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4.1 FCC and the Chinese market

4.1.1 FCC

FCC was founded in 1989 by Gino Celletti, a man that came from the pharmaceutical industry and is today a well known olive oil entrepreneur within his sales region. FCC acts as a retailer, distributing only olive oil of a premium quality, produced by carefully chosen suppliers in Italy, contracted to follow FCC's strict production instructions. The competence that the company has developed through the years within olive oil production, distribution and sales, can be seen as a unique capability allowing FCC to enhance its competitive advantage. According to FCC, only a small percentage of the world production of olive oil is of such a high quality as the one that FCC offers. Today, FCC sells olive-oil directly to Italian consumers through their restaurant in Milan, but FCC also distributes its olive oil to European consumers via their web-page. Furthermore, FCC distributes oil to exclusive retailers in London. As the market developed and became more sophisticated, FCC started focusing on the very expensive kind of olive oil with a very high quality, Monocultivar Extra Virgin Olive Oil (Public relator and project manager, Interview Oct 4th, 2006).

The thing that distinguishes FCC from other olive oil companies is first the very high quality which results from thorough processes and procedures in the production. Secondly the way FCC sells and distributes the high quality olive oil is a bit different from most other retailers. FCC has its unique restaurant in Milan that has specialized in providing the ultimate dishes using carefully chosen olive-oil for each dish that is served. In this restaurant the olive oil is marketed and sold. Also courses are held by the founder of FCC to deepen the knowledge of olive oil with interested persons. Only few carefully selected distributors are hired to sell the FCC olive oil through their olive oil shops in Italy. The respect FCC has got for the knowledge and competence within the field has helped FCC to get new contacts needed for succeeding in the business (Public relator and project manager, Interview Oct 4th, 2006).

4.1.2 Threats and opportunities facing the Italian olive oil industry

The olive oil industry in Italy is currently being affected by low price brands owned by foreign distributors producing in low-cost countries. Spain is especially catching market shares in Italy, but the threat from China is coming to. The extensive knowledge about how to produce really high quality olive oil is valuable only if the market demand is large enough.

In Italy there is a limited market for such high quality and costly oil. In China that demand is growing with a high speed and this is an opportunity for FCC. FCC believes that there are a huge amount of Chinese people that have enough money to spend, and that they want the best olive oil available. In China there are a lot of people who are willing to pay for the high quality, and as an expanding country there will be even more in the future. Entering this market is important for FCC. But to be successful FCC says that they need to enter the market in the right way and very quickly in order not to lose too much money in the process of moving production (Public relator and project manager, Interview Oct 4th 2006)

4.1.3 FCC's knowledge and competencies

FCC's competence and experience in finding the right soil for the right olives, finding the producers that have the right skills and the right understandings, teaching the right way process and handle the olives during the different production processes and finally finding suitable retailers are among the necessary competitive advantages needed for competing on any market that requires the very best olive oil. This knowledge has developed during many years. Probably you could say that some knowledge has been inherited from the Italian countryside where the founder family has been grown up. But most of the knowledge has been collected deliberately through the founder of FCC who developed a deep interest for olive oil, its processing and production and the world market for it. FCC's founder has been collecting as much knowledge as possible within the field (G. Celletti, Interview Oct 4th, 2006).

During the years, Mr. Gino Celletti, the founder, gained more and more knowledge about the area of olive oil and also started giving courses. Today, he is considered to be the Master of Olive Oil in Italy and is well-known across the world market for these products. The deep knowledge about Monocultivar Extra Virgin Olive Oil has helped the company to produce the very high quality (G. Celletti, Interview Oct 4th, 2006)

Now also the founder's son has the intention to carry on with this work by taking relevant courses and studies and engage in readings about how to use today's technology to produce as good olive oil as possible at the lowest possible cost. The company has received a contract for which the CEO of FCC, Mr. Gino Celletti, will be the leader of a county fair, or expo, in Beijing during the upcoming 5 years due to the fact that he is considered to be one of the best within the area of olive oil (Public relator and project manager, Interview Oct 4th, 2006).

4.1.4 Thoughts about entry mode choices

FCC has found an already existing suitable production plant for their planned olive oil production in China. However, according to FCC, the produced quality by the Chinese is at the moment not considered to be good. The company recognizes a great opportunity by having "their own" production plant in China in order to manage and control the entire production. The entry mode to reach the China market is believed to affect the knowledge transfer for FCC and thus, this decision has to be made carefully. (G. Celletti, Interview Oct 4th, 2006).

FCC has recently been negotiating with a Chinese supplier about how to *contract* the production of top quality olive oil to be used for the sales on the Chinese market. The in-

tended contract will among other things include instructions of how to produce according to FCC's quality requirements. (G. Celletti, Interview Oct 4th, 2006).

FCC wants to keep their quality concept and stress the importance of keeping the current production process. They also want to keep as much of the knowledge about their products inside the company since they see it as their core competence and thereby also their competitive advantage. The company is planning to open a restaurant to advertise their oil and use as a distribution channel in China (Public relator and project manager, Interview Oct 4th, 2006).

4.1.5 Main task when entering China: remaining quality and be first

When asking about opportunities and threats that are expected on the Chinese market, the answer is that there are a lot of opportunities since there seems to be a great demand for the company's high quality product, a product which at the moment is not available in China. FCC considers the biggest threat to be losing time. Therefore FCC says that they have to enter the Chinese market quickly and do it right the first time in order not to lose too much money (Public relator and project manager, Interview Oct 4th, 2006).

The main opportunity when moving to China is to produce olive oil of a better quality than what is currently provided in China. The main threat is not to succeed with the high quality requirements, or to succeed too late so that someone else comes first into the gigantic Chinese market. Frantoi Celletti e Cultivar's CEO and founder was contacted during the last years by the Chinese embassy and consulate and were asked to enter the Chinese market, since the Chinese people wanted the presence of a high quality olive oil in the country. When entering China, the company wants to raise the level of quality even further and aims at the very top exclusive customer group (Public relator and project manager, Interview Oct 4th, 2006).

Concerning the high quality of the Monocultivar Extra Virgin Olive Oil, there are Italian producers who have tried to achieve the high quality and failed although they were well familiar with the Italian production process. This proves that the level of implicit knowledge involved in the process is high. Therefore there are risks related to the possibility to teach the Chinese producers to produce in the correct way (Public relator and project manager, Interview Oct 4th, 2006).

The company believes that the level of quality is greatly affected not only by the manufacturing process, but also by the original quality of the olives. As mentioned before, the quality of the olives are highly depended on the surrounding climate. There are certain types of olive trees that are better suited for growing in China and some that are not. FCC has found a region called Penglai, where the climate resembles the one in Italy, and therefore would be suitable for some of the olive trees they have chosen to use in their production. The production mill that is considered to produce FCC's future Chinese production has been used for production to Chinese olive oil companies, but the production quality at the moment is considered to be far from good. The Chinese producers are well aware of the low quality currently produced (Public relator and project manager, Interview Oct 4th, 2006).

4.1.6 Assuring that the production knowledge can be transferred to China

As already mentioned, FCC considers its knowledge and competence in producing and supplying superior olive oil to be vital for its current and future success. Therefore, FCC has to assure that this competence can be transferred to China. Without this competence the outcome of the Chinese production will be low quality olive oil that is already available on the Chinese market. The knowledge in the olive oil production process is needed to be sure to provide very fine olive oil. In this way the knowledge is the core competence also on the Chinese market. The demand for this high quality olive oil on the Chinese market can only be met by FCC if it manages to produce top quality oil (Public relator and project manager, Interview Oct 4th, 2006).

4.2 The second interview: contracting a Chinese supplier

FCC has been considering starting its own business line in China, since that would prevent other firms to steal the organizational knowledge that is the key to competitive advantage. But during the process of thinking through the consequences of a fully owned subsidiary, FCC has finally decided not to set up an own production mill in China. FCC will rather use the same strategy as they do on the Italian market. The strategy used on the Italian market involves choosing the producers according to the cultivar and the product quality, and create long-term contracts with suitable producers. When a contract is formed with an olive oil producer, this producer is bound to produce the way that FCC requires, with the processes and steps that FCC sees as important in order to obtain the highest quality. In the beginning of the production in a “new” production mill with a newly contracted supplier, FCC intends to be present to see to that the specific production processes are followed according to the requirements by FCC. During this phase it is important that FCC contributes with the knowledge needed. After a while, the production mill is able to follow the steps from collecting to the bottle with help from FCC (Public relator and project manager, Interview Nov 4th, 2006).

The production mills that are contracted by FCC are under the control of the company and the situation for the company is similar to as if they were owned by FCC. FCC is in total control of the production at the mill. If the required quality is not obtained during the production process, the cooperation comes to an end. A producer that one year has a great quality and the year after is not able to reach the same quality level is quickly replaced with another producer. FCC is frequently searching for new monocultivars to use and new producers to help them produce the oil (Public relator and project manager, Interview Nov 4th, 2006).

When entering China, the company will have to act quickly in order not to lose too much time. They believe that it will be easier to work with the Chinese producers than the Italian producers since the Chinese do not have a background in the field of olive oil and therefore will not question the features and requirements of the production process demanded (Public relator and project manager, Interview Nov 4th, 2006).

As mentioned before, FCC stresses the importance of remaining the existing production process and culture when entering China in order to maintain the high product quality (Public relator and project manager, Interview Nov 4th, 2006).

4.3 The third interview: the knowledge required for production

To be able to answer the purpose of this thesis, the authors have chosen to try to understand how the important knowledge in FCC's olive oil production is compounded. Do any parts of this knowledge contain high levels of tacit knowledge that is difficult to transmit to new producers in China? As FCC states that remaining the production processes the "FCC way" is crucial for succeeding in producing the high quality requested in China, we consider that a deep understanding of this is needed to picture the core competence of just this specific company. Down below we will share the information about how FCC sees their knowledge within olive oil production.

4.3.1 The different production steps and the knowledge involved

The manufacturing process used by FCC to achieve a Monocultivar Extra Virgin Olive Oil can be parted in 4 different steps. Choose the olives to collect, collect them, take them to the mill, and start producing the oil. The first step is the most difficult one and includes a lot of tacit or implicit knowledge. Concerning the actual manufacturing process, there are a lot of highly sensitive steps that have to be followed in order to get a high quality olive oil. First the olives are collected by hand since this is associated with a higher quality due to the fact that the olives are not being damaged by the collecting machine. One problem that can be found when doing this is that the olives are put together and start heating each other. If this happens, the oil will be destroyed and not usable. Therefore, the collecting part needs to be strictly controlled (Public relator and project manager, Interview Nov 11th, 2006).

The second step in the actual manufacturing process has two different choices. Either you use the old traditional way of producing, which means that you will have a much lower quality, or you use the continuous process which means that the olives are never in contact with any kind of oxygen. Oxygen should be considered to be the biggest threat towards a high quality olive oil. FCC has, due to the fact that they want to have a very high quality, chosen to use the continuous process (Public relator and project manager, Interview Nov 11th, 2006).

When the olives have been collected and taken to the production mill, the first thing is to wash the olives. The first kind of wash removes the shells of the olives and the second is to wash them. Depending on the kind of cultivar, that is, which kind of olive you are using, there might also be another kind of wash that takes away the wax on the outside of the olives. Some olives have a higher degree of wax than others, and this step then has to be included. In order to make this decision a lot of knowledge about the olives is required (Public relator and project manager, Interview Nov 11th, 2006).

After the washing the crushing part follows in the mill. This is when the olives are crushed in order to obtain the oil hidden inside them. Depending on the kind of olive and its characteristics, different crushing methods are used. Some of them make the olive oil bitterer, others make it sweeter. Therefore, also in this part of the process, great knowledge is required about the olives being used. The decision of which crushing process to use is also dependent on which kind of oil you want to obtain. If you have a sweet kind of olive, and you want to keep it sweet, you have to use that kind of process, but it also needs to be taken into consideration not to make it too sweet. The crushing process has to be done in less than an hour in order to keep the good quality of the cultivar (Public relator and pro-

ject manager, Interview Nov 11th, 2006).

The third step in the process is where the pulp is separated from the olive. In order to do this a so-called gramolator is used which turn the pulp around several times. Then the pulp has to be left for a while to “link” with the oil (Public relator and project manager, Interview Nov 11th, 2006).

The centrifugation process is the next in the manufacturing process. This is where the oil is separated from the so-called salsa (pulp without oil inside). The machine turn a definite amount of times, also this depending on which kind of olive is used and which kind of oil you want to obtain. Some olives have a higher degree of water inside and therefore have to be turned an extra time. Doing this with an already relatively dry olive would destroy the oil obtained (Public relator and project manager, Interview Nov 11th, 2006).

The filtering step is the last one before bottling the olive oil. The olive oil has to rest for not more than a day. The product is then filtered and put in bottles (Public relator and project manager, Interview Nov 11th, 2006).

4.4 The fourth interview: knowledge and passion for olive oil

According to Celletti, the first step, choosing the right cultivar and place to plant, is the most important one in order to obtain a good olive oil, and the one that includes the most tacit knowledge. Also, the different steps in the actual manufacturing process vary according to which kind of cultivar is chosen, and the characteristics of that olive. This is also one of the crucial parts that need to be considered. Also this step includes a lot of tacit knowledge. In order to call the olive oil Monocultivar Extra Virgin Olive Oil it has to be totally without defects. The most sensitive part when considering the avoidance of defects is the collecting and the parts of production where the olive oil easily get too warm or might get in contact with oxygen (Public relator and project manager, Interview Nov 15th, 2006).

During the years Mr. Gino Celletti has developed a deep knowledge in the area of olive oil. This is something you learn over a long period of time. On top of the great knowledge in the area, Mr. Gino Celletti also has a finger top feeling concerning which cultivars to choose, how they will taste in combination with different dishes etc (Public relator and project manager, Interview Nov 15th, 2006).

Mr Gino Celletti also has a deep passion and interest in the field of knowledge that comprises olive oil production. This can be seen as one of the basis for his knowledge. To transfer this feeling for the olive oils and the passion and love for it are among the tasks that are needed in order to succeed with the knowledge transfer, Mr. Gino Celetti’s son and project manager explains. That is because such underlying assumptions of olive oil that lies at the core within FCC can, if they are transferred to the Chinese producers, help them to more easily obtain the explicit knowledge and also other kinds of knowledge that is needed for the production but which is harder to learn quickly. To facilitate the transfer of the production knowledge needed to the Chinese producers, FCC plans to be present in China during the time of the start up of the FCC production. FCC wants to be able to take action in the current situation and make sure that the startup is going as planned.

As mentioned above in the explanation of the production process, there are many steps that require a great knowledge in the area in order to be able to use the correct process of

production. Using the wrong process for a great olive can result in a horrible olive oil. This should be considered one of the most important areas of knowledge of FCC. Also the son, Mr. Gerardo Celletti is continuously developing his knowledge in the area. Mr. Gerardo Celletti has been involved in the company and in the world of olive oil since many years, but still does not have the great knowledge which Mr. Gino Celletti has, according to himself. It takes years to develop, understand and to be able to use the acquired knowledge in a correct way. The production of olive oil should be considered an art, Gina Celetti explains. Even when knowing *how* Michelangelo did when he created his most famous paintings, it is hard to do it on your own. He means that it is the same scenario concerning olive oil and that it is not only about the technique. (Public relator and project manager, Interview Nov 15th, 2006).

The CEO has successful experience from transferring production knowledge to Italian olive oil producers. The project leader says that this can help tremendously in the transfer of knowledge to China, since the CEO already knows about the different difficulties and problems that can arise during such a process. FCC's project leader also believes that it is a great advantage that the Chinese producers do not have a history of producing olive oil. He means that it is easier to teach correctly from the beginning when the persons who learn do not have to change knowledge already obtained. However, it is the first time for the CEO to teach someone from the very beginning to the very end of the production process, and also this has to be done in a short period of time when entering China (Public relator and project manager, Interview Nov 15th, 2006).