



Innovative Strategies for Exploring the Potential of China's Market

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Abstract

As the world's second-largest economy, China plays an important role in the development of world trade. With nearly one-fifth of the world's population, China's market has huge trade potential for each country. In the process of expanding exports and investment to China, many countries face a lot of trade barriers due to China's large market span, complex structure, and different consumer preferences, so exploring China's market has become a difficult research topic for many economists and entrepreneurs. It is also a complicated strategy for different companies choose different cities and regions when entering China's market or expanding their market share in China. The research subject of this paper is exploring the potential of China's market, and the research object is three dimensions (geographical, economic, and import potential) analysis of market entry approaches in China. According to the depth, breadth and market potential of China's market, this paper makes a comprehensive comparison of different methods to enter China's market. The research results will help a company improve the efficiency of penetrating China's market. In the conclusion part, this paper summarizes new scientific methods and steps for international companies to explore the potential of China's market.

Keywords: export, Chinese cities, trade barriers, city division, China's market

1. Introduction

Despite the previous researches get positive developments in China's market exploring, acquiring reliable information and, in particular, the understanding of the market presents big challenges to the development of a viable Chinese marketing strategy (Walters & Samiee, 2003). Market exploration in China helps to improve new product innovativeness while market exploitation is more beneficial for new product development (Zhang et al., 2015). China's government has been encouraging export-oriented foreign firms' investments in free trade zones along the coast (Jiang & Prater, 2002). While the European companies have been able to establish their business in China, their moderate level of satisfaction with marketing performance there may be attributable to their inability to build very strong and appropriate guanxi with the relevant authorities (Tung & Worm, 2001). More important is to comprehend consumer behavior, and it is necessary to understand the diversity of cultures, geography,

economic development, and the changing purchasing power of citizens in different parts of the country (Polsa et al, 2016). The economy of most regions in China is still in a backward stage except a few developed regions and the economic polarization of China is quite serious (Qi, 2015). In China the so-called preferential policies for international companies are largely deregulation policies that have allowed coastal Chinese provinces to integrate into the international economy, it is far superior to reduce regional disparity by extending these deregulation policies to the interior provinces to extend more potential market (Démurger et al., 2002).

The misconception of China as a market often leads to difficulties in assessing market demand and enacting effective strategies (Cui & Liu, 2000). Market systems both create and constrain opportunities for production and exchange, according to their regional organization and spatial extent (Minc, 2006). Demand linkages between regions are strong and growing over time, but quite limited in geographic scope (Hanson, 2005). China has a vast territory and rugged terrain, and there are huge physical barriers to inter-regional trade. There are huge gains to be made from removing inter-regional barriers and expanding trade within each region (Naughton, 2003). Substantial disparity in regional development is a reality in every geographically large country, and the causes of the disparity are numerous and complex. Regional inequality has been an important issue in China (Vuković & Wei, 2010). China's provinces' domestic trade protection pursues a dual objective of socio-economic stability preservation and fiscal revenues maximization (Poncet, 2005). The evidence of border effects at both national and regional levels are with significant regional differences. Higher intra-industry trade all have positive effects on China's regional trade. Improving business environment should be the priority of government at all levels in China (Xu & Fan, 2012). Therefore, it is particularly important to explore the regional potential within a country, which needs quantitative theory to measure.

Expanding investment and export to China's potential market requires not only maintaining good relations with China, but more important is to understand the internal distribution of the Chinese market. The purpose of this research is to help enterprises that want to export to China's market or expand their market share in China to provide theoretical basis for exploring the potential market from different dimensions. This research explores China's potential market in three aspects: the geographical distribution of China's regional market, the economic situation of China's regional market, and the regional market import potential. Before penetrating the Chinese market, researchers need to explore the potential of the Chinese market from multiple dimensions. The first dimension is based on the distribution of the Chinese market in China. The second dimension requires exploring the market potential according to the wealth of the Chinese market. The third dimension requires exploring the market potential according to the import potential of each region. This research focuses on three methods for companies to enter China's market under the three different dimensions above. By comparing companies with market shares in China and companies without market shares in China, the final analysis points out which methods different companies choose to penetrate China's potential market and how the three dimension work together in market entry decisions.

2. Exploring the Market Potential by Central City of Each Region

To study the potential of the Chinese market in this dimension needs to be studied according to the division of the territory of China. According to geographical span, China is divided into south, north, east, southwest and northwest. Because of these five areas it is difficult to find the center of each area. Therefore, it is necessary to study in smaller units of 31 regions, each of

which has its own central city. The map below lists the 31 regions and the central city of each region.

Figure 1: The distribution of each region of China and its central cities on a map



Source: You Best Guide to China (<https://thehelpfulpanda.com/china-provinces-and-regions/>)

From the figure above, it can be seen that the central city of Xinjiang is Urumqi, the central city of Tibet is Lasa, the central city of Gansu is Lanzhou, and the central city of Sichuan is Chengdu etc.. These central cities are in the geometric center of each region and are the most important cities in each region. These central cities are the most influential in each region. The following table summarizes the 31 regions and central cities.

Table1: The regions of China and their central cities

Region	Central city	Region	Central city
Beijing	Beijing city	Jilin Province	Jilin City
Shanghai	Shanghai City	Liaoning Province	Shenyang City
Tianjin	Tianjin City	Jiangsu Province	Nanjing City
Chongqing	Chongqing City	Zhejiang Province	Hangzhou City
Gansu Province	Lanzhou City	Fujian Province	Fuzhou City
Shanxi Province	Xi'an City	Guangdong Province	Guangzhou City
Xinjiang	Urumqi	Guangxi	Nanning City
Tibet	Lasa	Jiangxi Province	Nanchang City
Qinghai Province	Xining City	Hunan Province	Changsha City
Ningxia	Yinchuan City	Hubei Province	Wuhan City
Shan'xi Province	Taiyuan City	Inner Mongolia	Huhehaote City
Hebei Province	Shijiazhuang City	Sichuan Province	Chengdu City
Henan Province	Zhengzhou City	Yunnan Province	Kunming City
Shandong Province	Jinan City	Hainan Province	Haikou City
Heilongjiang Province	Harbin City	Guizhou Province	Guiyang City
Anhui Province	Hefei City		

Source: created by author

In terms of administrative level, Beijing City, Shanghai City, Tianjin City and Chongqing City are municipalities directly under the central Government. Urumqi City, Lasa City, Yinchuan City, Huhehaote City and Nanning City are the regional capitals. The remaining 27 cities are provincial capitals. Exploring these central cities therefore represents the first step in exploring the market potential of each region.

3. Exploring the Market Potential by the Economic Level of the City

According to economic level, Chinese cities are divided into first-tier cities, second-tier cities, third-tier cities, fourth-tier cities, fifth-tier cities and so on. Cities in mainland China are divided into different tiers according to their performance in business, transportation, urbanism, lifestyle diversity, and development potential (Wang et al, 2021). First-tier cities are at the leading level in terms of economic strength and comprehensive strength in mainland China, and are widely considered to be the most developed cities in China. Second-tier cities are provincial capitals with more active development, economically strong cities in the eastern region or regional central cities in economically developed areas. Third-tier cities are large and medium-sized cities with strategic significance, relatively developed economy, and large economic aggregate, which are comprehensively evaluated according to the scale of urbanization areas, the number of urban populations, the level of economic development, and total GDP. Fourth-tier cities are medium-sized cities with relatively ordinary urban size, economic and social development level and transportation construction. Most of the fourth-tier cities are the provincial capitals, region capitals and autonomous prefectures of individual provinces and autonomous regions. The fifth-tier cities are generally small in size, poor in economic basis, not convenient in transportation. Most of them are economically underdeveloped prefecture-level administrative regions in the western region, while there are

a small number of small and medium-sized cities in the central and eastern regions.¹ The following table shows the classifications of specific cities by city tiers.

Table 2: China's first-tier, second-tier, third-tier, fourth-tier and fifth-tier cities

City tiers	Specific cities (City)
First-tier cities	Beijing ² , Shanghai, Guangzhou, Shenzhen
Second-tier cities	Chengdu, Hangzhou, Chongqing, Wuhan, Xi 'an, Suzhou, Tianjin, Nanjing, Changsha, Zhengzhou, Dongguan, Qingdao, Shenyang, Ningbo, Kunming, Wuxi, Changchun, Hefei, Dalian, Fuzhou, Xiamen, Harbin, Jinan, Wenzhou, Nanning, Quanzhou, Shijiazhuang, Guiyang, Changzhou, Nantong, Jiaxing, Taiyuan, Xuzhou, Nanchang, Jinhua, Huizhou, Zhuhai, Zhongshan, Taizhou, Yan Taiwan, Lanzhou, Shaoxing, Haikou, Yangzhou.
Third-tier cities	Shantou, Huzhou, Yancheng, Weifang, Baoding, Zhenjiang, Luoyang, Taizhou, Urumqi, Linyi, Tangshan, Zhangzhou, Ganzhou, Langfang, Huhehaote, Wuhu, Guilin, Yinchuan, Jieyang, Sanya, Zunyi, Jiangmen, Jinning, Putian, Zhanjiang, Mianyang, Huaian, Lianyungang, Zibo, Yichang, Handan, Shangrao, Liuzhou, Zhoushan, Xianyang, Jiujiang, Hengyang, Weihai, Ning De, Fuyang, Zhuzhou, Lishui, Nanyang, Xiangyang, Daqing, Cangzhou, Xinyang, Xinyang, Zhaoqing, Qingyuan, Chuzhou, Longyan, Jingzhou, Bengbu, Xinxiang, Anshan, Xiangtan, Ma'anshan, Sanming, Chaozhou, Meizhou, Qinhuaangdao, Nanping, Jilin, Anqing, Tai 'an, Suqian, Baotou, Chenzhou
Fourth-tier cities	Shaoguan, Changde, Lu 'an, Shanwei, Xining, Maoming, Zhumadian, Xingtai, Nanchong, Yichun, Dali, Lijiang, Yanbian, Quzhou, Qiandongnan, Jingdezhen, Kaifeng, Honghe, Beihai, Huanggang, Dongying, Huaihua, Yangjiang, Heze
Fifth-tier cities	Pu 'er, Qujing, Chuxiong, Yuxi, Baoshan, Wenshan, Xingyi, Yiliang, Songming, Kunming, Nuijiang, Diqing, Lijiang, Black River, Wenchang, Jinchang, Gansu, Chengdu, Yingtan, Xigatse, Zhangshu, Zhaotong, Longnan, Lijiang, Wuzhong, Jiayuguan

Source: National Bureau of Statistics of China

Therefore, the rule to explore the potential of the Chinese market from the consumer purchasing power in the market should be to first penetrate the first-tier cities, the second-tier cities, and third-tier cities etc..

4. Exploring the Market Potential by China's Regional Import Market Potential

Since China's market potential does not exist only in one region, nor in some of the most famous large cities, the choice of potential markets is huge. When exploring the market potential of each region, the regional import market index can provide quantitative basis. The potential of a regional import market within a country can be judged according to the average amount of imports received by each person in the region. In China's market, since the import volume and population data of each region are easy to find, the author in this section chooses the import percentage of China's regional market and the population percentage of the regional market as variables to calculate the import potential of each regional market. The data in the table below are the import value of each of the 31 regions in China in 2022, the percentage of

¹ The above definitions of first-tier cities, second-tier cities, third-tier cities, fourth-tier cities, and fifth-tier cities come from the National Bureau of Statistics of China.

² Beijing here refers to Beijing City, which is different from Beijing in Table 1. Beijing in Table 1 refers to the Beijing region.

the import value of each region in the total import value of China (parameter A), and the percentage of the population of each region in the total population of China (parameter B). Take Beijing 2022 as an example, in 2022, Beijing's imports accounted for 16.88% of China's total imports, and Beijing's population accounted for 1.55% of China's total population, so it is easy to come to the import value allocated to each person in Beijing in 2022 ($IVAEP_{Beijing\ 2022}$):

$$\begin{aligned} IVAEP_{Beijing\ 2022} &= \frac{16.88\% \times \text{China's total import}}{1.55\% \times \text{China's total population}} \\ &= \frac{16.88\%}{1.55\%} \times \frac{\text{China's total import}}{\text{China's total population}} \end{aligned} \quad (1)$$

Since the ratio (China's total import/China's total population) in 2022 is a constant, we can set this ratio as the parameter D. Hence:

$$IVAEP_{Beijing\ 2022} = \frac{16.88\%}{1.55\%} \times D \quad (2)$$

In this case, we can define this coefficient (16.88%/1.55%) as the regional import market potential index (RIMP index) in Beijing in 2022 ($RIMP\ index_{Beijing\ 2022}$). Hence:

$$IVAEP_{Beijing\ 2022} = D \times RIMP\ index_{Beijing\ 2022} \quad (3)$$

Since the linear function $y=ax$ ($a \geq 0$) is an increasing function, the larger RIMP index Beijing 2022, the larger $IVAEP_{Beijing\ 2022}$. From specific to general, we can figure out:

$$IVAEP = D \times RIMP\ index \quad (4)$$

It is easy to see from the mathematical relationship that the mathematical definition of the regional import market potential index is exactly the import value allocated to each person in this region multiplied by the parameter D (the ratio of China's total population to China's total imports in 2022). In 2022, this parameter D is a constant, so the larger the regional import market potential index, the more imports are allocated to each person in this region, and therefore the smaller the import market potential of this region. And vice versa, the smaller the regional import market potential index, the greater the import market potential of this region. The author measures the import market potential of each region according to the ratio of parameter A and parameter B³. This ratio (A: B) can be defined as the regional import market potential index.

³ The data in the table (import value in 2022, percentage of import value of each province in total national import, proportion of population of each province) are derived from the General Administration of Customs of China (<https://finance.sina.cn/2023-12-19/detail-imzyqfqt2480491.d.html>)

Table 3: China's import market potential index by region in 2022

No.	Different regions of China	Import value (U.S. dollar)	A (%)	B (%)	A: B
1	Beijing	458.329 billion	16.88	1.55	10.890
2	Guangdong Province	447.081 billion	16.46	8.97	1.835
3	Shanghai	370.875 billion	13.66	1.75	7.806
4	Jiangsu Province	295.162 billion	10.87	6.03	1.803
5	Shandong Province	194.655 billion	7.17	7.20	0.996
6	Zhejiang Province	187.645 billion	6.91	4.66	1.483
7	Fujian Province	115.461 billion	4.25	2.97	1.431
8	Tianjin	69.573 billion	2.56	0.97	2.639
9	Liaoning Province	64.936 billion	2.39	2.97	0.805
10	Sichuan Province	8.025 billion	2.14	5.93	0.361
11	Henan Province	49.137 billion	1.81	6.99	0.259
12	Chongqing	43.741 billion	1.61	2.28	0.706
13	Guangxi	43.367 billion	1.60	3.57	0.448
14	Anhui Province	41.710 billion	1.54	4.34	0.355
15	Hebei Province	33.263 billion	1.22	5.25	0.232
16	Heilongjiang Province	31.562 billion	1.16	2.20	0.527
17	Hubei Province	29.512 billion	1.09	4.10	0.266
18	Hunan Province	28.441 billion	1.05	4.68	0,224
19	Shanxi Province	27.421 billion	1.01	2.80	0.361
20	Yunnan Province	5.903 billion	0.95	3.30	0.288
21	Jiangxi Province	24.293 billion	0.89	3.20	0.278
22	Hainan Province	19.344 billion	0.71	0.73	0.973
23	Jilin Province	15.862 billion	0.58	1.66	0.349
24	Inner Mongolia	13.338 billion	0.49	1.70	0.288
25	Shan'xi Province	9.551 billion	0.35	2.47	0.142
26	Gansu Province	6.922 billion	0.25	1.76	0.142
27	Xinjiang	5.574 billion	0.21	1.83	0.115
28	Guizhou Province	4.124 billion	0.15	2.73	0.055
29	Ningxia	0.901 billion	0.03	0.52	0.058
30	Qinghai Province	0.248 billion	0.009	0.42	0.021
31	Tibet	0.044 billion	0,002	0.26	0.008

Source: Created by the author

Ranking each region according to its regional import market potential index from smallest to largest: 0.008 (Tibet), 0.021 (Qinghai Province), 0.055 (Guizhou Province), 0.058 (Ningxia), 0.115 (Xinjiang), 0.142 (Gansu Province), 0.142 (Shan'xi Province), 0,224 (Hunan Province), 0.232 (Hebei Province), 0.259 (Henan), 0.266 (Hubei Province), 0.278 (Jiangxi Province), 0.288 (Inner Mongolia), 0.288 (Yunnan Province), 0.349 (Jilin Province), 0.355 (Anhui Province), 0.361 (Shanxi Province), 0.361 (Sichuan Province), 0.448 (Guangxi), 0.527

(Heilongjiang Province), 0.706 (Chongqing), 0.805 (Liaoning Province), 0.973 (Hainan Province), 0.996 (Shandong Province), 1.431 (Fujian Province), 1.483 (Zhejiang Province), 1.803 (Jiangsu Province), 1.835 (Guangdong Province), 2.639 (Tianjin), 7.806 (Shanghai), 10.890 (Beijing). It follows that the ranking of these regions is also the ranking of regional import market potential from large to small.

Since this index only reflects the regional import market potential at a point in time, in practical applications it needs to be updated in a timely manner based on the import share and population proportion of a certain region of China each year. The data in the above table are about the calculation methods and results of the regional import market potential index for each region in China in 2022. As the import share and population ratio of each region within China's market are changing each year, a company which is exploring markets with higher import market potential within China needs to look for data from the most recent year and calculate which regions in China have the greatest import potential, then make the market entry decision.

5. Conclusion

Different companies should choose different entry methods according to their own characteristics when entering China's market. Based on the research on the three methods above, the author believes that companies with low trade barriers (products that already have market share in China) should choose the first two market entry methods, while companies with high trade barriers (products have not yet been exported to China's market) should choose the third market entry method. Since the first- and second-tier cities have developed economies, high-quality consumer markets and central cities have convenient business environments, the author believes that the first method is more suitable for companies that produce intermediate or component goods to expand China's exports, and the second method is more suitable for companies that produce final consumer goods to expand exports to China.

Online shopping by Chinese consumers has developed rapidly in recent years. The main trading platforms for their online shopping platforms are Taobao⁴ and Pinduoduo⁵. The products sold by these two websites are basically produced in China, so the products on the two platforms have very low prices. With China's overproduction in recent years, it is difficult for foreign goods to enter these two platforms with a price advantage due to high tariffs and transportation costs. Therefore, the author believes that foreign companies should choose physical stores when entering China's market, so that excellent quality and good after-sales service are the competitiveness of foreign companies even if the price is not competitive. Therefore, the above three market entry methods are the most effective under the condition that the company chooses to enter China's market in the form of physical stores.

In this paper, the author researches the order and method of a company entering China's market from three different dimensions. The first order of entering China's market is based on the geographical location of the city in each region, the second order of entering China's market is based on the economic level of the Chinese city, and the third order of entering China's market is based on the import market potential of each region. These three methods are both independent of each other and complementary to a certain extent. Analysis and summary are made below:

⁴ Taobao official website (<https://main.m.taobao.com/>)

⁵ Pinduoduo official website (<https://www.pinduoduo.com/>)

(1) The first entry method needs to clarify the geographical distribution of the central city in each region in China, because the central city can serve as a market representative of a region. After penetrating into the central city of each region, the company further can enter other cities in this region. Taking a wood company in Latvia as an example, when this company expands its marketing share in China, it needs to follow the principle of entering each regional central city in China as the first step. If this wood wants to first penetrate the market in Xinjiang, Urumqi will be selected as the first target market in this region, and then choose other cities in Xinjiang. If this company first chooses Zhejiang to penetrate its new market, Hangzhou must be selected as the first target market within Zhejiang, and then choose other cities in Zhejiang. Therefore, the location of central city of each region in China is the most essential information for companies that produce intermediate or component goods to export to China.

(2) The second entry method to explore the potential of the market is to make the right order of selection for the market based on the accumulation of wealth within the market. Because the economic condition of a city is directly proportional to the purchasing power of its residents, the order of selection is first-tier cities, second-tier cities, third-tier cities and so on. Take a cosmetics company STENDERS exports from Latvia to China as an example. If STENDERS wants to increase their products export to China's market, according to this method, STENDERS must choose Beijing, Shanghai, Guangzhou and Shenzhen these first-tier cities as the preferable choices. Then the company will choose the second-tier cities and third-tier cities. However, the first method and the second method are complementary because the central cities in many regions are often economically developed and are first-tier or second-tier cities. Therefore, companies that produce final consumer goods to expand their exports to China should choose first-tier cities at the first step, then choose second-tier cities and central cities in each region.

(3) The regional import market potential index is proposed for the first time in this research, so this index provides a quantitative standard for exploring the regional potential of China's market. Since it is difficult for foreign entrepreneurs to judge which regions within China are less competitive at the beginning, this index can provide entrepreneurs with a quantitative ranking of the potential of China's regional markets. In this research, the author only calculates the import market potential index of each region in 2022 as an example. This index can also be averaged to calculate the regional import market potential index for a region over a period of time. Take a Latvian Tin company as an example. If this Tin company wants to export their products, the company should choose a region in China with the smallest competitive market as the preferred market (Since Latvia hasn't exported Tin to China's market yet). By this method in 2022, the order of market penetration of this Tin company must be Tibet, Qinghai Province, Guizhou Province etc.. However, this company should still follow the principle of entering the central city of each region as the first step when entering regions with high import market potential within China. In practical applications, each company should choose the latest data calculation and select the market with the smallest regional import market potential as the first target market.

(4) The author combines the three different methods of market entry to provide companies with new strategies to explore the potential of China's market. Three methods represent the potential of China's market in different dimensions. These methods are innovative for companies that are expanding their exports to China, but there are still many imperfections in the research. In future, researchers should further study which companies that produce intermediate or component goods should enter the central market of which region first, how companies that produce consumer goods should make priority choices in first-tier cities, specifically whether to choose Beijing or Shanghai as the first step, and which companies with high trade barriers have the opportunity to export to China's market with high regional import

market potential. Besides, foreign companies can also use the price and transaction volume of various products on Taobao and Pinduoduo to collect data from popular types of goods in the China's market, so as to adjust production trends to better satisfy Chinese consumers.

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