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THE INTERNATIONALIZATION PLAN OF NIO

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Abstract

The aim of this case study is to define the internalization plan of Nio, a Chinese car manufacturer focused on electric and self-drive vehicles. Nio, is currently manufacturing in China, even though it is already listed in the NYSE despite its early age. The company is planning to take the leap into Europe in the next few years. Thus, this project will define the internationalization strategy that Nio should follow, analyzing different European countries in order to select the ones in which they could take their first international steps to finally choose the most appropriate place to enter and how to correctly do it.

These days, climate change is considered one of the most challenging problems worldwide. In fact, international organizations are establishing a great number of ambitious goals to foster sustainability. Consequently, electric cars are becoming more and more important in the automotive sector as it is an efficient way to decrease pollution, especially in megacities. In addition, governments will promote this type of companies to raise awareness among consumers, with the aim of improving the environmental situation. Taking into account these factors, the demand for electric vehicles will continue to increase in the future, which could become a source of competitive advantage for Nio and other vehicle manufacturers.

Keywords: Nio, electric vehicles, internationalization, sustainability, international organizations, governments

Resumen

El objetivo del presente estudio es definir el plan de internalización de Nio, un fabricante de automóviles chino centrado en los vehículos eléctricos y de autoconducción. Nio, opera actualmente en China, aunque ya cotiza en la Bolsa de Nueva York a pesar de su temprana edad. La empresa tiene previsto dar el salto a Europa en los próximos años. Así, en este proyecto se definirá la estrategia de internacionalización que Nio debe seguir, analizando diferentes países europeos para seleccionar aquellos en los que podría dar sus primeros pasos internacionales y finalmente elegir el lugar más adecuado y como penetrarlo correctamente.

Hoy en día, el cambio climático se considera uno de los problemas más desafiantes a nivel mundial. De hecho, las organizaciones internacionales están estableciendo gran cantidad de ambiciosos objetivos para fomentar la sostenibilidad. En consecuencia, los coches eléctricos adquieren cada vez más importancia en el sector de la automoción, ya que es una forma eficaz de disminuir la contaminación, especialmente en las megaciudades. Además, los gobiernos promoverán este tipo de empresas concienciando a los consumidores con el objetivo de mejorar la situación medioambiental. Teniendo en cuenta estos factores, la demanda de vehículos eléctricos seguirá aumentando en el futuro, lo que podría convertirse en una fuente de ventaja competitiva para Nio y otros fabricantes de vehículos.

Keywords: Nio, coches eléctricos, internacionalización, sostenibilidad, organizaciones internacionales, gobiernos

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1. Introduction

1.1. Context of the issue

The internationalization process of a firm is today, an indispensable strategy for a company in order to thrive in a market featured by its fierce competition and speed of change.

These days, the international business scenario has experienced an unprecedented change due to the process of Globalization, which has completely changed the rules of the game. Therefore, the world have evolved into a global market in which barriers have become more and more weaker, boosting the interdependence of a wide range of countries and companies throughout the world. Notwithstanding, the internationalization of a firm is a long hard process which involves risky decisions, especially those which have to do with the location and market niche where they want to get into. This requires a well-done diagnosis of the different options considered, analyzing its circumstances and the market entry modes, one of the most significant parts of the process.

With these aspects in mind, and the importance of this issue in the current business environment, a study about the internationalization plan of Nio Inc will be carried out. It is a Chinese car manufacturer founded in Shanghai in 2014, and mainly focused on electric vehicles (EV) (De la Rosa, 2020). The company is also developing self-driving technology and offers services concerning battery swap (Forbes, 2020). Despite its early age, the company is already listed in the NYSE, being one of the fastest growing stocks in 2020. Albeit it already has centers in Silicon Valley (R&D center for advanced technology), Munich (Global Design center in a city known for its automotive industry) and Oxford (R&D center for performance and advanced concepts), it only operates in the Chinese market (Nio, 2021). Regarding its international expansion, in spite of considering Asian countries as a first step, their main objective is to take the leap into Europe in the next few years so this study will be focused on how to penetrate this continent. On the other hand, the reasons for choosing Nio Inc to elaborate this study are several.

In the first place, it is important to be aware of the difficult times that Nio experienced at the beginning of its activity, with losses of more than \$4,000 million during its first four years. Low sales, high production costs, reduction of 17% of its staff and the

withdrawal of 20% of its vehicles sold due to battery problems caused the company to be on the brink of bankruptcy in 2019 (De la Rosa, 2020). Nonetheless, in 2020, Nio's situation took an unexpected turn, increasing its sales a 191% and 262% in the second and third quarter of the year respectively, owing to the decrease of the final price of Nio's vehicles and the development of a cutting-edge battery recharging system. Moreover, Nio now has the institutional support it needed, with the investment of some Chinese multinational firms in the company, such as Tencent (owner of 34% of Nio), Lenovo and Baidu, and even foreign companies like TPG capital (from the USA.) and the Royal Bank of Canada, estimating that more than 40% of the company is in the hands of other corporate entities (De la Rosa, 2020). All these factors let the company take a big step in the electric vehicle sector, being even compared to its leader, Tesla, considering both as the two possible future electric car dominating enterprises worldwide.

Secondly, Nio is operating in the electric vehicle sector, which awakens much interest among countries but still has a huge room for improvement in our society. Besides, climate change and global warming are considered as some of the most challenging problems worldwide and consequently, electric cars are becoming highly demanded in the automotive sector, being an efficient way to decrease pollution, especially in megacities. In addition, an increasing number of governments around the world are offering tax benefits to owners of electric vehicles and they are also establishing some areas in the cities where only this type of vehicles are allowed to circulate. Considering these factors, the demand for electric vehicles will continue to increase in the future, which could become a source of competitive advantage.

Thirdly, China is one of the most powerful economies and interesting markets worldwide these days, nevertheless, the internationalization strategies of its companies could find some obstacles since their culture and methods are quite different to the West's ones (Otero & Vidal, 2020). On the other hand, half of the electric cars that exist all over the world are sold in this country, in addition to the fact that Chinese society is becoming more and more capitalist and consumerist. Moreover, it is obvious that the Chinese government and large corporations of the country will help make Nio as part of their image abroad because the failure of the main Tesla's competitor, would leave the country in a bad position, something that is not going to be allowed by the leaders of either countries (De la Rosa, 2020).

It is beyond dispute that Nio operates in one of the most growing sectors of the next few years. Clean energy, socially and environmentally responsible companies and electric intelligent vehicles will play a transcendental role in the economy and society of the 21st Century. All of the above factors set Nio and its CEO, William Li, as one of the potential future leaders of the industry together with Tesla, both nationally and internationally, without underestimating traditional car manufacturers such as for example, BMW or Renault, which are moving fast to electric technology and could leverage the advantage of having strong links with their current customers. In addition, other competitors can emerge as it happens in all good businesses, having to share the market and profits with some of them, what reflects the pros and cons of a “first movers”. For the moment, Nio is already planning its internationalization strategy, projecting its expansion to Europe, and some countries such as France, Germany or Norway could be the best place to penetrate the European market.

1.2. Objective of the Project

In this context, the goal of this study is to develop the internationalization plan to be implemented by the company, determining which strategy to follow, the chosen country to penetrate Europe and how to get into that country as well. There is no right decision when entering a new market, there are different options depending on the circumstances and factors such as the COVID-19 pandemic we are involved in, or the risk to be taken and the expected profitability of the decision.

2. Status of the issue

This section of the study will examine the current situation regarding the sector's internationalization plans, analyzing some similar cases of expansion projects. Taking into account these factors, we seek to extract some common elements about their strategies that let us make some conclusions in order to lay the theoretical foundations on which this study will be based, applied to the company Nio.

On the one hand, Tesla will be analyzed, the absolute leader in the electric vehicle sector worldwide. Then, Huawei will be explored, despite it is not an automobile manufacturer, it will provide a global view about the successful internationalization of a Chinese company, understanding its advantages and pitfalls.

2.1. Tesla Motors

Tesla Inc. is an American automobile corporation whose main activity consists in designing, manufacturing, and selling fully electric vehicles. Its CEO, Elon Musk, states that their mission is to accelerate, enhance and support the transition to a more sustainable world. Today, Tesla also produces batteries, and it generates and stores clean and scalable energy, believing that the sooner society stops depending on fossil fuels, the better for the development of a profitable and sustainable future (Tesla Motors, 2021). All these factors place Tesla as the undisputed leader in the industry, operating with the most innovative technology within the electric car sector.

Regarding its internationalization, Tesla has implemented a **transnational strategy**, seeking to low costs through economies of scale and taking advantage of learning effects, carrying out a **differentiation** strategy in the entered local market, what decreases customers' bargaining power (Kamkoum, 2017). It targeted three main transnational consumer segments, aimed to be penetrated by products adapted to each country. Tesla, offering its cars as something premium, firstly focused on high-end sports car niche market and luxury vehicles, to finally develop a mass production car that would seem cheaper but not worse, taking advantage of the brand reputation, and their increased customer perceived value (Yuying & Qingrun, 2018). This shows how Tesla attempted to benefit from its disruptive innovation technology and a skimming price strategy, being a first mover in the industry (Kamkoum, 2017).

Tesla's first expansion moves were targeted in Europe, with the opening of a showroom in London and a store in Munich, both in 2009, positioning them in high foot traffic areas such as shopping malls or famous streets. (Kamkoum, 2017).

In order to face local responsiveness, Tesla adapted its vehicles according to the local needs, increasing product **customization** and thus, customer satisfaction. For example, after having analyzed different consumers' opinions, Tesla made some modifications on its Tesla Model S in China, including an executive rear seat option, aimed to make the rear set more comfortable (Kamkoum, 2017). This fact allowed Tesla to focus on the mentioned customization and the reduction of customer switching costs, trying to increase its market share (Yuying & Qingrun, 2018).

On the other hand, Tesla also carried out a related **diversification strategy**, establishing **alliances** with well position battery and automotive companies such as Toyota (Japanese), Daimler AG (German) or Panasonic (Japanese too). As a result, Tesla could reduce its costs and benefit from these companies' experience (Kamkoum, 2017). In fact, Tesla has developed a powerful superchargers network, raising the number of chargers available, dealing with one of the biggest problems of fully electric cars, albeit there is still a huge room for improvement (Yuying & Qingrun, 2018).

Nonetheless, despite its successful internationalization, Tesla has to deal with a wide range of issues yet concerning its sector and environment. Being aware of their high-income target customer, its car prices are still too high comparing to fuel vehicles so that they could not expand to any less developed country (Kamkoum, 2017). Besides, as it was mentioned, there is a high threat of competition due to well-established firms moving fast to the electric vehicle industry and the possible rivals that can arise.

On the other hand, despite having **acquired** US based companies SolarCity and Riviera Tool, Tesla does not have any important foreign acquisition (Kamkoum, 2017), which is a great opportunity for a fast market entry as well as taking advantage of the acquired company's experience to understand how that market operates.

As a conclusion, after having analyzed Tesla's internationalization, it is possible to understand how this first mover has expanded its business successfully, operating in a market featured by its fierce and growing competition, which will still increase in the following years. Tesla must pay attention and continue innovating in order to maintain its leader position in front of the new competitors that will emerge.

2.2. Huawei

Huawei is a China-based leading technological company founded in 1987. It currently has more than 200,000 employees and it operates in approximately 170 countries. Their main goal is to bring digital to everyone in order to develop a fully connected planet by fostering Cloud and Artificial Intelligence, taking advantage of it in order to improve people's lives. They provide information, communications technology infrastructure and smart devices (Huawei, 2021).

Despite there is no a quintessential foreign entry mode under all conditions, as this Chinese firm carried out a successful internationalization expansion, it is useful to analyze the different strategies they had implemented in order to discover which possibilities Nio do have and choose the most appropriate internationalization strategy as both companies were founded in China and share their values.

First, it was a must for this firm to possess a competitive advantage over foreign companies before becoming international. Huawei realized that Technology is a core factor for telecom corporations, so they set technology R&D as key for the success of the business, in order to learn and being able to enhance its products and thus, maintain their existing advantages in the future. The company **started developing a low-cost strategy and high efficiency** to enter foreign markets, offering competitive prices together with quality products as good as those of competitors (Zhu, 2008). As a first step, Huawei started its internationalization penetrating Russia in 1996, through the **Joint Venture** of Beto-Huawei, becoming the Chinese company with the highest investment in this country. Despite Russian's market room for improvement concerning telecommunications and its low competition, Huawei's development was complicated at the beginning, but after four years, things started to thrive. They selected Russia because of the close relationship between both countries as well as its kind of similar culture and social conditions (Wu & Zhao, 2007).

As Huawei and the Chinese market grew, the firm has gradually lost their low-cost strategy being aware that in order to compete with high value-adding industries, differentiation, innovation and brand image are indispensable. Today, **customization** is one of the most distinctive features of Huawei, being key for the penetration of Europe and the US. Moreover, fast responses to the customer were key for the **differentiation** it has eventually developed, being nowadays a worldwide known corporation (Zhu, 2008).

On the other hand, Huawei also used an **export entry mode** in for instance, South America, sending a great number of home engineers to establish service centers in the area. Afterwards, in 2000, it extended their activity to Southern Asia, Middle East and Africa, after a deep analysis of some elements like the geographical distance and the local market conditions. Since 2001, they have operated in West Europe and the US through contractual entry modes such as **franchising, co-research, co-production, and co-sales**, which means “helping each other to sell products in each own market” (Wu & Zhao, 2007).

In summary, Huawei was completely aware of their strong position in the market and how to leverage its resources in order to thrive. They employed a joint-venture and the export mode of entry with products in which they have a competitive advantage whereas they took advantage of cooperation with well-established companies of the local country for the areas in which they have scope for improving. In addition, it is very interesting how Huawei’s pricing strategy evolved from a low-cost to a high-value one, customizing and differentiating its products. Nio could take advantage of these methods together with the entry modes employed in order to be more efficient in its internationalization process.

2.3. Conclusions

Hi-Tech is a rapid growth sector in which experience is not critical to penetrate foreign markets. Nonetheless, industry conditions and environment are decisive to take the right decision. After having analyzed these two internationalization cases, certain conclusions can be drawn.

First, Tesla is a company which is operating in the EV sector. Despite not being Chinese, Nio can learn from Tesla’s mistakes and implement a second-mover strategy. Furthermore, they can take advantage of Tesla’s successful strategies, trying to replicate them, something in which Chinese companies are experts in.

On the other hand, it was quite interesting to examine Huawei’s movements owing to its origin, since Nio is also a Chinese company and could learn from the methods employed by Huawei concerning its successful internationalization strategy. Huawei not only took into account business aspects but also the culture, which plays a vital role in the internationalization of Chinese firms due to their specific values and differences.

Finally, both Tesla and Huawei decided its mode of entry to the selected country depending on the circumstances, evaluating the regulation and legal issues as well as the alignment level with the place. Huawei, on its part, carried out Joint Ventures, Export entry modes, franchising, co-research, co-production, and co-sales. On the other hand, Tesla, on its behalf, also decided to establish alliances with leading players within the sector, as well as making some acquisitions.

3. Theoretical framework

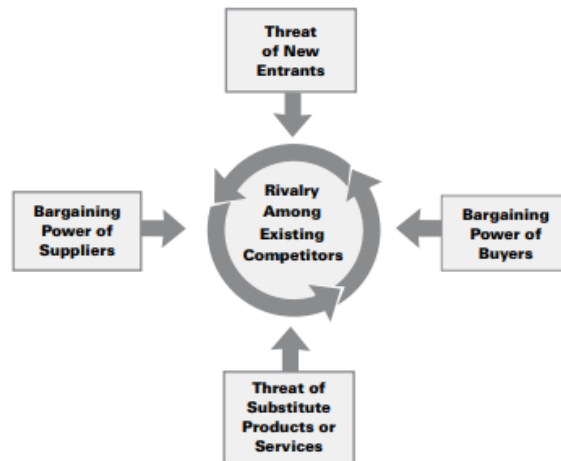
Once studied certain internationalization strategies successfully implemented by profitable companies, the aim of this section is to analyze them in depth, as well as evaluating other useful and applicable frameworks for the matter. In this sense, this analysis will decide which are the appropriate strategic tools that will be used in the present study, detailed in the following sections.

3.1. External Analysis

The external analysis of a company, carried out to support firm's decisions, is a decisive part of its strategic analysis, aimed to understand the environment factors, especially external risks, and how they can impact the business.

To explore the electric vehicle sector, there could be applied an extensive variety of tools. One of the frameworks that will be implemented, as also Porter's Five Forces will be used, is the **PESTLE Analysis**, which examines political, economic, social, technological, legal, and environmental factors, showing how the market performs. In spite of being simple, it is a good way to categorize external conditions (Rastogi & Trivedi, 2016). The correct use of this tool consists in consider all the changes around the company, discussing the necessary questions to meet industry's needs through the proper actions. Then, it is a must to monitor and carry out a follow up of the taken measures in order to mitigate risks and increase effectiveness. As mentioned before, another useful framework is **Porter's Five Forces**, which analyzes the threat of new entrants, the bargaining power of both suppliers and buyers, the threat of substitute products or services and finally, the rivalry among existing competitors, as it can be seen in *Figure 1* (Porter, 1979).

Figure 1: Porter's Five Forces



Source: (Porter, 1979)

Depending on the circumstances of the market, there will be more emphasis in one or another, weighing up the advantages and obstacles of both frameworks as a way to decide which one is the most proper. Notwithstanding, the better way to completely understand the market is to combine diverse strategic tools in order to leverage the advantages of each one.

3.2. Internal Analysis

After having studied the business' environment, it is necessary to carry out an internal analysis of the company, an area in which there also exist a wide range of instruments. The most common one is the **SWOT Analysis**, developed by Albert Humphrey. Thanks to this tool, as shown in **Figure 2**, it is possible to examine the weaknesses, threats, strengths, and opportunities of the firm, distinguishing between external and internal issues, stipulating whether it is within company's competences or on the other hand, it is part of the environment. Tesla and Huawei are both, for instance, companies which are perfectly aware of their technological advantages in the sector, enjoying them to position themselves on the top of their industry.

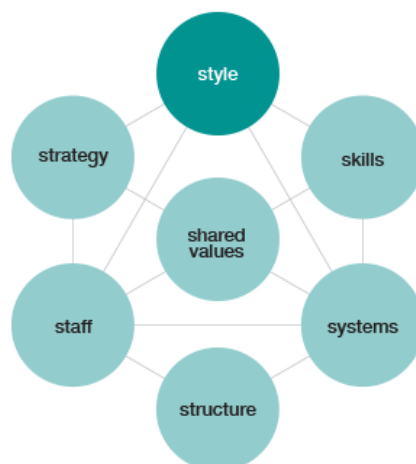
Figure 2: SWOT Analysis



Source: (Kempiński, 2017)

On its behalf, the **McKinsey 7S Framework** is a framework that analyzes seven elements that must be coordinated and aligned for the success and effectiveness of a firm. That coordination became the most significant aspect due to the growing complexity of companies (McKinsey & Company, 2008). As it can be seen in **Figure 3**, these seven issues are style, skills, strategy, staff, structure, systems, and shared values. This shows the current tendency to also examine other aspects such as the culture and values and not only the traditional business elements.

Figure 3: McKinsey 7S Framework



Source: (McKinsey & Company, 2008)

3.3. Internationalization Strategy

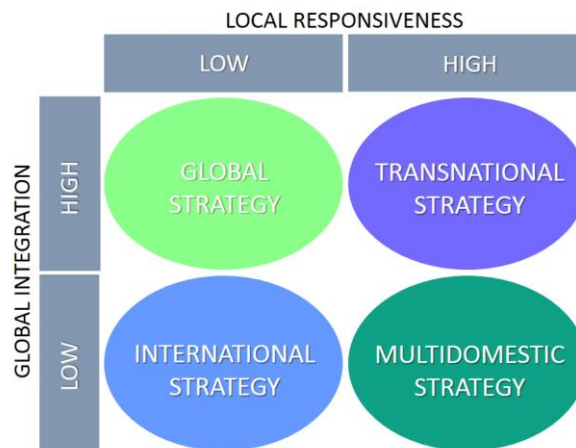
Once that some useful frameworks to utilize in the external and internal analysis have been explored, it is decisive to correctly select and implement the internationalization strategy, the next phase in the process. Regarding this issue, it is a must to consider the theoretical foundations on which our choice will be based, understanding all the steps to take and their consequences. This part of the path is crucial for its smooth running and it will considerably affect the next stage, the selection of the most suitable country to start the international expansion.

Today, even small companies can operate across borders thanks to Globalization and fast-growing technologies but, why do firms go global? The main reasons for it are realizing location economies, cost economies and earning a highest return through the leverage of skills developed in foreign activities and transferring them to the company's global network (Urío, 2020).

The point here is not only choosing the precise international strategy but also understanding how to carry it out, bearing in mind local responsiveness and forces for global integration. (Barlett, 1986). To be integrated means to reduce costs as much as possible by developing economies of scale and offering a standardized product worldwide. The fact is that a high local responsiveness could hinder this, as it would require to adapt the product to the specific local needs (Kelly, 2020).

These two variables calls for a powerful international coordination, bringing up what is known as the global-local dilemma (Dunning & Mucchielli, 2001). The best strategic framework to face this dilemma is the **Bartlett and Ghoshal Internationalization Matrix**, from which we can extract four different strategies that explore the global integration and local responsiveness: international, global, multidomestic and transnational strategy, shown in *Figure 4* (Bartlett & Ghoshal, 1998).

Figure 4: The Bartlett and Ghosal Matrix



Source: (Bartlett & Ghoshal, 1998)

Multi-domestic Strategy

This strategy is featured by low global integration but high local responsiveness. It consists in offering a wide range of products and services depending on the local market demand with the aimed of better meet the needs of that specific country. Besides, it does not require a high-level coordination since they work as independent units, leaving aside economies of scale, learning and location advantages that might be feasible (Johnson et al., 2017).

The multi-domestic strategy is more suitable when countries present considerable differences concerning consumer preferences, and where cost pressures are not too intense (Urío, 2020). It is usually implemented in marketing driven companies that operate for example in the food and consumer product industries. The case of Walmart is for instance, a company that has implemented a multi-domestic strategy.

International Strategy

The international strategy leverages home country capabilities in different places. It offers advantages when finding both low local responsiveness and global integration. It is often implemented by companies with a strong image as well as distinctive skills. For example, Google centralizes its main services from its headquarters, located in California. When working internationally, they only make some little adaptations, always respecting the local languages (Johnson et al., 2017).

Notwithstanding, this strategy also presents some obstacles and disadvantages. In the case of Google, it struggles with some local competitors such as Baidu in China or Naver in South Korea, both of which have a superior knowledge of the local consumer behaviour and language (Johnson et al., 2017).

Global Strategy

This strategy fully exploits global integration. Companies see the world as a unique marketplace featured by the standardization of products and services that takes advantage of integration and efficiency concerning operations. Firms are focused on achieving scale economies, operating with geographically dispersed value chain activities albeit kind of controlled from the headquarters. The global strategy can be seen as totally opposed to the multidomestic one (Johnson et al., 2017). It is very effective when the standardization enhances quality and reduces costs, as well as the customer's needs are similar worldwide. The strategic aim is to pursue a low-cost strategy internationally (Urío, 2020).

It is quite common among big multinational corporations such as IKEA or CEMEX despite most of them usually make some little changes to adapt the product to the local market (Johnson et al., 2017). However, the product's essence is intact and all of them are kind of similar throughout the world.

Transnational strategy

Here it is the most complete strategy, which aims to maximize both global integration and responsiveness. It consist in completely adapting supply to each country, working independently. To face the absence of coordination, they foster knowledge flows, perfect way to promote learning and innovation. The biggest advantage of this strategy is the efficiency it gets while meeting local needs at the same time (Johnson et al., 2017).

McDonalds and KFC are examples of transnational corporations, selling the same core products worldwide but adapting them depending on society's preferences and diets.

Also, it is important to be aware of the fact that Globalization has considerably changed and shaped international strategies, making the transnational strategy more and more

significant. Besides, market conditions continually shift so that firm's strategy and operation must be adapted (Urío, 2020). It seems that the transnational strategy is the obvious solution to the Global-Local dilemma albeit it is complicate to put it into practice, as companies usually find certain obstacles and end up implementing them with some personal differences.

3.4. Selected country

After having carefully examined the different internationalization strategies and how to decide the most appropriate one, the next phase consists in utilizing that knowledge in order select the country that it is going to be explored. Choosing the right country and how to reach it could determine the feasibility of the internationalization expansion. The selected market will define firm's development, planning and growth potential (European Comission b, 2021).

As previously mentioned, there is no a universal strategy under all circumstances, it depends on the sector and environment of the company, as well as on the resources available and the lifecycle of its product (European Comission b, 2021). Companies need to assess the long run potential profit of each possibility, looking for politically stable developed and developing countries with free market systems (Urío, 2020).

Apart from the external and internal analysis, it is necessary to analyze the distribution channels, tracking the supply chain of the product, clearly establishing the intermediaries involved and the prices through the study of the sales structure in that specific country. The different ways of distribution are an international one from your own market, a local distributor in the selected country's market, your own commercial agent, the internet, a subsidiary or, finally, the creation of a joint venture with a local partner. Besides, it would be useful to explore the current and potential demand of the product in the target country and check its suitability concerning that place (European Comission b, 2021).

Considering the wide range of alternatives analyzed and strategies implemented in the cases of Tesla and Huawei, we can also extract some other tools such as the PESTLE Analysis, studied in the External Analysis section. On the other hand, taking into account that China has a deeply established culture which is moreover, very different to the existing values of the West, the CAGE Framework would help to measure the match

between countries and companies, studying their cultural, administrative, geographical and economic distance (Ghemawat, 2007).

3.5. Mode of Entry

At the last stage of the process, the mode of entry, it is recommendable to apply all the acquired knowledge to the selected country as well as focusing on the company itself in order to choose and implement a successful entry mode. After having decided the target markets, it is time to determine when to enter them, on what scale and how. As with other mentioned matters, there is no a universal decision, depending on the level of risk and reward you are willing to take (Urío, 2020). These are the main modes of entry that companies can choose and implement to expand their business.

The **exporting method** is the most basic option, it is easy to implement, and it entails less investment than other entry modes as well as lower risks. It offers a fast entry, fully exploiting production economies in the home country. Nonetheless, it involves high transport costs, having to face international trade restrictions (Johnson et al., 2017). Moreover, it presents other disadvantages such as a limited marketing control, offering low customization, and promotional campaigns with much room for improvement (Urío, 2020).

Another way to enter a country is through **licensing**, a contractual agreement by which a licensor grants the right to use assets such as patents, inventions, processes, and other issues to another entity during a specific time, receiving a royalty fee from the licensee. It is commonly used by companies which want to internationalize minimizing the costs and risk of the foreign market. On the other hand, it entails a loss of control over manufacturing, marketing, and strategy, and therefore, the effectiveness of the company is reduced (Urío, 2020).

On its behalf, **franchising** is a form of licensing in which apart from the aforementioned assets, the franchisor provides the knowhow of the business to the franchisee. However, the geographical distance can make difficult for the franchisor to detect problems, what can negatively affect the firm's image. Thus, the franchisee must follow specific rules established by the franchisor (Urío, 2020).

In addition, there can be found **joint ventures**, which consists in the creation of a new firm jointly owned by two or more different companies. The main benefits of

internationalizing whereby this mode are the reduction of risks, as they are shared between partners; and the ability to take advantage of the local partner's experience. Notwithstanding, there is a high risk of losing control over technologies at giving it to the partner. Besides, another disadvantage is the conflicts of interests that can emerge between partners (Johnson et al., 2017).

Finally, another mode of entry is **wholly owned subsidiaries**, which involves 100 per cent control and ownership by carrying out new greenfield operations or through the acquisition of a local firm (Johnson et al., 2017). The main handicap here is that companies bear the full costs and risks of the operations, but they will not experience problems regarding loss of control. Besides, it will increase the coordination level worldwide (Urío, 2020).

It is decisive for the company to carry out a deep comparison between all these modes considering both risk and control in order to decide the most appropriate method for the firm. In the following table, we can see the different issues involved depending on the strategy selected.

Table 1: Comparison of entry mode strategies

	Export	Licensing or Franchising	Joint ventures	Wholly owned subsidiaries
1. Resource commitments managerial, equity, etc.)	Low	Low	Medium	High
2. Control: technology and quality	High	Low	Low/Medium	High
3. Control: marketing and sales	Low	Low	Medium	High
4. Risk (financial, political,	Low	Low	Medium	High
5. Entry speed	High	High	Medium	Low/Medium

Source: (Johnson et al., 2017)

On the other hand, it is important to be aware of the effectiveness of strategic alliances as part of all these entry modes. For instance, a Joint Venture is a structured alliance. These agreements also allow companies to share risks and costs, jointly developing new products or processes, and smoothing the way for enter a foreign market. On the contrary, it could give rivals low-cost routes to cutting-edge technology and markets.

Therefore, it is vital to select the right partner, setting an appropriate structure to decrease the risk of giving away too much, reducing opportunism and developing a powerful management to deal with diversity, building strong relationships and fostering learning from each other (Urío, 2020).

As a summary of the section, the following table shows the different existing tools to carry out the necessary analysis for the present case study of Nio.

Table 2: Strategic Tools for each section

Analysis	Strategic Tools
External Analysis	<ul style="list-style-type: none"> ▪ PESTLE Analysis ▪ Porter’s Five Forces
Internal Analysis	<ul style="list-style-type: none"> ▪ SWOT Analysis ▪ McKinsey 7S Framework
Internationalization Strategy	<ul style="list-style-type: none"> ▪ Bartlett & Ghoshal Matrix
Country Selection	<ul style="list-style-type: none"> ▪ External Analysis ▪ CAGE Framework
Mode of Entry	<ul style="list-style-type: none"> ▪ Internal Analysis ▪ Different Modes

Source: own creation

4. Objectives & Questions

Now that both the state of the issue and the theoretical framework of the study have been exposed, this section will be focused on establishing the objectives and questions to be addressed by the analysis.

4.1. Objectives

The present study has three main objectives:

1. Define the internationalization strategy that Nio should follow
2. Define the target country towards which Nio should take its next international steps according to this study
3. Define the mode of entry into the selected country

4.2. Questions

In order to achieve the proposed objectives, three questions must be answered:

1. What internationalization strategy should Nio follow?
2. Which country should Nio target?
3. How should Nio enter that country?

5. Methodology

Once there were established the aims to be achieved and the questions to be answered, this section will seek to define, by selecting among all the exposed frameworks, the theoretical bases that will enable the objectives to be met and which will therefore be used in the analysis, the next section of the present project.

As a first step of the internationalization strategy, the study will focus on the external and internal analysis, key for an appropriate diagnosis of the situation and factors that can impact Nio's business.

Firstly, **Porter's Five Forces** will be used for the external analysis of the environment. This tool is selected due to the fact that the electric vehicle sector is growing at great speed so that despite Tesla's leadership, the forces may change in the next few years, increasing already fierce existing competition. Thus, this framework will provide a complete vision of the rivalry and threats of the sector as well as relating it to profitability. Therefore, Porter's Five Forces could be more useful for the study than the PESTLE Analysis, which analyzes the market's products and specific factors so deeply that it is perhaps unnecessary for this case. Nevertheless, some other aspects could be considered, such as the political and technological issues, which could play a significant role in this project.

On the other hand, regarding the internal analysis, it is time to study Nio's business, exploring its value drivers and how to leverage them in the international scenario. Bearing in mind the wide range of possibilities and the cases of Tesla and Huawei, the DAFO Analysis has been selected as the most appropriate tool to analyze the internal forces, as it is very complete and covers all the necessary areas for the study. With regards to the McKinsey 7S Framework, it has been considered less suitable because it does not cover as many aspects as the DAFO, albeit the shared values part is interesting and significant to analyze Chinese values within the company.

Regarding the internationalization strategy, the Bartlett & Ghoshal Matrix will be applied, assessing the four proposed strategies and selecting the most suitable one for Nio. It is also useful to take into account that Tesla, the leader company of the electric vehicle industry, carries out a transnational strategy so beforehand, it could be considered the most appropriate one, although it will be contrasted with the rest of the strategies.

Then, it is time to select the country where Nio must start its international expansion. As it was explained in the *Status of the Issue* section, and in the cases of Huawei and Tesla concretely, it is decisive to carry out a deep investigation about the different possible countries to enter, comparing them from an objective point of view. The PESTLE Analysis, which was discarded for the external analysis, will be now the chosen framework aimed to examine in depth the different options that Nio has. As it was claimed before, it will let explore the political, economic, social, technological, legal, and environmental factors, understanding the market performance (Rastogi & Trivedi, 2016). Moreover, it is important to consider that Chinese management and operational modes are unique and much different to those in Europe, so it is vital to select a country that is committed to the environment, willing to foster green activities, and where the business' landing could be successful, and the strategy well implemented.

Finally, it will be weighed up which is the most appropriate entry mode to the country, analyzed above, which are exporting, franchising or licensing, joint ventures or wholly own subsidiaries, taking into account the importance of powerful acquisitions too. It is a must to bear in mind the conditions of both the market and the company, also taking as an example the cases of Tesla and Huawei in order to learn from their mistakes and replicate their strengths.

Furthermore, it should be noted that, in addition to the specific strategic frameworks mentioned, other tools have been also utilized for the elaboration of this study. Among them, Google Scholar was the main online academic source from which a great part of the information needed was gathered. It is a quite simple tool that gives access to a wide range of articles, filtering the search with keywords depending on the matter of the issue, such as "PESTLE Analysis" or "Entry Modes". On its behalf, Research Gate was another similar platform that was used.

The following table shows the selected methodology that will be applied for the development of the Internationalization Plan of Nio.

Table 3: Selected Tools for the Analysis

Area of the Analysis	Selected Tools
External Analysis	Porter's Five Forces
Internal Analysis	DAFO Analysis
Internationalization strategy	Bartlett & Ghoshal Matrix
Country Selection	<ul style="list-style-type: none">• PESTLE Analysis
Mode of Entry	Different Analyzed Modes
Investigation and Information Gathering	<ul style="list-style-type: none">• Google Scholar• Research Gate

Source: own creation

6. Analysis

In this section, the analysis of the three questions posed will now be described in detail. In the following sub-sections, these questions will be answered based on the information gathered and theoretical tools selected in the previous module.

6.1. Internationalization Strategy Determination

With the aim of selecting the most suitable internationalization strategy for Nio, first, an external analysis of the electric vehicle sector will be carried out and then, an internal analysis of the firm. Once these analyses are completed, understanding the industry, the internationalization strategy to follow will be chosen.

6.1.1. External Analysis

The electric vehicle industry has experienced a considerable growth in recent years, starting to raise awareness within society and demonstrating that they are a feasible alternative to traditional transportation means, at the same time of fighting against global warming and climate change (Mollah et al., 2017). In fact, Tesla is the best example to show the mounting popularity of the electric car industry, being one of the most reputed companies in the world without even being profitable, making waves among consumers for its future prospects.

Following the objective of this paper, the aim of the external analysis that will be developed in this section is to draw specific conclusions of the industry in order to understand how it works and taking it into account to determine the future strategy of Nio. As stated before, the chosen framework to carry out this analysis is **Porter's 5 Forces**.

Analyzing the **bargaining power of suppliers**, it is necessary to consider how they can influence the industry with the availability of materials and that Nio and other EV corporations depends on the credibility of its suppliers. (Kissinger, 2019). The mounting demand for electric cars is creating opportunities not only to manufactures but also to suppliers. In addition to the usual components and materials of a traditional car, electric vehicles also demands and depends on certain components such as batteries and chargers, so a new type of supplier will be needed.

Moreover, vertical integration in the battery production has decreased recently and most companies are now outsourcing batteries manufacturers through partnerships such as for instance, the case of Panasonic with Tesla. What is clear is the fact that the supplier able to provide advanced technology concerning batteries, chargers or controllers, will be able to develop a close relationship with important manufacturers (Purificato, 2014).

In spite of all these aspects, the bargaining power of suppliers is low since Nio and other car manufacturers have a wide range of options to choose in the market. Moreover, being the supplier of a large company such as Tesla or Volkswagen has great benefits both economically and in your reputation, what means that suppliers would love to work for these companies (Ramírez, 2019).

On the other hand, it is important to be aware of the fact that the customer concentration of the sector is not high, as most consumers purchase a car individually. Therefore, the **bargaining power of buyers** is low. It is also true that the price plays a decisive role in this issue, which is the main cause why car manufacturers carry out powerful marketing campaigns as well as they hire the best sales agents with the aim of building customer loyalty (Ramírez, 2019).

In relation to the **threat of substitute products**, the pace at which the transition from fuel to electric is carried out could be the turning point in the industry. Today, the traditional vehicle is still so present within society and the electric car is just an innovation and a possible option for the future.

As a substitute product for electric vehicles, hydrogen vehicles could be a potential alternative albeit there are few prototypes in the industry due to the fact that a lot of research is still needed to make it viable. There are other options such as solar cars or biofuels, however, all of these possibilities do not constitute a high threat for the EV sector, at least at present (Purificato, 2014). Therefore, the threat of substitutes is weak.

On its behalf, the **threat of new entrants** is considerably high, considering that the EV sector is very attractive for investors and well-established companies despite the low volumes of sales in the industry. Companies such as BMW, Toyota and General Motors are already developing their electric vehicle technology. In addition, more firms could enter in the future given the green policies proposed by governments and the growing environmental awareness within society, setting the industry as a key part of the future sustainability (Purificato, 2014). The main entry barrier of the industry are scale

economies since it is difficult to achieve the optimal production point. Besides, technology requires a great initial investment albeit it is not a big problem for well-established car corporations, which turn over millions and millions of dollars. Moreover, they may take advantage of their image and customer loyalty, which can constitute an important advantage (Ramírez, 2019).

Finally, the **rivalry** among the existing players has been moderate during the last years. Nonetheless, as it has been stressed before, many companies are taking part in the industry and competitiveness will soar in the following years. At the moment, Tesla is the main leader, and the rest of competitors are at least, one step below.

As a conclusion, the electric vehicle industry finds a low bargaining power of both customers and suppliers, as well as a weak threat of substitutes. On the other hand, there is a high threat of new entrants and a fierce rivalry. This can be seen in **Figure 5**.

Figure 5: Porter's Five Forces of the EV Sector



Source: own creation

6.1.2. Internal Analysis

Now, Nio's internal analysis will be carried out through the SWOT Matrix. This framework will let explore both the internal and external aspects of the firm, defining the weaknesses, strengths, threats and opportunities for the company.

As it can be seen in *Table 4* below, Nio has great expectations about its future despite some weaknesses and threats. In 2020, in spite of COVID19 and the situation it provoked, Nio experienced a sales increase of 108% comparing to 2019 (Nio Inc, 2021), developing excitement among investors, especially in the stock market. This fact leads to optimistic forecasts on Nio's financials and its activity.

Besides, Nio offers innovative services such as battery exchange stations, which let the clients avoid the process of charging their vehicle by renting batteries in these points (Forbes, 2020). Furthermore, Nio has the lower number of problems per 100 vehicles comparing with its competitors, followed by Tesla. Taking into account that safety is decisive in this industry, this fact positions Nio as a high-quality company, making consumers rethink about paying a higher price for its vehicles (J.D. Power, 2020)

Then, it can be observed that being linked with the Chinese Government is a double-edged sword. First, it is one of the most important reasons why Nio is growing and being competitive, especially for the financial support provided, one of Nio's biggest problem at the beginning of 2020. Moreover, the government is continually fostering the EV sector with incentives like for instance, purchase rebates or tax exemptions. Nonetheless, obviously, these aids have some interests. Nio had to establish a subsidiary - Nio China - as well as it committed to fulfill certain agreements. Besides, the government received a return on its investment. These facts limit the independency of Nio to make corporate decisions and constitute a big cost for the company despite the state support was decisive for the firm (Bhandaru, 2020)

On the other hand, there are no significant threats or weaknesses other than competition with other rivals, especially against Tesla, which is the solo leader of the industry. Nio is a young well-known company in China with optimistic projections that operates in a sector that will experience a huge growth in the next decades. Moreover, it fosters sustainable activities, promoting awareness among population. This leads to the idea that the next step of Nio's development is internationalization, which will determine the future of the company and define if it is the real future competitor of Tesla in the EV industry. However, the question here is how long will it takes to carry out the awaited true transition from fuel to electric vehicles, as that there is still a long way to go. Tesla, Nio and other automotive companies will be key for the acceleration of this process with their technology

Table 4: SWOT Analysis of Nio

Strengths	Threats
108% increase in sales 2020 Diverse battery services High level of range Product promotes sustainability High quality Cheaper prices than competitors Good financial projections Chinese Government engagement	Growing fierce competition <ul style="list-style-type: none"> ▪ Tesla Long-term transition Unknown outside China
Weaknesses	Opportunities
Financials of the company <ul style="list-style-type: none"> ▪ Had to raise capital to survive Young Company Only operates in China Chinese Government engagement	Growing industry Future of environment <ul style="list-style-type: none"> ▪ Good image among consumers. Launch cars in other countries Room of improvement in the sector Internationalization?

Source: own creation

6.1.3. Bartlett y Ghoshal Matrix

Once the external and internal is done, it is possible to understand the context and factors that could have an impact on Nio's activity. In order to select the most appropriate strategy for the firm, the Bartlett and Ghoshal Matrix will be applied, which takes into account global integration and local responsiveness. Thus, as it was previously explained, the matrix proposes four different strategies: the international, global, multidomestic and the transnational strategy.

Looking at the Porter's Five Forces framework, the main threats for Nio are new entrants and rivalry. Therefore, differentiation is essential to get and maintain a powerful position in the EV sector. As previously exposed, Nio offers high-quality electric cars at lower prices than Tesla and with an innovative battery service. Furthermore, it is important to note that economies of scale are a huge barrier for new entrants. Once a firm has grown in that market, it reaches a position that new entrants will have difficulties to overcome. This is why the real threat of new entrants are existing car manufacturers that already have volumes even if these are traditional vehicles.

Regarding the SWOT Analysis, there are more strengths and opportunities than weaknesses and threats, albeit it is indispensable to take the latter into account as they provide very valuable information to carry the appropriate strategy out.

Considering these aspects, it can be seen that Nio is growing fast in an industry which is being developed even faster, promoting sustainable practices and being able to differentiate themselves by offering high quality products at a cheaper price than the rivalry, taking advantage of their brand image in China. Therefore, they implemented a **low-cost strategy**, as a consequence of the pressure they had to offer competitive prices, at the same time of developing its **differentiation**, offering cutting-edge services such as their battery swap, which is an undisputed advantage over the rest of competitors, being able to change your battery in 3 minutes and continue your journey. Besides, they have the “24/7 On-Call Valet Charging”, with which Nio’s clients can request the service through the App in case they run out of battery where battery swap or charging stations are not accessible (Allison, 2021). Thus, it can be seen that Nio is a company that combines a low-cost strategy and a differentiation strategy with some innovative differentiated services that it offers over its competitors.

Figure 6: NIO Power Mobile



Source: (Nio, 2021)

After having analyzed these factors, it seems that the most appropriate strategy for Nio to carry out as a first step in its internationalization process is the **global strategy**, maximizes global integration. It is clear that Nio has a product that can be standardized and sold worldwide meeting similar customer’s needs all around the globe, albeit there can be little adaptations depending on the country, always respecting the essence of the

product. Nio will control the international activity from its headquarters trying to achieve scale economies and enhance quality. This strategy perfectly fits with the low-cost strategy shown by Nio in China.

Nonetheless, once the company is internationally established, there could be an option of implementing a **transnational strategy**, which fully exploits both global integration and local responsiveness. Then, Nio would adapt supply depending on the country, delegating functions on independent units.

6.2. Country Selection

The aim of this section is to select the country towards Nio should start its international expansion. As it was previously indicated, the options will consist in different European countries, as it is one of the actual plans of the company in the near future. The aim is to finally select two possible options thanks to the market analysis. Later, a PESTLE Analysis will be carried out in order to compare both countries and finally decide one single option.

6.2.1. Market Analysis

Firstly, it is necessary to know and analyze the EV market in Europe, studying certain variables such as for example, the demand of these cars within its countries, their government incentives or the charging infrastructure of each nation.

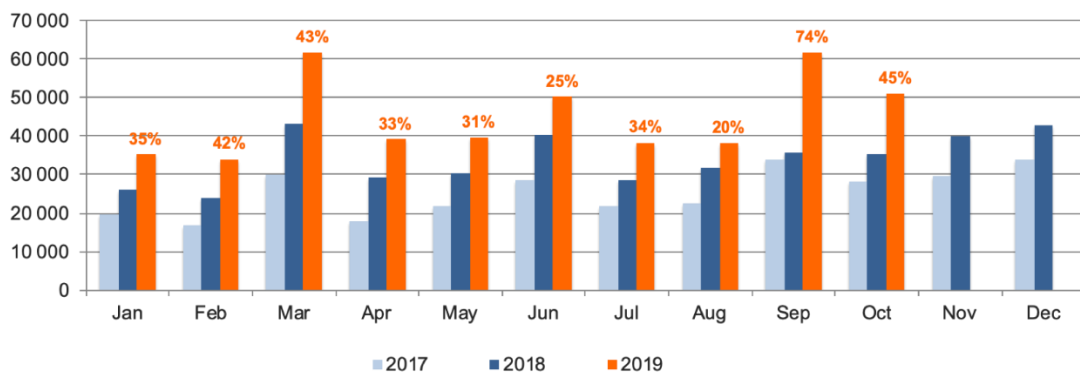
Europe, in general, offers wide incentives for electric cars and charging infrastructure. For instance, the TEN-T, funded by both the European Union (EU) and National governments, invested 4 million euros in charging stations in northern Europe. Besides the EU also established ambitious aims to achieve for the provision of renewable fuels concerning transportation (Tietge et al., 2016). However, the development of the industry changes a lot from country to country, a variation that is decisive to consider in order to obtain an appropriate understanding of the European market (Hall et al., 2020).

With more than 550,000 electric car registrations in 2019, the European Electric Vehicle industry has consistently grown, showing an average annual increase of 50% in the last five years, and representing the 3.5% of new automobile registrations in 2019. Besides, the CO2 emission control, the numerous investments in charging infrastructure and the

different policies implemented both locally and nationally indicates that the industry will further grow in the next decade (Hall et al., 2020).

In addition, in the last three years, Europe was the region with the highest increase in EV sales, reaching 3,2 million in 2020 and surpassing China for the first time since 2015, becoming the actual motor of EV growth (Irlé, 2021). As it can be seen in **Figure 7**, the European monthly EV sales have been considerably increasing in the last three years.

Figure 7: Europe Monthly Plug-In Vehicle sales and Y-O-Y Growth

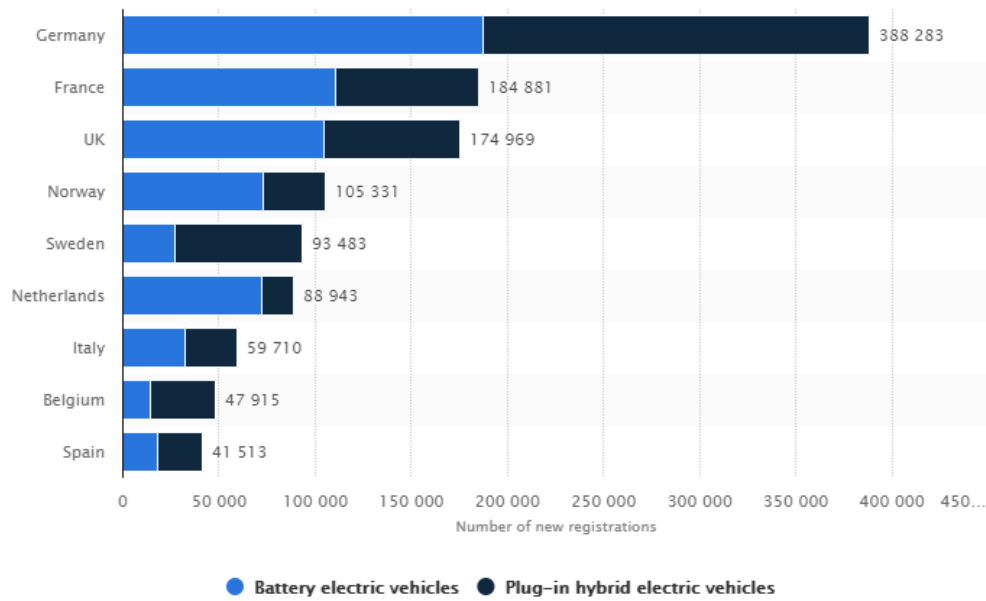


Source: (Irlé, 2019)

Taking into account this data, it is clear that Europe is the correct place to be penetrated by Nio in the future, however, as it was previously claimed, it consists of many different countries with their own markets, culture and preferences. Thus, it is necessary to deeply explore which countries are the most appropriate ones to expand Nio’s business.

In terms of EV registrations, they are irregularly distributed around Europe, as it can be seen in **Figure 8**. Germany is the country with higher registrations, having over 385,000 new registrations in 2020, followed by France and the United Kingdom.

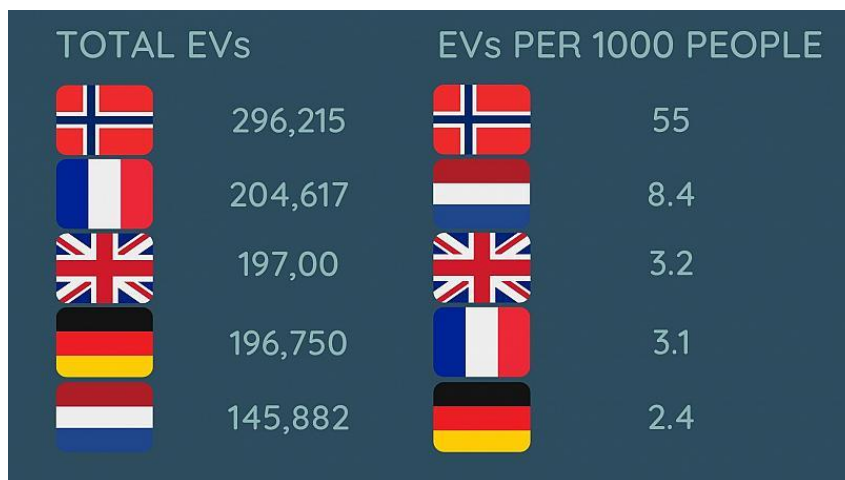
Figure 8: Passenger electric vehicle registrations in Europe by country 2020



Source: (Wagner, 2021)

On the other hand, according to **Figure 9**, which can be seen below, Norway is the country with the greatest number of Electric Vehicles, followed by France, the UK and Germany, which share the third position. In addition, Norway is also the country with the highest number of EVs per 1000 people, with 55, far above from the second one, the Netherlands (Frost, 2020). It is important to be aware that the EVs of the following figure do not include hybrid cars.

Figure 9: Total EVs and EVs per 1000 people in Europe



Source: (Frost, 2020)

As it can be seen, the EV sector is continually growing in Europe thank to the mounting costs fall, the deployment of charging infrastructure and the need to reduce emissions and increase sustainability (Hall et al., 2020).

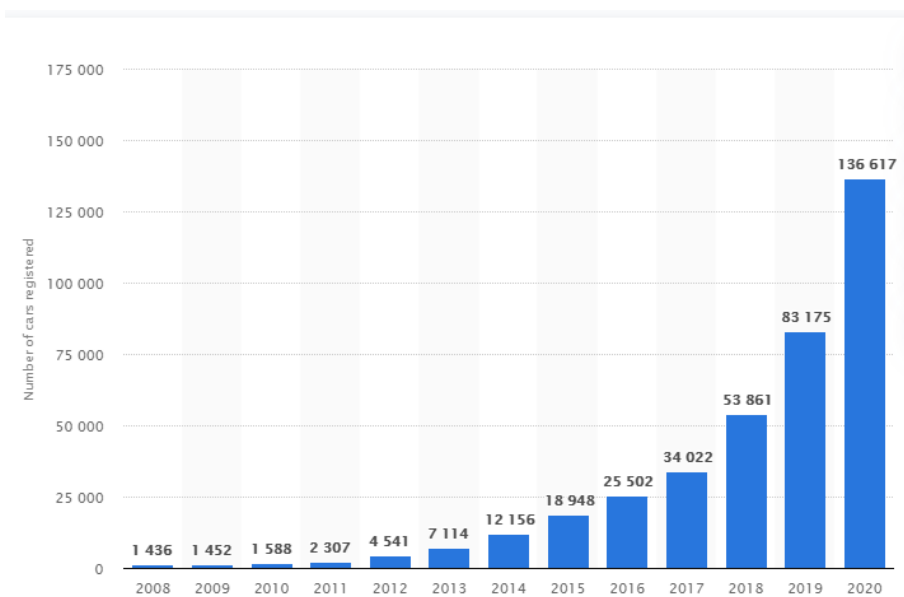
After having analyzed the European EV market and the situation of the different countries, it has been concluded that Norway, France and Germany are the most suitable countries to penetrate based on registrations, the number of EV in the country, their infrastructure, the development of their automotive industry and their potential demand. With the aim of obtaining a complete vision of each country, a specific study for each nation will be carried out.

6.2.1.1. Germany

Germany is the most populated nation in Europe, as well as its largest economy, being the greatest automotive market and the home of a wide range of vehicle manufacturers such as Audi, BMW or Mercedes-Benz. Moreover, it plays a crucial role in the European Union, being key for the establishment of policies related with sustainability and the automobile industry (Tietge et al., 2016). The progress of electric vehicle technology is essential, and a major aim to accelerate the energy transition (BMW, 2018).

The country is totally aware of the transformation that the sector will experience in the next decades and the importance of innovation and technology to deal with this process and maintain its reputation and position as one of the most successful providers of the automotive industry (BMW, 2018). In fact, the number of registered EV has steadily grown in the last decade, with a total amount of more than 135,000 cars in 2020, as it can be seen in *Figure 10*.

Figure 10: Number of battery electric cars registered in Germany 2008-2020



Fuente: (Statista, 2020)

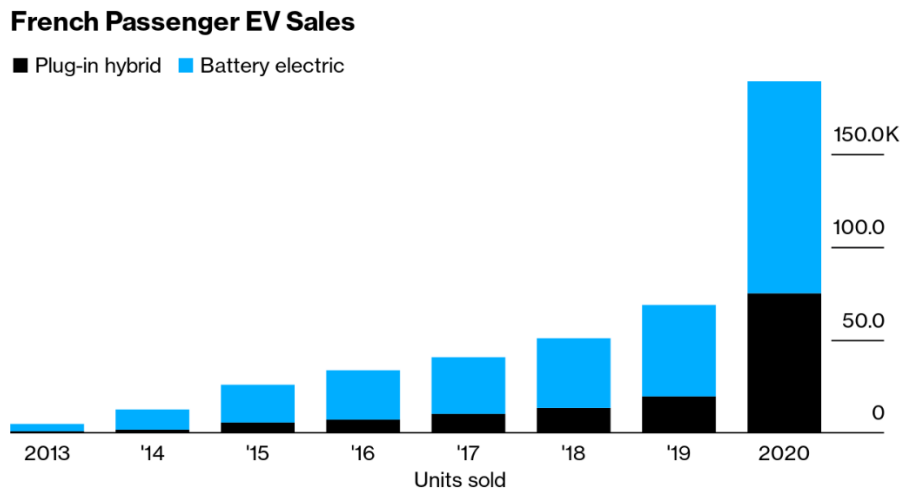
In terms of CO₂ emission, the country really needs to reduce them so that it set some ambitious goals to improve its results in comparison to other European countries, as well as to also become the electric vehicle leading market and supplier. Thus, the country has established fiscal incentives for both consumers and companies, fostering the acquisition and production of electric cars. For example, it offers certain advantages to low emission vehicles such as free parking or access to restricted traffic zones. Regarding charging infrastructure, with almost 40,000 public charging stations in 2019 (Statista, 2021), there are 0.19 available public charging points per 1,000 cars and most of its funding depends on private-public agreements (Tietge et al., 2016)

On the other hand, Germany worked hard to demonstrate the suitability of electric vehicles for everyday use. It includes government measures concerning R&D as well as procurement incentives, studying the existing barriers for the development of this industry within the country in order to increase acceptance and provide the appropriate technology (Tietge et al., 2016). On its behalf, R&D is decisive to make electric vehicles able to compete with traditional means of transport, especially, concerning pricing, battery storage, driveline technology or charging stations. Therefore, Germany is fostering the production of batteries and battery cells that are competitive, advanced, and sustainable. In addition, the German Government is developing a legal framework in which electric cars can prosper and its demand can grow (BMW, 2018).

6.2.1.2. France

Being one of the largest European economy, France is home of some vehicle manufacturers like Peugeot, Renault or Bolloré, a small company focused on EVs with a 11% of the total new electric vehicle registrations in the country, albeit Renault is the firm with the largest market share (Tietge et al., 2016). In 2020, the country reached a 11,2% of EV market share (Holland, 2021).

Figure 11: French Passenger EV Sales



Fuente: (Bloomberg, 2021)

Regarding government stimulus, in 2009 they introduced a mass-market adoption plan of electric vehicles aimed to bring more than 2 million to the country's roads. It consisted in introducing a subsidy for low-carbon automobiles and developing a powerful charging infrastructure. Besides, this program was boosted by the French Energy Transition for Green Growth Act in 2014, highlighting the need to foster electric vehicles (Tietge et al., 2016).

On the other hand, there are some direct consumer incentives. Firstly, the country punishes cars with high CO2 emissions while it funds low-emission ones. Moreover, people who get rid of their old diesel cars receive a subsidy when they acquire a low-emission one. Besides, there are a great number of vehicle taxes based on CO2 outflow (Tietge et al., 2016).

On its behalf, charging infrastructure was the greatest weakness in this country. The government tried to deal with the situation with the different investment plans to ensure an appropriate public and private infrastructure, a strategy that can be impacted but both

standardization and the actor involved. Standardization will be needed at both national and European scale in order to develop a common structure and avoid big differences between places. Then, actors of the production process and public bodies must promote the market-system integration to make electric vehicles financially viable for consumers, considering batteries and the installation and functioning of the infrastructure and related services (IEA, s.f.)

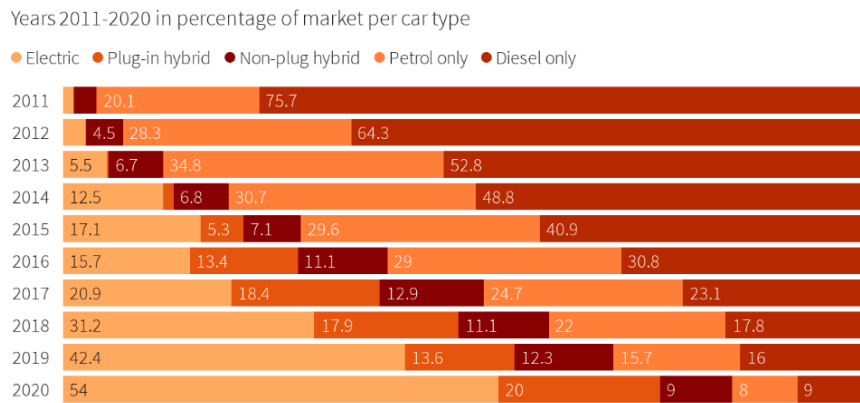
Nevertheless, in spite of the fact that sales have soared, the government is far away of its target to install more than 100,000 charging stations in 2021. In July, there were around 30,000 charging points in France and six months later, there was an increase of only 984. The problem is that the number of registered electric vehicles is constantly rising and there will not be an appropriate infrastructure to cope the great increase of electric cars if the government does not get down to work. In fact, according to EY Parthenon, the goal would not be achieved until 2024 at the current rate (Thompson, 2021).

6.2.1.3. Norway

The geographic and socioeconomic context of this country makes it a forerunner in the electric mobility industry, and it is considered the most advanced EV market. As the greatest crude oil producer in Western Europe (Marathe, 2021), Norway presents one of the highest GDP per capita in Europe in addition to be a powerful country concerning power supply, as nearly all its energy comes from hydropower, which means that they are very committed with the environment and carbon-free electricity (Tietge et al., 2016).

Besides, Norway is the first nation where the sales of EV has surpassed fuel and hybrid cars, with a 54% market share in 2020, and its aim is to end selling non-electric vehicles by 2025. Moreover, the German company Volkswagen is positioned as the top EV manufacturer in the country, overcoming Tesla (Reuters, 2021)

Figure 12: Norway new car sales



Fuente: (Klesty, 2021)

As a way to promote electric vehicles, the government launched really ambitious incentives for low emission cars such as for example, tax exemptions. Moreover, Norwegians who own an electric car enjoy a wide range of advantages like free access to toll roads, lower ferry rates, free parking, access to run on bus lanes, and free charging in public places.

Regarding charging infrastructure, the number of stations has considerably rising in the last few years, with more than 16,000 for both approximately 400,000 electric and hybrid vehicles (Wagner, 2020).

In comparison to the previously studied countries, the country does not have car manufacturing industry to speak about (Tietge et al., 2016), which can be seen as a special opportunity for Nio. However, it should be fast as this situation has caused many manufacturers to consider moving to Norway, since the demand for electric cars is constantly rising (Reuters, 2021).

After having deeply analyzed these three European countries, any of them could be an appropriate option for Nio because all of them are really committed to the development of the EV industry. Notwithstanding, the two selected countries to be analyzed with the PESTLE framework are **Germany and Norway**, due to some different reasons.

First, **Germany** is one of the major economic powers in Europe and besides, the greatest automotive market of the continent, with powerful and really successful car manufactures, a fact that Nio can benefit from by having access to its technology. In addition, they are a nation committed to its goals, and the development of the EV sector is one of them, which has steadily grown in the last decade. Moreover, Nio already has

an office in the country, its Global Design Center, located in Munich, demonstrating that it is a country that Nio has been considering for many years.

On its behalf, **Norway** is the most developed country in Europe regarding the electric cars, with both the highest number of total EV and EV per capita, far away from the second position. In fact, as it was previously stated, the electric vehicle share has surpassed fuel and hybrid cars in 2020. Furthermore, it has developed a robust and effective charging infrastructure, one of the decisive keys to gain user's confidence, as driving range is considered the main problem of EV. As a consequence, many famous manufacturers are considering the idea of moving to the country owing to all the advantages that it offers.

The clear advantages offered by these two countries mean that France cannot be considered an option, at least in terms of taking the first step towards internationalization. Although it is also growing quite a lot, its government was not able to meet the established targets and it is not as developed as the other two.

Therefore, **Germany and Norway** are the countries that best fit the needs of the industry and they will be selected to carry out the PESTLE Analysis with the aim of making a fair comparison and select the best option for Nio.

6.2.2. PESTLE Analysis

Once that the selection of countries is carried out, it is decisive to explore the compatibility of these places with Nio's business model as well as the development degree of both the automotive sector and the electric car industry in each country. Therefore, a PESTLE will be carried out in order to better understand each market and make the right decision to achieve success.

GERMANY

Political factors. Located in the heart of the continent, Germany is the most populated country of the European Union, with more than 82 million of citizens. It is a unified democratic Federal Republic since 1990 whose political system is based on the "*Grundgesetz*" or Basic Law, established in 1949, and which considers education, science and culture as the main pillars of the country (European Commission, 2021). Germany's

constitution established a parliamentary system in which the government is led by the chancellor, a position currently held by Angela Merkel. On the other hand, Frank-Walter Steinmeier is the chief of state and president, in charge of signing federal legislation and treaties, among other functions (Sheehan, 2021). In conclusion, Germany presents a stable political environment with low-risk conditions and which is ideal for the development of any business.

Economic factors. Germany is the leading European economy and the fourth internationally. The service sector contributes to 63% of the GDP and, on its part, the industrial sector amounts to almost 27%, with the automotive sector as the greatest one. Regarding COVID-19, its activity was considerably affected albeit it was one of the less impacted nations in comparison to other European countries (Banco Santander, 2020). Besides, Germany presents a high export quota of 40%, being one of three largest exporting countries with China and the USA. This aspect, together with the fact of being the most open economy of the G7 members with a foreign trade ratio of 84% - while the USA presents a 27% - makes Germany a great place to establish international relations, hosting besides many international trade fairs and events. In addition, Germany is close to achieve full employment, with one of the lowest unemployment rates in the world, which is around the 2% (Orth, 2018).

Socio-cultural factors. Germany is considered as one of the best places to live all over the globe, bearing in mind some factors such as wealth, education, health and living standards (BBC, 2018). Besides, as it was claimed before, it is an open country that integrates other cultures, hosting around 13 million of immigrants (UN , 2019), letting them shape their own lives thanks to the existing welfare state. On the other hand, Germany presents a low birth rate and consequently, the population is getting more and more old, as the same time of the constant grow in the life expectancy (European Comission, 2021). Moreover, thanks to the fact of basing its culture on education and science, Germany has a hardworking and ambitious society.

Technological factors. This is one of the biggest strengths of this country, being considered as a world leader concerning technology and innovation. It has contributed to science at unimaginable scales, in fact, it had more Nobel Prizes in the 20th Century than any other nation. Furthermore, its commitment to support universities and research institutes is impeccable (European Comission, 2012) constantly increasing its funding to R&D projects. It is in this matter when, again, the importance of science takes part,

developing a strong connection with both politics and business (Göbel, 2018). All these factors are some of the causes why Germany has a powerful automotive industry and its capacity to concentrate great manufacturers.

Environmental factors. As it was previously stressed, Germany is totally committed to the environment and one of the main promoters of the EU's sustainability measures. Besides, they are aware of the evolution that the automotive sector needs to experience in order to reduce CO2 emissions and EV are indispensable to achieve this aim.

Legal factors. Taking into account the political and economic stability in the country, regulation is totally adapted for the development and success of the business environment independently of the origin of the company, offering equal opportunities. Nonetheless, it is obvious that companies must know the business regulation that must be followed in order to operate in the country without any legal problem.

NORWAY

Political factors. Norway is considered the best democracy in the whole world for the sixth year in a row according to the score achieved in the Democracy Index 2020 (The Economist Intelligence Unit, 2021). The political sphere is featured by a sense of cooperation to avoid confrontation, needing to come to agreement in order to form a government. Moreover, citizens feel part of this democracy and politicians are not seen as the elite, what sustains a great social environment in the country (Smith & Adams, 2017). All these aspects set Norway as a stable nation that presents no problem to business activities.

Economic factors. Regarding COVID-19 and its consequences, despite suffering a big hit at the beginning of the pandemic, the Norwegian economy was among the least affected ones at the end of 2020 and the recovery has been quicker than in the rest of countries. Norway has one of the highest GDP per capita worldwide and it is at the top of the Human Development Index ranking. On the other hand, the unemployment rate fluctuates around 4%. As in Germany, the most developed sector is the service one, employing a 79% of the population. Regarding the industry sector, it employs 19% of the workforce and it represents a 29% of the GDP. It mainly depends on natural and energy resources, especially on the oil industry, and it also has a large and modern fleet. In addition, it is known for its machinery and electric equipment (Banco Santander b,

2020), which applies to the mounting development of the EV industry in the country, as it was previously explained. On the other hand, as it is a really wealthy country, prices and labor costs are quite high as well (Nymoer & Samson, sf.), a fact that should be considered by Nio for its country selection.

Sociocultural factors. Norway presents a population of 5,3 million citizens, of which a 14% are immigrants (European Commission, 2019). Moreover, it is the fifth happiest country in the world according to the World Happiness Report, a common characteristic among the Nordic countries (Nikel, 2020). Therefore, it is considered as one of top nations worldwide thanks to its living standards and the facility of doing business (Nymoer & Samson, sf.).

Technological factors. Norway developed a high degree technology, especially in environmental industries, in maritime sector and in energy. In fact, it could be the ideal place for a company to lead a new wave of technology innovations, offering a qualified workforce formed by highly skilled engineers. This is the case of the renewable technology, becoming the nation with highest per capita electric cars ratio, motivated by all these facts and Norwegian's green thinking (Nymoer & Samson, sf.).

Environmental factors. Despite the wide range of measures taken to develop a clean and green society to face climate change and global warming, Norway presents a high level of CO₂ emissions, mainly caused by the extraction of oil and natural gas. Nonetheless, it has made great progress on other matters, for example, it set Oslo as the EV capital worldwide and they are seeking to use liquefied biogas for ships, as well as solar and other kind of energies (Smith B. , 2015). Furthermore, the Norwegian government established the target of reduce emissions by at least 50% by 2030 in comparison to its 1990s level, as well as being a carbon neutral nation by 2050 (Norwegian Parliament, 2019).

Legal factors. Norway is not a member of the European Union, but it belongs to the European Economic Area, so it is required to adapt EU legislation in most policy spheres (Banco Santander b, 2020). In addition, it has a legal framework that fosters free trade and an open business environment in which companies can thrive (Sviggum, 2012). Finally, Norway is in ninth position in the Ease Doing Business Ranking (World Bank, 2019).

6.2.3. Conclusions

After a thorough analysis of the European market and some of its countries, this section seeks to justify the final selection of the country to which Nio should address its internationalization strategy.

Bearing in mind the different factors studied, it has been concluded that **Germany** is the most appropriate country to penetrate by Nio due to some different reasons.

First, it is the main leader of the continent, with a stable and prosperous model and situation. Moreover, its economy is one of the strongest in Europe and it plays an indispensable role in the European Union, which is totally committed to the transition to a more sustainable mobility. Besides, it is located in the heart of Europe and the expansion to other neighbor countries like France, the third analyzed option, would be easier.

Secondly, it presents a really powerful automotive sector with a highly developed technology that Nio could learn from and take advantage of. In addition, Nio has an office in Munich, which constitutes an advantage for the implementation of the internationalization strategy since it can exploit its already existing infrastructure. Furthermore, it means that it has already been in contact with the country and the industry, what facilitates the adaptation process and confirms the hypothesis that they are compatible countries.

On the other hand, the population is another factor to consider. Germany has around 82 million inhabitants whereas Norway only has 5 million. Despite the success of the EV industry in Norway, it will be easier to reach more consumers in Germany, in addition to the fact that there is still room of improvement in the matter, and people are still waiting to the EV transition. On its behalf, there are already a 54% of EV in Norway so that gaining market share would be so challenging and difficult.

Albeit every decision has pros and cons, all these arguments justifies the decision about why it is believed that **Germany** is the most appropriate and suitable country for Nio. Nonetheless, Nio must pay attention to the fact that German consumers are not likely to acquire Chinese products and to the strong competition from local producers. Thus, it will be necessary to gain German's confidence and raise awareness about Nio's reliability and its products.

6.3. Mode of entry

Once Germany has been chosen as the most suitable country for Nio, the present section is focused on defining the most appropriate mode of entry in the selected market, following the internal analysis and the different alternatives studied, exporting, licensing, franchising, joint ventures, and wholly owned subsidiaries.

First, it is important to be aware of the fact that Nio is Chinese, and its culture and mode of functioning could clash with European's albeit it is also true the willingness of Nio to penetrate Europe, so they are supposed to be conscious of this issue. Moreover, Germany presents certain similarities such as punctuality and formality in the business environment, as well as discipline and reliability, aspects that augur a smoother adaptation process. Furthermore, as stressed before, Nio already has a center in the country and there was no problem with it.

Second, it is the first step in the internationalization process of the company so there is a lack of experience in the field with which problems and unforeseen events will arise and for which Nio must be prepared.

Third, taking into account the company profile and its goals, it can be stated that they have a powerful image based in ambition and determination, being so careful with their products and services, and being aware of the great technology they developed.

Thus, some entry modes such as licensing and franchising can be discarded. Moreover, it could be too risky to carry out a joint venture as well, since some conflicts of interests could arise, and it implies a loss of control that Nio would not be willing to assume.

Regarding the exporting method, which is the most basic option, it implies too much transport costs and trade restrictions, especially since China is involved in an ongoing trade war and in addition, it is far away from Europe.

Therefore, it has been concluded that the most appropriate mode of entry is through **wholly owned subsidiaries**. Despite having to bear with the full costs and risks of the operation, Nio will have 100% control and ownership, seeking to offer the same experience in Europe than in China.

Regarding the exact location in the country, Munich could be the most suitable place since Nio has a Global Design Center in the city.

7. Conclusion & Proposals

7.1. Conclusions

This section is aimed to conclude this study, summarizing the main findings of the investigation and answering the proposed objectives. Besides, some proposals for the future of the company and its expansion will be put forward.

1. Define the internationalization strategy that Nio should follow

Through the present study, the **global strategy** has been chosen as the most appropriate one for Nio, based on global integration, local responsiveness and the company profile and its product. Besides, Nio will combine both low-cost and differentiation strategy to perfectly meet customer's needs.

2. Define the target country towards which Nio should take its next international steps according to this study

After a deep analysis of the European market and its countries, **Germany** was the selected country to carry out the internationalization plan of Nio. It offers a perfect environment for doing business, with a large economy and a stable situation and a really powerful automotive sector. Moreover, it is totally aware of the need to foster sustainable practices and the EV industry is part of them.

3. Define the mode of entry into the selected country

Wholly owned subsidiaries have been chosen as the most appropriate entry mode. Considering that Nio presents a strong and peculiar culture and that it is its first internationalization step, this mode of entry will let them have things under control and avoid any conflict of interests with other partners.

7.2. Proposals

The present project has fulfilled the proposed objectives. Given the optimistic prospects of the EV industry and the analyzed countries, it is hoped that Nio could successfully internationalized its activity and grow, what would foster even more the transition from fuel vehicles to electric ones.

The next steps of this process could be related to the acquisition of firms or suppliers, or the establishment of a joint venture with a powerful partner. It will depend on how Nio finds Europe and its way of functioning. If the process is going well and Nio becomes a multinational firm, the **transnational strategy** could be a good option to follow.

The company is supposed to start its internationalization this year, an event that will show how accurate was the elaboration of the present study.

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