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INNOVATE TO INTERNATIONALIZE: A CASE IN THE ITALIAN GELATO INDUSTRY

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Introduction

Globalization of the markets has mainly two effects on firms' business: on one side there is the possibility to sell products and services to a huge market that is the global one, on the other side there is an increasing competition that comes from enterprises all over the world.

This means that firms that want, firstly, to survive and, then to succeed, in this new and connected market should be able to exploit in the best possible way the possibilities offered by the foreign countries but at the same time they ought to face the global competition.

Competition is usually played on two aspects: differentiation of the product and minimization of the costs of production. A firm has a competitive advantage when it is able to sell the same product at a lower price than competitors or, when it better responds to consumers' necessities.

Innovation could play a key role in both these competitive leverages, leading to the introduction of new products on the market and decreasing the cost through process innovation.

For this reason, the capacity to innovate or, better, the capacity of the management to adapt, integrate and re-arrange firm's competences and resources to quickly respond to the change in the market, constitutes a core competence for the firms.

It is wrong to stigmatize the phenomenon of innovation only to great Multinational enterprise and to specific sector such as the high tech one. Indeed, innovation could be in every field of business and it does not strictly depend on firm dimensions.

In fact, it is the key through which allows small medium enterprises to compete with big multinationals. Even if MNEs have greater resources to invest in research and development, there are some features of the SMEs that allow them to often reach good results. First of all, the smallest the size of the firm is the greatest is its flexibility and furthermore, small firms usually have a more direct relationship with the consumers. Thanks to these characteristics small firms are faster than greater firms in individuate new market needs and consequently in innovating.

In order to gain from the opportunities offered by the global market, firms should go abroad through internationalization.

It is interesting to study the link between innovation and internationalization. The recent literature states that these two phenomenon strengthen each other and the relation between them is one of complementarity rather than substitution.

Strictly concerned to this, is the final aim of this work that wants to demonstrate how an innovation could allow Italian SMEs to internationalize a made in Italy excellence: Gelato.

This industry shows a contradiction that is typical of the Italian food business: Italy is the first country in term of production but it is only the fourth in exportation volumes.

This means that other countries are better than us at globally sell an Italian product.

A solution to these problems should satisfy the necessities of a fast and low risk expansion together with the maintenance of high standard of quality that differentiates our products from those of other countries.

The innovation that will be presented through this work wants to overcome the criticalities to the Gelato internationalization, that have been faced until now by the existing chains. At the same time, the aim is to create a product that could meet the new needs and trends of the consumers.

In order to explain why the innovation that is proposed could effectively work, the thesis is structured in the following way:

- Chapter 1 presents a general overview of the definition and the dynamics of the innovation and its role in the economy. These concepts are explained through the most relevant literature. In particular, the chapter focuses on the innovation in small medium enterprises, and on the differences with the MNEs in the strategy to apply. Successively, it analyses the relation between innovation and internationalization: are they substitute or complementary?
- Chapter 2 describes the Gelato global industry, highlighting its economical relevance and stressing the difference with the American Ice-Cream. Moreover, it analyses the main countries considering both the current value of the market and its growth perspective.

The pros and the cons of several internationalization strategies are shown through practical cases. The chapter concludes with an overview on the developing trends in the food industry and especially in the Gelato ones.

- Chapter 3 presents the innovation both technically and economically. Indeed, there is the presentation of a business project based on this innovation. This presentation is composed by the description of the project and its business

model, its marketing plan and international strategy and finally an economic analysis of feasibility and profitability. The latter one is based on forecasts obtained through the study of real data of a firm operating in the industry. In particular, the chapter shows the comparison between the traditional business model and the new one, resulting from the introduction of the innovation.

1. Innovation Theory and Dynamics: Focus On SMEs

1.1 Innovation: General Framework

Nowadays, innovation is a key factor to not only grow but also survive in every industry including those in which it seems to play a marginal role.

This could be a consequence of the increasing competition due to the global market in which firms are obliged to play. International competition leads firms to continuously evolve themselves and their products in order to offer the market highly differentiated products.

Although the key role of innovation in the economy has been clear since the studies of economists Adam Smith and Friedrich List to name a few, and then enhanced by the neoclassical theory, the first true pioneer to study innovation with a dynamic approach was Joseph Schumpeter. Indeed, by focusing on technological change in order to explain the economic cycle, he identified the process of innovation as being the principal motor of capitalism.

“In capitalism, it is actually not price competition that matters, but competition in new products, new technologies, new sources of supply and new types of organizational designs. It is about competition that leads to cost benefits and better quality. These advantages do not affect profit margins and outputs of the existing firms, but rather their chances of life” (J. A. Schumpeter 1934).

It is usually possible to distinguish two different phases of Schumpeter’s ideology on innovation. In the first one, the main driver in the innovation mechanism is the individual entrepreneur who could gain a profit through innovation acting as the rule-breaker. This profit could be maintained by the “pioneer” until the moment in which this advantage is eroded by the competitors’ imitation. In this first phase the economist focused on the uncertainty that characterized the process of innovation, on the substantial difference that exists among young and old enterprise and on the fact that innovations are not isolated but instead, concentrated in certain industries.

During the second phase, his attention moved from the entrepreneur perspective to the great monopolistic corporate one. In this case the process of innovation is not originated by the creativity of an individual, but it is the results of the investment in Research and Development and of the work of a team of specialist.

The evolution in the Schumpeter’s thought is given by the change in the context in which he lived.

Even though it was formulated almost a century ago the idea of innovation proposed by Schumpeter is a great starting point to consider the role of innovation in the economy, indeed he could be considered as the driver of the innovation modern studies.

Schumpeter was the first one to consider the relationship between the dimension of the firm and the capacity to innovate, to examine the source of innovation and, most of all, to consider innovation as a continuing and cumulative process on which firms could build their competitive advantage.

These are the issues on which successive scholars focused on and also on which the current study of Innovation management places its concerns.

Despite the presence of many opened questions, there are some critical remarks that are shared by the mostly of economic scholars; these are about the main features of innovation.

First of all, the uncertainty of its result: it is impossible to know priory the effect of the introduction of an innovation on market. Effect that is about the reaction of both consumers and competitors.

Furthermore, innovation is not a single moment but it is a cumulative and evolutionary process. Each step reached is the consequence of the past knowledges and experiences.

As Schumpeter argued almost one century ago innovation is usually a new combination of existing elements. Indeed, a good innovator is the one who is able to re-arrange existing resources.

What eventually arrives to the market, also the most innovative product, is the final output of the past attempts, experiments and often failures.

We should not categorize the process we are talking about only in powerful enterprise or in high-tech industries, because it is everywhere. Innovation is pervasive, this is evident just thinking about a traditional industry such as the food one, great food businesses are the one that always introduce new product and improve their production processes. A good example to stress this point is the one of Ferrero that is able to compete with enormous multinational also thanks to its capacity of continuously adapt itself to the changing necessities of the market.

Another feature of innovation to consider is its essential relation with the context in which it will be implemented. Although it is more and more common for innovation to born “global”, it is still anchored in certain place by which it is influenced, in other words, geography still matters. (Shilling e Izzo 2017)

1.1.1 Innovation as a competitive advantage

The main reason why firms innovate is to establish a competitive advantage on which build a successful strategy.

A firm gains a competitive advantage when it is able to produce the same good of the competitors at a lower cost or when it satisfies better consumer's necessities.

According to the resource based view the more effective basis of a firm's identity is given by its competences and resources.

In its work, "The Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation" (1991), Robert M. Grant identify the steps that a firm should follow in order to implement a successful strategy. Firstly, it should identify its key resources and its capabilities, in this phase is essential the concept of heterogeneity; enterprises should focus on what they have more or on what they do better than competitors. Once "core competences" are identified, managers should build on these a competitive advantage that could be exploited in order to obtain greater returns. Eventually the strategy will be formulated stressing the competitive advantage established. (Grant 1991)

Essential to underline, is that not all the resources and capabilities of a firm could be considered as "core competence". In order to represent a strength for the enterprise, a resource should be critical, rare, durable, not easily transferable and difficult to imitate. The capacity of firm to innovate, having all these characteristic, is certainly a core competence on which a manager could base a profitable strategy for the firm.

Strategies based on innovation capacity are particularly beneficial for those firms which show the capacity to improve and extend continuously their competences. The process of competence's accumulation should be a dynamic process in which enterprise demonstrate to be able at organize and exploit their capabilities.

This concept has been better explained by the theory of the dynamic capabilities: the firm's competitive advantage is in the capacity of the management to adapt, integrate, and re-arrange firm's competence and resources in order to face the continuously change in the framework in which it plays. (Teece, Pisano e Shuen 1997)

The ability of the manager to understand new necessities of consumers, to identify new opportunities to growth and to quickly adapt to the changes in the market are the foundation to foster the generation of "dynamic capabilities".

1.1.2 Models of Innovation

Innovation is a very wide concept with which we can indicate not only the introduction in the market of a revolutionary product, but also the mere extension of the range of an established product.

Because of this breadth, it is not only useful, but also necessary, trying to classify the multiple types of innovation.

Every types of innovation lead the firm to different opportunities that highly depend on the reaction of the context in which the firm usually play.

An attempt of classification of the different models of innovation is useful to understand how to manage it.

Usually this kind of classification lays on contrast category in several dimension of analysis.

The first dimension that come to mind is the one inspired by the nature of the innovation itself. According to this dimension, we have basically two types of innovation: product innovation and process innovation.

Product innovations are about the introduction of new products and services in the market, while process innovation concerns to changes in the way in which the firm operate. It can be both about a new process or an innovative marketing plan.

Usually the aim of process innovation is to increase efficiency or effectiveness of the production system.

It is wrong to think that product and process innovation are not related, because it is not rare the existence of a link between them. For example, it is possible that the realization of a new product requires a new process to be implemented, and on the other hand a new process can lead to the realization of a product that is better than its predecessor.

Although product innovations are without doubt more notable, both the examined typology are crucial for the competitiveness of a firm.

Another classification that it is possible to do is the one that concerns the “degree” of innovation.

The degree of innovation is measured as the degree of new knowledge that is present in it. It is possible to imagine a theoretical continuum of the level of new knowledge embedded in an innovation, due to the difficultness to interpret the medium values of this continuum it is reasonable to focus on the meaning of two extreme of the “line”: radical innovation and incremental innovation. (Dewor e Dutton 1986).

The concept of radical innovation should include both change and differentiation. A technology could be a totally newness or it could be considered as something new only in relation with a certain industry or with a particular firm.

Radical innovation is when the output is something totally and absolutely different from product and processes that are already known.

As opposite, incremental innovations are the ones in which there are not really original features, but that consist of marginal improvements and changes.

Usually a radical innovation is riskier than an incremental one, indeed it needs new knowledge that could be very expensive and it is more difficult to be accepted by the market.

As a consequence of the higher risk, the radical innovation if well managed could also lead to greater potential return than the incremental one.

The radical aspect of an innovation is relative; this means that a very revolutionary idea in a certain context, time and place, could be, in different conditions, just a little variation of the basic system

. In 1990 R.Henderson and H.Clark considered this distinction (radical or incremental) not sufficient in order to understand the possible consequences of the introduction of an innovation by an established enterprise.

“There is growing evidence that there are numerous technical innovation that involve apparently modest changes to the existing technology but that have quite dramatic competitive consequences” (Henderson e Clark 1990)

In order to fill this lack, they introduce a new classification that lay on the idea that both products and processes are complicated and hierarchical systems that are composed by several elements. When innovation is about the way in which these systems work, it is an architectural innovation. On the contrary, when the subject of the change is a single or several elements of the system the innovation is modular. According to their work also an incremental innovation related to the architecture of the system could be very risky for the survival of the firm. (Henderson e Clark 1990)

Finally, it is possible to categorize the phenomenon we are talking about taking into consideration the basis on which the new knowledge is build.

In this perspective an Innovation is “competence enhancing” when it is just an evolution of knowledge and capabilities, that are already owned by the firm; instead an innovation

is defined as “competence destroying” when it does not come from the experience and knowledge baggage of the enterprise, but, on contrary, it makes it obsolete.

1.1.3 Technological Cycle

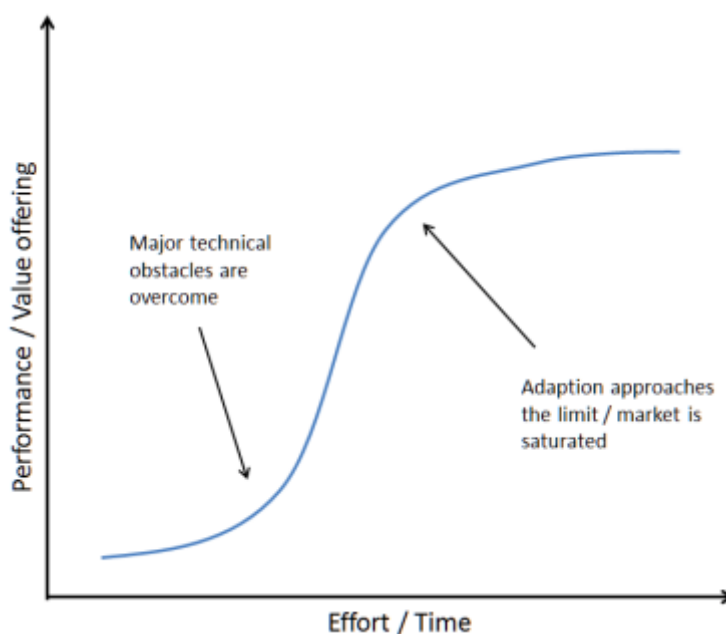
The way that the process of innovation follow during its development is called technological trajectory. Usually this concept is used in order to explain the evolution of the performance of an innovation or its diffusion in the market.

It is very important to understand how an innovation develop during its life in order to implement the right strategy to obtain the best return possible.

This is the reason why a lot of scholars have tried to explain the different phases of evolution of an innovation focusing of several elements that can influence its trajectory.

One way to explain the process of innovation is through the utilization of the S-curve. This type of curve can be used both to explain the improvement of the performance associated with a technology and the degree of diffusion in the market of the technology itself.

Taking into consideration the improvement of the performance in relation with the time and the efforts spent on the technology, it is possible to obtain the technology performance S curve.



As the graph above shows, in the beginning phase, the performance improvement is really low, due to the fact that the basic principles of the technology are still not totally

understood. Moreover, in this phase the firm should sustain great investments and efforts. The slowness in the initial growth could be explained also by the effort of the enterprise to find and value all the alternative way that it can manage. As the knowledge of the technology is well established, and the focus of all firm activities is toward its implementation, the performance starts to increase with a more accelerated path.

The performance obtained from the innovation will be higher and higher until the moment in which the technology faces its natural end, corresponding with the saturation of the market. This technological natural limit is not always achieved, indeed sometimes a new technology replaces the old one (discontinuous technology).

It is important to relate the performance with the effort that the firm dedicated to the innovation rather than with the time spent. Time is not the right variable to take into account because it could happen that the focus on the technology is not stable.

An S-Curve is obtained also focusing on the relation between the number of users of a given technology and the time from its introduction.

Indeed, at the beginning phase, the market is still not aware about the innovation, only few pioneer users will try the new technology. Once the awareness in the mass market is increased the diffusion of the technology starts to grow faster until it reaches its maximum point and starts the decrease due to the saturation of the market.

(Shilling e Izzo 2017)

Certainly the S-Curve of the diffusion is influenced by the process of improvement of the technology due also to incremental innovation.

The model of the S-Curve could be utilized by the management in order to understand when a technology will reach its boundary point and when it is the time to introduce a new technology. The exploitation of this model requires an analysis of the performance reached by the technology and the investments dedicated to it.

Actually, the model shows evident limits in its application.

Firstly, it is very rare to know before what is the natural boundary of the technology, furthermore during the development and the life of an innovation could happen unpredictable events that change the natural cycle of technology.

The elaboration of a strategy should be based also on the analysis of external factors such as the competitive framework and the degree of development of the industry in which the firm plays.

Concerning this issue, it is very important to mention the study of Utterback and Abernathy.

They basis their work on the relationship between firm and external context and, once that a strategy is defined, on the relationship between the resource utilized for the innovation process and the state of development of the production process.

Their model, starting on the mutual relationship among innovation, competitive strategy and state of process development, goes on two different line of inquiry.

The first line concerns the relationship between a firm's competitive environment and the objectives underlying the pattern of innovation it undertakes.

The other one considers the relationship between the development of a firm's production process characteristics and the type of innovative activity it undertakes.

Following these issues, they arrive to define several phases for the development of process and product innovation.

Regarding the first type of innovation, they identify three basic stages:

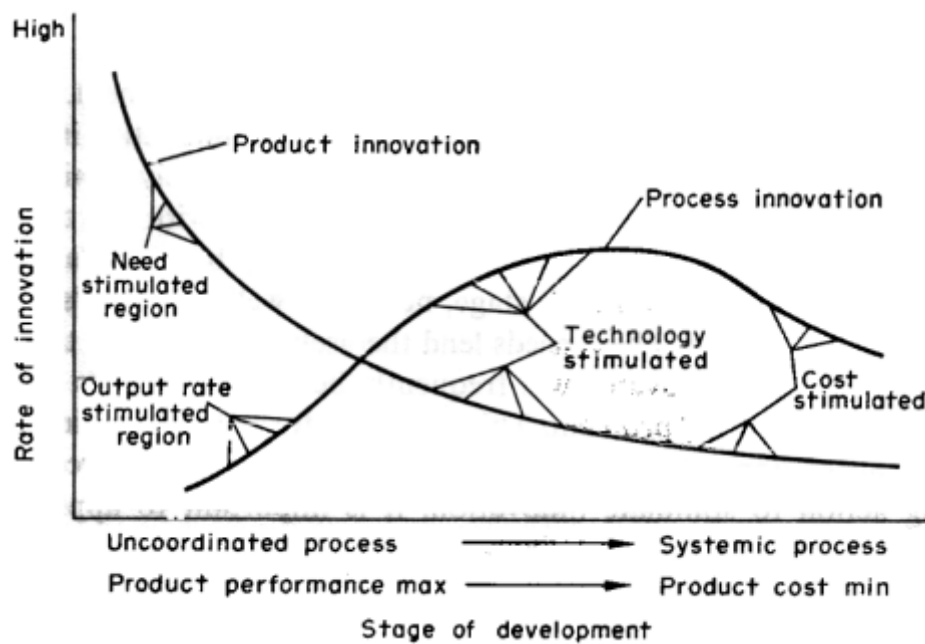
- Uncoordinated: In this first phase, processes and products are really differentiated among players. The process is fluid and all the system easily responds to environmental changes.
- Segmental: As an industry matures, the competition is more about the price reduction. The system begins to be more integrated and elaborated, this makes it less adaptable to changes.
- Systemic: The process is now perfectly integrated and specialized, every little improvement is difficult to implement.

The stages of evolution in the model of product innovation are based on the main aim pursued by firms.

- Performance maximizing: During this first phase, the main aim of the firm is offer a unique product responding to new market needs and opportunity. Industry is composed by few firms, products are non-standardized and the rate of change is very high.
- Sales-maximizing: The focus is on the differentiation of the products. There is more competition and firms should offer better products than competitors in order to gain market-share. Differently from the prior phase, a dominant design of product starts to dominate the industry. Innovation consists of replacing products with a better version.

- Cost minimizing: Products are very standardized; the competition is not anymore on the differentiation but on the reduction of the price. Because of the interdependency of products and processes and the high investments for the equipment, both products and processes innovation are expected to be only incremental.

Thanks to the study of both these models, authors formulate the stage of development of an innovation as conceptualized in the graph below:



Changes in frequency of innovation are shown on vertical axis and related to the stage of process and product development on the horizontal axis.

This model addresses multiple issues in managing innovation, indeed related to the stage of development there are several implications such as: the natural locus of innovation; the most appropriate type of innovation; and the array of barriers of innovation.

Concerning the first issue mentioned, passing from an unconnected to a systemic stage, the source of innovation moves from an internal and more familiar context to a more specialized and external environment.

In other words, at the beginning of the development innovation comes from individual while in the next phases it requires more advanced technology and as a consequence more specific competence: R&D department, formal engineering or even external companies.

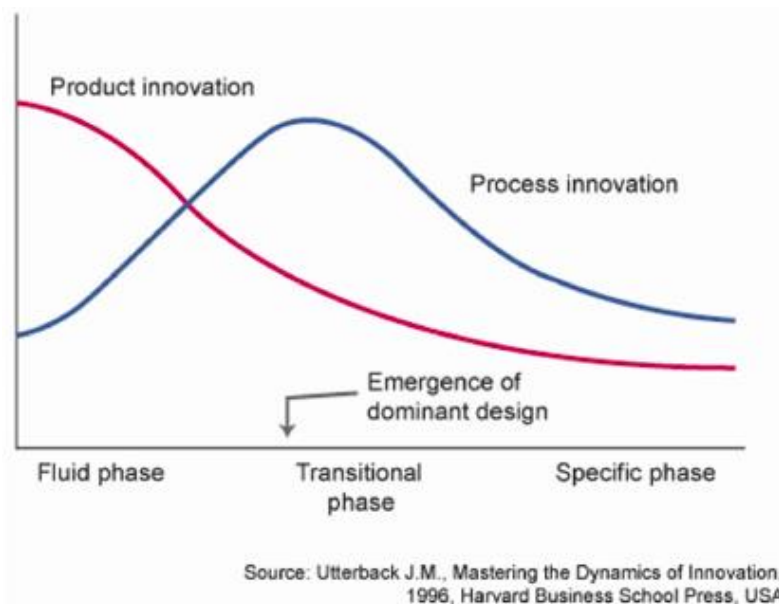
The stage of development has a strong influence also on the type of innovation that could be successful.

First of all, in the unconnected phase most technological applications regard product instead of process, the contrary is true in the systemic phase. Furthermore, radical innovations are more typical in the fluid phase rather than in the specific ones.

What drastically changes dependently to the development of the technology is also the resistance opposed to the innovation (barriers to innovation).

If during the first stages the resistance is about the risk of irrelevance and it is caused by the uncertainty of the result, in the next phases the opposition is due to the disruptive nature of innovation. (Utterback e Abernathy, A Dynamic Model of Process and Product Innovation 1975).

In 1993 the study has been enhanced with the concept of dominant design. Indeed, the passage from the “fluid” phase to “transitional” one is characterized by the establishment of a dominant architecture of the technology.



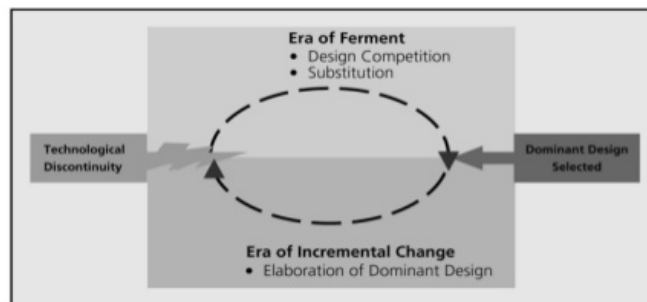
When a dominant design emerges, all firms start to focus their attention on this standardized design and all the efforts should be aimed at an improvement of this one, as a consequence once that the dominant design has been identified all innovations will be incremental.

This theory explains why sometimes great enterprises contrast the innovation.

When an industry enters in a systematic phase all the resources are focused on the dominant design this necessarily leads to a decrease of the firm flexibility. A radical change of products or processes could be very expensive. It is for this reason that

usually the disruptive technology that lead to the establishment of a totally new dominant design comes from not only small firm but also enterprise that are new players in the industry.(Utterback e Suarez 1993).

The concept of dominant design as crucial in the technology cycle has been sustained also by Anderson and Tushman. Their technological cycle is composed by two counterposed eras: Era of ferment and Era of incremental change. The step from one era from the other one is moved with the establishment of the dominant design. (Anderson e Tushman 1990)



1.2 Innovation in SME

Small medium Enterprises play an essential role in many industrialized countries.

These firms, together with big corporates, are the basis of the industrial development and concur to the growth of the countries.

In the literature, there are opposite ideas about the potentiality of SMEs to innovate; on one hand there are scholars who argue that small enterprise is the main place in which new ideas could be developed (Gilder 1988) , on the other hand there are researches that state the opposite: only big firms own the necessary resources to face R&D investments. (Ferguson 1988).

There are several empirical studies that confirm the theory of Schumpeter (1942) about the positive relationship between the innovative capacity and the dimension of a firm. These articles take into consideration, as variable of innovative capacity, the value of R&D investments and the number of patents. Actually these variables underestimate the innovative capacity of SMEs. Indeed, usually small enterprises do not have a formalize and measurable process of innovation due to the fact that it could take place in every department of the corporate.

Certainly greater dimensions have some advantages over smaller about innovation.

Schumpeter underlines two aspects: the first one was about the major capacity of big enterprises to finance their innovative projects, the second concerns the possibility of recover faster the investments through higher returns given by the huge turnover of big firms. (J. A. Schumpeter 1942)

Actually there are other several motivations that could lead to the author's conclusion.

Big enterprises have better complementary activities such as marketing and finance department, moreover they can benefit from economies of scale and they are less risk adverse. Regarding the last point, a failure of an innovation process in SME could be more and more dangerous for the survival of the firm as a whole than in greater firms.

Despite these clear arguments in favor of big dimensions, there are some points that lead to an opposite conclusion. Smaller enterprises have greater flexibility and control.

Flexibility could mean better capacity to respond to the environmental change and to the new market needs. Indeed, a great enterprise could be less innovative due to the higher organization and formalization of the procedure. (Gilder 1988) Big corporates are characterized by a huge number of employers, high fixed costs and strong relationships with clients and suppliers. All these established factors could lead the firm to prefer the current returns and do not risk everything to innovate.

Indeed, in these cases an innovation could be very expansive due to its disruptive nature. This strategic commitment could usually drive the firm to the so called Icarus paradox: the past success of the firm could contrast its capacity of react to the advent of new technologies. (Vermeulen 2009)

Furthermore, the scarcity of the resources owned by SMEs, make these enterprises more parsimonious, due to this fact, smaller enterprises are more prudence in the choice of the innovation to invest. In this way they obtain a higher return on product innovation.

Some empirical studies based on the number of patents confirm the greater efficiency of SME in productivity: SMEs have an higher number of patents for euro invested in R&D. (Cohen e Klepper 1996)

The capacity to innovate could represent a competitive advantage also for small and medium enterprises.

The innovation process is, in this case, even more difficult to implement than in firms with major dimensions. The greatest limit is represented by the resources finding both through debt and equity. Indeed, for SMEs is difficult to communicate an innovative idea due to asymmetric information.

Given the difficulty to obtain the necessary resources it is clear that SMEs prefer incremental product innovation or process innovation through the external purchase of an innovative machinery.

1.2.1 The Innovation Strategy in SMEs

Theoretical conceptions of innovation in SMEs should not consider this phenomenon as a smaller version of the one adopted by big firms. It is totally wrong to apply to the innovation in SMEs the “little big business” approach. This process should be considered coherently with the context of smaller enterprises. (Mc Adam 2002)

What is crucial, is to study the process of innovation in SMEs with a specific perspective suited with the context in which these entities play.

This process should concern all the organization and it is about all the “life” of innovation including the building of the basis to its birth.

It is possible to schematize this process in two main phases: the first one is about the innovation potential and includes the strategy and the techniques and practices, the second one regards a valuation of the businesses performance of the innovation itself. (Edwards , Delbridge e Munday 2005)

During the strategy analyses, it is crucial to focalized on the training of the organization that should develop the dynamic capabilities that are essential to the process; secondly in the SMEs a key role is played also by the relationship with external parts of the processes. As we have already explained the main limit to innovation in smaller firms is represented by the scarcity of resources. A SMEs that would base its competitive advantage on innovation ought to find outside its organization all the missing resources and competences. It is important to maintain a strict relationship with supplier and consumers, to explore the market of knowledge and technologies. In order to do this firm could decide to collaborate with universities and other research institution or to find as partner a big firm that could finance the idea of the smaller one.

Certainly partnership means also a decrease of the control on the innovation, because of that, it is an awkward part of the process. The risk in this case is to give up in the partnership and lose its owner knowledges. For these reasons it is important that a firm that want to be innovative develops in its organization the relational capabilities and the negotiating skills that are essential to survive. (McAdam , et al. 2007)

“To address the liability of newness and smallness, entrepreneurs and SME managers are advised to determine the degree of external collaboration dynamically. Initially, as

collaboration terms are unfavorable, they could focus on internal innovation development. As they gain better insights and market recognition, the focus can shift towards engaging more actively in external collaborations at more attractive terms” (Rosenbusch, Brinckmann e Bausch 2011)

The issue of external relationships is a key factor to evaluate the innovative performance of SMEs. The proximity with customers is particular important, indeed through this the firm could personalize and adapt the innovation to the market requests and on the other side could also understand the weaknesses of its strategy. A decrease in the demand could be a signal of tacit innovation from the customers and only a careful firm could take advantage on it and respond to the new needs before its competitors. Through this continuous analysis of customer needs SMEs could take advantage also on big enterprises, indeed in this way they could develop only relevant skills.

Concerning this aspect, big enterprises and their huge R&D departments are much farer from the final user. This lead big enterprises to a situation in which could respond slowly to the market needs also due to the lack of flexibility that characterized big organization.

Flexibility in SMEs is even more significant when concerning new ventures. The latter type of firm, could benefit more than mature firms from innovation. This is due to the more relevance of flexibility in comparison with specialized assets of expert firms.

(Rosenbusch, Brinckmann e Bausch 2011)

1.2.2 The role of the Entrepreneur

The capacity of a small firm to innovate depends highly on the attitudes, experiences, risk aversion and the network on its entrepreneur.

As Schumpeter argued during the first phase of its thought: the entrepreneur is the motor of the capitalism. In order to really be the impulse to the economic growth, it is necessary to have an open mind toward innovation: its willingness to continuous growth and its ambition to be a main player in the market represent the basic condition that makes a SMEs innovative. The source of innovation in small firms is not given by the large investment in R&D but it is based on the stimuluses of the market. In order to make its enterprise innovative, the entrepreneur should be able to perceive unexploited market and technological opportunities. (Dosi 1988)

Even when the entrepreneur is not the main player of the innovation process, she influences this phenomenon through the culture on which she has built its firm, and mostly through its network.

If, on one side, a dynamic entrepreneur could be the mover of innovation, on the other side a conservative and risk averse one could condition the enterprise and make it fixed in front of the changes of necessities in the market.

In order to be the driver of innovation and of the continuous process of adaptation of the firm in the changing context, an entrepreneur should have several features: she should note and keep in the organization the most innovative mind, she should focus on strategic priorities and makes the innovation process clear to all the organization, every steps of the firm should be oriented to the achievement of defined aims, she should be open to the risk of new ideas and changes when the necessities is evident, she ought to be able to spread its innovative mind in the culture of the whole organization. (Billard, Boissen e Deschamps 2003)

1.3 Innovation and Internationalization

Innovation and Internationalization represent both growth strategies for an enterprise. The corporate strategies' literature focuses more and more on the possible link between these two strategies. Are they complementary or substitutive?

Taking, especially, the SMEs perspective, internationalization could for several reasons boost innovation: firstly, it increases both the internal and the external financing capacity. The internal capacity is enhanced through the highest returns reached due to the entrance in new markets, the external one is improved thanks to the new network of potential investors. Furthermore, innovation could also make possible the access to external sources of knowledge that could lead to anticipate, in the domestic market, technology that have been already developed abroad. New inputs to innovate comes also from the wider market needs that an international firm should face.

Certainly the greatest limits for the firm that decides to follow both the strategy is given by the scarcity of the resources and also by the lack of managerial capacities.

Taking the perspective of Penrose (1959) the focus to understand when a firm should innovate and/or internationalize is the ability to achieve the economies of scope.

The means to create economies of scope are unutilized capabilities of the firms.

The variables that influence the capacity of a firm to create economies of scope are, indeed, the nature of knowledge and the replicability of routines and capabilities. (Penrose 1959)

When capabilities are easy to replicate and the knowledge is tacit the two growth strategies could be complementary, strengthen each other.

When knowledge is codified it is necessary to reinforce the appropriability regime through the use of intellectual property right.

In the case in which the unused capabilities are hard to replicate the strategies are substitutive, in this case due to the high transaction cost it is more convenient to follow an innovative growth strategy. Indeed, focalizing on innovation, the enterprise could develop a new process that could eventually reduce the transaction cost and make the capabilities easier to replicate.

The complementarity between the two business strategies has been argued by Kafouros in 2008, its research arrives to the strong conclusion that the internationalization of the firm is a key factor for the positive performance of an innovation strategies.

The author identifies four different strategies that an enterprise could adopt: domestic innovator, domestic imitators, international innovator and international imitators. This case study demonstrates that, taking a perspective of fourteen years, the highest profitability is reached by the domestic innovators, while the highest growth comes from the international innovators. Furthermore, eventually, also the domestic innovator should internationalize due to the saturation of the market. (Kafouros , et al. 2008)

A different result is the one reached by Kylaheiko et al. in 2011, both highest profitability and highest growth are conquered by the domestic innovators.

The contrasting results could be explained by the different time horizon taking into account, indeed, the second research cited, has been lead in a two years' perspective.

From this two examples it is clear that internationalization is a good strategy to combine with innovation, when in the long term the learning and the explication of tacit knowledge, together with the use of IPR to build a strong appropriability regime, offset dynamic transaction cost.

Otherwise if the enterprise has not a such good technological capability or strategic option it is better to focalize firstly only on innovation. (Kylaheiko, et al. 2011)

1.4 Innovation Protection Mechanisms

The protection of innovation is a crucial step in the formulation and in the implementation of an innovation strategy.

Since the beginning of innovation management studies, scholars have underlined the importance of a total protection of the new knowledge acquired in order to obtain all the possible benefit from it.

Actually, the choice of utilize legal mechanism to protect an invention is not so obvious.

What an “innovator” should take into account is the trade-off between the “wholly proprietary strategy” and the “wholly open strategy”. The former strategy, through a whole protection of innovation, guarantees the inventor the exclusive use and the total appropriation of the returns resulting. The latter, instead, fosters other operators to sustain new technology, improving it or creating complementary goods, and could lead to a higher adaptation rate that help the innovation to become a dominant design.

The capacity of the firm to acquire and retain the returns coming from new technology developed is called appropriability. It depends on the difficulty faced and the time spent from competitors to imitate the new process or product.

There are innovation presenting features that make that for nature difficulty to imitate. This happens when the knowledge, on which the technology is based, is tacit (not codified), or when it results from a context that is specific to the firm.

On the other side there are innovation that could be replicated without any problem, in these situation firms should utilize legal mechanisms in order to protect their results and consequently to obtain returns from their efforts.

1.4.1 Intellectual Property Rights: Focus on Patents

The system of intellectual property rights is based on the concept of the exclusion. Its economic explanation stands on the idea that private property creates value and increases the incentive to innovate. Intangible creations, such as innovation, could be considered commons. Without a legal protection there is not limit and not exclusion to their use, the excessive use, eventually destroys their value and the incentives to innovate.

Nowadays IP system covers several types of intangible assets through different instruments. Patents are given to protect an invention, trade mark covers words or distinctive symbol and copyright is about the aesthetic creation.

Focalizing on patent, it is a property right that gives to its owner the exclusive right to realize the invention and to utilize it.

In order to be patentable an invention should present several requirements. Even if every states have a different code for the IPR, the requirements for patentable invention are mostly harmonized by international treaties.

Inventions should basically satisfy three requirements that are well explained by the European Patents Code:

- Novelty: “An invention shall be considered to be new if it does not form part of the state of the art” (art. 54 EPC). The meaning of the expression “the state of the art” refers to everything is already part of the reservoir of the human knowledge in a given field.
- Inventive step: “An invention shall be considered as involving an inventive step, if, having regard to the state of the art, it is not obvious to a person skilled in the art” (art.56 EPC). This requirement faces more trouble due to the higher discretionary power involved in the procedure. The approach used by the patent offices is a mosaic one. They put together all the documents concerning the more recent state of the art, and let the person skilled in the art find a problem that the invention solves. The “inventive step” is determined by the distance between the technical contribution of the invention to the solution and the frontier of existent knowledge.
- Industrial application: “An invention shall be considered as susceptible of industrial application if it can be made or used in any kind of industry, including agricultural” (art.57 EPC). This requirement states the meaning of technical solution for a problem, that is when it is adapt to solve a specific problem and it could be repeat infinite times leading to consistent and regular results.

In order to obtain a patent, it is necessary to present a technical documentation which should explain the invention focalizing on its innovative elements.

If there are not formal mistakes the invention receives the patent concession after, in average, three years and its protection lasts twenty years.

Once obtained the patent in a state it is possible, within the successive twelve months, to extend abroad the protection through the filing of the application in the countries in which the inventor wants to exclusively utilize its creation.

For the EU members, it is possible to obtain the European patent that protect the invention in all the European countries and in other states that joined the agreement.

1.4.2 Patent strategies

As explained, the main aim for an inventor to obtain a patent is to use and consequently to directly profit from its invention. Actually, inventors could have a return from their patents not only through the personal use and commercialization of the invention, but also through other ways. It is common, for example, licensing someone else the new technology, or grant the property rights to more skilled enterprise that could develop the invention in a better way.

In order to attract potential licensee, usually inventors prefer to disclose the features and the possible utilize of the invention before the effective granting of the patent.

Enterprises could also utilize patents with the only aim of hinder competitors or of earn from lawsuits. This possibility leads to the creation of the so called patent trolls, that are firm created with the only purpose of hold patents and profit from legal causes.

Another phenomenon is the one of the Patent ticket that is a system of cross-patents that really makes difficult the innovation process without damage the right of someone else. These strategies based on patents could seriously hinder and decelerate innovation especially for SMEs that could not face the super power of the big multinational.

2. Italian Gelato Business: Analysis and Possibilities

2.1 Ice-Cream Industry: the role of Italian Gelato

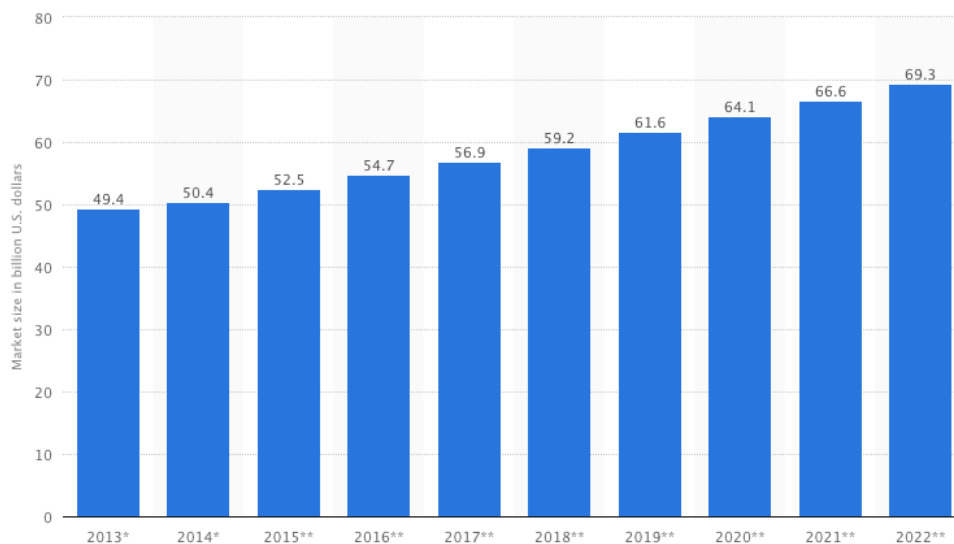
The global ice-cream industry is large and growing, with yet more opportunities for market development by key players and participants. Global ice-cream consumption shows recent trends of strong year-on-year growth in worldwide ice-cream consumption, with continuing prospects for strong ongoing growth and development.

Moreover, international trade in ice cream is significant and this business is increasing in size (current global ice cream trade is approaching 1 billion liters per year, with significant prospects for further expansion).

A clear sign of the growing importance of this industry is in the growth pace that it showed in the last years.

The graph below shows the estimated size of the ice cream market worldwide from 2013 to 2022 (the data between 2016 and 2022 are forecasted).

The value of the Ice-Cream market estimated for 2016 reached the value of 54,7 billion US dollar and according to the forecasting it is still growing in the next years.



© Statista 2016

This product is one of the most profitable in the food business, indeed its average margin is estimated to almost the 25%.

The homemade Italian Ice-cream is one of the leading product of the made in Italy in the food-farming sector, and together with pizza and spaghetti represent the gastronomic heritage that makes Italy and Italian lifestyle famous all over the world.

The Italian origin applied to the food business and, especially to this dessert that is a key factor of our tradition, gives abroad an important quality indication for consumers.

This explains the increasing success of Italian Ice-Cream maker chains all around the world.

In 2016, for the first year, Italy is the first producer of bulk Ice Cream in the huge European market (3211 million of liter), with a level of production that has reached 595 million of liter. These data are even more important if we take into account that in 2010 Italy was only the fourth European producer after Germany, France and Spain. (Eurostat 2017)

Unfortunately, the strong link between made in Italy and high quality “gelato” is not exploited in the right way from Italian firms that operate in this sector.

Indeed, what it is essential to underline is that the good increasing in the production is not balanced by an improvement of the export value of this product.

It is clear, that the great production is focalized on the domestic market while, relative to the liters produced, the value of exportation is limited.

Looking at the Euro value of the exportation, from 2010 to 2016 the Italian value remained steady at 223 million Euro. More dramatic are the data of the American CIA (Central Intelligence Agency), that states a decrease of 16,3% in the dollar value of Italian Ice Cream Global Exportation from 2012 to 2016; concerning these numbers, we should consider the negative impact that the fluctuations of the exchange rate €/€ had on the value of exportation. Totally different is the situation of the other European leading countries in this industry: Germany and France. Germany’s exportation reached, in 2016, 401 million Euro and French ones was equal to 358 million. (Taino 2017)

What emerges from these data is that other European countries are better than us to sell the “Italian Ice Cream”. The risk is that as it happened with Pizza or Espresso, another Italian gastronomic pillar remains Italian only in a cultural perspective.

Indeed, in an industrial and economic view, who earns more from it are not Italian firms. This situation is even more serious taking into consideration the growing prospective in this industry of countries outside Europe (China, Russia to name a few) and the contrasting saturation of the Italian market.

In fact, this product in Italian market had an exponential growth in the last 70 years that no other product in food business has never had.

Italy is the first country in the world for the consumption of bulk Ice Cream: the annual pro-capita consumption is equal to 12 kg, and it is still increasing (in 2015 the growth rate was 8% respect of the year before). This industry in Italy has a turnover of 2 billion. (La Repubblica: Economia e Finanza 2016)

Even if the sales are continuously increasing, as said before, the Italian market could be considered now saturated. Indeed, in the Italian territory there are 38000 ice cream shops, with an average of one ice-cream shop for every 1578 people. (Ronchetti e Vesentini 2016) These data shows how this market in Italy is enormously more developed than in other countries; the country that comes after Italy for the number of Gelato Shop is Germany that counts in its territory 9000 shops.

2.1.2 Differences between Ice-Cream and Gelato

Previously the word “Ice-Cream” has been used to indicate also the “Italian Ice-Cream”, actually it is important to underline the essential difference that exists between the American Style Ice-Cream and the typical Italian “Gelato”.

This difference is based on three features that are shaped by the production methods: air, fat and temperature.

Ice-Cream is produced with continuous freezer, generally it then goes toward freezer tunnels with a - 40 degrees and eventually stops in first storage cells where Ice-Cream remains until it reaches -18 degrees (temperature set from the European self-discipline code for industrial ice-cream products). In the continuous freezer, the shrinkage takes place with uninterrupted mixing and constant spillage of finished product. In the Ice-Cream the time required by the shrinking process is about 15 seconds in which the mixture becomes the final output.

In order to give to the product, the volume it needs and to ensure a slow dissolution, Ice-Cream contains more air than Gelato (up to 100% of its weight).

The industrial Ice-Cream is produced in large quantity and successively, stored until the moment in which it is consumed, usually within two years. Because of the long conservation time, it requires more fat and the use of additive and preservatives. The fat percentage in the Ice-Cream is between 12% up to the 50%.

Totally different is the process that ends with “Italian Gelato”.

In this case the shrinking process is discontinuous and takes about 10/15 minutes, after this the product obtained, with temperature between -8 and -15 degrees, is directly placed on the sales counter or is deposited for a short time in a crusher.

During its preparation the air that is incorporated by the Gelato is significantly lower than in the Ice-Cream; indeed, in this case the percentage is about 25%. Thanks to immediate consume, it is less fat than Ice-Cream, with a percentage that is within the 10%, and needs less additives. (Caviezei 1992)

2.1.3 Definition of “*Gelato Artigianale*”

As it has been already stated there is a clear difference between Ice-Cream and Gelato, furthermore, especially in Italy, there is a continuous discussion about the boundary between industrial Gelato and “Artigianale” ones.

The controversy is given by the fact that there is not a clear definition in the Italian legislation of what could be considered “Artigianale”.

This lack becomes more and more important with the growing diffusion of Ice-Cream chains that often centralize the production in a unique center and then distribute the mixture that will be successively whisked in every shop. The point of the debate is, indeed, when these mixtures could be considered “homemade”. A practical case of this argument is what happened in 2015 to the multinational GROM. The famous chain has always used in its advertising the word “homemade”, but, after the injunction from the “Codacons” and the consequently winning of the lawsuit, it has been obliged to renounce the title. (Gambero Rosso 2015)

Despite this case, the situation is still far to find a unique solution and there are always more movement and association of artisan in this industry that requires a clear definition of the product in order to defend themselves from the unfair competition of firms that define homemade, products obtained with chemical substance.

An attempt in this sense is the definition stated by ACOMAG and AIIPA.

In their definition, the two associations focus firstly on the production process and on the consistence of the product (“moderate quantity of air”), and successively on the quality of the ingredients. Essential to underline is the fact that this definition considers ingredients such as emulsifiers and additives as primary and necessary ingredients of Gelato. Furthermore, the use of “compound ingredients” is allowed by this definition without any specification about their composition.

The description has been criticized by the group of gelato’s artisan, leaded by Luca Caviezel and Carlo Pozzi, that states a more restricted concept.

The group criticizes the definition of the two associations for several reasons: firstly, for the secondary role that they assigned to the quality of the ingredients, then for the absence of any reference to the figure of the gelato maker, furthermore for the way in which they take into consideration both additives and compound ingredients. Indeed, concerning additives and emulsifiers the group of producer strongly takes position against the idea that these components have been considered as necessary in the production of Gelato; in their idea these kinds of ingredients could be avoided and if used, are only accessory.

Instead, regarding the admissible use of compounds ingredients, they stress the importance of better define what is allowed and what is not. It is essential to discern the compounds ingredients taking into consideration the modality of preparation and mostly the quantity and the quality of fat and sugar they contain.

In order to finally solve the question, in the 18th January 2017, in Italy has been presented a law proposal that revoke almost totally the definition given by the group of gelato's artisan. (Camera dei deputati 2017)

2.2 Italian Gelato Internationalization

The importance for Italian firm that produce Gelato to internationalize has been already underlined. Indeed, the growing perspective in this industry are especially above the Italian boundary. Differently from Italian market, the consumption of Italian high quality gelato is still a niche phenomenon abroad but it presents good growth perspective. It is fundamental that Italian producers exploit this opportunity against the competition of French and German firm.

To build a successful international strategy it is essential for firms to previously study the different features of the markets in which they want to enter. Each market needs a specific approach and an own business model.

This is true for almost all the kind of businesses but it takes even more relevance in relation with a product whose consume highly depends on culture, lifestyle and habits.

In order to gain from Internationalization, Italian firm should be good at choose countries that are ready to give importance to the quality of the product and that presents positive trends in the consumption of gelato.

Even more important is the communication strategy that firms decide to adopt, indeed through this they could not only reach consumers that are still part of this niche market but also to attract other people that are still not aware about the differences that exist between Italian gelato and the ice-cream that they are usual to consume.

Concerning the matter of communication, it is often profitable to hire a local in order to better understand the needs and the routines of the potential customers.

2.2.1 Gelato's World Market: Focus on the main countries

Taking into consideration the data of 2014, the countries that have presented the greatest market value for Gelato are: USA, Italy, Russia and Japan.

On the other side the ones that present the highest growth trends for the period 2015/2018 are: China, Russia and Germany.

These are also the countries that show a higher percentage of Gelato value in the whole Ice-Cream market value.

Country	Market Value 2014 (USD M)	CAGR '08-14	CAGR '15-18
USA	16287	2%	1%
Italy	6397	2%	3%
Russia	4368	-2%	7%
Japan	2517	1%	2%
China	1907	13%	12%
Germany	1861	3%	5%

Country	Gelato Value / Ice-Cream Value %
Italy	57,70%
Russia	43,50%
Japan	30,70%
USA	30,10%
Germany	28,20%
China	22,10%

(SIGEP 2016)

These data indicate the countries on which Italian firms should focus in order to gain positive results from their internationalization.

Before entry one of them an enterprise should analyze the main characteristics of the gelato market in the country it chose.

These features are principally about the degree of saturation of the market, the competition the enterprise would face, the consumer's willingness to pay etc. In fact, these points are really different from one country to another.

- *USA*

In the huge USA ice-cream market, gelato counts for the 30,1% of the whole value. This percentage is increasing indeed as the table shows the gelato's market value grew with a rate of the 2% and, according to the forecasts, it will continue to grow with a rate equals to the 3%.

In the USA territory there are totally 900 home-made gelato shops (in Italy they are 38000), the average kg price is 9,2\$. The peculiarity of this market is given by the huge saturation of the industrial ice-cream market. Due to this fact the Italian gelato is perceived by the consumer as a premium product. There are for this reason great potentiality for Italian firms that decide to enter this niche market in which consumer have a higher willingness to pay respect to other countries.

US's consumers have not specific taste preferences but are open to try new innovative taste and product.

Gelato is associated in consumer's mind to a relaxing and peaceful moment, for this reason in US take home consume is preferred. Customers are principally very young people and Gelato is for 73% consumed in urban zone.

- *Russia*

The value of gelato in the whole Ice-Cream market is the 43,3% in Russia.

As in the US, also here the gelato's consume is growing.

Taking into consideration the volume of the market instead of the value, the CAGR has been 4% for the period 2008-2014 and according to the previsions it is remaining constant for the period 2015-2018. In this case it has been preferred to use the data relative to the volume, because of the volatility of the exchange rate USD/RUB that strongly influenced the value's data (CAGR -2% 2008-2014, CAGR +7% 2015-2018). The average kg price of homemade ice-cream is 5,9\$. This product is consumed especially by woman and almost totally (95%) in the urban zone. What influence the most the customer's choice is the presence of their favorite taste, but the attention to the product quality is increasing. Differently from US consumers, Russian are not inclined to try new tastes, indeed they preferred traditional ones. Furthermore, Russian Gelato market, is characterized by a high seasonality compared to both European and American market.

The take-home consume is not common in this country, consumers prefer big shop in which they can eat.

Even if the Ice-Cream market as a whole is saturated, there are high potentiality for the Italian gelato as a premium product. The focus of Russian people on high quality and healthy product is increasing. This trend could help Italian firms that want to operate in this country to differentiate in a successfully way their products.

Another positive aspect of this market is that gelato has not been included in the products that are forbidden by the ban. It is, indeed, possible for Italian firm to export the final product and also to produce gelato directly in Russia.

- *Japan*

Artisanal gelato is the 31% percent of the total Ice-Cream sold in Japan.

The growth of this product was equal to the 1% in the six years from 2008 and 2014 and according to the forecasts it will be equal to the two percent in the next three years. This increase is given both by the greater consume forecasted and by the higher prices that consumers are disposed to pay.

The average price for a kg of gelato is 11,1 \$, at the moment in Japan there are about 1000 Gelato shops (more than in the US market).

What characterize the most this country in the consume of Gelato, is the focus of consumers on healthy products. More than European and American people Japanese are very healthy concerned and because of that prefer artisanal Ice-Cream to any other desserts because it is low fat and sugar.

For this reasons Italian gelato producer that want to make business in such a country should really focalize on the production of a high quality product without the use of additives and emulsifiers. Obviously communication of this aspect of the product will be crucial for the success.

Japanese prefer to consume the product where they buy it, it is very unusual the idea of gelato as a “street food”, due to this fact the gelato shop should have the space to allow the consume *in loco*.

Another trend of this market is about the tastes. Japanese people love to try new tastes and because of that are really attract by seasonal or limited offer tastes. It is also essential to respond to the demand of local flavours.

- *Germany*

In the German Ice-Cream market, Italian style gelato counts the 28,2% of the total production. The dollar value of this specific market increased with a rate equals to 3% in the period between 2008 and 2014; actually the growth has been negative influenced by the fluctuation of the exchange rate EUR/\$ and the real growth has been equal to 5%. For the next period (2015/2018) the forecasted growth is stable at the 5%.

German market is more developed than the other countries analyzed, indeed in this territory there are already 9000 gelato shops, but less than the average have their own production.

The consumption is pushed by over 45 years old people, and generally by people who have a lot of free time. Also in Germany like in the majority of the countries studied the gelato consumption is centralized in the urban zone (73%).

An important point to stress is the focus of German people on healthy product, indeed Germany is the more dynamic country concerning organic and healthy products.

Differently from the past the German consumer is now looking always more to the quality of the product, he is opened to new solution and tastes.

- *China*

Chinese market is fundamental to study due to the fact that it is the one that faced the highest growth in the past years. Indeed, the consume of Italian style gelato grew in the period from 2008 to 2014 with a rate equals to the 13% and it will continue to growth in the next years with this pace.

Nowadays the percentage that Gelato occupies in the ice-cream industry is 22,1% but the prevision forecast that it will reach almost the 25% in 2019.

Italian firm should be ready to exploit before than French and German competitors this opportunity.

The average price of a KG of Gelato in this market is lower than elsewhere, in fact it is equal to 3,9\$. Actually with the diffusion of this product the price will eventually increase. Indeed, Chinese people are now always more inclined to healthy life style and they research always more natural product. Furthermore, especially young Chinese people tend to imitate the western life style and their high income allow them to have a great willingness to pay for a typical western and healthy product as Italian Gelato. (SIGEP 2016)

2.2.2 Mode to expand

In the gelato industry a leading role is played by the chains that, with a unique production center, distribute and then sell the same quality product in several points of selling.

These points of selling are usually located both in the national territory and abroad.

As we have seen before this phenomenon is assuming an increasing importance due to the greater opportunity that this kind of product could have abroad rather than in Italy.

There are several modalities to expand a business like this, the more common is the Franchising but there are also firms that decide to grow through the opening of totally owned new subsidiary or alternatively with joint ventures.

Each of these modalities could certainly lead to a territory expansion but mostly could be the mean through which the firm reach the internationalization.

- *Franchising*

Franchising could be considered as a specialized form of licensing; where licensing is the arrangement through which a licensor grants the right to an intangible property to another entity.

In a Franchising agreement the franchisor not only gives the franchisee the right to utilize intangible assets such as its trademark and its knowhow, but also requires from the other side the respect of strict rules about the way to run the business.

The franchisor typically receives from franchisee an initial fee and sometimes periodical royalties that could be substituted from the franchisee's commitment to buy the raw materials from the franchisor society.

The big advantage of this form of expansion is that it could rapidly lead to a global diffusion. Indeed, through this agreement the franchisor could open under its trademark several point of selling with low cost and without risks.

Cost and risks are on the franchisee that is a proper entrepreneur.

On the other side franchising means for the franchisor society a loose of control over the trademark. Especially in the case of international chain, it is very difficult to check the respect of the rule from the franchisee.

In the cases in which franchisee do not respect the quality requirement, franchisor could seriously face a worsening of its reputation that could damage the whole chain.

In order to solve this control problem, some franchisor society decide to set up a subsidiary in each country in which the firm expands. The subsidiary might be wholly owned by the company or a joint venture with a foreign company. This subsidiary

plays as a master Franchisee assuming the rights and obligations to establish franchises and to control the respect of the standards in its zone.

- *Wholly owned subsidiary*

In a wholly owned subsidiary the firm own the 100 percent of the property. In the case in which the subsidiary is abroad there are two different ways the enterprise could follow: establish a new operation in that country (greenfield investment) or buy an existing company that could be used to commercialize the firm's service and product.

The clear advantages of this kind of choose is the fully control that the firm maintains over the operation of the new subsidiary. Consequently, differently from franchising, all the points of selling that are under the same brand guarantee to the consumer the same quality. In this way it is easier for the enterprise to build a strong brand without the reputational problems that a franchising chain could have.

On the other side the biggest cons of a global chain of subsidiary is the high cost and the high risk that the firm should face.

Because of the huge cost the expansion could be very slow and in the case in which it is not successful could seriously prejudice all the business.

Furthermore, the enterprise in order to start an expansion like this, should have great management capacity that allow it to control the operation of its own points scattered around the world.

In front of the greatest risk, if this kind of expansion is successful the firm could benefit also from greatest return, indeed in this case the income of the activity remains fully of the original firm.

- *Joint ventures*

A joint venture involves establishing a firm that is jointly owned by two or more existing and independent entities.

A joint venture with a foreign company is very common for a firm that want to enter a new country.

Indeed, one of the benefit of this type of entry mode is the exploiting of a local awareness of the new market. Moreover, with joint venture it is possible for the firm to maintain a good control over the operation in the new market, as in a wholly owned subsidiary, but splitting the risk and the cost with another firm. The lower cost could lead to an easier and maybe faster global expansion for the firm comparing with the

wholly owned subsidiaries. As in the latter case the firm could maintain a good control over the quality of its product and services and in this way could build a positive brand awareness in the countries in which it decides to enter.

Actually, the control over the subsidiaries depend on the percentage of property that the firm decides to maintain.

In this case there is a trade off due to the fact that greater control results, obviously, from greater percentage that means higher risk.

A disadvantage of this kind of expansion mode is the problem that could result from the shared ownership arrangement that could lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be.

These conflicts tend to be even more frequent in the case of joint venture between firm of different nationalities and it is not rare that ends with the dissolution of the joint venture. For example, conflicts in a joint venture between a local and a foreign firm could be triggered by the fact that, as the time passed, the foreign company acquires knowledge about the market and consequently needs less help from the local partner.

(Hill 2008)

2.2.3 Practical cases in the industry

Italian gelato producers have started in the last twenty years their attempt of expansion and internationalization. Even if the numbers are as we explained before significantly lower than the ones of French and German competitors, there are several case of Italian gelato makers that go successfully abroad with their Italian brand and products.

These chains are trying to “conquer” the global marketplace through different strategies and entry modes. There has still not been the statement of a best practice, indeed each single case present its strengths and its criticalities.

The problem that enterprise operating in this industry face is about the research of a great balance among the maintenance of high quality standard, the geographically diffusion and, certainly, the economic performance.

The experience accumulated by these firms are fundamental to analyze for those enterprises who want to enter this industry.

An example of Italian Gelato producer that has decided to expand both in Italian territory and abroad through the Franchising system is the one of EMME srl with its brand Cremeria Vienna.

The enterprise counts today 16 points in Italy and 24 points abroad.

Its system is based on the central production of the gelato mix that will be then completed through the shredding phase in every shops.

In this way every points of selling Cremeria Vienna could sell the same quality product prepared daily.

The initial fee required to the Franchisee is between 70000 € and 120000 €, there are not royalties but the commitment from the Franchisee to buy at least 50000 € of product annually.

In exchange of the initial fee the franchisor society give the franchisee not only the license to use the brand and its awareness, but also all the machineries and the furnishings needed to start the activity and a training course for the employees.

In order to build the awareness of the brand, as it is usual in the franchising chains, also the Cremeria Vienna shops are highly standardized in every aspect.

The franchising system allows the firm to reach a fast expansion in a short time.

The activity of Franchising started in 2003 had soon big results leading the activity to expand all over the world and to open in less than 10 years sixty shops.

During these years it was essential for the growth of the enterprise the expansion in the Greek market in which Emme srl opened more than 20 shops thanks to the help of a firm that worked as a master franchisee.

Until this moment franchising seemed to be the best form of expansion: easy, riskless and fast.

The cons of the mode started to show to the firm during the global crisis from 2012.

The problem that the owner faced indeed, concern firstly the difficulty to concretize the franchising request: the initial investment required was too high to be sustained by the aspiring franchisee and banks did not grant loans easily.

Furthermore, the existing franchising points started to focalize more on savings that on quality and often did not follow the rules of production imposed by franchising agreement. Obviously this tendency means for the firm's owner of the brand a problem of reputation and lead to the closing of several agreements.

Another weakness of Cremeria Vienna's expansion system regards its capacity to protect its brand and to take legal action against who use it wrong.

An example of a situation like this could be the one of the Brazilian point in Sao Paulo; after 3 years since the opening of the shops and the correct use of franchisor's products, the franchisee has started to not buy anymore Cremeria Vienna products but still use its brand. The internationality of the case makes a legal action very difficult, expensive and long to solve.

This case could be a demonstration of the effectiveness that a franchising strategy like this one, in the industry we are analyzing, could have in the short run; but at the same time, what it is more important to underline are the weaknesses that this form of indirect expansion of the brand could have in a business field in which the most important role is played by the quality of the products.

(Data obtained through a direct interview with the CEO of the firm)

What makes difficult the maintenance of the quality standards is the impossibility that the franchisor faces to indirectly control the respect of the rules from the franchisee and at the same time the scarcity of action that he could exercise against the counterpart.

A way to avoid these problems is the one applied by another chain that is leader in the Italian market for the number of shops: Crema e Cioccolato. The latter one also used Franchising to expand in Italy and abroad, the main difference is in the product.

Indeed, as it has been explained, Cremeria Vienna gelato is prepared fresh every day in all the shops with the mixing furnished by the franchisor firm.

In the "Crema e Cioccolato" business model this does not happen; indeed the final product is delivered every day ready to be sold. Thanks to this system the franchisee cannot compromise the quality of the product and also the initial investment is considerably lower due to the absence of a workshop.

If on one side this system could be considered more efficient in an economic point of view, on the other side it loses in the quality of the product that is not fresh and that cannot be considered artisanal. In order to maintain its consistence for the whole day in a refrigerator it contains a higher percentage of air and additives substances that make it more similar to an industrial ice-cream rather than a home-made gelato.

Another mode of expansion is the one applied by GROM; in order to be sure about the quality standard in every shop of the chain, the enterprise has, since the beginning, refused the franchising opening in Italy several wholly owned subsidiaries.

As it has been explained before, this modality is without any doubt the best in order to strengthen the brand guaranteeing the same products in all the points, but what makes it very difficult to concretize is the cost that it implied.

Despite of the cost of the business strategy chosen, the firm had a very fast growth that lead to own 67 points in 2015, 9 of them abroad.

The strategy that the firm adopted for the shops abroad was different from the one in Italian territory. In fact, still refusing the franchising, Grom decided to expand globally through selected partnership with local firms. The difficulty to find good partners could explain the slower expansion that the enterprise had abroad comparing to the one in Italy.

Unfortunately, also this case has its issues; issues that are clear from the balance sheet of the firm in 2015 that reports an EBITDA negative for 2 million Euro and a Net Financial Position of – 5 million Euro.

These results obliged the ownership of the chain to sell the activity to the multinational colossus Unilever already owner of other Ice-Cream brands such as Algida and Ben and Jerry. (Radiocor-II Sole 24 Ore 2015)

2.3 Future Trends and Perspective

In the last ten years the tendency of a healthy life style in developed countries is growing.

Obviously this trend has influenced and is influencing significantly the food and beverage industry.

Data about the consume in food show clearly how consumers are changing their habits giving always more relevance to the quality of the products they consume and to the effects that these products could have on their body and on their health.

An example of this new trend, or better of this movement, is the one of the snack's industry: the big multinationals are facing a decline in their selling due to the entrance in the market of new enterprises that sell more “natural” products.

Indeed, if in the past snacks used to be biscuits, confectionery crisps and soft drinks, now consumers are more oriented towards yoghurt, energy bars and nut-based snacks.

“Traditional snack sales have a retail value of 505\$bn and rose at a robust 5 per cent in 2015. But healthier, protein-based snacks are growing faster, with sales up 40 per cent since 2011 and 7 per cent last year to a retail value of 140\$bn” (Food Diet & Health, Financial times 2017)

What this example could demonstrate is the new attitude of consumers of give now more importance to the quality of the product rather than to the price as in the past.

They are dispose to pay a premium price to have a “*natural*” snack from a new and “*healthy*” company.

The growing focus on ingredients of the consumers is what explain the growth of the snack producing firm Kind. The latter one, in fact, reached in 2015 the 12 per cent share of the US snack bar market, starting from almost nothing in 2011.

The one of the snacks industry is only one of the phenomenon that attest how the food business is changing now more than in the past.

“There’s probably more change today than at any time in my history in the industry, (...) We are seeing consumers’ beliefs around food change rapidly” said the CEO of Kellogg John Bryant during a conference with investor in September 2016.

The research of healthy product lead to a general demonization of sugar and artificial ingredients.

The healthy lifestyle pushes the consume of organic food and free from category, that have respectively a growing rate of 7,3% and 6,8% in the last year. The *“free from”* category is not only about additives, sugar or fat but also all the allergenic products.

What consumers want is a product that is natural as much as possible with few and healthy ingredients, indeed the “clean-label” is another growing trend in the consume.

Furthermore, it is essential to communicate to consumers an history about where their products come from, and to be more accepted it is important to give them a “local idea” in order to win their trust.

Gelato’s producer could not be impassible in front of these changes in the food industry.

The major focus of consumers on healthy should be an opportunity for the Italian Gelato that, as it has been explained previously, is a more natural product compared to the American Ice-Cream. Indeed, in many countries this tendency to a healthy life-style was the real push for the diffusion of Gelato against Ice-Cream.

Firms that want to have success in a business like this should be able to offer a product that is perceived as healthy from consumers and even more relevant is their ability to communicate these features.

Due to the growing attention that consumers give to these matters, it will be not enough to sell an artisanal product, what really differentiates a product for another one is the list of the ingredients.

In order to be perceived healthy from the market, the products of this industry should be obtained without the use of emulsifiers and additives.

Producer should be also ready to respond to new needs of consumers such as vegan products.

The exponential globally growth of dairy alternatives is an indicator of the increasing role of vegan alternatives in the food market.

“The global dairy alternatives market size was USD 8.80 Billion in 2015 and is expected to witness growth at a CAGR of 16.6% over the forecast period. Dairy alternatives are lactose-free products and are highly preferred by customers with lactose intolerance problems.”
(Gran view research 2016)

This explains the necessities for the operator of the field to offer a wide range of products including those one produced without milk, in order to respond both to vegans and intolerant consumers.

The future perspectives of the industry are without any doubt positive for whom understand the new needs of the market.

Especially for Italian firms, internationalization in this market is a great opportunity due to the growing demand in countries, especially abroad Europe, that still not present an adequate offer. It is essential to move and reach these markets before competitors such as Germany and France that demonstrated in Europe a greater ability to expand in this business than Italian firms.

As it has been previously explained the difficulties of international expansion are several and are related to the trade-off between quality and fast growth.

It is clear that firms need to find innovative solutions in process and business plan in order to conquer the market through a product that combines quality and profitability.

3. A Process Innovation in the Gelato industry: Description and Analysis

3.1 Innovation in the Gelato industry

The analysis of the industry stated in previously chapter underlined the criticalities of this business in the perspective of an internationalization.

These weaknesses together with the great opportunity that a market like this could represent for the Italian SMEs operating in the Gelato industry makes clear the necessity of a process innovation that could shape the expansion of the real high quality Italian ice-cream all over the world.

Furthermore, every innovation in this field should take into account the new needs of consumer such as the demand of a natural and healthy product.

The innovation that is going to be proposed concerns the technical field of the gelato processing machines. Particularly, the invention is about a new machine of gelato's processing and supplying that provides a fresh gelato in the moment in which the consumer demand for it.

The product that is processed through this machines does not require the use of additives and emulsifiers. Beyond the advantages in term of product quality, a business model built on this new machine could have significantly pros in economical term decreasing both the cost of open a new activity and the management ones.

3.1.1 Background of the invention

Gelato counters for retail sales, which are formed by a series of pans with a refrigeration system to keep the ice cream at the ideal temperature have been known for years. The metal tubs into which the ice cream is placed, once it has been prepared, are insertable in a removable way into the pans. There are a plurality of pans that allows the insertion of several tubs, in order to contain different type and tastes of gelato.

When a consumer buys the product, the vendor collects a certain amount of gelato from the corresponding tub with the scoop and places it on a wafer or in a bowl.

What is fundamental to underline is that gelato must stand inside these tubs for all the time necessary until it is all sold. In order to be appetizing it must retain softness and creaminess as it is when it is just prepared. The problem is that after a certain time standing in the refrigerator inside the tub, it starts to lose its qualities, for these reason it is necessary, during

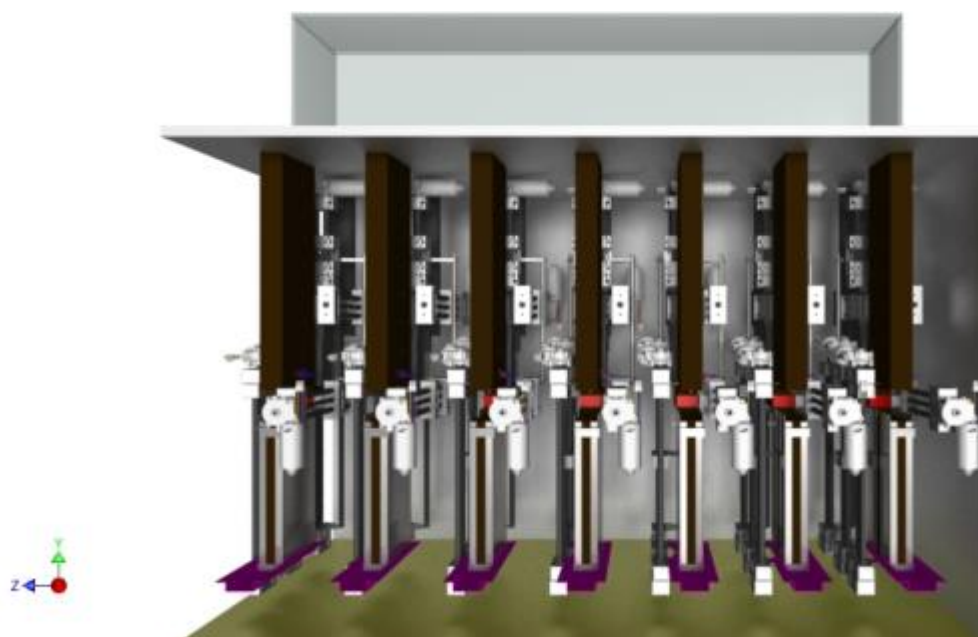
the preparation add various emulsifiers and thickeners that help maintain the quality and the consistency over the time. As it has been explained in the previously chapter these substances make the product less genuine, and in any case artificially processed. All of this also contributes to an alteration of the original taste of the product. In order to avoid the use of artificial components it is possible to add at the preparation natural substances such as carob seed flour that have as a cons the fact to cause allergy in some people.

Furthermore, after a certain amount of time, the quality of the gelato despite the addition of this substances declines and if the ice cream remains unsold it will be necessary to discard it with considerable product wastage and related financial loss.

In Particular, in the traditional process, the preparation of gelato is batch frozen in a batch freezer that operates at about -20 degrees, mixing the product with a mixer. The finished product, once batch frozen is at a temperature of approximately -6 degrees. When the processing process is complete, the final product is inserted in the tubs and it is ready for sale. The temperature of the sales refrigerator is such as to keep the ice cream at about – 10 degrees, in order to do that, complex and expensive ventilation systems are required.

3.1.2 Brief description of the invention

Basically the aim of the invention proposed is to provide the gelato shop with a machine that allows an extemporaneous and quick preparation of a predetermined amount of gelato, which maintains creaminess and consistency without the adding of any chemical substances. It is also object of the present invention to provide a particularly simple and economical machinery that eliminates the need to have to mix the product itself multiple times and that does not require complex refrigeration systems



This machine is composed by:

- A processing chamber adapted to receive the product and delimited by a first actuator element and a second actuator element movable along a processing direction;
- An opening that gives access to said processing chamber;
- At least one baffle placed inside this processing chamber and that separates the latter into two parts;

According to the invention, the first actuator element and the second one are opposed to each other.

Furthermore, a control system is comprised, it controls the actuators element according to a moving away/moving closer to /from the baffle motion in such a way that the gelato resulted placed inside the processing chamber can be pushed multiple times from one part to the other of the baffle through the plurality of openings with which it is equipped.

The product can therefore be initially prepared in the traditional way in single doses, but as it has been explained without the use of any additives, and preserved in a refrigerator.

At this point, the ultimate processing phase is made through the machinery, that perform it exactly before the moment in which it is sold, and makes gelato very softly and creamy. The passage through the holes of the baffle, in fact, breaks the structure of gelato body and the frictional heat in the passage further contributes to the softness.

It is no longer necessary to operate multiple cycle of mixing for the unsold product cause gelato is prepared only once in single dose and stored in specific loaders placed in the machinery at the required temperature.

When the buyer asks for multiple tastes, it is sufficient to activate the machine for the single doses required. The time required for this process is just a few seconds and the result is a perfect creamy and fresh gelato ready to consume. Everything is integrated in this machine, there is not anymore the necessity of complex refrigeration system.

In essence this invention could replace the traditional mixing machine for the ultimate process of production together with the usual sales counters with a unique and cheap solution.

3.1.3 New model of Gelato Shop

Through the invention that has been explained above, it is possible to conceptualize a new model of Italian Gelato shop that could have significantly advantages in economic terms.

The production of the single doses should be centralized in a unique factory. As we have already said the gelato is prepared in the traditional way, but only with natural ingredients and in single doses, when it is ready it is immediately refrigerated without broke the ice chain.

The single doses will be then distributed in the single shops, and there they will be processed through the machinery at the moment of the sale.

Thanks to new machine, the shops will not need a lab for the final processing of the product.

The owner of the shop could decide among different types of machine dependently on the number of tastes that he wants to produce, 9 18 or 27.

Through this system the consumer could enjoy a fresh natural gelato made at the moment and it is also possible to add to the traditional flavor fresh additions such as fruit, cereal etc.

This is another advantage in term of quality; indeed, being added at the moment, these ingredients maintain their original consistence and taste.

In economic terms, the model of this new shop presents significantly advantages in cost savings. The absence of a laboratory contributes to a decrease of both energy and personal cost, and the not necessity of complex refrigeration systems reduces even more the very high energy cost of a traditional gelato shop.

Furthermore, the “at the moment” production eliminate definitively the problem of the waste of products.

In the perspective of a territorial expansion this system could be very profitable due to the low cost of open a new activity that is about the 30% of the traditional one.

This significantly decrease of the investment cost is given by the transformation of the production process, the machineries necessities to produce gelato are less expensive than before.

The system of expansion associated with this invention contemplates a new model of franchising that should overcome all the criticalities that have been underlined before.

This system is based on a “loan for use” contract of the machine.

The loan for use has two great advantages firstly it contributes to reduce the entry fee required to the franchisee and furthermore, in the perspective of franchisor gives the latter a greater contract power and a way to concretely act against whom does not respect the franchising agreement.

3.2 Marketing Plan

The model described above makes possible the realization of an innovative gelato chains.

The final aim of the implementation of a project like this, is the diffusion of a tasty and, above all, natural Italian Gelato all over the world. This could be possible through the advantageous conditions that allow everyone, who wants to become entrepreneur, to start a profitable activity; and thanks to the mechanisms that guarantee the actual standardization of the products all over the world.

The main strengths of this project stands on the differentiation of the product offered.

Indeed, the first aim of the invented machine is to offer customer a natural product without any artificial ingredients. Moreover, what makes this Gelato different than the one offered by the existent players on the market, is the fact that it is made at the moment of the sale.

In this way each consumer could enjoy a fresh gelato in its best condition.

Another strength point of this project is the sureness of the quality standardization of the product; through the studied system it will be not possible to modify in anyway the products offered and thanks to this, the brand could grow in every place of the world.

Concerning the internationalization strategy, the process innovation, implied in the new chain, could grant an easy and fast expansion that should be built on the power and the attractive of the “made in Italy” around the world.

As it will be better explained, this project shows some strength also in an economical perspective: the initial investment required to open a shop is significantly lower than the usual and the operative costs to manage the activity are decreased thanks to the new process.

On the other side, the differentiation could initially represent also a weakness of the project; consumers could need more time to trust the product and the new model shop.

The main differences that could be seen as weaknesses are: the absence of a lab and the not possibility of see the products before buying them.

It is, then, fundamental to make the best in order to communicate all the qualities of the product and in order to make it right perceived from the costumers.

The greatest threat is indeed represented by the risk of wrong perception of the product from consumers. Beyond this risk, another threat is given by the competition of big multinational such as Unilever or General Mills. It is necessary to move before that these great company, with huge capital to invest, take in the fastest growing countries the major market share increasing the barrier to entry for the SMEs.

Also in this case, a key role will be played by the communication that should make clear to the potential consumers the quality superiority of the real Italian Gelato produced.

The motivation for which it is right to believe to the success of this project are within the opportunities that it has. These opportunities are strongly linked with the industry in consideration.

All over the world the interest in Italian gelato is growing and especially outside Europe its presence is still not adequate to the increasing demand. As it is happened in Italy it is possible to obtain great profit abroad with a product that distinguish itself for the high marginality it implies.

More related to the project in analysis, it is the raising role of the healthy trend in all the developed market. This is an opportunity that has to be exploited by the project that has as output, a product characterized by clean label, Italian origin, and only fresh and natural ingredients. The only way to wholly exploit these opportunities is to be focus on the promotion of these aspects of the new chain.

In order to synthetize and make clearer the points just underlined, it is useful a table showing the SWOT analysis for the project.

<u>STRENGTHS</u> <ul style="list-style-type: none">• Natural and healthy products;• Quality Standardization;• Made in Italy;• Possibility of fast expansion;• Low Initial Investment required;• Low OPEX.	<u>WEAKNESSES</u> <ul style="list-style-type: none">• Products not visible;• Absence of a proper Lab;
<u>OPPORTUNITIES</u> <ul style="list-style-type: none">• Fast growing industry;• Healthy trend;• International interest in Italian Gelato;• High marginality.	<u>THREATS</u> <ul style="list-style-type: none">• Wrong consumer's perception;• MNE's competition.

The strategic objectives that should be followed through the new project are mainly the internationalization and the creation of a strong brand.

The achievement of these goals is possible thanks to the process innovation.

Indeed, the low initial investment required makes accessible to everyone who wants the opening of a new points. In this way the franchisor on one side could expand its brand presence in a fast way and on the other could choice among the potential franchisee the one that could better contribute to strengthen the new brand.

In order to correctly be perceived by the consumers it is necessary to explicit in every way possible the real qualitative features of the product.

The communication of these characteristics should start directly from the choose of the brand of the chain that ought to lead to the idea of a product that is healthy, natural and Italian.

Once the marketing objectives are defined it is essential to build the right marketing mix to reach them.

Product:

The product plays a key role in this business.

As it has been explained, the product that will be offered, it is composed only by natural ingredients such as fresh milk, sugar, cream and eggs.

All the ingredients chosen for the production are of primary quality and Italian origins.

All additives and artificial components are not included. Furthermore, gelato is prepared only at the moment of the sale, for this reason it will be sold always in its best conditions.

In order to be more attractive consumers will have the possibility of personalize their gelato adding fresh ingredients such as cereals or seasonal fruits. In this way it will be possible to meet every request and every tastes guaranteeing always the best quality.

Price:

The pricing strategy will be strictly related to the location of the single point of selling. (Market Oriented Pricing) The average price of Gelato is very different across the countries.

The product offered is a high quality Italian product and for these reason the price will be higher than the common industrial ice-cream.

Given the lower operative cost thanks to the innovative process, it could be possible to set a predatory price lower than the direct competitors, but for a correct positioning the price will be in average with the other high quality gelato's makers.

This item of the marketing mix is, indeed, strategic not only concerning the market share but also in order to communicate the right position of the product in the market. A lower price could be associated with lower quality ruined the brand strategy of the franchisor.

Promotion:

Promotion is an integral part of the marketing mix; in general, it focuses on how to attract the attention of consumers and motivate them to make a purchase.

In the project in analysis, it is fundamental to underline that there is the need of a centralized promotion of the brand and of the chain. In order to have a successful franchising, the franchisor should create a strong brand and ought to maintain its awareness with continuously communication action.

Nowadays promotions are mostly online, this means through the Web especially, Social Media. It is absolutely necessary for the chain to have official page in the most used social media to communicate more about itself and about its product. The presence of a single official page for the chain makes more clear the strong link among all the points of selling worldwide.

Through these channels it will be possible to make potential costumers aware of the product and to stimulate them to try the new points.

Communication should focalize on the high quality and the healthiness of the products sold. Once the activity is started, it could be a good strategy to publicize through the online channels special periodic flavors such as seasonal fruit.

In this way, the consumers will be attracted to taste the special products and also the brand could communicate once again the freshness of the ingredients used.

Place:

Concerning the way to distribute the product, the project is based on a franchising system. Franchisee are obliged to buy the product only by franchisor, and they are the retailers to the consumers. The franchisee shops will present the same furnishings and decorations, in this way everywhere in the world consumers will have the perception of be in the same shop and will be sure of taste the same gelato.

The interior design of the shops will be minimal and modern, with a prevalence of the white as color. This helps to give the idea of genuine, natural and cleanliness. According to the vision of the project aimed to the internationalization of a typical Italian products, franchisor will promote the project in the countries that show a greater growth rate in the business. In the

opening of a new shop will be favored location in the city or town center, or in the busiest part of the cities.

3.3 Internationalization Strategy

The innovation introduced through the machine, not only improve the quality of the product served, but it helps to solve all the problem linked to the international expansion.

In the chapter before it has been showed how each mode of entry presents some criticalities.

In particular, concerning the less risky entry mode, Franchising, several problems have been underlined. Firstly, the difficulty to find people who can afford the high initial investment, successively all absence of a control system to check the quality of the franchisee.

The new Gelato Shop proposed could overcome some of these problem, indeed it requires a lower investment and furthermore, it implies a not changeable standardization of the products. Delating the main difficulties related, the best entry mode for a project like this is Franchising system.

The franchising system will be based on a simple agreement in which the franchisor gives in concession to franchisee everything is necessary to open a new point. Consequently, franchisees are obliged to buy the products sold only by the franchisor. Not royalties are required.

Through these agreement franchisor gives his customers also its know-how and especially the license to use its brand.

As said before, the new machine is able to discern whether the product inserted for the final mixing is produced by the franchisor or not and, if not, it stops immediately to work.

It is, in fact, not possible anymore to buy part of the ingredients from other suppliers. Moreover, the new production way requires the minimal contribution for the franchisees, making impossible to defect the quality. In this way the standardization of quality and taste is granted, facilitating the strengthen of the brand and as a consequence the growing of the chain.

The strategy that will be applied is the global standardization strategy, this means that in each countries the firm will decide to enter the product sold will be exactly the same. The global strategy leads to the creation of economies of scale and location economies thanks to the centralized and standardized production. The personalization of the flavors thanks to fresh adding of ingredients, will allow the firm to increase its local responsiveness that is usually lower adopting a strategy like this.

Once decided how to start the internationalization process, it is important to decide which countries enter. The industry analysis, showed how there are countries with higher growth rate, and or market value, than others. The countries that show the higher growth rate are Germany, Russia and China. In the decision, also other features of states should be considered such as the political stability and the import conditions of the countries. Considering the latter, of course it is easier to first enter a European country as Germany and once the chain has a greater success try to enter more critical countries like China and Russia could be.

The greatest market value is the one showed by the USA, even if the growth rate of this country is a little bit lower than the ones of the above mentioned, it is a still not saturated market in which Italian gelato shop could grow and profit.

3.4 Economical Analysis

It is now necessary to focus on the economic feasibility of the project.

Would It be profitable? The answer to this question could be reached through an analysis based on the forecasting of cost and revenues of the project. This study will be conducted with a direct confront with the traditional model. It is necessary to take into account not only the franchisor perspective but also the franchisee ones; indeed, the profitability of the first one is obviously strictly correlated with the one of the latter.

The benchmark that will be used for the traditional model is the franchising system of EMME SRL, enterprise owner of the brand *Cremeria Vienna* presents globally with 39 points, 16 in Italy and 23 abroad. All the data used have been obtained directly from the management of the firm.

3.2.1 Franchisor Perspective

The Franchising system applicable through this machine is totally different from the traditional one, indeed the cost and revenue structure is totally changed.

In *Cremeria Vienna*'s franchising system, the cost required to open a new shop is between 70.000 and 120.000 Euros, with this amount the franchisee becomes the owner of all the machineries and furniture of the shop. In average, the profit of the Franchisor from each new opening is between 20.000 and 25.000 Euros. Beyond this initial fee the Franchisor earns through the selling of the products during all the activity of the franchisees.

As it has been explained before this model has shown especially during the years of the global crisis some cons. Firstly, there has been a significantly reduction of the ratio between the number of new opening per years and the number of potential franchisee that show interest in the project. The great initial investment required represented for all the potential customers a huge barrier due to the difficulty that they face to obtain a loan.

“For every 20 initial requests, only 1 leads to a concrete new opening”. (CEO Emme SRL)

Beyond this huge criticality of the system, there are the already mentioned reputation problem due to the absence of an actual way to control the quality of the shops around the world.

The new franchising system wants firstly to overcome the problem of the low rate of openings; every person that is really interested in the realization of a new points of selling should have the opportunity to concretize it. The new revenue strategy focuses on the openings of the highest numbers of new points possible and to earn not from the selling of the machinery, that will be given in free loan, but only from the sale of the products.

Concerning the reputational problem, they will be easily delated cause the product sold to the franchisee will be ready to be inserted and mixed by the new machine and there is no possibility of modify in any way its taste and quality. Moreover, the machine includes a system that allows the franchisor firm to check if the products inserted are exclusively the ones bought under the franchising agreement condition. In this sense thanks to the “loan concessionary” the franchisor has a more effective mean to enforce the conditions of the franchising agreement.

It is clear that under these conditions there are more possibility of build a strong and unique brand awareness. Consumers that are loyal to that shop in Italy could be sure of find the same taste and quality products also in another country. The strength of the brand contributes to the grow of the chain, higher is the awareness of it higher will be the attractiveness of the business for new franchisee leading inevitably to increasing performance for the franchisor.

As every project even this one requires a high investment and has some risks mostly related to the perception that consumers could have of the innovative process. It is for this reason essential to implement a great and effective marketing plan in order to correctly position the product in the consumer mind.

The investment required to the innovative firm in order to realize this project from the realization of the machine that includes the creation of some specific pieces and then the assembling of them by an external firm is estimated to be around 400.000 € in which it is includes the bought of 25 machineries in order to start the activity and an initial 100.000 € in marketing campaign.

At this point it is important to specify that the project will be financed for the 40% by debt and for the remaining 60% by equity. The rate of debt required to a small medium enterprise in the south of Italy is approximately equal to 4%.

The debt will be repaid by the firm in the next five year following a Repayment Plan based on constant repayment of the debt.

REPAYMENT PLAN

	<i>Repayment</i>	<i>Interest Rate</i>	<i>Repayment + Interest</i>	<i>DEBT</i>
0				€200.000,00
1	€40.000,00	€8.000,00	€48.000,00	€160.000,00
2	€40.000,00	€6.400,00	€46.400,00	€120.000,00
3	€40.000,00	€4.800,00	€44.800,00	€80.000,00
4	€40.000,00	€3.200,00	€43.200,00	€40.000,00
5	€40.000,00	€1.600,00	€41.600,00	€-

In order to verify the feasibility of the project it is necessary to calculate its Present Value.

For this purpose, it is necessary to forecast, through approximation based on the data of EMME SRL, the cash flow for the first 5 years of the project and its continuous value.

In order to estimate the cash flow, it has been computed the average turnover of the “Cremeria Vienna” franchisees customers, this average is resulted equal to 200.000€. In order to earn this value, franchisees need to buy at least 70.000€ of products from the franchisor, of this 70.000 € only the 33,2% is the net profit of the franchisor company, 23.240 € per franchisee customer. Considering for the new gelato shop a lower annual revenue capacity than the one of the traditional shop, 150.000 €, it is obtained, through proportional computation, the annual net profit per shop of the franchisor, this value is 17.435,25€.

Estimating for the reasons above, the greater rate of realization for each request of new opening of the new system comparing with the old one, it is possible to forecast for the first year a number of franchisee shops equals to 10.

To obtain the cash flow it is necessary to subtract from the estimated net profit, the annual repayment of the debt.

Once obtained the cash flow for the first year, it is possible to calculate the ones of the next 5 years, forecasting a growth rate equal to 2%.

The annual growth rate could be justified by the strengthening of the brand that lead to an increase both of the new franchisee and of the turnover of the existing ones. For the same reason, it has been assumed for the computation of the continuous value a long term growth rate still equal to 2%.

Eventually the most difficult part is to estimate the risk of equity to apply; a way to do it is to take some great listed company and compute the average of their risks of equity. Successively it is necessary to add a component of risk given by the fact that the project is run by a SME that is significantly less diversified than a listed multinational. To have a more realistic value it has been decided to double the value obtained by the average of the two multinational firms.

The two firms chosen as benchmark for the industry are *Nestlè* and *Unilever* (*Inserisci in biblio dati BLOOMBERG*), both of them are leader in the food industry and specifically in the Ice-Cream one.

DATA	
Initial Investment	€ 500.000,00
Debt	€ 200.000,00
Equity	€ 300.000,00
Growth rate	2%
Income Y1	€ 174.352,50
Risk of Debt	4%
Tax Rate	40%
Risk of Equity	14%
Wacc	9%

The result of these computation based on the above explained estimation lead to the *Basic Case* of the analysis. The Net Present Value results to be positive in this first case.

BASIC CASE	Income1	€ 174.352,50	g	2%		g long term=2%
Year	0	1	2	3	4	5
Investment	-€ 500.000					
Debt Repayment		-€ 48.000	-€ 46.400	-€ 44.800	-€ 43.200	-€ 41.600
Income		€ 174.353	€ 177.840	€ 181.396	€ 185.024	€ 188.725
Cash Flow	-€ 500.000	€ 126.353	€ 131.440	€ 136.596	€ 141.824	€ 147.125
Continuos Value						€ 2.115.709
CF+CV		€ 126.353	€ 131.440	€ 136.596	€ 141.824	€ 2.262.834
NPV	€ 1.396.029					

Furthermore, even if it is considered to stop the activity after five years without recover anything from the started activity (Continuous Value equals to 0€), the Net Present Value of the project still results positive.

In order to better evaluate the feasibility of an investment like this, taking in account the uncertainty linked to every innovation, two different possible scenarios have been considered. The first one, Worst Case, considers an income for the first year strongly undervalued compared to the estimation and a growth rate equals to 2% only for the first five years of activity.

The continuous value is computed starting from the cash flow of year 5, considering this latter value stable for all the successive years (long term growth equals to zero).

DATA	
Initial Investment	€ 500.000,00
Debt	€ 200.000,00
Equity	€ 300.000,00
Growth rate	0%
Income Y1	€ 80.000,00
Risk of Debt	4%
Tax Rate	40%
Risk of Equity	14%
Wacc	9%

WORST CASE	Income 1	€ 80.000,00	g	2%		g long term=0
Year	0	1	2	3	4	5
Investment	-€ 500.000					
Debt Repayment		-€ 48.000	-€ 46.400	-€ 44.800	-€ 43.200	-€ 41.600
Income		€ 80.000	€ 81.600	€ 83.232	€ 84.897	€ 86.595
Cash Flow		€ 32.000	€ 35.200	€ 38.432	€ 41.697	€ 44.995
Continuos Value						€ 494.826
CF+CV		€ 32.000	€ 35.200	€ 38.432	€ 41.697	€ 539.821
NPV	€ 0					

This scenario still leads to a net present value greater than zero.

To have a complete scenario analysis it has been created a case with better condition than the basic one. In the *Best Case*, the income of the first year is slightly above the one of the basic case, and the growth rate both short and long run is equal to 5% instead of the 2% of the basic case. Changing these circumstances the project analysis leads, obviously, to a higher Net Present Value.

DATA	
Initial Investment	€ 500.000,00
Debt	€ 200.000,00
Equity	€ 300.000,00
Growth Rate	5%
Income Y1	€ 200.000,00
Risk of Debt	4%
Tax Rate	40%
Risk of Equity	14%
Wacc	9%

BEST CASE	Income1	€ 200.000,00	g	5%		g long term=5%
Year	0	1	2	3	4	5
Investment	-€ 500.000					
Debt Repayment		-€ 48.000	-€ 46.400	-€ 44.800	-€ 43.200	-€ 41.600
Income		€ 200.000	€ 210.000	€ 220.500	€ 231.525	€ 243.101
Cash Flow	-€ 500.000	€ 152.000	€ 163.600	€ 175.700	€ 188.325	€ 201.501
Continuos Value						€ 5.169.223
CF+CV	-€ 500.000	€ 152.000	€ 163.600	€ 175.700	€ 188.325	€ 5.370.725
NPV	€3.520.830					

3.2.2 Franchisee Perspective

It has been analyzed the profitability of this project for the franchisor firm who runs the innovation process. At the basis of the profitability for the franchisor there is first of all the success of the franchisee.

It is then necessary to demonstrate the benefit for the franchisee to starts its own activity through the new franchising system based on the use of the new machine.

The starting point is also in this case the data of the existing franchisee shops “*Cremeria Vienna*”, in particular their income statement. Basing on these numbers and confronting the two different business models, it will be possible to obtain the cost and revenue structure for the franchisee of the new chains.

Before the analysis of the income statement, it is fundamental to underline again the difference in the initial investment of the new shop compared to the ones of the traditional one.

The opening of a traditional Cremeria Vienna shop cost at in average 95.000 €.

The maximum investment required to open a complete and ready to work shop with the new system is 30.000 €. This difference not only allow a larger amount of people to start their own activity but furthermore, make them able to faster recover the investment.

Concerning the cost and revenue structure, the differences are mostly on the side of the cost, the new processing process results to be cheaper than the old one.

This saving is mainly related by the absence of a proper lab that determine less expenditures both in utility and employees.

In order to better understand how the new cost structure works, it will be firstly analyzed the income statement of a “*Cremeria Vienna*” point in franchising with an average profitability, and successively it will be shown how the profitability changes with the use of the new model keeping unchanged others variables.

Cremeria Vienna INCOME STATEMENT	
Revenues and Gains	€361.260,00
Cost of good Sold	€181.582,00
Staff Costs	€102.993,80
Utility Costs	€20.891,00
Maintenance Costs	€4.826,00
Rent	€17.594,00
Others Costs	€3.270,00
<i>Before Tax Income</i>	<i>€30.103,20</i>
Taxes	€10.536,12
<i>Net Income</i>	<i>€19.567,08</i>

At this point it is possible to estimate the Net Income for a new model Franchisee shop varying in the income statement above the cost items that are influenced by the use of the new machine.

The items that change value as a consequence of the machine introduction are: cost of the good sold, staff cost and utility cost;

Cost of Good Sold: The value is obtained computing the cost of the new product necessary to produce the annual kg consume of Gelato in the Cremeria Vienna point takes as benchmark.

The annual kg consume has been adjusted for the waste percentage (6%) typical of a traditional gelato shop.

The amount resulted is higher than before cause the price per kg of the new product is slightly higher than the one of the old.

	Traditional Shop	Innovative Shop	Difference
<i>Cost of Good sold</i>	€181.582,00	188.510,25	€6.928,25

Staff Costs: An important variation in the structure cost regard the voice of the expenditures for the work-force. Thanks to the new process there is a significant saving amount. From the data of the traditional shop taken as example, it is possible to have the total amount of work-hour needed in a shop in one year and the personnel cost per hour. The hours are differently distributed during the year due to the seasonality of the business, for simplification we assume that the number of employees needed in the shop is always four (as in the high season period). For the reasons already mentioned, the new shop could work with less people, for example three. At this point, it is easy to approximate the total number of hours needed and consequently the annual Staff Cost. As the table below shows the savings in this case is very high.

	Traditional Shop	Innovative Shop	Difference
<i>Staff Cost</i>	€102.993,80	77.245,35	-€25.748,45

Utilities cost: This item is the one that shows the greatest variation in percentage. The reason is given by the fact that the new machinery replaces both the mixing machineries and the refrigerated sales counter. Both these equipment require an huge consume of electricity determining a very high utility cost. In the projecting of the machine it has been estimated that, at parity of production, its utility consumption is about the 30% of the consumption through the traditional process.

	Traditional Shop	Innovative Shop	Difference
<i>Utilities Costs</i>	€20.891,00	7.800,00	-€13.091,00

Once that the amounts of the changing variables are defined, it is easy to translate the old income statement into the one of the new project. Comparing the two statements and above all the net income resulted, it will be possible to evaluate the effectiveness of the investment for all the potential customers.

New INCOME STATEMENT	
Revenues and Gains	€361.260,00
Cost of Good Sold	€188.510,25
Staff Costs	€75.768,32
Utility Costs	€7.800,00
Maintenance Costs	€4.826,00
Rent	€17.594,00
Others Costs	€3.270,00
<i>Before Tax Income</i>	<i>€63.491,43</i>
Taxes	€22.222,00
<i>Net Income</i>	<i>€41.269,43</i>

This result shows how the new process is significantly more efficient than the traditional one, determining an income that is more than double than before. Obviously the outcome we obtained is strictly related to the assumptions done, especially concerning the revenues.

Indeed, it has been estimated that the consumer's behavior remains totally stable in front of the new type of gelato production and shop. Actually the greatest risk of a project like this, lies on the unexpected reaction of the consumers. Even if the principal aim of the innovation has since the beginning been to improve the quality of gelato of to make it more natural and healthy, the absence of a lab could be associated to an industrial product with artificial element and less tasty. What the project is a huge marketing campaign from the brand's owner, and obviously time.

In this way it would be possible for the customer to effectively know and taste the product.

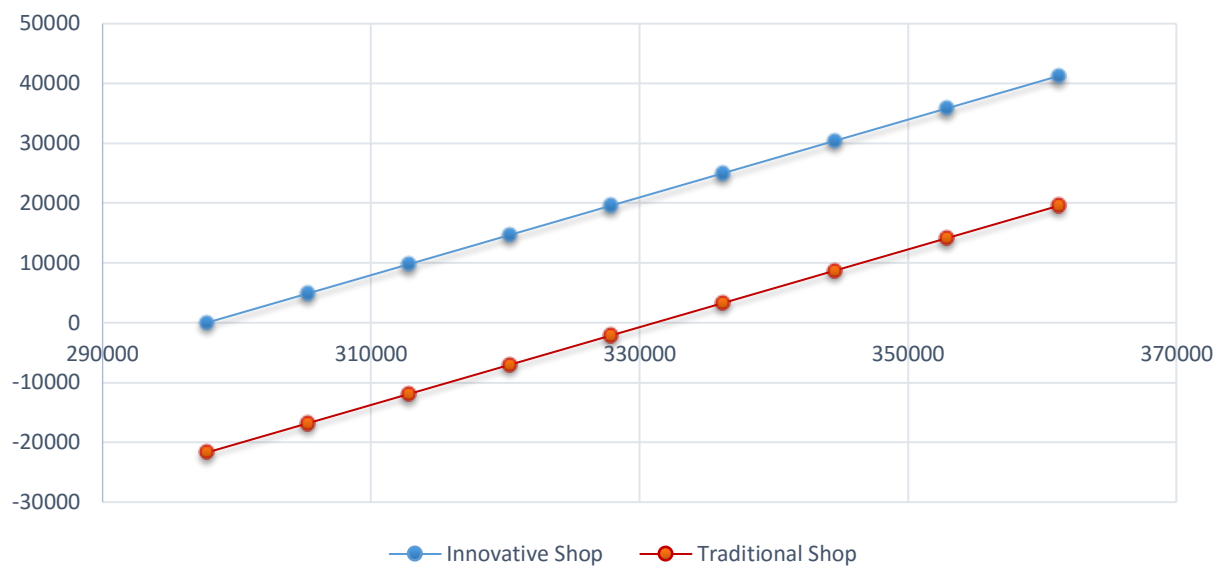
For all these reasons, it is necessary to verify how much the net income is sensitive to the revenues. In this way it is possible to establish which is the level of revenue that make the Net

Income of the new model equal to the old one, and the level at which it determines a positive profit. What emerges from the sensitivity analysis is that the Net Income of the innovative shop equals the one of the traditional system at the point in which the revenues decrease by 10%. Furthermore, with a 20% fall of the revenues the Net profit still results slightly positive.

Revenues	Net Income	% Var
€361.260,00	€41.269,43	
€352.913,30	€35.844,07	
€344.566,59	€30.418,71	
€336.219,89	€24.993,36	
€327.873,18	€19.568,00	-10%
€320.347,18	€14.676,10	
€312.821,18	€9.784,20	
€305.295,18	€4.892,30	
€297.769,18	€0,40	-20%

The same sensitivity analysis done on a traditional shop lead to totally different outputs, making even clearer the convenience for a potential franchisee to choose for the new model of shop rather than the traditional ones.

Revenue	Net Income	% Var
€361.260,00	€19.567,08	
€352.913,30	€14.141,72	
€344.566,59	€8.716,36	
€336.219,89	€3.291,00	
€327.873,18	-€2.134,35	10%
€320.347,18	-€7.026,25	
€312.821,18	-€11.918,15	
€305.295,18	-€16.810,05	
€297.769,18	-€21.701,95	



The graph above shows how the innovative shop is able to transform a greater amount of revenues in net income. This capacity could be synthesized through an indicator such as the ROS. The Return On Sales, indeed, is obtained through the ratio between the operating income before taxes and the Revenues. The new ROS is almost 10% higher than the old one, underling the improved cost structure.

ROS NEW SHOP	17,6%
ROS TRADITIONAL SHOP	8,3%

Conclusions

The aim of this work is to find a way to overcome the difficulties that Italian SMEs, operating in the Gelato business, face in internationalization.

These criticalities lie on the difficult to manage the trade-off between fast and riskless expansion, and high standard quality.

The practical cases studied in the second chapter have shown how traditional business model have some weaknesses in the long term, demonstrating to not be able to pursue both high quality and profitability.

These are the reasons why this work strongly affirms the necessity of an innovation.

In particular, the proposed innovation concerns the technical field of the gelato processing machines. The invention is about a new machine of gelato's processing and supplying that provides a fresh product in the moment in which the consumer demand for it.

In the third chapter there is the explanation of how could work a new chain of Gelato shops based on the use of this machine. It is demonstrated how some limits of the traditional franchising could be overcome.

Firstly, the initial investment required for opening a new shop is 70% lower than before; this could allow every potential franchisee to really open a new activity.

Moreover, the standards of quality are ensured in each franchisee point thanks to the system of the machine that is able to detect when a product that does not come from the franchisor is inserted.

The products arrived to the franchisee ready to be placed in the machine that will mix them only at the moment of the sale. Wherever, the consumer could find the same quality and taste. This allows the franchisor firm to build a strong brand awareness that foster the growth of the chain.

The results of the economically analysis done in the last chapter shows that this project is not only feasible but also profitable.

The main strength of the project is the improved cost structure in the ordinary management of the single shop. The new production process implies, a significantly decrease in both investment and operational cost for all the franchisees.

The use of the machine, instead of all the machineries traditional used, makes fall the cost of personal, the utilities cost and delate the typical problem of product wastes.

The comparison of the income statement between the shop operating through the innovative process and the traditional one shows clearly this advantageous that lead to an higher net-income given the same revenues.

The greater efficiency of the whole activity increases the incentive to open new points, making possible for the franchisor to quickly recover the initial investment in the innovation.

The investment project required to introduce the innovation has been valued through the NPV method, considering three different scenarios. The resulting net present values are positive in every cases, leading to the economically acceptability of the project.

Beyond the economically advantages due to the new franchising system, this innovation leads also to a huge improvement of the quality of Gelato. The product will be mixed directly at the moment of the sale. Consumers could taste it always at its best condition and they have also the possibility to add fresh ingredients to better match their tastes.

Furthermore, the project is coherent with the new trends that are conquering the food business. What consumers want is a product that is natural as much as possible with few and healthy ingredients, so-called “clean-label” trend.

Moreover, it is essential to communicate to consumers an history about where their products come from, and to be more accepted it is important to give them a “local idea” in order to win their trust.

The Gelato resulted from the introduction of this innovation, satisfies all these requests. It does not contain hydrogenated fats, additives and emulsifiers. The ingredients used, such as fresh milk, eggs, cream and sugar, are natural and of the highest quality possible. Finally, the production is totally centralized in Italy that is in the perception of everyone the home country of this product.

All these reasons, together with the high growth rate of the industry in several countries, makes me confident about the possibility of an international success of the innovative project.

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SUMMARY

Although the importance of innovation in the economy has been clear since the studies of economists Adam Smith and Friedrich List to name a few, the first true pioneer to study innovation with a dynamic approach was Joseph Schumpeter. Indeed, by focusing on technological change in order to explain the economic cycle, he identified the process of innovation as being the principal motor of capitalism.

Schumpeter was the first one to consider the relationship between the dimension of the firm and the capacity to innovate, to examine the source of innovation and, most of all, to consider innovation as a continuing and cumulative process on which firms could build their competitive advantage.

Even though it was formulated almost a century ago the idea of innovation proposed by Schumpeter is a great starting point to consider the role of innovation in the economy, indeed he could be considered as the driver of the innovation modern studies.

These are the issues on which successive scholars focused on and also on which the current study of Innovation management places its concerns.

Despite the presence of many opened questions, there are some critical remarks that are shared by the mostly of economic scholars; these are about the main features of innovation.

First of all, the uncertainty of its result: it is impossible to know priory the effect of the introduction of an innovation on market. Effect that is about the reaction of both consumers and competitors.

Furthermore, innovation is not a single moment but it is a cumulative and evolutionary process. Each step reached is the consequence of the past knowledges and experiences.

As Schumpeter argued almost one century ago innovation is usually a new combination of existing elements. We should not categorize the process we are talking about only in powerful enterprise or in high-tech industries, because it is everywhere.

Nowadays, innovation is assuming a growing importance in economy. This phenomenon could be explained by the increasing competition due to the interconnection of the markets.

Indeed, globalization of the markets has mainly two effects on firms' business: on one side there is the possibility to sell products and services to a huge market that is the global one, on the other side there is an increasing competition that comes from enterprises all over the world.

This means that firms that want, firstly, to survive and, then to succeed, in this new and connected market should be able to exploit in the best possible way the possibilities offered by the foreign countries but at the same time they ought to face the global competition.

Competition is usually played on two aspects: differentiation of the product and minimization of costs of production. A firm has a competitive advantage when it is able to sell the same product at a lower price than competitors or, when it better responds to consumers' necessities.

Innovation could play a key role in both these competitive leverages, leading to the introduction of new products on the market and decreasing the cost through process innovation.

The capacity to innovate could be considered a core competence for an enterprise. Core competences are the resources or the capabilities on which a firm could build its competitive advantage. In order to be considered a core competence, a resource should be critical, rare, durable, not easily transferable and difficult to imitate. The capacity of firm to innovate, having all these characteristics, is certainly a core competence on which a manager could base a profitable strategy for the firm.

Strategies based on innovation capacity are particularly beneficial for those firms which show the capacity to improve and extend continuously their competences. The process of competence's accumulation should be a dynamic process in which enterprise demonstrate to be able to organize and exploit their capabilities.

This concept has been better explained by the theory of the dynamic capabilities: the firm's competitive advantage is in the capacity of the management to adapt, integrate, and re-arrange firm's competence and resources in order to face the continuously change in the framework in which it plays.

The ability of the manager to understand new necessities of consumers, to identify new opportunities to growth and to quickly adapt to the changes in the market are the foundation to foster the generation of "dynamic capabilities".

There are several ways to classify the different types of innovation.

The first dimension of classification is given by the object of innovation that could be the product or the service itself (product innovation) or the way in which the firm operates (process innovation). Although product innovations are without doubt more notable, both the examined typology are crucial for the competitiveness of a firm.

Another variable to consider is the degree of innovation that depends of the degree of new knowledge that it includes. The degree of innovation could be considered as a continuum line whose extreme points are radical innovation and incremental innovation.

Furthermore, when innovation is about the way in which these systems work, it is an architectural innovation. On the contrary, when the subject of the change is a single or several elements of the system the innovation is modular.

consideration the basis on which the new knowledge is build.

In this perspective an Innovation is “competence enhancing” when it is just an evolution of knowledge and capabilities, that are already owned by the firm; instead an innovation is defined as “competence destroying” when it does not come from the experience and knowledge baggage of the enterprise, but, on contrary, it makes it obsolete.

It is wrong to stigmatize the phenomenon of innovation only to great Multinational enterprise and to specific sector such as the high tech one. Indeed, innovation could be in every field of business and it does not strictly depend on firm dimensions.

In fact, it is the key through which allows small medium enterprises to compete with big multinationals. Even if MNEs have greater resources to invest in research and development, there are some features of the SMEs that allow them to often reach good results. First of all, the smallest the size of the firm is the greatest is its flexibility and furthermore, small firms usually have a more direct relationship with the consumers. Thanks to these characteristics small firms are faster than greater firms in individuate new market needs and consequently in innovating.

Theoretical conceptions of innovation in SMEs should not consider this phenomenon as a smaller version of the one adopted by big firms. It is totally

wrong to apply to the innovation in SMEs the “little big business” approach. This process should be considered coherently with the context of smaller enterprises.

What is crucial, is to study the process of innovation in SMEs with a specific perspective suited with the context in which these entities play.

This process should concern all the organization and it is about all the “life” of innovation including the building of the basis to its birth.

During the strategy analyses, it is crucial to focalized on the training of the organization that should develop the dynamic capabilities that are essential to the process; secondly in the SMEs a key role is played also by the relationship with external parts of the processes. As we have already explained the main limit to innovation in smaller firms is represented by the scarcity of resources. A SMEs that would base its competitive advantage on innovation ought to find outside its organization all the missing resources and competences. It is important to maintain a strict relationship with supplier and consumers, to explore the market of knowledge and technologies. In order to do this firm could decide to collaborate with universities and other research institution or to find as partner a big firm that could finance the idea of the smaller one.

Certainly partnership means also a decrease of the control on the innovation, because of that, it is an awkward part of the process. The risk in this case is to give up in the partnership and lose its owner knowledges.

The capacity of a small firm to innovate depends highly on the attitudes, experiences, risk aversion and the network on its entrepreneur.

In order to be the driver of innovation and of the continuous process of adaptation of the firm in the changing context, an entrepreneur should have several features: she should note and keep in the organization the most innovative mind, she should focus on strategic priorities and makes the innovation process clear to all the organization, every steps of the firm should be oriented to the achievement of defined aims, she should be open to the risk of new ideas and changes when the necessities is evident, she ought to be able to spread its innovative mind in the culture of the whole organization.

Both SMEs and MNEs should focus on innovation in order to compete in the global market. As it has been firstly explained, globalization not only increases the degree of competition but also raises the possibility of the firms that can now operate in several markets.

In order to gain from the opportunities offered by the global market, SMEs should go abroad through internationalization.

It is interesting to study the link between innovation and internationalization. The recent literature states that these two phenomenon strengthen each other and the relation between them is one of complementarity rather than substitution.

Strictly concerned to this, is the final aim of this work that wants to demonstrate how an innovation could allow Italian SMEs to internationalize a made in Italy excellence: Gelato.

This industry shows a contradiction that is typical of the Italian food business: Italy is the first country in term of production but it is only the fourth in exportation volumes. This means that other countries are better than us at globally sell an Italian product.

This data becomes more critical if it is considered the current saturation of the Italian market for this industry and the opposite high growth rate that this product is faced abroad.

Gelato is, in fact, a totally different product from the American-style Ice-Cream that still dominate the foreign markets. This difference is based on three features that are shape by the production methods: air, fat and temperature.

Italian firms should be able to exploit these huge opportunities.

The innovation that will be presented through this work wants to overcome the criticalities that have been faced until now by the existing chains in Internationalization. At the same time, the aim is to create a product that could meet the new needs and trends of the consumers that are always more focus on the healthiness and the quality of the ingredients.

In order to better understand the criticalities related to the internationalization in these specific industry, there have been analyzed three Italian chains that show three different internationalization strategy. All the cases show several issues depending on the mode of entry chosen.

Franchising is without any doubt the faster and the less expensive modalities, the problem in this case are the standardization of the product due to the losing of control over production, the consequent reputational problem and, in the current period, the difficulties to find a franchisee that could afford the high initial investment required.

Indeed, the average cost required to open an Italian gelato shop with the lab for the production is about 70.000 euros. In order to solve these problems, still expanding through franchising, it is necessary to renounce to the quality of the product, distributing to all the shops a final product ready to be sold. Thanks to this system the franchisee cannot compromise the quality of the product and also the initial investment is considerably lower due to the absence of a workshop.

If on one side this system could be considered more efficient in an economic point of view, on the other side it loses in the quality of the product that is not fresh and that cannot be considered artisanal. In order to maintain its consistence for the whole day in a refrigerator it contains a higher percentage of air and additives substances that make it more similar to an industrial ice-cream rather than a home-made gelato.

An alternative mode of entry to the franchising is the expansion through wholly owned subsidiaries. This way is the best in order to strengthen the brand reputation thanks to the direct control to the standard of quality. The cons are in this case related to the high cost of expansion and the risk related to it.

The innovation that is going to be proposed concerns the technical field of the gelato processing machines. Particularly, the invention is about a new machine of gelato's processing and supplying that provides a fresh gelato in the moment in which the consumer demand for it.

The product that is processed through this machines does not require the use of additives and emulsifiers. Beyond the advantages in term of product quality, a business model built on this new machine could have significantly pros in economical term decreasing both the cost of open a new activity and the management ones.

Through the invention that has been explained above, it is possible to conceptualize a new model of Italian Gelato shop that could have significantly advantages in economic terms.

The production of the single doses should be centralized in a unique factory. Gelato is prepared in the traditional way, but only with natural ingredients and in single doses, when it is ready it is immediately refrigerated without broke the ice chain.

The single doses will be then distributed in the single shops, and there they will be processed through the machinery at the moment of the sale.

Thanks to new machine, the shops will not need a lab for the final processing of the product Through this system the consumer could enjoy a fresh natural gelato made at

the moment and it is also possible to add to the traditional flavor fresh additions such as fruit, cereal etc.

This is another advantage in term of quality; indeed, being added at the moment, these ingredients maintain their original consistence and taste.

In economic terms, the model of this new shop presents significantly advantages in cost savings. The absence of a laboratory contributes to a decrease of both energy and personal cost, and the not necessity of complex refrigeration systems reduces even more the very high energy cost of a traditional gelato shop.

Furthermore, the “at the moment” production eliminate definitively the problem of the waste of products.

In the perspective of a territorial expansion this system could be very profitable due to the low cost of open a new activity that is about the 30% of the traditional one.

This significantly decrease of the investment cost is given by the transformation of the production process, the machineries necessities to produce gelato are less expensive than before.

The system of expansion associated with this invention contemplates a new model of franchising that should overcome all the criticalities that have been underlined before.

This system is based on a “loan for use” contract of the machine.

The loan for use has two great advantages firstly it contributes to reduce the entry fee required to the franchisee and furthermore, in the perspective of franchisor gives the latter a greater contract power and a way to concretely act against whom does not respect the franchising agreement.

The franchising system will be based on a simple agreement in which the franchisor gives in concession to franchisee everything is necessary to open a new point. Consequently, franchisees are obliged to buy the products sold only by the franchisor. Not royalties are required.

Through these agreement franchisor gives his customers also its know-how and especially the license to use its brand.

The new machine is able to discern whether the product inserted for the final mixing is produced by the franchisor or not and, if not, it stops immediately to work.

It is, in fact, not possible anymore to buy part of the ingredients from other suppliers. Moreover, the new production way requires the minimal contribution for the franchisees, making impossible to defect the quality. In this way the standardization of

quality and taste is granted, facilitating the strengthen of the brand and as a consequence the growing of the chain.

The strategy that will be applied is the global standardization strategy, this means that in each countries the firm will decide to enter the product sold will be exactly the same. The global strategy leads to the creation of economies of scale and location economies thanks to the centralized and standardized production. The personalization of the flavors thanks to fresh adding of ingredients, will allow the firm to increase its local responsiveness that is usually lower adopting a strategy like this.

Once decided how to start the internationalization process, it is important to decide which countries enter. The industry analysis, showed how there are countries with higher growth rate, and or market value, than others. The countries that show the higher growth rate are Germany, Russia and China. In the decision, also other features of states should be considered such as the political stability and the import conditions of the countries. Considering the latter, of course it is easier to first enter a European country as Germany and once the chain has a greater success try to enter more critical countries like China and Russia could be.

The greatest market value is the one showed by the USA, even if the growth rate of this country is a little bit lower than the ones of the above mentioned, it is a still not saturated market in which Italian gelato shop could grow and profit.

The following SWOT analysis could be useful to understand the pros and the cons of the system proposed.

<u>STRENGTHS</u> <ul style="list-style-type: none">• Natural and healthy products;• Quality Standardization;• Made in Italy;• Possibility of fast expansion;• Low Initial Investment required;• Low OPEX.	<u>WEAKNESSES</u> <ul style="list-style-type: none">• Products not visible;• Absence of a proper Lab;
<u>OPPORTUNITIES</u> <ul style="list-style-type: none">• Fast growing industry;• Healthy trend;• International interest in Italian Gelato;• High marginality.	<u>THREATS</u> <ul style="list-style-type: none">• Wrong consumer's perception;• MNE's competition.

The strategic objectives that should be followed through the new project are mainly the internationalization and the creation of a strong brand.

The achievement of these goals is possible thanks to the process innovation.

Indeed, the low initial investment required makes accessible to everyone who wants the opening of a new points. In this way the franchisor on one side could expand its brand presence in a fast way and on the other could choice among the potential franchisee the one that could better contribute to strengthen the new brand.

Once the marketing objectives are defined it is essential to build the right marketing mix to reach them.

Product:

The product plays a key role in this business.

As it has been explained, the product that will be offered, it is composed only by natural ingredients such as fresh milk, sugar, cream and eggs.

All the ingredients chosen for the production are of primary quality and Italian origins.

All additives and artificial components are not included. Furthermore, gelato is prepared only at the moment of the sale, for this reason it will be sold always in its best conditions.

In order to be more attractive consumers will have the possibility of personalize their gelato adding fresh ingredients such as cereals or seasonal fruits. In this way it will be possible to meet every request and every tastes guaranteeing always the best quality.

Price:

The pricing strategy will be strictly related to the location of the single point of selling. (Market Oriented Pricing) The average price of Gelato is very different across the countries.

The product offered is a high quality Italian product and for these reason the price will be higher than the common industrial ice-cream.

Given the lower operative cost thanks to the innovative process, it could be possible to set a predatory price lower than the direct competitors, but for a correct positioning the price will be in average with the other high quality gelato's makers.

This item of the marketing mix is, indeed, strategic not only concerning the market share but also in order to communicate the right position of the product in the market. A

lower price could be associated with lower quality ruined the brand strategy of the franchisor.

Promotion:

Promotion is an integral part of the marketing mix; in general, it focuses on how to attract the attention of consumers and motivate them to make a purchase.

In the project in analysis, it is fundamental to underline that there is the need of a centralize promotion of the brand and of the chain. In order to have a successful franchising, the franchisor should create a strong brand and ought to maintain its awareness with continuously communication action.

Nowadays promotions are mostly online, this means through the Web especially, Social Media. It is absolutely necessary for the chain to have official page in the most used social media to communicate more about itself and about its product. The presence of a single official page for the chain makes more clear the strong link among all the points of selling worldwide.

Through these channels it will be possible to make potential costumers aware of the product and to stimulate them to try the new points.

Communication should focalize on the high quality and the healthiness of the products sold. Once the activity is started, it could be a good strategy to publicize through the online channels special periodic flavors such as seasonal fruit.

In this way, the consumers will be attracted to taste the special products and also the brand could communicate once again the freshness of the ingredients used.

Place:

Concerning the way to distribute the product, the project is based on a franchising system. Franchisee are obliged to buy the product only by franchisor, and they are the retailers to the consumers. The franchisee shops will present the same furnishings and decorations, in this way everywhere in the world consumers will have the perception of be in the same shop and will be sure of taste the same gelato.

The interior design of the shops will be minimal and modern, with a prevalence of the white as color. This helps to give the idea of genuine, natural and cleanliness. According to the vision of the project aimed to the internationalization of a typical Italian products, franchisor will promote the project in the countries that show a greater

growth rate in the business. In the opening of a new shop will be favored location in the city or town center, or in the busiest part of the cities.

The investment project required to introduce the innovation has been valued through the NPV method, considering three different scenarios. The resulting net present values are positive in every cases, leading to the economically acceptability of the project.

The data used in the project valuation are based on forecasts obtained through the study of real data of a firm operating in the industry.

The analysis shows also a comparison between the traditional model of Gelato franchising chain and the proposed one. The results of this comparison show the advantageous led by the introduction of the innovation for both the part of the franchising agreement.

The franchisor has the possibility to concretize all the received requests from potential franchisee. This is due to the lower cost implied by the new model of franchising for opening a new point. Furthermore, the standardization of the quality is guaranteed by a control system included in the new machine. In this way, the chain could build a strong brand awareness based on its main feature: the quality of the product.

On the other side, the annual estimated profit for the franchisee results to be higher than the one of a traditional shop. The motivations are, as it has been explained before, given by the transformation of the cost structure caused by the process innovation.