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How the Institutional Environment and Channel Structure Affect the Entry of Small and Medium-sized Enterprises into Emerging Markets: An Analytical Case Study of the Professional Skin Care Service Market as An Example

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Abstract. This article discusses how the institutional environment and channel structure affect the competitive advantage of technology-based small and medium-sized enterprises when entering emerging markets. Using the case of the professional skin care service market, this study integrates institutional theory, resource basic concept and industrial structure theory to explain why technical resources and the reputation of the country of origin do not automatically become market advantages. The analysis results show that in the market with strict supervision and dominated by professional channels, institutional rules will play as a screening role before the enterprise enters the market. In addition, clinics and practitioners will also act as channel gatekeepers by determining whether the product can be embedded in the service process. Therefore, the competitive advantage does not come purely from resource ownership, but from resource transformation. To activate the existing technical resources and reputation resources, small and medium-sized enterprises must combine compliance ability, training ability, service integration ability and local legitimacy construction. . The findings are mainly applicable to those markets with strong supervision, high service embedding requirements, and consumers trust professional channels.

Keywords: institutional environment, channel structure, small and medium-sized enterprises, emerging markets, resource transformation

1. Introduction

The global economic landscape has been adjusting. Against this background, emerging markets have gradually become an important destination for enterprises internationalization [1]. Especially in the areas of health consumption and professional services, the population structure is changing, income levels are increasing, and consumers' health awareness is increasing. Together, these factors have driven the continued growth of these markets. However, in addition to market opportunities, the institutional environment and market structure have also created many complicated challenges to enterprises.

For small and medium-sized enterprises, this complexity is particularly prominent [2]. On the one hand, such enterprises usually rely on technological innovation or subdivision positioning to establish competitive advantages. On the other hand, they often have relatively limited resources and lack experience in cross-market operations. Therefore, when entering emerging markets with different institutional environments, they face higher uncertainty. This uncertainty is reflected not only in market demand, but also in the entry barriers formed by the institutional structures and channel structures.

From an institutional perspective, enterprises operating in strictly regulated industries must meet a series of compliance requirements before entering the market. These requirements include product safety verification, ingredient specifications, registration procedures and supply chain transparency [3]. Such requirements are not slowly improved after entering, but instead preconditions that must be completed before entering. Consequently, the core challenge facing enterprises is not “how to compete in the market”, but “whether it is qualified to enter the market”. From the perspective of market structure, products in industries dominated by professional services cannot be sold directly to consumers through retail or e-commerce. Products must be adopted by professional institutions or practitioners [4]. Take the professional skin care service market as an example, products must be integrated into the service process by clinics or doctors before they can be applied in practice. This structure changes the market entry path from “product to consumer” to “product to channel to consumer”. In this process, the channel has become the key node connecting the enterprise and the market.

However, existing studies often explain the competitive advantage of enterprises from a single theoretical perspective [5]. For example, the concept of resource basics emphasizes the importance of enterprise resources, industrial structure theory focuses on competitive pressure, and institutional theory highlights external constraints. These studies lack a systematic analysis of the interaction mechanism among them. Accordingly, this article raises the following research question: how is the competitive advantage formed in a market by a strict institutional environment and a dominant channel? This article makes two main theoretical contributions. On the one hand, it integrates the perspective of system, resources and channels to explain the dynamic mechanism of the formation of competitive advantages. On the other hand, it provides a more operational analytical framework for small and medium-sized enterprises to enter similar markets.

2. Literature review and theoretical framework

Institutional theory believes that corporate behavior is influenced by formal and informal systems [5]. Formal systems include laws and regulations, while informal systems include norms and practices. In transnational markets, foreign enterprises often face the “disadvantage of outsiders” due to institutional differences. In other words, they pay additional costs in information acquisition, legality establishment and resource allocation [6]. This disadvantage is especially obvious in industries with strict regulations.

However, in many studies, the institutional environment is usually regarded as a constraint to enterprises after market entry, rather than a screening mechanism before entry [3]. In the real market, enterprises must meet the institutional requirements before entering the markets, otherwise they are not qualified to enter the market. This means that the system not only shapes corporate behavior, but also determines which enterprises can enter the market before the competition begins. Industrial structure theory emphasizes that enterprise competition will be affected by market forces [7]. In traditional markets, buyers usually influence corporate profits through bargaining power [7]. However, in markets dominated by professional services, buyers such as clinics not only affect

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prices, but also determine whether products can enter the market [4]. Because products must be embedded within the service process, the buyer's role has changed from "partner" to "market entry controller". This transformation has made the channel a core variable in the competitive structure.

The concept of resource foundation believes that enterprises can gain competitive advantages by having scarce resources, including technical competence or brand credibility [8]. However, this theory implies that resources can be identified by the market and transformed into value [9]. In the cross-market context, this premise may not be true. For example, technology needs to pass regulatory review, brand credibility needs to be recognized by channels, and products need to be integrated into the service process. Without these transformation processes, it is difficult to reflect the resource advantages.

Based on the above theories, this paper proposes an integrated framework, which suggests that enterprise resources can only be transformed into market performance after institutional screening and channel adoption [10]. In this process, the institutional environment determines the entry qualification, the channel structure determines the use opportunity, and the organizational capacity determines whether the resources can be successfully transformed into competitive advantages.

3. Research method

This study adopts an analytical case study method [11]. The core purpose of this method is not to describe the development process of a single enterprise, but to explain the mechanism of competitive advantage formation under a specific system and market structure through a representative market situation. Unlike traditional case studies that emphasize situational details, analytical case studies pay more attention to extracting logic with theoretical interpretation from specific situations to answer research questions.

The case used in this article comes from a real and representative market situation. The situation is that a technology-based small and medium-sized online skin care brand from New Zealand is trying to enter China's medical beauty service market. There are three obvious characteristics of this market. First, China's medical beauty and functional skin care markets are subject to strict regulatory requirements. Before entering, enterprises need to complete institutional preparations related to product safety, ingredient information, efficacy expression and compliance documents. Second, the adoption of products relies heavily on professional channels such as clinics, doctors and cosmetic therapists, rather than simply relying on retail or e-commerce sales. Third, consumers in scenarios such as post-medical beauty repair, barrier care and problem skin management usually trust the recommendations from professional institutions more. Therefore, products cannot simply reach end consumers through online sales. The product must first be recognized by professional institutions and then be integrated into the specific treatment or care process before they can really enter the use scenario. Based on these boundary conditions, the conclusion of this article is mainly applicable to those markets with a strict institutional environment, high service embedding requirements, and consumers trust professional channels. If the target market is mainly dominated by ordinary distributors, mass retail or e-commerce platforms, the entry logic of enterprises may rely more on price, traffic, brand exposure and channel coverage. In such cases, the analytical framework of "system screening - professional channel adoption - resource conversion" in this article needs to be adjusted accordingly.

At the same time, the boundary conditions of this article need to be clarified. This case is not intended to represent all emerging markets. On the contrary, its conclusions mainly apply to those markets with strict institutional supervision, high requirements for service embedding adoption, and strong consumers trust in professional channels. If the target market is mainly dominated by

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distributors or e-commerce platforms, the mechanism may change. In this case, channel gatekeepers may pay more attention to distribution coverage, price efficiency and consumer flow than to professional training and service integration. Therefore, the conclusions of this article have good promotion in the regulated professional service market, but its applicability in mass retail or platform-driven market is relatively limited.

The selection of this case is based on three key characteristics to make it more representative [11]. First, the institutional environment is strict. Enterprises must complete compliance preparations before entering the market, including product safety verification, ingredient registration and supply chain transparency construction. This means that enterprises need to have a certain organizational ability to meet the entry conditions. Second, the market is dominated by professional channels. Product adoption depends on the judgment of institutions or practitioners rather than directly decided by consumers. This structure has changed the traditional logic of market entry. Third, competition depends not only on the product itself, but also on whether the enterprise can provide a complete support system, including training, service and process integration capabilities. Therefore, this case can reflect a typical market structure with "dual constraints of system and channels".

The data source consists of three parts. First, quantitative information is obtained through industry questionnaires. This information is used to identify the main considerations of clinics or practitioners when adopting products. Second, qualitative information is collected through interviews. This information is used to understand the specific challenges encountered by enterprises in the actual entry process, including compliance procedures, channel docking and market adaptation problems. Third, supplement second-hand information is accessed from industry reports and public sources. These materials are used to verify the reasonableness of the research conclusions.

In terms of analysis methods, this paper combines inductive analysis and theoretical explanation [11]. Specifically, the analysis first identifies key phenomena from the case, such as institutional barriers, channel control and resource conversion difficulties. Secondly, these phenomena are compared and analyzed with institutional theory, resource basic concept and industrial structure theory. Finally, the formation mechanism of competitive advantage is extracted. While maintaining the explanatory power of reality, this method also enhances the theoretical value of research.

4. Case analysis and discovery

4.1. External environment analysis (PESTEL)

In this market, the external environment has a decisive impact on the entry of enterprises, especially through policy and legal factors [3]. Unlike the traditional consumer goods market, this industry is under a relatively strict regulatory system. Before entering the market, enterprises must complete a series of compliance preparations. These preparations include providing product safety certificates, organizing ingredient information, completing registration procedures, and establishing a traceable supply chain system. Such requirements are not as simple as submitting documents. They also require enterprises to have systematic capabilities, including quality control capabilities, document management capabilities and cross-departmental coordination capabilities.

More importantly, these requirements are not gradually improved after entering the market, but prerequisites that must be met beforehand. Even if a product has certain advantages, if the enterprise does not complete these preparations, it cannot enter the market [3]. Therefore, the institutional environment here not only increases the cost of entry, but also screens enterprises before market

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entry [3]. In other words, competition does not occur between all potential enterprises, but between those "enterprises that can be screened through the system".

From an economic perspective, this market has high growth potential while attracting a large number of competitors. This means that market opportunities and competitive pressure coexist [1]. For new entrants, market growth does not automatically become a competitive advantage, but it may make the competition more intense. From a social perspective, consumers are paying more attention to the safety and long-term effects of products [12]. This trend makes the market more inclined to choose products with high stability and low risk. Therefore, a product is difficult to get market recognition if it cannot meet the requirements of safety and stability, even if its pricing is very competitive. From a technical point of view, products need scientific evidence and stable performance to be recognized by professional channels [4]. This means that technology is not only a feature of a product, but also a basic condition for entering the market.

Overall, the external environment of this market not only raises the entry threshold, but also screens enterprises through the joint role of system and demand. In this way, the starting point of competition is shaped.

4.2. Industrial structure analysis (porter's five forces)

In this market, the industrial structure shows obvious channel-dominated characteristics [4]. In the traditional consumer goods market, consumers directly decide what to purchase, but it is different here. Products must be adopted by clinics or professionals before they can enter the actual usage scenario. This structure allows the buyer (that is, the clinic) to stand at the center of the competition [4]. Specifically, clinics not only decide whether to purchase products, but also decide whether to integrate products into the service process. For example, even when a product has certain advantages, it is difficult to be used in practice if it cannot be embedded in the clinical process. Therefore, the clinic is not only a trading partner, but also a controller of market entry. This role of "gatekeeper" means that the core of corporate competition is no longer directly winning consumers, but gaining recognition from channels [4].

At the same time, the high regulatory requirements create obvious barriers to entry for new entrants [3]. These obstacles come not only from institutional requirements, but also from channel relationships. For foreign enterprises lacking local market experience, it takes a long time to establish channel trust. This further increases the difficulty of entry. In terms of substitutes, although there are many products on the market, the alternatives are relatively limited due to the existence of professional trust and use risks [12]. Compared with frequent supplier changes, clinics are more inclined to choose stable and controllable products. Therefore, the core of industrial competition is not price competition, but whether the enterprise can be recognized by the channel and maintain integration with the service system for a long time.

4.3. Internal resource analysis (VRIO)

From the perspective of resource foundation, enterprises usually have some resources, such as technical ability and national credibility [8]. Theoretically, these resources are valuable and scarce [13]. For example, technical capabilities can support product effectiveness, while domestic credibility can enhance market confidence. The country of origin effect further affects the way these resources are interpreted. The reputation of the country of origin can provide an initial quality signal, but it does not automatically create legitimacy in the target market [14]. When the institutional environment trusts local regulatory approval, local professional endorsement and local

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service experience more, external advantages require additional legal support to gain acceptance [15]. In this sense, the value of foreign brands can only be truly activated after being transformed into reliable compliance documents, professional training and channel relationships in the target market.

However, in this market, such resources cannot be directly transformed into competitive advantages. Because they must go through a series of transformation processes before they can work [9]. First, technological capability needs to pass regulatory review to enter the market. Second, the credibility of the country needs to be recognized by the channels. If channels do not understand or trust this signal, its effect will be greatly weakened. Finally, the product needs to be integrated into the actual service process before it can be used. This shows that there is a clear gap between the "existence" of resources and the "effectiveness" of resources. Enterprises not only need to have resources, but also need to have the ability to convert resources into market performance. These abilities are usually organizational, such as compliance ability, communication ability and process integration ability [10]. Therefore, in this market, resource advantage is not a sufficient condition for competitive advantage. Its effectiveness depends on whether the enterprise can complete the resource transformation process.

4.4. Failed to convert resources

The reverse situation further explains this mechanism. Even when an enterprise has a product that looks stronger, the resource conversion may fail. A typical form of failure is that the technology has passed the regulatory screening, but the product has not been adopted by the clinic because the enterprise cannot provide adequate training, service process or practitioner support [4]. Another form of failure is that the channel is willing to try the product, but the cooperation is terminated because of compliance documents, supply chain traceability or incomplete local regulatory adaptation [3]. These examples show that institutional screening and channel conversion are two independent thresholds. Passing one threshold does not guarantee market performance. Only when both thresholds are completed can technical resources be transformed into competitive advantages [10].

4.5. Comprehensive analysis (SWOT)

Through a comprehensive analysis of the external environment and internal resources, the competitive pattern faced by enterprises can be clearly understood. In terms of advantages, enterprises usually have technical capabilities and a certain credibility foundation. These factors provide the initial conditions for entering the market. However, in terms of disadvantages, the lack of local experience and channel relationships will make enterprises encounter obstacles in the process of entering. In terms of opportunities, the growing market demand provides space for the development of enterprises. Meanwhile, institutional complexity and channel barriers have significantly increased the difficulty of access. The key point is that the advantages of enterprises cannot be automatically transformed into market performance. These advantages can only become effective after being screened by the system and being recognized by the channel. Therefore, the competitive advantage is not the resources themselves, but the result of the transformation of resources.

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5. Conclusion

This article believes that in a market with strict supervision and dominated by professional channels, competitive advantage is not simply formed through resource ownership, but through a continuous transformation process. First, the institutional environment plays the role of pre-entry screening, because enterprises must meet compliance, security and document requirements before participating in market competition. Second, professional channels play the role of market access gatekeeper, because clinics and practitioners decide whether products can be embedded into the actual service process. Third, resource advantages, including technology and the reputation of the country of origin, will only be valuable after being transformed through institutional adaptation, local legitimacy and channel relationship. For small and medium-sized enterprises, the implication of management is that domestic brand reputation and technical ability cannot be regarded as a ready-made advantage when entering new markets. They must be activated through local compliance readiness, credible professional endorsement, a training system and long-term channel relationship building. Therefore, small and medium-sized enterprises entering similar markets should not only invest their resources in product development, but also in regulatory preparation, employee education and service integration.

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