSpace. (2013) *Cloud Computing*. Retrieved March 19th. 2014.

http://www.rackspace.com/knowledge_center/whitepaper/understanding-the-cloud-computing-stack-saas-paas-iaas

Shimsy. (2013) *ICP license*. Retrieved March 3th. 2014.

<https://shimsy.com/blog/2013/03/15/websites-china-icp-license/> -

Mike Licht.

Techopedia. (20..) *On Premises Software*. Retrieved April. 19th 2014.

<http://www.techopedia.com/definition/26714/on-premises-software>

Cory Janssen.

The Cloud Tutorial. (...) *Cloudtypes*. Retrieved March 5th. 2014.

<http://thecloudtutorial.com/cloudtypes.html>

Trading economics. (2014) *Economic indicators*. Retrieved March 1. 2014.

<http://www.tradingeconomics.com/china/indicators>

TheWhir. (2013) *China IT spending*. Retrieved April 2. 2014.

<http://www.thewhir.com/web-hosting-news/it-spending-growth-in-china-offers-service-provider-opportunities-gartner>

Nichole Henderson.

TechTarget. (2005) *Dashboard*. Retrieved January 8. 2014.

<http://searchcio.techtarget.com/definition/dashboard>

Margaret Rouse.

U.S.Embassy. (20..) *Protecting intellectual property rights*. Retrieved March 1. 2014.

http://beijing.usembassy-china.org.cn/protecting_ipr.html

Webopedia. (...) *Cloud Services*. Retrieved January 8. 2014.

http://www.webopedia.com/TERM/C/cloud_services.html

WFOE. (2013) *The Wholly Foreign Owned Enterprise*. Retrieved March 3. 2014.

<http://www.wfoe.org>

ZDnet. *China IT spending*. Retrieved March 27th. 2014.

<http://www.zdnet.com/china-it-spend-to-overtake-japan-in-2013-2062304830/>

Jamie Yap.

ZDnet. (2014) *Internet users in China*. Retrieved April 3. 2014.

<http://www.zdnet.com/cn/china-has-618m-internet-users-80-percent-on-mobile-7000025291/>

Eileen Yu.

Further References

Compendiums:

Catalogue of Telecommunication Services (...) - *Circular of the Ministry of Information Industry on the Readjustment of the Classification*

Compendium from China Net Cloud (2014) - *Clouds in China - Chinese Public & Private Cloud Guide for Internet Infrastructure.*

Compendium from China Net Cloud (2013) - *Running Internet Systems in China - Details you need to succeed in Chinese Internet Operations.*

Books:

Universitetsforlaget. (2009) 8. Edition. *Internasjonal markedsføring.*

Chapter 4. The company's internationalization process and interna working conditions.

Chapter 5. Strategy development in globalizing markets.

Chapter 6. Collection and processing of information from international markets.

Chapter 7. Choise of market.

Chapter 8. Choise of entry strategy.

Solberg, Carl Arthur.

UniPub. (2011). *Introduction To Modern Marketing Management.*

P. 14 – 16

P. 196 - 197

P. 199 - 205

P. 199 - 205

Fred Selnes.

Høyskoleforlaget. (2011). 2nd Edition. *Metode og dataanalyse*.

P. 58

P. 90 Protocol regarding in-debt intervjues.

Gripsrud, Olsson, Silkoset.

Oxford university press. (2010) International business and environment - Business environment: in a global context

A hierarchical model of choice of entry modes.

Andrew Harrison.

The Born Global Firm: A Challenge to Traditional Internationalization Theory.”

I:S.T. Cavusgil (Ed): Advances in International Marketing, 8, 11-26, 1996

Knight, G.A. and Cavusgil, S.T.:

Born Globals. Working Paper. University of Michigan, Ann Arbor, 1998

Knight, G. and S.T. Cavusgil:

Global Start-Ups: Entrepreneurs on a Worldwide Stag.” Academy of Management Executive, 9(2), 33-44, 1995.

Oviatt, B.M. and McDougall, P.P.:”

Podcast:

RSA conference. (20..) *Podcast - Cloud computing in China*. Retrieved April 15th 2014.

<http://www.rsaconference.com/podcasts/137/cloud-computing-in-china-opportunities-challenges>

Timothy Grance, Senior Computer Scientist, NIST and pan.

Chapter 8. Appendix

Interview Guide

Discussions with experts

Comment

Since the authors used discussion with experts from different industries there was prepared different questions for each session, but the topics were approximately the same for each interview. The order of the questions also varied. Instead of listing all the interview guides, the authors have gathered all questions and subjects conveyed, in one guide. The interviews where freely conversations, with room for unprepared follow up questions. Before the interview, the objects were informed about the subjects the authors wanted deeper insight to, and explained where this information would be used.

Discussion

Thank you for taking the time to participate in this study. The study will serve as a conversation in which we will ask a series of questions and potential follow-up questions. There are no right or wrong answers, and we are highly interested in your opinions and attitudes about the different topics. We would like to use a tape recorder, so that we don't overlook any essential points along the way. The tape recorder will only be used to collect data, and will then be deleted. We will also be taking notes through the discussion.

Name:

Position:

Company:

Expertize:

Industry:

First of all: Feel free to ask any questions that come to mind during this discussion.

About the experts company or organization

Can you tell us about your company and the industry you're working within?

1. Do your company use web-solutions or on-premise-software? What are these solutions?
2. What is important for you when it comes to your company's web-solution or/and on-premise-software?
3. How is your company's procurement process?
4. Do you use cloud computing in any type of work situations?

Cloud computing market in China

5. Can you tell us about the cloud computing market in China?
6. What would you say are the benefits and disadvantages of using cloud computing?
7. Can you provide any names of cloud computing companies in China?
8. What are the main IT-issues for your company today?
9. What do you think would be the main challenges for a Norwegian IT-cloud company to enter China?

Cultural differences, Norway vs. China

10. What do you think are the main difference between (Norwegian/Europe/UK) and Chinese/Asian business culture?

Legal requirements and regulations

11. How is the process of applying for licenses when it comes to cloud computing?

12. What are the main issues facing foreign companies entering China?

13. What can you tell us about *the Great Firewall of China*?

14. How do new businesses prevent their products and intellectual property from being copied in China?

Consumers of cloud computing

15. What characteristics can you provide us about cloud computing customers?

16. Are they loyal to the company and product they provide?

17. Do you consider the Chinese customers as price-sensitive?

18. What type of payment methods are most common through e-commerce?

About AppsCo

19. What is your impression of AppsCo and their solutions?

20. Is this a service you could have taken in use? Please explain why or why not.

21. Do you think it could be a market for AppsCo's services in China? Why or why not?

22. What would you recommend AppsCo to do if they want to enter China?

23. If you were to consider a partnership with Appsco, what would you consider as the core resource they could bring into the agreement?

Tier cities

24. Are there specific characteristics that separate the tier cities?

25. Which of the tier cities do you recommend AppsCo to potentially enter first?

Is there anything more you would like to add?

Summary of Findings

AppsCo

The different discussions revealed a positive attitude towards AppCo's solutions. Dan Bjørke saw the solutions as both cost and time efficient. Features such as customizing the application package, buy and cancel application after necessity, and file sharing with all departments which gave supervision, were considered strong. Daniel Douglas expressed there would be a demand for AppsCo's services in China, and that the need for such services soon will be rising. Bjørke believes international employees would be the main user of these services, where Chinese employees might not see the point of using this service, unless the CEO tells them to. He stresses the importance of providing the idea to the managers, where the decision making process is hierarchical. AppsCo's services must be provided in Chinese to attract Chinese customers. Pål Bråthen consider AppsCo to be a small company, which lack competence in international business, specially China. To start their globalization process by entering China, is in his opinion a tough and tedious process.

Cloud computing in China

Douglas indicates that wages are increasing in China, and as a result Chinese engineers are hard to retain. It is therefore hard to obtain required competence, build a good team of employees and obtain required competencies within the respective companies. As wages increases, the need for helpful and efficient solutions increase. Bjørke, Douglas and Microsoft Azure tend to find Chinese consumers price sensitive and brand disloyal. Bjørke said Chinese tend to change between brands in the same category, dependable of the price. The various experts also mentions Amazon, Microsoft Azure and Aliyun as possible dominant competitors.

Douglas points out the essential point regarding the firewall surrounding China. The need for control, protection of local merchants, censorship and political issues are reasons behind the firewall. The combination of investment in China's

technology and sustaining the firewall are to protect the domestic market. In this way the Chinese government stimulate growth in the Chinese cloud industry, as copies of Facebook and Twitter have submerged on the basis of this.

When asked about payment methods in China, large differences between Norway and China are mentioned. There is no credit mark system and difficulties of demanding money after a service is provided. In the cases the money is collected afterward, the ability to shut down the service must be possible. The Fapiao is also mentioned, which is important when conducting business in China. This recipe proves your company are legit and the customer has bought a real service, in which they can write off on their taxes.

Development in the Chinese cloud computing industry:

The representative from Shanghai Cloud Valley (from now referred to as SCV) states that the government is increasing their contribution towards development of cloud computing in China. SCV have a good relationship with the government. SCV is visited by potential customers, with the intention to discover new technology solutions for their companies, to change the original business plan or find new business partner. SCV can help foreign cloud computing companies through the steps and the way to register in China, for free. The set up process is more complicated for foreign companies. The government strongly believes that cloud computing is a future solution to improve the Chinese economy. Microsoft Azure is already connected to SCV and so are Aliyun. Douglas sees the future IT in China through mobile units. This is confirmed through statements collected from the MobileMonday event, which states that in China everything speeds towards mobile units, and the use of smartphones and tablets are increasing rapidly.

Entry:

Douglas and Bjørke states that now is the right time to enter the Chinese cloud market. However, Douglas emphasises that market entrance demands commitment, strong financial resources, time, human resources and a long-term commitment. Bråthen arguments that most companies underestimate the process

of entering China, and simply offering a product/service ready is not sufficient. The preparations knowledge is crucial. Discussions about entry strategies underlined the importance of servers within mainland China, where it is crucial to gain speed, connectivity and accessibility. Following government rules and regulations, and acquiring an ICP-license, was essential to be able to provide and take charge of their services. *WikborgRein* emphasize that there is only necessary with one license per company, and the license is valid for the whole country, even though they might establish offices in different cities.

Douglas concludes that there is only two potential entry strategy for obtaining an ICP-license.

- AppsCo can either find a trustworthy local partner with possession of an ICP license, or a trustworthy partner that can provide it for them. The Chinese partner will in both situations own the ICP license and have the ownership of hosting the service in China.
- The second option is by a WOFE. A WOFE must apply for the ICP-license. This is both time and resource consuming, but the freedom the strategy offer is a great strength to consider.

Bjørke favours a Joint Venture strategy, where he believes it is the quickest approach to enter the market. AppsCo would gain knowledge about the Chinese mindset, a network and an ICP license through their partner. These factors, through a WOFE, will take considerable time, and the ICP can be hard to obtain as a foreign company. Microsoft supports these arguments and states that AppsCo can partner with a Chinese company, to avoid strict government regulations when hosting cloud services in China.

All experts emphasises the risks in a Joint Venture, and especially the protection of intellectual property right, unequal dependence of each other and legal upholding contracts. Bjørke claim there is no problem separating the technology from the partner, by giving them license to use the technology in the market and not the knowledge about how it is developed. Assuming the company can acquire the ICP license, Pål Bråthen believes a WOFE would work as the best entry strategy. This because of increased control and power over own company. He see

many critical factors by choosing a Joint venture such as, income sharing, dispute and partnership equality. Bråthen conclude that entering China should not be AppsCos first priority.

Alexander Levi said that all companies must have a stamp, to have properly valued documentation. An important aspect for Chinese companies is, who in the firm, physically is in the possession of the stamp. This can not be lost at any circumstances. *“Today I needed to get a document stamped. I asked the CFO and she took me into a room and opened a safe within a safe, there was the stamp. Then she stamped my paper and locked it in again.”*

Alexander Levi, Wikborg Rein

Tier cities

There is a clear agreement among the respondents to start in tier 1-cities, before entering the tier 2-cities. Douglas adds that 2 has the greatest growth potential. Tier 3 and 4 is under development, but should be considered in a long-term perspective. Bjørke adds that the tier 1-city, Shanghai, is the most innovative, and includes many international businesses and people.

Risks in general:

An unpredictable government presents a large risk when entering the Chinese market. Douglas mentions an example; the government as of now decided that no one can apply for an ICP license for the next two months. If a company involved in illegal activities rents servers at the same data center as AppsCo, it is most likely that these servers gets shut down. In addition, there are few Internet cable lines in and out of China. The risk here would be if an excavator accidental destroys the cable. There is also the risk of having your service copied. If entering into a partnership with a Chinese partner, the international company must find solutions to guard their intellectual property rights.

Customers:

All experts points out SME's as AppsCo's main customer base, as the larger enterprises have big and substantial investments in the IT-infrastructure.

Microsoft Azure:

Microsoft entered China through a partnership with state owned 21Vianet. The partner have the responsibilities for the operations in China, and Microsoft provides the technology, management, maintenance and all the investments in data centers. Microsoft have used a significant number of lawyers and legal help to ease the process of their entrance. Microsoft described the process as extremely time consuming, a consequence of government regulations and policy. It took Microsoft two years to enter China.

Culture differences:

Chinese business culture tend to communicate indirectly, rather than the direct Norwegian way. Bråthen believes that Norwegians, in general, has a low understanding of culture differences, and when helping them into China, he always advise a humble approach. Personal experience from Bjørke is that they tend to give out indirect signals, and the key is to understand the signals. They tend to avoid tough situations and are conflict cautious. Another important point is to never offend their culture. Chinese people will always show much respect and appreciation towards you - this is called *Guanxi*. It is therefore crucial to behave in the same way towards them in order to create a good tone for the meeting environment.

In China they tend to need the general managers approval on purchasing decisions, more than in western countries. The purchases are, for instance, made by Bjørke and the general manager, which confirmed what the authors assumed of an hierarchical procurement process. Wiborg&Rein points out that the written word, is not as binding as in the western business culture. In China, relations tend to be higher valued.

Discussion with Daniel Paul Douglas

Name: Daniel Paul Douglas

Position: Business manager

Company: ChinaNetCloud

Expertize: Server management, Cloud Computing and System and Server consulting

Industry: Cloud Computing

About ChinaNetCloud

Daniel works with operating as a service (server management) . Business where it is critical that the page has target uptime, which means that page-crash is limited to a minimum. Datacenter is basically a storage with electricity, cooling and internet continuity to the biggest telecom players. There are eight leading telecom players in China. The greatest difference of IT and cloud computing is between north and south China.

The data centers are servers where you can rent space, this is on infrastructure level. Example is Telecom and China unicom, they have subsidiaries they own, who are working with wholesales on servers.

To operate these servers you need high competence and technical insight to operate. Everyday support is necessary, and speed is crucial in order to prevent crashing. An alternative is to hire your own team, which is difficult in China. As wages are increasing rapidly and chinese engineers are hard to retain, the likelihood of them switching jobs for a better salary is high. It is hard to build a team and obtain requisite competencies. Specially, if you have an e-commerce website with millions in turnover, the loss could be severe if the site is down and operations are halted. This is why companies hire us to perform the operational aspects of the servers . Companies that require target uptime, similar to that of Youtube, facebook or finn.no, will purchase our services. We operate in five large sectors including e-commerce, new media, gaming. social media, web 2.0 and mobile.

Intermedia storage - Cash

Long distances reduce data speed. Intermediate storage or cash will shorten the distances and allow the data to move faster. Old data are uploaded faster than new data, because it is obtained from closer intermediate storage facilities. This increases speed throughout and decreases high traffic volume.

The infrastructure service is a cloud supplier, such as provided by Amazon Web Service, Microsoft Azure and Aliyun (Chinese version) ChinaNetCloud are above infrastructure as a service and deal with operational services.

Paas: An e-commerce module, with customize encoding becomes this platform or to make other applications.

CNC sell a promise that the server will not shut down, since this is highly possible. Though reputation and trust CNC has become a leader in their field, with knowledge and informations our customers need, they are bound to come to us.

The difference between private and public cloud

In the Public cloud all the servers are shared, which means information can be obtained from everyone and shared with everyone. This means less security.

In a Private cloud there could be, exemplified, 5 servers in the data center that is dedicated to your website or applications. Here the servers are protected with firewall security.

The bicycle example on public and private cloud:

Two choices, either you buy your own cool Giant bike or you rent a citybike.

With the citybike, you will get a bike that someone has used before you, it might be a little rusty and worn out, but it does the job. It takes you from A to B. This resource is cheaper than buying your own bike in addition to be more flexible.

With your own bike, which is fast, have cool design, just the way you want it and no one else can use it.

On one hand, to own a private cloud is more expensive, on the other hand, the cloud is all yours.

Private cloud provides quality, which makes a huge difference if you prefer speed and large memory, the expert recommends private cloud.

To choose between private and public cloud depends all on your preference of price, flexibility, escalations and security. If the preference is on private architecture there will be a firewall with a switch that bind the servers together and distribute it. The possibility to have several servers provide the security in which one server shuts down the other server will step in and nothing would be lost.

If you prefer public cloud there is no firewall on switch, there is only a joint one as a security.

The five 9s of availability

It starts at uptime of 99 percent, which a small simple business website. Or you can escalate it by adding a nine so it is 99.9 percent uptime, which is video, blogs and games. Then you have 99,99 percent uptime, thats for e-commerce, advertising and social media. And so on it goes, the higher it goes so does the price, but then again you will be ensured that you site will be down less and less the higher your number goes.

You have demand for uptime in different sectors, and it is very few who has a demand for 99.99 uptime. Institutions like hospitals and financial sectors with net banks and transactions, and they have the money to pay for this kind of service. On the other hand, do you have a website store, you can afford to have the website down 3 hours during one year.

Cloud computing in China

The expert says, according to Gartner's, cloud computing have a significant influence on chinese businesses, as a result, on premise hardware for these companies will be reduced. Cloud computing will provide flexibility and competitive pricing on applications and services of which these companies need.

In general it is moving fast along the “as a service”- line in the cloud. Everything are moving from physical unities to flexible services online. In addition, the speed towards mobile unities, such as smartphones and tablets is increasing rapidly.

“As a service” is a rent-model, similar compared to leasing. Distributions is easy and better for small/medium size businesses where the payment is executed monthly.

In difference to on premise software which is more expensive in the first period, because you need to pay upfront for installations, maintenance and have software supplier close by to followup.

What is critical when delivering cloud services in China, is the conductivity in and out of China, which is in poor condition. It will not work to deliver a application on SaaS from a server in Norway, it would take too long.

Number one of great importance when to deliver a “as a service” application in China is the necessity to have servers inside China and not just outside. In order to get the speed and accessibility desired, an operator who host your service is necessary.

ICP license

The second point is that in order to operate in China an ICP license is necessary, if you are to sell services, e-commerce or subscription, SaaS or games. What is needed, is to take a photo of your self with a paper stating your name, number and where you live ect. The license is personally, this to prohibit the license used to illegal activities. In order to launch Iaas, Paas and Saas an ICP is necessary.

In order to receive an ICP license there is two choices, the first choice is to have a partnership locally which fix the ICP on your behalf.

The second choice is to develop WOFE (wholly owned foreign enterprise) and apply yourself, which takes 6-12 months and \$150 000 investment capital

If the target is chinese people in China market, a server inside China is essential, the reason is to prevent dealing with slow traffic in and out because of the firewall around China. Note also, if the service delivered demands payment the government will intervene and demand ICP- license, and then shut it down.

The governmental investment in Cloud Computing

One big issue is the firewall around China. The government has the power to open it tomorrow and access to Facebook and Youtube would reachable without a problem. The need for control, protectionism of local merchants, censorship and political issues is the reasons for sustaining the firewall. Yes, China is proactive and invest in cloud computing, but they want to keep it internally to protect their domestic market, which gives them control who can do what.

They have created copies of both Facebook and Twitter. In a way this stimulates growth to Chinese companies when the competition of foreign companies is not present.

Entry Strategy

When assessing the quickest process to establish yourself in China, partnership will be the best option. The risks lie in both the trust in relationship, and to be sure the partner's culture says that you can get investment back if the partnership ends early.

Trust is highly important when handling intellectual property rights, to ensure the partner does not copy your service and starts their own in China. It is important to know that the ICP is owned by the partner, which means they have the legal rights to your product in China. Even though in general the rights are yours, the person with the ICP owns the rights in China. This kind of relationship demands a close and trustworthy bond.

So, the counterpart is to set up a WOFE, which takes 6 to 12 months just to apply for. Next step is to find suppliers, establish an office, find technicians, IT people and sales people. This takes time and the expert assumes probably over one year before you can release your product to the market.

Largest cloud computing companies in China

Locally is Aliyun and several small ones. (talking about cloud infrastructure)

International, it is Microsoft Azure, which just launched a couple of weeks ago. Amazon has just arrived in China, thus they have worked over a long time period to build up services.

- Risks when it comes to cloud computing?

- DDOS - attack, which means an attack with intentions to make a machine or network resources not available for the intended users.
- Government, unpredictable what is to happen with rules and regulations
- Uptime, because in general there is no control when it comes to the government. Ex, if it is a political conference they can suddenly announce that no one has access to their servers in one month, because of this

conference. If a website shuts down in that time period, there is nothing to do about it.

- Conductivity, few lines in and out of China. The risk is an excavator digging through one of the lines, which means even slower lines.
- Intellectual property rights, easy to copy the product.
- ICP through partnership - important to trust them completely, as they have the rights in China.

Payment method

Payment is very different from Norway. If you do not pay in time you will get a credit remark, but in China you do not. It is therefore very important in China to have a way to collect the money before they use the service or you need to have a possibility to shutdown the service if they do not pay. That again depends on the service, if it has an effect that you shut it down. The timeframe is very important here, that means how long it takes for you to realise the customer has no money, and might just switch to another service, and will never see the money for the service provided for last 3 months. Much is based on trust.

If you are to sell “as a service” it is important to know that many businesses and private persons do not require a credit card, then you have to use some payment services as Alipay (aliyun) it is the same as a payphone card where you prepay for what you are using. It's a debit system. Then you have Fapiao, where you make sure the business pays taxes when they print this kind of receipt. If you buy a service you can get back on taxes. If you are going to have the service here you need to have a local company to do so. If you can not give them a fapiao, they might not want to buy from you, because then they can not prove that they have bought a real service and not done it by corruption and so on.

Who are the customers of Azure and AWS?

Companies, B2B

Do the customers buy on the base of quality or price?

It is very different. Some are very price sensitive, and others are willing to pay.

Chinese people in general is price sensitive, and it is hard to say concrete. it is different if you are in 1, 2, 3 tier city as well.

Sales cycle

Relations to make sales is very important in China, in difference from direct sale in Europe.

When handling “as a service” is paying a critical issue to handle, how to collect your money. Then you need a ICP to do it, and how is the customer paying? up front or debit system in “paypal” way. - Chinese solution is based on debit. The negative here is that this debit card is attached to one person in particular, so if that person quits the job there will be no payment. then you have to fix a new debit card account. This is more primitive way to solve the payment issue, the solution is for us old. Thus is very important information when doing business in China, since collecting payment is essential and critical for businesses to survive. It is important to know if you are a “need to have” or a “nice to have”.

He thinks of one company who could be a competitor of AppsCo, is Mobileiron

Labor force in China

In China it has always been huge manpower/ labor force which low wages is a consequence. But now in tier 1 cities are the wages increasing rapidly. So the market demand for launching software is going increase, because now you can not longer hire 5 people to fix a problem, now you need effective systems to increase the efficiency. Before they have never seen the value in software, because they could hire as many people as they wanted who could fix the problem. Now resources are low and wages is expensive, then you need software that are efficient and helps you.

The technology to deliver these excellent systems transfers very fast to applications on handheld devices, which operates in the cloud which again gives fast distributions, with a payment that are flexible in a leasing model which over time is more expensive, but are flexible for little startup. Because you can distribute all over China very easy through the net, and if you have servers that strategic placed around China with CDM -network, so the information wanted can be collected faster.

It is much more difficult to enter China than the rest of the world. Because you have “China internet” and then you have the rest of the worlds internet. When looking at China's infrastructure you clearly see standards which were interpreted in the US and Europe 30 years ago, is not even in China. Huge difference in development when looking at the rules and regulations on cable solutions and payment tariffs. In Norway you have rules on renting cables, because there are many different cables and there are rules that has been set so there will be equal price for rent everywhere.

In China if you want to reach customers in south China and you have the cables in the north, you will need to buy cable “space” from the one in the south. The government sets different prices on different cables, so it is more expensive for one to rent from the other. Therefore they sabotage for each other so the lines will be even slower then before. In China you have simple lines, indifference to Europe where you have BGP, which means that the line will rout you to the fastest track available so you net traffic will move as fast as possible. Simple lines in China means that the signals will be standing in line, just because it does not know how to move around.

And there is no solution in sight, because it will not benefit the one owning the cables.

About AppsCo

He think it is an interesting service, and thinks it will be a demand for it. In china all moves in big steps at the time. I think China has the biggest population of mobile device users. (double check if its right)

So to have a company where you can administrate which applications your employees have and which different personnel has access to is becoming more and more important in a organization with many people. This will be a attractive product to have.

Europe and Norway we have cratuatly moved from stores to e-commerce and it has taken a little time for the adaption to have settled, the to mobile net bank , mobile commerce. In contrast, China just jumps, and suddenly everything is available on mobile devices. So the future in China is mobile units. The timing now when Amazon AWS and Microsoft Azure are launching their cloud service

right now in the market, which makes it easier for businesses like AppsCo to host it here in China.

The timings very good in 2014/ 2015 to move in to the China cloud market.

The main point is that you need to be here and you need to operate the service on servers in China- if you offer services in the cloud, and you want to reach chinese consumers.

It is important to keep in mind that this industry move fast and are rapidly developing, you need to keep up.

Right now the government has decided that no one gets a ICP for 2 months. This means that alot of businesses that want to start in China needs to wait and see what is happening. This ia a risk that you actually need to take into consideration when you are to do busness in China. You will never know what the government will do.

What could ChinaNetCloud provide for AppsCo:

What we could have done for AppsCo is that we could have set it up and operated it. But we are more a linux business, not so corporate.

He thinks that many foreign and domestic companies would have use for AppsCos service.

- but the customers business must consider if they want to take responsibility for the applications my employees has.

- why should the CEO pay for facebook and angrybirds on the dashboard, when that has nothing to do with work?

He believes in this for the future, because more and more business applications are going to be more facilitated for mobile unities, like SAP and CRM systems. So when the main users have gone from on-premise dressing with installations from CD . Now it is moving over to web SaaS, when that is big enough and the adoption process have come to the point that everyone uses business applications on it, then will a business leader say I need track of everything my employees use and what they need to have. relevant applications for each of the relevant work descriptions.

He believes that this product at this place in time will say it is a a “nice to have“ and not a ”need to have”, but this will most likely change.

Somebody has to start for it all to grow. It is too late to enter the market when it is booming. And specially when the company needs to go through all the application processes and waiting before it can set up the business. The early entrants will most likely then cash in on their early investment boldness. This requires investments in the market both with time, product and sales. Failure will happend, and you need to be prepared of that, to have a failure-buffer so through this learn the market. So when it all is booming and the mass markets is there. Then you have presence and can meet the demand, when other businesses must first start applying for the CPI which previously mentioned takes from 6 to 12 months just to get the license.

The timing is very good now and its good time to enter the market. But behind lies a commitment which demand money, time, human resources on it and you need a long-term perspective on it. And when thing happens in China it happens fast.

It is many SaaS - services and applications which enters the chinese market now, and when they have finished set up and makes it available for employees to administer in the service AppsCo delivers.

Potential partners

- Choose a partner that already have synergy with AppsCo, which means that the two different companies compliment each other and both has something to give to the other part. So it gives balance and added - value both ways.
- They should already be established and they have a customer base
- What is important in china, is that both parts have equal rights and power.

Which tier cities to entry?

Long term it is more growth in tier 2 cities, that is where the sweet spot is. Tier 1 cities are starting to have fiercer competitions and saturated, it is still market there and possibilities. It is just that growth rate are starting to get a little mature. They should start in tier 1 to get the reference - customers and then work their way into tier 2 cities.

Discussion with Dan Bjørknes

Name: Dan Bjørknes

Position: Founding partner

Company: NorVisdom consulting

Expertize: Norwegian companies entering China

Industry: Chinese business law and regulation

What is your impression of AppSCO?

It was a good presentation, and they seem to be a good established company.

They should consider Kickstarter, which you can sponsor different product and companies.

It is a cloud incubator just down the road, which houses cloud computing startups and they have an exhibition where you get a introduction of the companies and other good information.

- Could you consider using this service?

Yes, at least the first part (AppSCO Dashboard). that could have been of interest. We are in a process of gathering offers from different programs. The negative part with this is that we need to pay, lets say RMB150 000, and there is programs included in the package we do not need. So if we could choose which applications we need and buy a certain application for a given time period and then we could cancel that particular application after the project is over, in addition to have the possibility to share it with all of the partners in different places, that would be great. The most important is the ability to share it with the right people and within a given time period. That would be more efficient use of the companies money.

- Do you think it is a market for AppSCO in China? (From a chinese company perspective)

That is hard to say. They are very fund of the Internet, however from my experience if this service were implemented in our company it would had been because of me. And I would have maybe been the one using it regularly. To sell this to a Chinese company would be hard, because they might not see the point of

it. The transparency is something Chinese people is not used to and a little uncomfortable with. We are working now to implement and get them to use a accounting program, with rapports monthly. Which is very new and a little scary for them. If I would ask Ying, my boss, he would say that there is no need for it. The approach could be to introduce it to the international workers, which can influence the decision to implement it. However, the most important factor is to get the chinese to use it.

If the Chinese CEO/owner of the company in hand would give the order that it is the program to use, everyone would use it. If not, they are not likely to do so.

Note that is is important who is targeted and one other important factor would to have respectable international project managers, which confirm the importance of the service.

Entry strategy

ICP license is very difficult to get. Then you can do a Joint Venture with a company that has this ICP license. The Chinese partner would enter into this cooperation with this license.

- Then the question about intellectual property rights is an issue, what is your thought about that?

If you do a joint venture with a chinese company, which gives them a license to use the technology in the market, however this does not mean that they have the rights of the product, just the rights to use it.

Example,

You have a entity in the middle, and then you have the chinese part on one side which owns the ICP license, and then the norwegian part on the other side which owns the technology. So they say that this unity in the middle can use the ICP and the technology. This third part which is own by both parts do not own either the ICP or the technology, but they use it through a contact.

You do not need to give the chinese partner access to the technology, you need to write specific contract rules. But you need to take into consideration that they can over time learn the technology so they might develop it themselves.

Through establishing access rules, which will prevent certain people to get hold of information they are not entitled to. The technology offered can be programmed in Norway and the just implemented in a server China. It is not necessary to do this in China.

What is important here is the market access the chinese part can give you, which you would not have with a WOFE.

The Chinese must protect their interest and so must the norwegians. Which is important so neither of the parts loses its value and give the other part more power or advantage.

The catalogue, guide on foreign investment, which divide all the industries you can invest in into three parts. Number one is promoted, second is restricted and third is prohibited.

If the service you are representing is in the restricted part, then the application time may take some time.

Under Chinese company law you have four laws: Chinese joint stock law, Equity joint venture law, Cooperative joint venture law, Fully owned foreign enterprise law. The least restrictive of the four is fully owned foreign enterprise law.

It all have evolved gradually, fort you could do a JV in China, and then it was allowed to do a WOFE. The big difference is how many years you need to complete the transfer of your equity.

Ex, lets say you have registered 10 million in equity, in China through a JV the time frame is two years. However, in a WOFE you have three years to do the same.

When establishing a company in China you need to do a business scope, which take 3 months and need to be so concrete a possible.

In addition you need to write a feasibility analyses, which you must send to the government. They will evaluate the business plan and the growth possibilities. In which they compare how much equity is invested in the company and this must be equivalent to each other.

From Mars 1th, there is no demand for equity, but it is recommended.

You need to be sure that your plan for the company must be equal to the amount of resources planning to invest in the company.

How important Chinese network and employees are

He highly recommend to do a JV, because of the market knowledge. Chinese must do business with chinese, this is a fact. Because Chinese people know how chinese think, operate and communicate.

Market network, needs to be a chinese network. What the chinese can contribute with is the license and the market knowledge. In my experience, the decisive factor is to have chinese employees doing the negotiation. We have long pre-meetings where decisions such as bottom line and our goals is decided. In the meeting with the other part, it is only our chinese representative, which negotiate with the other chinese part. This is essential when a deal need to be made.

Another point is that Chinese will always praise you visiting them and thanking you for taking the time to come and so on. It is therefore crucial to show the same respect and understanding in return. This sets the tone for the meeting environment and even the end result, which is highly important to understand when doing business in China.

There are different codes that only the chinese know about, we determined a customer relationship sending them a message stating a meeting at Starbucks for coffee. never heard from them again. They needed us, and not the other way around, and they wanted us to pay for a dinner meeting, which we stated would be at Starbucks.

Which tier city do you recommend AppsCo to establish in first?

That would be tier 1 and 2.

Tier 1: Beijing, Shanghai, Shenzhen and Suzhou. Because it is all about user habits and the advanced technological knowledge of it.

Think that Shanghai is most innovative of them.

Cities that are more used to work with international businesses and people, tend to be positive towards this kind of service. South China is central here, cities such as, Guangdong and Shenzhen.

Do your company use cloud based solutions?

We use Dropbox, all our documents are shared and stored there. We use Dropbox, because if the PC get stolen or damaged, you can just buy a new PC and you are up and running in no time.

And then we are gathering offers on accounting programs which is in cloud, at this moment.

We are strong believer of internet programs which is cloud based, so that our company in different locations have the same access and if I travel to Norway I am able to work from there.

The purchase process of the company, who is involved?

That would be me and the general manager, remember we are a small company so there is no need to involve to many people in process.

- Do you see any disadvantages with cloud computing?

To get Chinese to use it, a demand would at least to have everything in Chinese. The accounting program we are looking at know have the possibility to choose between english and chinese. So me and my boss can look at det same document in a meeting and be sure that we talk about same case. And then security might be an issue, but knows little about it. Does not think of it as a large problem, find it in general safe to use.

- Do you believe Chinese is price sensitive and brand loyal?

he believe they are not from his experience, They are likey to switch as they please and hard to get to be loyal to one brand over time. Chinese are more category consumers, which means they are not concerned with the brands in the category, but they are users of the different brands in it. they for example drink sodas, but not that concerned if it is cola or pepsi.

Whats your opinion on the difference of B2B and B2C consumers in China? (Aiming at the purchasing process)

The difference mentioned is that B2C is more effective when making a decision. In which B2B tend to be more rational and more investigation on the service/product is necessary when needed to get a approval from the top-management.

In China, they tend to need a general manager approval on purchasing decisions, than western countries. The company do not use or buy anything without the owner or top-management says its ok.

Any episodes which highlight the differences between Chinese and Norwegian culture?

The usual that when they say yes, they can mean no.

He has learn that when his chinese partner say “good” it means bad and “great” means that it is very good. So there are several codes that is necessary to learn, and catch. They tend to avoid negative situations, and say it is ok or nothing at all. Therefore it is crucial to look for the “hints” that are given by them, in that way you can catch if you have done a good job or not. And if they like you product and want to buy it or not. In addition, use common sense, and think about how you thought the meeting when.

And an important factor is not to offend them by trashing their culture and way of doing something. They tend to be touchy about this, as well as any other culture. Always be polite and show respect. Whatever you do, do not make them lose face. The offer of socializing is more presented and wanted when you do a good job, then when not.

Expenses related to the entry strategy, do you not need registered capital?

You need to send in many documents. the first is 8 names, scope and how much you are investing and how are going to invest. Send in at least 3-4 names, because they are going to decide name for you. It all take about one/two week, and they tell you if you are approved or not. This cost 6500 rmb.

After you have approved the name and scope, then you send in the feasibility analysis, AOA and partnership agreement. In addition, papers that prove that you are the owner of the companie and revidert accounting rapport, which must be stamped and approved at the embassy. The feasibility analysis are to be sent in at fase 2, where it is weighed against how much you are going to invest.

Need to check the criterias expected of the industry in the 2011 catalogue for foreign investments. Restrictions.

we are launching a new website which takes us 20 days to do. There is much you don't know, until you are doing it or experience it.

Is it a timeframe for Joint venture?

Every contract in China has a term, which has an expiration date. It is up to you how long the contract should last. 180 days before the contract ends, you can apply to extend the contract. Then you need $\frac{2}{3}$ or 50 percent of the votes from the board to do so.

You can end the JV whenever you want. What you need to think about is when one part would like to end the cooperation, what happens then? It is therefore important to have clear guidelines in the contract on what to do if this happens. Ex, Wanting to sell, the rule could be that you need to offer it to your partner first, before selling on the market. (right of first refusal) Important to add clauses in the contract, which say that if certain situations occur, then the company can be closed, or sold etc.

You need to read the eight laws:

- Company law
- JV law
- Implementation regulation of JV law
- Two different JV laws; Equity (20/80) and cooperative
- Fully owned foreign enterprise law : two inside here, which is : fully owned law, implementation regulation of JV.

Discussion with Pål Bråthen

Name: Pål Bråthen

Position: General consul

Company: Innovation Norway

Expertize: Helping/assisting Norwegian companies entering China

Could you tell us about challenges you experience in China, and what AppsCo might encounter?

The government support the domestic companies, and creates obstacles for the international companies. Give access to some, in order to learn from how large international companies works and to get insight of their technology.

In his experience every industry he works with meets heavy bureaucracy in China. Another huge challenge is to change everything into Chinese characters. That is an extremely large job. He emphasises that Microsoft Azure, one of the world's largest and most resourceful companies have used 2 year to enter China, gives a perspective in how much work that needs to be put into a entry in cloud computing market. In Bråthens opinion should not be AppsCo's first priority.

Pål Bråthen states there are many companies which gapes to high and think that entering China is easy, it just to have the product ready. In his experience, is not the case. Entering China is very difficult. This is very typical Norwegians; have excellent technical competence and develop products, brings it to China and think most of the job is done. This is very typical, and my answer to them is, only 10 percent of the job in done. In addition, they have no knowledge about China, the culture. They know nothing about the surrounding conditions. There are many regulations and laws, to protect domestic operators. Many aspects much more difficult to handle then in difference to the open economy Norway has. Norway is one of the easiest countries to enter.

When entering China, The Firewall, servers in Mainland China, and control of Internet content must be considered, what are your thoughts about this?

He see the risk if an opposition group uses the same server, then you can forget about ever see your content again. When they come after them, the whole thing

will be closed down. You are left without anything. It is no possibility to have control over this.

Another important point is, if AppsCo or other contributors creates an application Chinese government do not approve of, they could close down the server or block the service.

Bråthen has experienced a company control, in this case said they do not like it, and then it cannot be in this way. This is what kind of country we are in right now. How can AppsCo have control over this? Can some Chinese with authorities have the job to approve what is published through AppsCo?

What would you recommend considering the two possible entry strategies?

If the case is a company, which have no network, need much government support and there is a Chinese company, which have this, a partnership would be a good solution. But it is important to consider every company individual.

In his opinion as they are a relatively small company. They must focus on the market expansion. They have a weak business development muscle or lack competence on international business. To start with China, is very though. Why not start with Sweden?

AppsCo have been through a program innovation Norway holds in US, similar to the incubator IN have in Shanghai. This gives you a chance to test your idea for a larger market than Norway, it does not tell you to go a head, but are meant to help in settling if what you are doing has a purpose and a meaning. China is a difficult market, language and cultural wise and if you in addition need a partner.

Does Innovation Norwegian help Norwegian companies enter into partnership with Chinese companies?

Absolutely, if we can help and know of relevant businesses. We are always positive to help Norwegian companies succeeding in China.

What entry strategy would you choose?

He is reluctant when considering a Chinese partner. The sharing of income become much more complicated. He is fond of choosing the WOFE

solution. Then you have control within the rules that apply. This assumes that the company get the ICP License. Build the company and grow in the market.

He would choose WOFE, because it is many critical factors in a JV. A partnership may end in disputes and it is difficult to protect the innovative product. Difficult if the partnering company is bigger and stronger than you. He would have chosen his own way and done it all the way. If he needed capital, he would try to collect it other ways than to do it through a partnership.

It takes six months when applying for a WOFE. IN have standard documentations because we do this for many Norwegian companies every day. He estimates from start to end it takes – 6 to 8 months. It is a complicated and tedious process.

He point out that the benefit of going in through a partnership is the quickest way into the market, on the other hand he believes it to be too risky. When entering with this kind of technology in a country which are experts in copying demands much of you. And most likely you will lose. He would not do it.

INCUBATOR – Innovations Norway could offer AppsCo to join this.

Cultural

He believes Norwegians have low understanding of culture differences and are not humble when it comes to what is different. Which applies in large degree here in China.

Contract, the written word is not as import and and binding as we see it. Contracts in our world are not the same here. It is the relations, which is the most important.

Discussion with Austin Wang

Name: Austin Wang

Position: Representative from Microsoft Azur

Company: Microsoft Azur

Expertize: Enter China with an cloud computing company

Industry: Cloud Computing

Your experience with entering Chinese market?

The product just launched. Window Azure in 26th of March and Office sify opened 15th of April. It has taken a long time to enter the in Chinese market, because of the government regulation and policy are very different from America/U.S and other countries. And the data center should be separated by the world wide, by the United state data center. It is different, the data centers must be isolated and stand alone. In china we have set up two data centers,Shanghai and Beijing. Alot of things to enter this market, so the government regulation issues. Over two years it has taken, before deciding to invest in data center in China. For 2 years we have not set up data center, to launch in China.

What entry strategy did Microsoft Azur use?

It is a little bit complicated, because currently the Office sify and Azure is a operation by the 21Vnet. This company is state owned, but they are responsible for the operations.

Microsoft provide technical, management and maintenance. In addition, all the investments are from Microsoft. Such as the data center, service level, to keep the standard. Same as in the U.S.

Can you tell us about Microsoft Azure and Office Sify?

Window Azure cover the Iaas and Paas. And the Office Sify cover the Saas.

Due to government regulations any FDI can not host this kind of service in China. You should choose a Chinese partner, which operate services on behalf of the company, just as Microsoft. We are providing the technical support, and the face out is our partner - Microsoft.

The contracts are signed by us the Chinese partner and the customer. Microsoft can not sign any contract with the customers on this kind of services. So this is tricky. Specially for IaaS, it is restricted. PaaS is a different story, but still some regulations.

Is it different regulations for each of the models (IaaS, PaaS, SaaS)?

Most of them are in Chinese, and are through the government webpage. Microsoft have used many lawyers and legal help, which provide professional tips and what kind of model you can provide if you obey the rules of the government. So I think it is a long way, especially if you want to go into the chinese market with a cloud service.

It is a long journey, and a lot of work to do. And to have a local partner and build up the relationship.

If you have a data center is in onshore there is regulations, and the police may enter the data center and shot it down, take your servers and go.

Have you experienced that?

No, because we consult a lot of lawyers and we have found partner here. And this is why it has taken us one and a half year to launch pure services here in China. I think government think that Microsoft is a good corporations, so they would not do anything to them.

What do Microsoft offering their customer solutions ways:

- Virtual Machine (VM)
- Network, including the CEN, VPN
- Virtual network
- IDS -
- Storage
- Website
- Window Azure cloud service which is a PaaS platform.
- The developers or the company can develop with Azure, not deploy the VM on Azure.

Guided Exhibition at ShanghaiCloudValley Center

Name: Chinese informant (Requested to be anonymous)

Position: Representative from ShanghaiCloudValley

Company: ShanghaiCloudValley

Expertize: Cloud Computing

Industry: SCV is an company and organization that helps cloud computing companies in Shanghai

What is ShanghaiCloudValley?

Shanghai Cloud Valley is a technology park, at present time there is almost 120 companies in Cloud Valley. Today in China, the need for more servers is increasing. So the choice, which needs to be made, is either to buy larger facilities to store more servers or to invest in cloud computing solutions. Cloud computing is pay on demand based and there is no need to buy more servers.

You have the Iaas, Paas and Saas. Most of us are using the Saas. If you have a game in your mobile, you just need to download it and pay for it.

We are a economic park as well and we want to attract cloud computing companies to join us. The reason why we have built up this is to show which kind of technology is in Shanghai, China, that can provide the people new services.

And let all the people know that the time for cloud computing is now.

We have some government tasks, because in China we have a 12-year plan, in which states that we want to accelerate the cloud computing industry. So therefor the government have several steps to contribute for this development.

We are the main organization that to put this task to complete this task faster.

ShanghaiCloudValley is an organization for all the cloud computing companies in Shanghai

In Shanghai we are, but we are not the only one. There are four other cities that have this testing. Wushi, Zhenshen, Beijing and Shanghai.

We are the second one to get this task in Shanghai actually, but the first one where not successful. The government bought many servers, but no companies where

coming there. So ShanghaiCloudValley where established in 2011, so we have in less than 3 years attracted more than 100 companies.

Exhibitions center where build up in 2012, and know much more companies know what cloud computing are. Another reason is that the government have focus highly in this field, so people get to know and use this technology.

Many people have visited the center, especially government leaders. They want to know about the newest product, and information.

Users are also coming to visit, the reasons why might be to get some new technology in their companies and change their business plan. Their purpose is to find a cooperative partner. Then we have the leaders of cloud computing companies coming to visit, they want to find some resources or cooperation with other companies because they know what they can provide, and it is very clear what they need to get from us. We are like the platform that creates an environment that brings people here, and bring opportunities in cooperation, communications and a chance to get some information.

If you have a cloud computing company, maybe a foreign cloud company that want to register in China, you could let us know, we could set up the company and the registration steps for them. We are very professional and we have a very good relationship with the China government. So we know the policy and all the steps.

UCloud, their CEO comes from Tencent, and the company is very famous here in China. They have increased very fast, and they are registered here with us. We have a very good relationship with the CEO.

In which service are Ucloud providing?

They are in IaaS and PaaS. Their services is rent, so most cloud computing companies in gaming world would use their services.

VMware? Is doing the PaaS, which is a basic platform. And is also here in Cloud valley.

Now days the cloud security is a problem and a worry for the people. We therefore introduce the cloud safe service, how to make the technology and be safe.

We have the cloud ocean plan, made by the government. They are focused on the cloud industry. And believe that this will be the new economic increase point. So they put a lot of resources in to this. Jangpu is the most innovation place, which support the cloud computing to get bigger.

We have computers in the exhibition, in which cloud computing company can use to introduce themselves. So when potential customers come, they can search and find a compatible service they need. You can leave your contact number or a way for them to reach you here. The main problem is that this is only available in Chinese.

Do you have any requirement to the companies wanting to join here?

Your company could be apart of ShanghaiCloudValley. We welcome all, no matter if you are domestic or a foreign company. There is some difference; as for the foreign companies the setup is different. The regulations are different.

We are partners with Microsoft Azure. They give good training class and they invite some companies to join the class. We provide the place for them. We are also partners with Aliyun.

Do you know anything about Amazon registration in China?

Amazon is not registered in Shanghai, but they are in other local Chinese cities. Because, office cost is lower.

We are also a company, so our founder is also in CBC (China Broadband Capital). A large company focused on industry investment, and they have invested money in Amazon. It is a partnership and they have helped Amazon come in to China.

For a foreign company to come in to China, They need to have the ICP license?

No, it is up to your company. In the future you need to apply for the ICP license, but we will help you establish the company first. Then you can apply for the license. Before foreign company could not apply for ICP, it was forbidden. Currently it has been different.

What could ShanghaiCloudValley offer AppsCo?

We could offer them a partnership. We could help them with what they need. They will bring income to Shanghai, China, so if they have good income, develop and perform well we will get a bonus from the government. So we do not charge from the company, but the government support us through tax. And the companies can show their products here for free, no charge.

Discussion with Alexander Levi and Xiaomin Qu

Name: Alexander Levi and Xiaomin Qu

Position: Senior associate

Company: WikborgRein

Expertize: Chinese business law

Industry: Lawyers

Comment: The discussion took place prior to submission date of the thesis. It was done clarity in laws and regulations regarding a potential entry into China. The main focus of the questions that were asked, were therefor different from the other interviews.

ICP-license

Applying for the ICP license:

The company must apply for the license in the province it is located in. There is only necessary with one license per company, and the license is valid for whole the whole country. Even though they have offices spread around different cities. It is not necessary to apply for additional licenses for the various offices.

WOFE

WOFE must be wholly foreign owned, which means it cannot have any Chinese investors from within China, all from abroad. An important aspect is that it exist several forms of WOFE's, regarding what they want to do. As we understood the services your company provide, they are a *technology (consultancy) WOFE*.

The key difference between China and the western countries is that it is easier and a quick fix to set up a company. In China they require documents of all the aspects of your company, and everything needs approval.

How long is the applying process:

Estimated time from the process starts, to all documents are approved, will take between 3-4 months. However, we recommend all our clients to estimate longer

time, as it often arise difficulties along the way. How advanced and complicated your business is, the longer time the application process will take, because the authorities need time to review the documents.

Regarding your concern about how time-consuming it is to set up a WOFE. It is no requirements of how long the mother company needs to have been established, before applying. If they wish to set up a REP-office, it requires that they have been established for two years.

Joint Venture:

When it comes to the benefits of market penetration through Joint venture with a local partner, this can easily be done with a WOFE as well. Find a person who know the market and have contacts here, make that person a general manager of the company.

You often hear stories about western companies who have been fooled by their Chinese local partner. It is a disadvantage that you do not know the industry, market and language.

Recommendation:

We would highly recommend choosing WOFE as an entry strategy. Most of our clients go for a WOFE. There are many examples of extremely successful joint ventures and WOFEs in China. The key success factor is that they have had key-people they trust, here. Usually it is someone from the management team, and that is important either the entry strategy chosen.

General information about entering China:Prevent copying:

Regarding Joint venture it is possible to establish a legal licence or and agreement to insure the legal ownership and intellectual property rights. A license agreement between the local partner will ensure that AppsCo legally owns all the intellectual property rights. In practice it may not be any consequences. There is nothing that prevents employees of the local partner to steal the idea, if they understands and have access to the technology. You can take them to court and sue them for

damages, but at the end of the day, if the technology is gone, it is gone. This is clearly the risk of Joint venture, it is also a element of why AppSCO should consider WOFE. A WOFE being slightly safer in terms of if the technology is really that important for them.

Financial:

It is the same cost to establish in China as any other foreign country, there are only required more documents. It is recommended to invest with an ulterior motive that the company shall not bring in revenue of 6 months. After 6 months when they are receiving revenue, the WOFE can use from their own funds. They will use their registered capital as their working-capital.

The invested capital should include calculated rent, employee, salary and expenses for servers, data-centers in mainland China.

It is difficult to transfer the capital from the parent company to WOFE , calculate how much they will spend during the first 6 months. If it is new investment to the subsidiary company, the government requires documents, and approval is needed.

So think a head and provide enough invested capital

Every month they must hire an accounting firm for book keeping.

Example: A client of us, a Norwegian software company, invested RMB 500,000. They had estimated an increase from 5 to 11 employees in three years. At current time they are only present in Norway and China.

Post business license steps

The registration steps applies to both of the entry strategies. In addition that the Joint venture license agreement also should be submitted with the applications documents.

Step 1:

Prepare feasibility study report and other documents as incorporate certificate from the parent company, to MOCA for approval. Documents from Norway are required. MOCA will issue approval letter and certificate.

Step 2:

Bring the documents from step 1 to the register office SAIC (State and Administration of Industry and Commerce). Bring the document from step 1, to apply for the business license.

Step 3:

Then there is necessary to provide other certification certificates from four different bureaus. (Tax, statistic etc.)

Step 4:

Get the police to approve your company`s stamp

Step 5:

Create bank accounts

Duration time:

1. The duration time for step 1 and 2 takes approximately 1 to 2 months
2. From when prepare the feasibility study report to when the bank accounts is open takes about 3 to 4 months.
3. The approval time of ICP license, 1 to 2 months. There is not possible to apply for ICP license before WOFE is approved and established.

Total duration time:

Approximately 6 months.

The government can also challenge them to find additional documents, they must be prepared for that.

Further explanations

Feasibility study report Assess now for 3 years in the future (ex.What will the projected turnover ask etc.). The government requires many documents, but there are documents, which should have been drafted anyway (ex. business plane). So it can actually be helpful that is required so many documents.

Business scope is written in to your business license. Set up what the company does and can do. It is the box within the company can operate. Stay in the box and try to make it as wide as possible during the applying process.

Stamp - All companies must have a stamp, is the only way to have properly valuated documentation. An important aspect for Chinese companies is, who in the firm, physically is in the position of the stamp. As this can not be lost, at any circumstances.

Example: Today I needed to get a document stamped. I asked the CFO and she took me into a room and opened a safe within a safe, there was the stamp. Then she stamped my paper and looked it in again.