

# **Bachelor Thesis**

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**From the Czech Republic to the Netherlands**

*Developing an entry strategy for Cargospol*

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## Preface

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It is great to have finally completed my Bachelor thesis. Within the interesting area of entry strategies, I have gained much knowledge and also discovered an area where I like to work in the future.

I would like to thank Mr. P. Brozic, company director of Cargospol, for giving me the opportunity to carry out my graduation assignment at Cargospol. I would also like to thank Mr. V. Karpisek and all Cargospol's employees for their support, which was an absolute necessity for the accomplishment of this study. Furthermore, I would like to thank Mrs. Donatova, whom provided much information about the Czech culture.

Finally, I would like to show special gratitude to my supervisor during this graduation assignment: Mr. Ir. S.J. Maathuis, for contributing valuable and stimulating advice and feedback on my work.

Huizen, December 2007

Sam Charles

## Management Summary

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Cargospol is a Czech company that transports, trades and stores truckloads. Their sales markets consist of many European countries. In order to expand their sales markets, Cargospol wants to expand its activities to the Netherlands. The objective of this graduation assignment is to develop an entry strategy for Cargospol, which focuses on the Dutch road transport sector. The purpose of the assignment is to give an answer to the following question:

*What is a suitable entry strategy for Cargospol, with regard to the road transport sector in the Netherlands?*

In order to answer this question literature about entry strategies is reviewed, resulting in a theoretical framework. A market entry strategy requires a suitable entry mode as well as a marketing plan. The first part of the research describes the entry mode selection, the second part discusses guidelines for the marketing plan.

The entry mode selection depends on influencing forces from the Netherlands, the Czech Republic, and Cargospol. The analysis of the influencing forces shows that the Dutch road transport sector is suitable for entering by Cargospol. The suitable entry mode is direct export by a salesperson of Cargospol. A suitable salesperson is currently not available. The sales person should operate from Cargospol and travel regularly to the Netherlands. Nevertheless, caution is needed because the profit margins of the Dutch road transport sector are minimal. Cargospol's low labor cost is their main competitive advantage and creates the opportunity to enter the Dutch road transport sector successfully.

The guidelines for the marketing plan are based on the marketing mix model, extended with theory about industrial service marketing. The marketing plan should be used to generate the best response to the selected entry mode, while focusing on buyer – seller relationships. Marketing has to be spread throughout the entire company. The pricing strategy should focus on low cost services. Anticipation to the change of customer needs in a buyer – seller relationship is necessary; first interest in Cargospol and its services should be developed, next general interest has to be turned into sales, and last resales should be secured by developing enduring client contacts.

Recommendations are to use entry strategies for all current and future target countries and markets. Entry mode selection is needed for each target country and a marketing plan is needed for each target market. A suitable salesperson to apply direct export to the Netherlands should be hired, perhaps an employee can be educated. Marketing plan recommendations are divided in stages of customer needs in buyer – seller relationship. First an attractive corporate image should be developed, mainly by using mass marketing like advertisements and mailing. Next personal selling should be used to persuade potential customers. Finally, marketing efforts should be continued and even extended, to secure resales. Other recommendations are to improve the entry strategy skills of the senior management, Cargospol's in time payment and overall punctuality, and the linguistic skills of their employees. Further research is needed to successfully implement the entry strategy for Cargospol.

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## **H1. Research design**

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This first chapter describes the incentive for the thesis and how the research is designed. The background, research objective, problem formulation, research questions and research structure are introduced.

### **1.1 Background**

The Czech Republic is on the rise. The economical growth is very high, yearly almost 10 percent, especially compared to West European countries. Export and import also increases rapidly. One of the main reasons is the Czech membership of the European Union in 2004, which lowered international barriers. These conditions enlarge the Czech international competitiveness. As a result, many Czech companies increase their international activity.

Cargospol is a Czech road transport company, situated in Pilsen and founded in 1995. The senior management is interested in the Benelux as new target countries and markets; with the focus on the Netherlands. The company is already active in many European countries. Business with Germany is the most common. Incidentally, a few loads have been transported from Belgium and the Netherlands. Little research has been done about possible entry mode strategies.

Cargospol's activities are transporting, trading and storing of truckloads. The main activity consists of business with cargo companies without own transport opportunities. Cargospol transports cargo from these partners preferably to and from the Czech Republic. The capacity of the truck fleet is mainly used for a television manufacturer of Panasonic, and car manufacturer Opel. Both use 30 percent of the capacity. Furthermore, they trade cargo with other road transport companies. Occasionally the company rents a truck to another company. Temporarily storing of goods will occur as from April 2007.

The company leases 45 trucks and has a truck stand a few kilometers from the office. Cargospol uses full capacity, because demand exceeds supply. The truck fleet grows with about 10 percent per year. The majority of the trucks is able to carry 24 tons of many different goods. They can easily be tracked because of an advanced gps-system. A new site in which both locations are merged arises in a few years. The site will be about 10 kilometers outside Pilsen, next to a highway. Furthermore, Cargospol will lease a brand new storage place as from April 2007. The warehouse is 6500m<sup>2</sup> and situated in Pilsen.

The company's organization chart is presented in appendix A. The transport centre is responsible for the trucks. Main objective is having all trucks transporting loads continuously. The planning of the loads is often a last minute job, because the load announces are usually just a few days in advance. The loads are normally transported between the Czech Republic and a Western European country. The forwarding center's main objective is to trade truck loads with con-colleague road transporters. Cargospol's road transporters are Czech or Slovakian. East European transporters are too expensive.

### **1.2 Research objective**

The road transport company Cargospol wants to start regular trade to the Benelux, with a focus on the Netherlands. An entry in the Benelux needs a business plan tuned to the specific

situation. Therefore, the company is interested in an entry strategy for the road transport market in the Netherlands. Secondary objectives are an entry strategy for the Benelux, screening of new customers, contacting of new customers, and improving of the marketing activities.

### **1.3 Problem formulation**

The company's research objective is too broad for a one person bachelor thesis. Hence, the research focuses only partly on Cargospol's primary objectives; the formulation of an entry strategy for the Netherlands, and partly on the secondary objectives; improving the marketing activities. The problem definition is formulated below:

*What is a suitable entry strategy for Cargospol, with regard to the road transport sector in the Netherlands?*

Scholars often use different definitions for the same term, so the exact meaning of a term is often unclear. Therefore, I will discuss a few of the terms used in the problem definition.

An 'entry strategy' is a plan that guides a company's international business operations over a future period. It uses objectives, goals, resources and policies, to obtain entry mode options and a marketing plan (Root, 1994). The focus of the research will be the choice of entry mode. The 'road transport sector' consists of transport by trucks only. Transport of persons or containers is excluded. Thus, transport by boat, train, car and airplane are not part of this research. The formulation of entry strategies for the other Benelux countries is outside the scope of this thesis. Screening and contacting of potential customers will also be left outside the scope of this thesis.

### **1.4 Research questions**

The research questions in this rapport are obtained from the problem definition and the theoretical framework. The answers to the questions together will answer to the problem definition. The research is based on Root's entry strategy, which is divided in two parts; the entry mode selection and the marketing plan. The first three research questions deals with the entry mode selection, the last research questions deals with the marketing plan. The research questions are respectively focusing at; relevant Dutch and Czech environmental factors concerning the road transport market, the company Cargospol, the interpreting of data and the selection of entry modes, and last the creation of marketing plan guidelines. The research questions are formulated as follows:

Research question 1:

- ❖ **What is the influence of the external factors on the choice of entry mode?**

Research question 2:

- ❖ **What is the influence of the internal factors on the choice of entry mode?**

Research question 3:

- ❖ **Which entry mode can be concluded based on the confrontation of the influences of the external and internal factors?**

Research question 4:

- ❖ **What is the desired marketing plan for the selected entry mode?**

## 1.5 Research approach

This section describes the thesis' research approach, based on Saunders et al. (2003). The research process can be divided in: the research philosophy, the research approach and research strategies. Saunders et al. have designed the research process 'onion': the research process should be starting with the first, the outside, layer and thereafter peeling away each layer until the fifth layer is reached. An overview is presented in figure 1.2.

<i>Layer</i>	<i>Approaches</i>
1: Research philosophy	Positivism, Interpretivism (or Phenomenology), Realism
2: Research approaches	Deductive, Inductive
3: Research strategies	Experiment, Survey, Case study, Grounded theory, Ethnography, Action research
4: Time horizons	Cross Sectional, Longitudinal
5: Data collection methods	Sampling, Secondary data, Observation, Interviews, Questionnaires

Figure 1.2: The research process 'onion' (Saunders et al. 2003)

Research philosophy depends on the way that you think about the development of knowledge. The research philosophy of this thesis is interpretivism. Interpretivism argues that the social world of business and management is far too complex to lend itself to be reduced to a series of law-like generalizations.

The research approach is inductive; data collecting and theory developing are a result of the analysis. Emphasizes are gaining an understanding of the meanings humans attach to events, a close understanding of the research context, the collection of qualitative data, a more flexible structure to permit changes of research emphasis as the research progresses, a realization that the researcher is part of the research process, and less concern with the need to generalize.

A research strategy is a general plan of how to answer the research questions. The thesis' research strategy is a case study. This strategy can be defined as doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence (Robson, 2002). The multiple sources of evidence, which are data collection methods, include interviews, observation and documentary analysis.

The time horizon of the research is cross sectional. A Cross sectional time horizon is the study of a particular phenomenon at a particular time. This research studies the entry modes for Cargospol that are suitable at the current time.

The last layer is data collection methods. Several methods of data collection are used in this thesis. Secondary data is mainly used to create the theoretical framework and knowledge about the external environment of the company. Observation and interviews are mainly used to gain knowledge about Cargospol.

## 1.6 Research structure

The first step of the research is a literature review on entry modes, which is described in chapter two. The result of this step will consist of a theoretical framework in which analyses of the different forms of entry modes and factors that influence the choice of entry modes are described. This framework shapes the structure of chapter three until six. Chapter three answers the first research question (RQ1) by extending the influencing external factors with primary and secondary information, mainly about the Dutch road transport market, but also



about the Czech road transport market. In chapter four the second research question (RQ2) is answered, by extending the influencing internal factors mainly with primary information about the company. Chapter five answers the third research question (RQ3). The outcomes from the third and fourth chapter are interpreted to obtain feasible entry modes. These feasible entry modes will be analyzed in detail by four kinds of comparative analyses. The outcome will be the selection of the suitable entry mode(s). In the last step, chapter six, the last research question (RQ4) is answered by designing marketing plan guidelines for the chosen entry mode(s). The research structure is shown in the figure below.

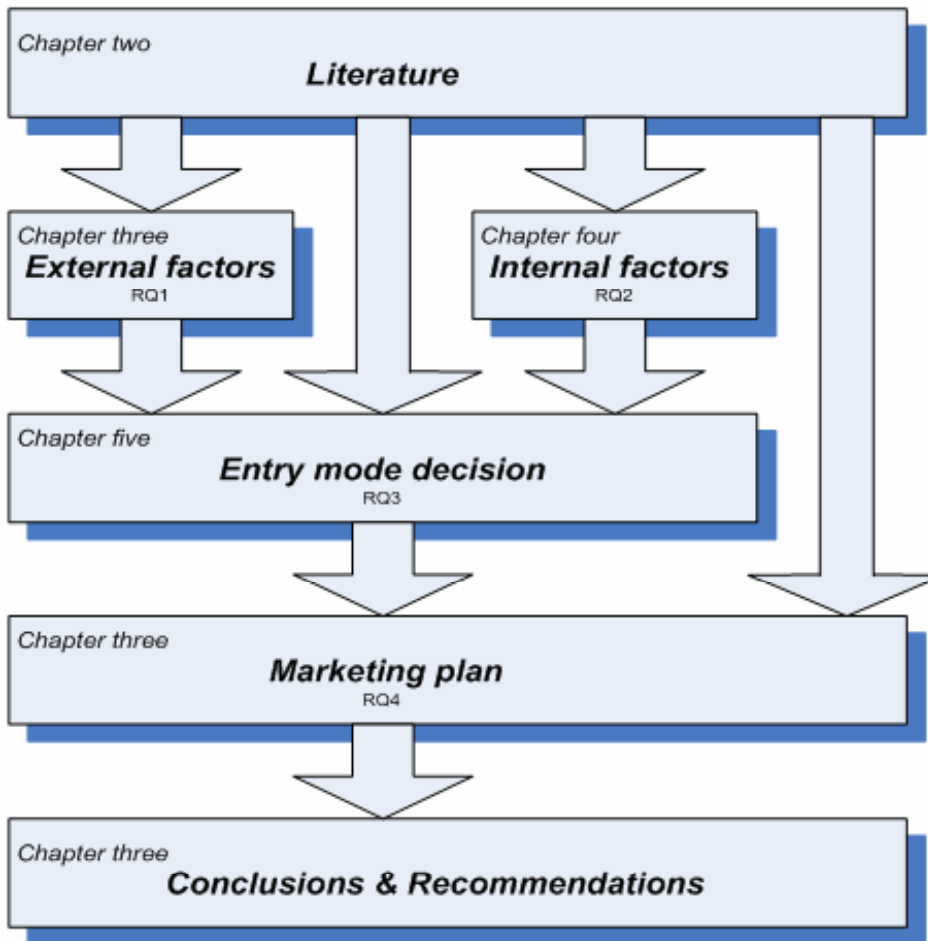


Figure 1.3: Research structure

## H2. Theoretical framework & methodology

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This chapter combines several theories to obtain a useful theoretical framework for the research. The framework shows how to design a market entry strategy for a road transport company like Cargospol. A market entry strategy requires the choice of an entry mode as well as a marketing plan. The market entry mode is intended to penetrate the foreign market *country*, the marketing plan is intended to penetrate the foreign target *market*. The focus of the research will be the choice of entry mode. The book “Entry strategies for international markets” of Root (1994), will serve as a guideline. Other theories will be used to extend Root’s entry strategy decision model.

### 2.1 Entry mode introduction

The impulse behind a company’s initial entry into a foreign market is usually the prospect of profit on immediate sales, for example in response to an accidental order. Only later do most companies start to think about an entry strategy approach; what they need to create positions in foreign markets that can be sustained over the long run. A few mistakes about entry strategies are very common; an entry strategy is needed for *each* product in *each* foreign market. Every situation is different, thus requires a unique approach. Furthermore, entry strategies are not only interesting for large companies. Every company should understand the idea of planning entry strategies (Root, 1994).

The choice of entry mode depends on the risk a company is prepared to take and the desired degree of control (Farhang, 1990). The choice of entry mode normally changes over time, in a rather predictable way; a company becomes more experienced over time, so it is likely to take more risk. The ‘stages approach’, also known as the development approach (Young, Sorensen, Cavusgil, and several others), describes internationalization as a learning and incremental process, in which risk avoiding companies can reach different stages. In the first stage a company has no, or not regular, export. In the next stages the exporting activities increase, until they reaches a maximum in the last stage; a company has become a multinational.

Most companies start their internationalization according to Root’s ‘pragmatic entry selection approach’. This approach focuses at an entry mode that works, but may not be the most suitable entry mode. For that reason other kinds of entry modes are only assessed if the chosen entry is not suitable. It is often a cheap and easy low risk export entry mode.

Root’s ‘strategic entry selection approach’ is likely to find the most suitable entry mode; it demands systematic comparisons of alternative modes. Nevertheless many, often conflicting, external and internal factors influence the choice of the entry mode. Furthermore, a company has often multiple objectives in the target market. Hence, it is often difficult to assess all relevant factors, for example because factors itself can be hard to measure. Different entry mode options, bounded rationality and lack of time and money, make it unlikely for managers to look at all possibilities. Trade-offs have to be made and expected benefits and costs of alternative entry modes should be compared and adjusted for risks.

One of the main problems regarding market entry decisions is the fact that it is ill-defined, complex and dynamic (Young et al., 1989). Scholars often have different opinions about the criteria influencing the choice of entry mode. Different samples, different time period

analyzed, different methodologies or even different skills of the analysts may induce conflicting results (Zhao & Decker, 2004). Furthermore, the same criteria can play a different role in different contexts. Hence, the relative importance of criteria is unique for each situation, therefore difficult to determine.

## 2.2 Classification of market entry modes

Root's entry mode selection model starts with considering all market entry modes. This section will describe the different kinds of entry modes, based on the 'hierarchical model of market entry modes' (Pan, Tse, 2006). According to Root; 'An international market entry mode is an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country.' This research focuses on the entry of a company's services into a foreign country.

According to the hierarchical model of market entry modes, the main criterium for the choice of entry mode is whether the company engages in equity or non-equity entry modes. Non-equity entry modes often require less financial and organizational resources and capabilities of the organization than equity modes. Also, cost, commitment, risk, return, and control involved is often more limited than in case of equity entry modes (Peng, 2006).

Foreign country entry modes are divided in four categories; export, contractual agreements, joint ventures and wholly owned subsidiaries. Each category has several subcategories.

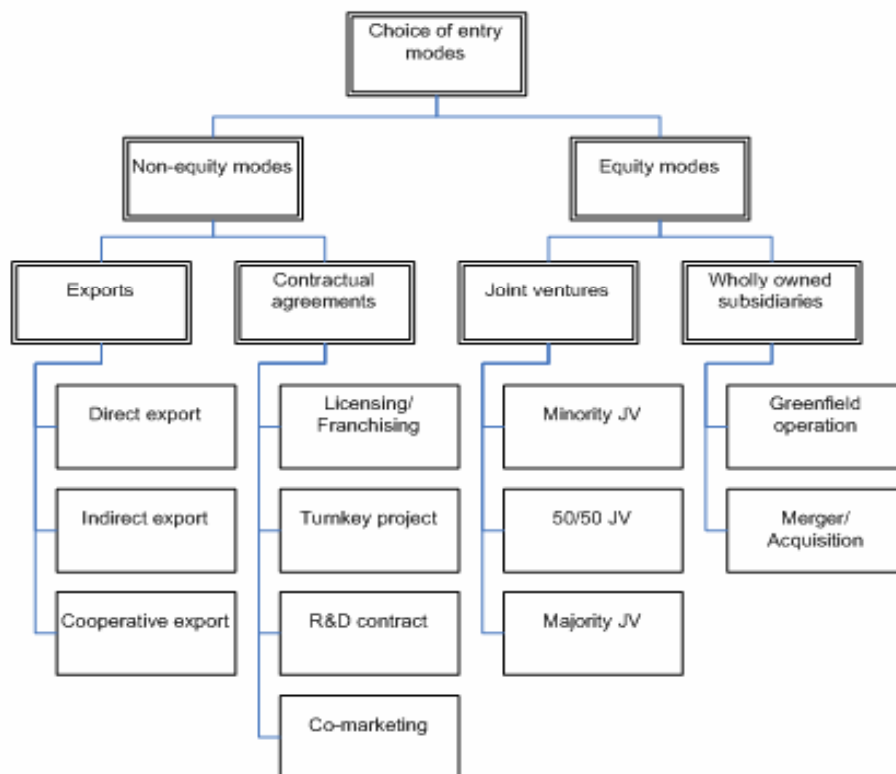


Figure 2.1: Hierarchical model of choice of market entry modes (Pan, Tse, 2006)

### 2.2.1 Export

The key element of export entry modes is that a company's product is manufactured outside the target country and subsequently exported to it. In this case study the core activity of the

company is a service; international transport of cargo by truck. Therefore the export entry modes concern the mode to arrange export agreements with potential customers. Export is divided in two main types; direct export and indirect export.

### **Direct export**

Direct export means that a company sets up its own export organization within the company and has direct contact with parties in the target country, with or without intermediaries. Direct export without an intermediary is conducted by a salesperson of the company. An intermediary is often an agent or distributor in the target country and responsible for selling the product in this target country.

The advantage of direct exporting is that control of the international operation is kept within the company. Hence, direct exporting facilitates a good opportunity for the company to build a business network with potential local partners.

The disadvantage is that the company may not have enough resources to pursue international opportunities which can be turned into sales and profits. Furthermore, one may also be unfamiliar with how to turn opportunities abroad into sales profit. Another disadvantage is large marketing distance from customers.

### **Indirect export**

Indirect exports means that a company uses an intermediary in the home country to arrange the export agreements. This intermediary can be a trading house, a broker or an export management company. So, the company does not manage export contracts by itself, it uses another party in the home country to do it for them.

The major advantage of indirect export is the access to a foreign market, while using a minimum of company resources. Hence, very little risk is involved. Other advantages are the concentration of resources on core competences and the absence of the need to directly handle export processes.

The major disadvantage is having little or no control over the way the products are handled in the foreign country. If the intermediary does not meet the company's requirements, the company can not take control of the process itself. It may be a problem that the intermediary may be the agent of the competitors' products too. Therefore contracts with the intermediary are important. Other disadvantages are less control over distribution in comparison to direct export, and the inability gain international experience.

### **Cooperative export**

In addition, Kotabe and Helsen (2001) mention a third form of exporting; cooperative export. This entry mode is characterized by a company entering by an agreement with another company (local or foreign), in which the partner uses its distribution network to sell the exporter's goods of services. This is an excellent choice for companies that are not willing or able to use their own resources, but take the advantages of cooperation and exploit other's resources.

## **2.2.2 Contractual**

Contractual entry modes are long term non equity agreements between an international company and an entity in a foreign target country that involve the transfer of technology or human skills (Root, 1994). Contractual entry modes differ from export modes because they mainly transfer knowledge and skills, although they may also create export opportunities. Contractual entry modes include licensing/franchising, turnkey projects, R&D contracts and co-marketing.

### **Licensing/Franchising**

Licensing refers to a business arrangement in which the manufacturer (the licensor) of a product or a firm with proprietary rights over certain technology, trademarks, etcetera, grants permission to another group or individual to manufacture the product (or make use of the proprietary material) in return for specified royalties or other payment.

Franchising is a specialized form of licensing in which the franchiser sells intangible property to the franchisee and insists on rules to conduct the business. It represents the same idea as licensing, but it is typically used in service industries (Hill, 2005).

Hill (2005) argues that the advantage for licensors and franchisors is that they can expand abroad with relatively little capital of their own. Other advantages are low development costs and low risk.

A disadvantage with these forms of entry modes is that the licensors/franchisors can lose control over the use of their technology and brand.

### **Turnkey project**

A turnkey project is when a separate entity is responsible for setting up a plant or equipment and putting it into operations before handing the project back to the employer. It may include follow-on contractual actions like testing, training, and logistical and operational support. It is often given to the best bidder in a procurement process.

A disadvantage is the risk of losing unique technology and to create competitors out of turnkey clients (Peng, 2006).

### **R&D Contract**

According to Peng (2006), research and development contracts refer to outsourcing agreements in R&D between companies. An advantage is that these contracts give firms the ability to tap into the best locations for certain innovations at low costs. However, disadvantages are the difficulties to negotiate and enforce contracts given the R&D's uncertain and multidimensional nature.

### **Co-marketing**

Co-marketing refers to agreements among a number of companies to jointly market their products and services. The advantage is the capability to reach more customers, while the disadvantages are limited control and coordination because every issue has to be negotiated between all players (Peng, 2006).

## **2.2.3 Joint Ventures**

Joint ventures occur when parties agree to create a new company together by contributing equity, so they share in profits, losses, and control of the enterprise. The venture can be used for just one specific project only, or for a continuing business relationship. A joint venture can be divided in three principal forms; minority JVs, 50/50 JVs, and majority JVs.

Joint ventures have many advantages. The parties share costs and risks and gain access to the partner's knowledge about the host country. In return, the local firm benefits from the expertise in technology, capital and management.

Disadvantages can be difficult cooperation between partners, especially when backgrounds, goals and capabilities differ. It can also be difficult to achieve effective equity and operational control, because everything must be shared and negotiated (Peng, 2006).

## **2.2.4 Wholly owned subsidiaries**

A wholly owned subsidiary is the entering of a foreign target market with 100 percent ownership. There are two primary ways to set up a WOS; green-field operations, and mergers and acquisitions.

**Green-field Operation**

Green-field operations refer to building factories and offices from scratch. A green-field WOS gives a multinational complete equity and management control. This control leads to a better protection of proprietary technology and know-how. In addition, a WOS allows for centrally coordinated global actions. Further, green-fields do not have problems with integrating different corporate cultures of parent companies, as is the case partially with JVs and particularly with acquisitions. Hence, green-fields give the company more freedom and flexibility. Drawbacks with a green-field WOS are the costs and risks involved and the slow entry speed (Peng, 2006).

**Merger/Acquisition**

Mergers are usually the result of a friendly arrangement between companies of roughly equal size, whereas acquisitions are unequal partnerships, often the product of a battle. Advantages with acquisitions are fast entry speed and the same benefits that green-field WOS have. Acquisitions share all the disadvantages of green-fields except slow entry speed (Peng, 2006). Other disadvantages are the differences in the corporate culture of the merging/acquiring companies and the result of the acquisition does not always achieve the expectations. Furthermore, acquisitions can turn out to be very expensive, because attractive partners are scarce and usually not willing to be acquired.

**2.3 Root’s entry mode selection model**

Scholars have designed several entry selection models, often with quite similar basic assumptions like Young’s ‘business strategy approach’ and Sorensen’s ‘contingency approach’. Both scholars hold internal and external factors responsible for the entry mode selection. After the entry mode selection follows the implementation of the chosen entry mode.

Root also has designed an entry mode selection model to decide on the suitable entry mode for a company. The model is divided in two parts; the first part is an analysis of the internal and external factors of the company that influence the choice of entry mode. The second part is deciding on the suitable entry mode by comparative analyses. The steps of the entry mode selection model are shown below.

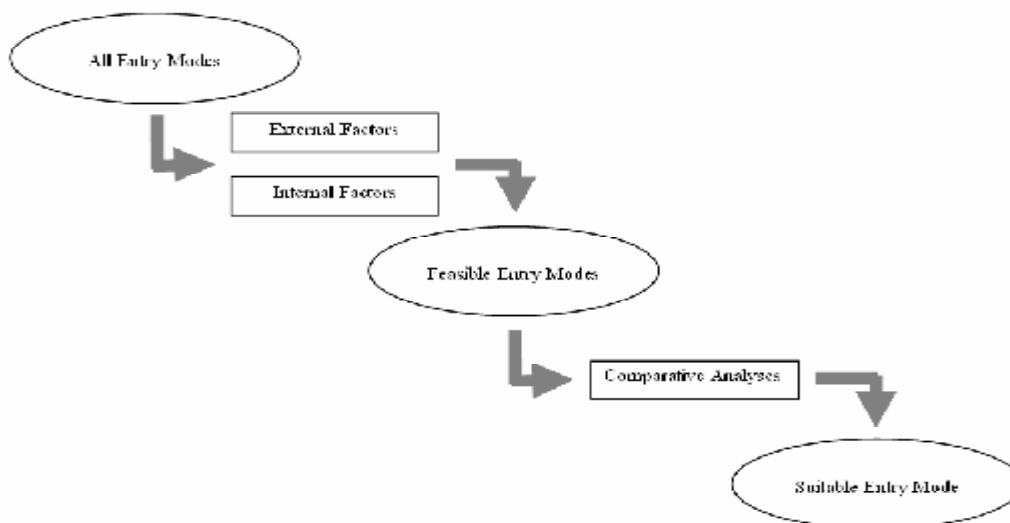


Figure 2.2: Entry mode selection model (Root, 1994)

## 2.4 Influencing factors

The first part of Root’s entry mode selection model assesses the factors influencing the choice of the entry mode. The factors are divided into external and internal factors. Each of these factors will be analyzed by several criteria.

The internal factors are part of the internal environment, which are controllable forces, variables, within the company. The external factors are part of the external environment, which are uncontrollable forces outside the company. International operating companies have to deal with uncontrollable domestic forces, as with uncontrollable foreign forces which differ per country, as with international forces that interact between the different countries (Ball et al., 2004, Cateora & Ghauri, 2000, and others). The internal and external factors will be detailed and explored in chapters three and four.

Root has described a number of criteria to analyze this external and internal environment of a company. Many criteria about influencing factors in a company’s environment can be found in marketing literature and international business theories. Unfortunately there is little consensus on what criteria to use, the relative importance of each, or how to apply the criteria (Russow & Okoroafo, 1996). Russow & Okoroafo (1996) found three screening criteria that are used by many other researchers; ‘market size and growth’, ‘factors of production’, and ‘economic development’. An overview of their findings is presented in appendix B. Root uses similar criteria; the mentioned screening criteria are extended and combined with the different environments of an organization. Furthermore, environmental factors that influence Russow & Okoroafo’s ‘market size and growth’ and part of the ‘factors of production’ were added. Root’s entry mode selection model is shown below:

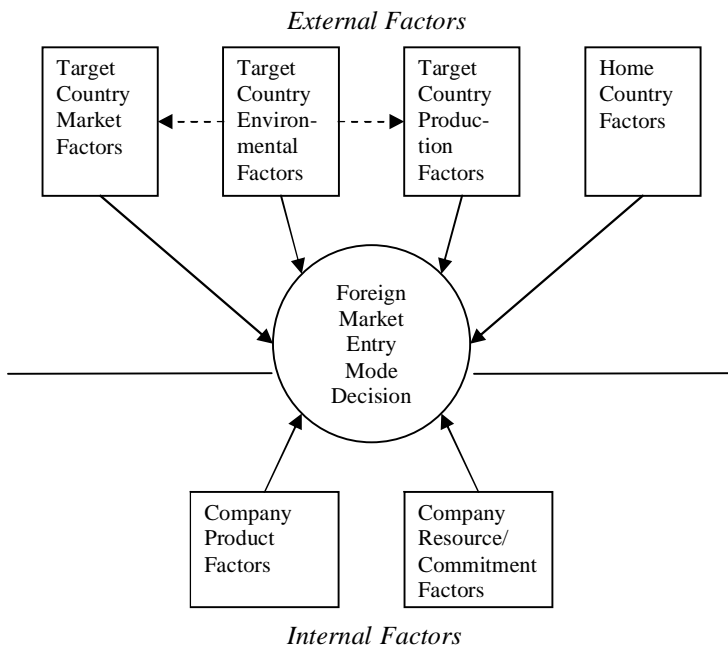


Figure 2.3: Factors influencing the foreign market entry mode decision (Root, 1994)

### 2.4.1 Influencing external factors

The external factors that influence the choice of entry mode are part of the external environment of a company, including uncontrollable domestic, foreign and international

forces. The external factors consist of target country market factors, target country environmental factors, target country production factors and home country factors. Environmental factors also influence the country and production factors of the target country. The influencing external factors can be analyzed by the criteria mentioned below. As mentioned before, the influencing external factors will be detailed in the next chapter.

The target country market factors will be analyzed by the present and projected market size, by competitive structure and by the marketing infrastructure of the target market. The target country market in this thesis is the road transport sector in the Netherlands.

The present and the projected size of the foreign target market can influence the entry mode choice significantly. A large target market can justify entry modes with high break even sales volumes, like branch/subsidiary exporting and equity investment in local production. The competitive structure of the target market can range from atomistic, many non dominant competitors, oligopolistic, to a monopolistic structure. An atomistic market is normally favorable for export. High competition may favor licensing or other contractual modes. The marketing infrastructure is the level of local agents or distributors cooperation possibilities.

Target country production factors will be analyzed by the factors materials, labor, energy and economic infrastructure. Their quality, quantity and cost of the target country production factors obviously influence the choice of entry mode. The economic infrastructure exists of transportation, communication, port facilities, etcetera.

Target country environmental factors are the most influential external factor for an entry mode decision. Changes in external factors often cause a change in entry mode. Changes in target country environmental factors can also influence target country market factors and target country production factors. The target country environmental factors exist of three main areas; political, economic and socio cultural. The political factors will be analyzed by government policies and regulations, and by political risk. The economical factors will be measured by the assessment of the economic structure, economy's size, performance and target market's importance, economic sector importance, economy's dynamics, and external economic relations. The socio cultural factor will be analyzed by cultural distance. The last influencing target country factor is geographical distance. The economic structure is probably the most important target country environmental factor. The extremes of economic structures are the market economy and the centrally planned economy. In a market economy, the government regulates the market as little as possible. In contrast, in a centrally planned economy, the government strongly influences the market.

Home country factors will be measured by market, production, environmental and government factors in the home country, by the home country's competitive structure and by the home country's production cost in comparison to the target country.

### **Methodology**

The influence of the external factors on the choice of entry mode was described by analyzing relevant Dutch and Czech environmental factors concerning the road transport market. Most information was obtained by using secondary information; internet, articles, books, brochures, and interviews with employees of Cargospol. Part of the information about the external factors was obtained by phone and e-mail with all embracing organizations.



## 2.4.2 Influencing internal factors

The internal factors influencing the choice of entry mode are part of the internal environment of a company. They consist of a company's product factors and resource & commitment factors.

The product factors will be analyzed by the differentiation of services, the required pre and post action, the need for a service strategy plan, the availability of technology intensive products, and the need for adaptation of services. The required pre and post action, need for service strategy plan and need for adaptation are discussed further in chapter six; the marketing plan.

The resource and commitment factors will be analyzed by the level of company resources and commitment by the senior management.

An extended figure of the first step in Root's entry mode selection model can be found in appendix C.

### Methodology

The influence of the internal factors on the choice of entry mode was described by an analysis of the company Cargospol. First general information about Cargospol was gathered, to increase understanding of the company. Most information was provided by interviews, observing, and by Czech road transport sector information from internet. Both the transport as the forwarding centre were observed. Furthermore, several interviews were taken from the director, Mr. Brozik, from my supervisor Mr. Karpisek, and from a member of the expedition department, Mrs. Turnikova. Poor linguistic skills of the director resulted in general information about opinions, objectives and strategy.

## 2.5 Identification of suitable entry mode

The second part of the decision model concludes the suitable entry mode(s) based on the outcome of the first part of the decision model; the confrontation of the influences of the external and internal factors. In the second part of the model, entry modes are compared with each other in detail by using several comparative analyses.

### 2.5.1 Comparative analyses

Root has created an approach to obtain the suitable entry mode(s). The feasible entry modes are compared to each other, based upon his *strategic* entry selection approach: "Choose that entry mode that maximizes the profit contribution over the strategic planning period within the constraints" imposed by comparative profit contribution analysis, comparative risk analysis, and comparative analysis for nonprofit objectives. The result of each of these analyses is a ranking of the feasible entry modes. The last step of the comparative analyses is the combining of the results from the analyses in an overall comparative assessment.

#### Comparative profit contribution analysis

Root states that the profit prospect of the new entry should be set out for the next years, for all feasible entry modes. The required rate of return, the hurdle rate, must be included to see whether the project meets the prospects.

#### Comparative risk analysis

Two different approaches of comparative risk analysis are possible. The first approach is to add a multiplier to the investor's domestic hurdle rate for all the project's political risks together. Drawbacks are the risk of manipulating by managers for their own interest, the unrealistic

capturing of the different political risks in a single discount rate, and the fixed rate over the years. The second approach is more sophisticated and without the drawbacks of the first approach. It adjusts the project's estimated cash flow period by period for specific political risks.

### **Comparative analysis for nonprofit objectives**

Nonprofit objectives vary per company. Examples of these objectives are targets for sales volume, growth and market share, but also control, reversibility, and the establishment of a reputation.

### **Overall comparative assessment**

This assessment combines the rankings of the comparative analyses about profit contribution, political and market risk, and nonprofit objectives to make an overall comparative assessment of the feasible entry modes and obtain one or more suitable entry modes. Nevertheless, there is no objective procedure to capture the three analyses in a single digit. Therefore, managers must use their intuition in making the overall assessment.

### **Methodology**

The entry mode that was concluded is found by applying four comparative analyses. These analyses compared feasible entry modes in detail by comparing profit contribution of the different entry modes. The used analyses were; general comparative profit contribution analysis, comparative risk analysis, comparative analysis for nonprofit objectives, and overall comparative assessment. The used analyses are part of Root's entry strategy theory. The assumptions were based on analyses of the external and internal factors, and the observation period at Cargospol.

## **2.6 Marketing plan**

A market entry strategy requires the choice of an entry mode as well as a marketing plan. The marketing plan is the last stage of the market entry strategy. As mentioned before, the market entry mode is intended to penetrate the foreign market *country*, the marketing plan is intended to penetrate the foreign target *market*. The marketing mix model combined with an applied theory for marketing industrial services will be used to generate the best response in the target market to the chosen entry mode.

An entry mode determines the degree of a company's control over the marketing plan in the target country. Some entry modes allow a company little or no control about the marketing plan, an example is indirect export. Other modes allow more, or full control. Full control of the marketing plan is obtained by wholly owned subsidiaries. Regardless of the chosen entry mode, a marketing plan is always of great importance. This stands even with marketing plans over which a company has no control. In such cases its product is marketed by an independent outside company. Hence, their profit still depends on a marketing plan; the marketing plan of the outside company.

Many scholars have written about marketing plans. One of the best known theories is the marketing mix model, also known as the 4 P's (Borden, 1964). The marketing mix is useful for a short-term planning period and focuses on consumer goods. The company Cargospol needs a long-term planning, with a focus on industrial partners; Cargospol delivers a service, the transport of industrial goods to other companies. Therefore the marketing mix needs to be extended in order to create a relationship based marketing plan: 'the company must

continuously demonstrate its capability of handling the interactions throughout the whole process' in order to keep its clients (Gronroos, 1997). First the marketing mix will be detailed, then a marketing theory about industrial services is explained.

### **2.6.1 Marketing mix**

The four elements of the marketing mix; place, product, price, and promotion, are the controllable variables of the internal environment. The variable 'place' is also called channels of distribution (i.e. Cateora & Ghauri, 2000). The four variables should be mixed in an optimal way to generate the best response in the target market. Managers should determine the marketing plan for a target country over a period of three to five years. The marketing plan should be adjusted on a frequent basis to meet the changes in the target market and other dynamics in the external environment. The function of the model is to develop a plan that satisfies the needs of the customers within the target markets through adaptation, but also maximizes the performance of the organization by minimizing the costs of adaptation. The instruments of action of the marketing plan will be shortly mentioned below.

#### **Product**

The element product refers to a mix of several tangible and intangible attributes, which create benefits on users. These attributes consist of physical, package and service.

#### **Price**

The element price refers to the amount of money that potential customers are willing to pay. The pricing strategy depends on the degree of product differentiation in the market. Together with sales volume, price determines sales revenue. The instrument price includes discounts, financing, leasing options, and allowances.

#### **Channels of distribution**

The element channels of distribution is the chain of marketing agencies that transfer ownership from the producer to the final buyers. The producer may own one or more of the marketing agencies.

#### **Promotion**

Promotions are the communications of a company addressed to final buyers, channel members, or mass audience. Promotion includes advertising, personal selling, sales promotions, and publicity.

### **2.6.2 Marketing industrial services**

Gronroos (1989) distinguishes producer services and customer services. Producer services are part of the industrial marketing area. Gronroos created a three stages marketing plan that enclose the different stages of the client's needs. The marketing objective should be to manage all sources that have an impact on the changing customer's preferences. Consequently, the marketing function has to be spread throughout the whole company. The nature of marketing is quite different at the three stages.

#### **Marketing during the initial stage**

The first stage of the industrial services marketing is the initial stage. The client starts to look for transport operators in a rather vague and unspecific form, thus becomes a potential customer. It develops a general interest in a service company and its services. The marketing objective in the first stage is to develop interest in the company and its services.

#### **Marketing during the purchasing process**

The second stage of the industrial services marketing is the purchasing stage. The client makes the purchasing decision and commits itself to one company which produces the

service, as a mean of satisfying specific needs. The marketing objective in the second stage is to turn general interest into sales.

### **Marketing during the consumption process**

The third stage of the industrial services marketing is the consumption stage. The service offering company can prove its need-satisfying capabilities and thus lead to an enduring client contact. The marketing objective of the last stage is to secure resales and thus develop enduring client contacts.

### **Methodology**

The last part of the entry strategy, the marketing plan, was described by combining the outcome of the third research question with theory about the marketing plan, together with collected data. The marketing plan in this thesis showed guidelines how to use the internal environment factors, to maximize the performance of the entry mode decision.

### **H3. External factors that influence the choice of entry mode**

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This chapter answers the first research question, by analyzing the external factors influencing the choice of entry mode. The influencing external factors consist of target country market factors, target country environmental factors, target country production factors and home country factors. All the figures are from 2005 unless mentioned otherwise.

#### **3.1 Target country market factors**

The target country market has been divided in three factors that influence the choice of entry mode. The factors are market size, competitive structure and marketing infrastructure.

##### **3.1.1 Market size**

###### **Present market size**

At January 1 2006, the road transport sector in the Netherlands existed of approximately 6000 companies, with 107.000 years of employment, and sales of 19 billion euro. These figures are respectively 25, 34 and 35 percent of the entire transport sector in the Netherlands (Ondernemen in de sectoren: feiten en ontwikkelingen 2005-2007). The Dutch road transport sector transported 453 million tons in 2004. In 2003, the number of Dutch road transport companies, 5.062, was larger than any other country in Europe. Germany had the second largest number of road transport companies; 3.116, which is only 62 percent of Dutch number of companies. The Czech Republic had only 157 road transport companies (Transport in cijfers, 2005). Dutch national transport existed of 453 million ton and 24.2 billion ton kilometer in 2004. The Dutch international road transport existed of 51.2 billion ton kilometer, which is 68 percent of the total transported ton kilometers by Dutch road transport companies. One truck transports 14.8 tons of goods per trip average, 17.6 ton international and 13.9 ton national ([www.niwo.nl](http://www.niwo.nl)).

###### **Projected market size**

The economic growth of 1.5 percent in 2005 increased the demand for domestic and international transport ([www.cbs.nl](http://www.cbs.nl)). Therefore, the growth figure of the entire road transport sector increased too. The amount of goods passing through the Netherlands increases, mainly through the harbor of Rotterdam. Main reason is the increasing export from China. Most of these goods need to be transported through Europe. Trucks do not have a large share in these transports though.

The sales in 2004 were positive for the first time in several years, it increased by 2 percent in 2005 and 3.5 percent in 2006. The total amount of ton kilometers increased by 11.6 percent in 2004; international transport increased by 14 percent and national transport by 6 percent. The total transported number of tons increased by 5.6 percent; international transport increased by 11 percent and national by 3.5 percent. The number of unloaded trips lowered by 2.2 percent. International unloaded trips increased with 10.7 percent to 7.4 million ([www.niwo.nl](http://www.niwo.nl)).

Nevertheless, the sales of the international road transport sector only increased by 0.1 percent and the result was still negative, at minus 2.4 percent. These sales have been almost constant at minus 2 to 2.5 percent for the last 5 years and negative since 1999. Almost 70 percent of the international road transport companies have a negative result. The current increase of sales

is mainly achieved by road transport companies larger than 50 trucks, their profit increased from 1.5 percent to 2.1 percent and was 2.3 percent in 2006. These profits are mainly achieved by other logistic activities. Companies with less than ten trucks had a negative sales result of 8.3 percent. TLN, a large Dutch transport organization states that international road transport of Dutch companies will not revive. The failure rate increases, especially among young, small companies ([www.nieuwsbladtransport.nl](http://www.nieuwsbladtransport.nl)).

### **3.1.2 Competitive structure**

#### **Competitive structure in the Netherlands**

The competition in the road transport sector is the highest of all Dutch sectors. The road transport sector exists mainly of SME's which are responsible for about 75 percent of the sales, including many privateers. Only 17 percent of the companies in the entire transport sector has over ten employees. Large companies are responsible for 55 percent of the total sales. About 22 percent of the Dutch transport companies work together. This percentage will not increase significantly over the next two years. The percentage of road transport companies that count for half of the transported tons was 5.3 percent in the Netherlands and 3.2 percent in the Czech Republic (Ondernemen in de sectoren: feiten en ontwikkelingen 2005-2007).

#### **Competitive structure in Europe**

Germany is by far the largest player in international transport with 22 percent of the total transport in 2004. France has a 13 percent share, the Netherlands en Belgium both 11 percent. New EU-member states in Eastern Europe are on the rise. Poland and the Czech Republic had the largest growth with around 10 percent. International transport between Germany and the Netherlands is the largest in Europe; over 10 percent of the entire international transport in Europe in 2004. Transport between Belgium and France is second, between Germany and France third. Sweden and Italy are the largest transporters with countries outside the EU in 2004.

### **3.1.3 Profit margin**

The profit margins are very low and still decreasing, mainly because of extra costs by the German 'Maut' tollage and lower demand because of increasing competition from Eastern European. The German 'Maut' tollage at highways, 12.4 eurocent per kilometer, introduced in 2005, has significantly increased the cost of heavy transport (over 12 ton) in Germany by 6 percent. Overall international transport became 3 percent higher in the first months after the Maut introduction. More detail about the costs is presented at the 'target country production factors' part below (Ondernemen in de sectoren: feiten en ontwikkelingen 2005-2007).

### **3.1.4 Marketing infrastructure**

Local agents and distributors are widely operating in the Netherlands. Most Dutch transport companies are member of coordinating organizations like TLN, Transport and Logistics Netherlands. Internet is an important part of today's marketing infrastructure. Many non-structural goods transports are arranged at trading sites like TimoCom.nl, TransportIndex.com, [www.24ward.com](http://www.24ward.com) and HollandTransport.com. The use of internet in the Dutch transport sector is high in comparison to the Czech transport sector.

### **3.1.5 Conclusion**

The conclusion of target country market factors that influence the choice of entry mode is described in this section. The present market size of the Dutch road transport sector is relatively small compared to the entire transport sector in the Netherlands. However, this sector is important and consists of a huge amount of companies. The projected market size is

unfavorable for Dutch companies. Almost 70 percent of the Dutch international road transport companies have a negative result. Only large companies make profit, mainly by extra logistic activities. Most small companies suffer high losses.

The competitive structure of the Dutch road transport sector has most similarities with an oligopolistic competitive structure. A relatively small number of companies is large and over 80 percent of the companies is small, with under ten employees. The competitive structure of international trade per country in Europe is really oligopolistic; a few countries dominate the market. Germany is significantly the largest player in Europe. New EU-member states in Eastern Europe, including the Czech Republic, are on the rise.

The profit margins of the Dutch road transport sector are very low because of increasing competition from Eastern Europe, increasing fuel price, and the 'Maut' tollage in Germany. The marketing infrastructure is extended and modern.

### **3.2 Target country production factors**

The target country production factors can have a major influence in the choice of entry mode. The factors are divided in materials, labor, energy, and economic infrastructure. Each factor will be analyzed by their quality, quantity and cost.

#### **3.2.1 Materials**

The materials in this thesis are trucks, spare parts and storage. Quality, quantity and costs of materials are high in the Netherlands. Dutch quality demands of materials are high, especially compared to the demands in the Czech Republic. The quality level of trucks is checked by the government.

#### **3.2.2 Labor**

The relevant labor consists mainly of the truck drivers. It can also consist of management personnel in case of 'local production' entry modes. All kinds of labor are much more expensive in the Netherlands compared to the Czech Republic. The minimum, adult, wage in the Netherlands is about 1280 euros per month, compared to about 300 euros in the Czech Republic. The average wage of the Czech transport sector is 592 euro per month. Collective labor agreements set the labor costs of Dutch road transport drivers to 19.51 euro/hour in the D5 scale, and 21.05 euro/hour in the E6 scale (1-10-2006). These wages are one of the highest in Europe, only Belgium and Sweden are more expensive. The cost of Czech labor is about 45 percent of the cost of Dutch labor. The wage of labor for international road transport is the highest cost pool of the cost price with 46.7 percent. Dutch road transport companies foresee problems with finding personnel in a few years (Transport in cijfers, 2006).

#### **3.2.3 Energy**

The energy used by road transport companies is fuel, the diesel of the trucks. The price, VAT excluded, is almost the same as in the Czech Republic and about average in Europe, at approximately 0.98 euro/liter (2006). The Dutch VAT on fuel is higher than in the Czech Republic; 36.49 euro/liter (1-1-2006) versus 33.62 euro/liter (1-7-2006). The cost of fuel is the second highest cost pool of the Dutch cost price with 21.9 percent (Transport in cijfers, 2006).

#### **3.2.4 Economic infrastructure**

Quality and cost of economic infrastructure are both high in the Netherlands. Road transport is part of the economic infrastructure. The Netherlands is known for passing through goods to

Europe. Goods arrive mainly in the sea harbor of Rotterdam, which is by far the largest harbor in Europe and one of the largest in the world. Other big ports are Schiphol airport and Amsterdam seaport. Transporting occurs by boat at several major European rivers, by train, plane, truck, and car. All these transport methods are highly developed. The density of the road infrastructure in the Netherlands is the second highest of Europe with 4 km/km<sup>2</sup>. Belgium has the highest density with 4.86 km/km<sup>2</sup>. The Czech Republic is below average with 0.70 km/km<sup>2</sup>. All the density figures are from 2000. The cost of transporting is above European average and significant higher than the Czech level (Transport in cijfers, 2006).

### **3.2.5 Conclusion**

The conclusion of target country production factors that influence the choice of entry mode is described in this section. The material quality, quantity and costs are high in the Netherlands. The materials of road transport companies are trucks, spare parts and storage. Dutch quality demands exceed the level of Czech quality demands. The quality level of trucks is strictly checked by the government.

The cost of Dutch labor is very high compared to the Czech Republic. It is the highest cost pool with about 42.6 percent of the total production costs. The cost of Czech driver is approximately 45 percent of the Dutch level. Dutch employees are skilled. The supply of truckers may become problematic in the future.

Energy costs are high in the Netherlands. The used energy is fuel. The price of fuel is comparable to the Czech price. The economic infrastructure has a high level of quality. Elements are the road infrastructure, and air ports and sea ports.

## **3.3 Target country environmental factors**

The political, economic, socio cultural and geographical distance forces are of great importance for the choice of entry mode. The most important factors of these forces are mentioned below.

### **3.3.1 Political**

The political target country environmental factors are measured by government policies and regulations, and political risk.

#### **Government policies and regulations**

Government policies and regulations about international business can be the most important influencing target country environmental factor regarding the choice of entry mode.

Both the Netherlands as the Czech Republic are members of the European Union, so the EU international trade legislation applies to them. Therefore, trading between both countries has little restrictive policies and regulations. For example, import and export tariffs are very common, but do not apply to countries within the EU. Foreign road transport companies are not allowed to transport within the Netherlands; that is both departure and arrival within the Netherlands.

#### **Political risk**

Political risk creates uncertainty and favors entry modes that limit investment in the foreign company. The political risks in the Netherlands are very low. The Dutch government is very stable and pro international trade. As mentioned above, the government is bounded to the EU international trade legislation, which also lowers political risk.



### 3.3.2 Economic

The economical target country environmental factors can be measured by economic structure, by economy's size, performance and sector importance, by economy's dynamics, and by external economic relations. The used numbers are mainly from the CBS ([www.cbs.nl](http://www.cbs.nl)), the EVD ([www.evd.nl](http://www.evd.nl)) and the CIA world fact books of 2005 and 2006.

#### **Economic structure**

Several economical factors can influence the choice of entry mode. The economic structure is probably the most important economical factor. The extremes of economic structures are the market economy and the centrally planned economy. In a market economy, the government regulates as little as possible about the market. Examples are the United States and England. In contrast, in a centrally planned economy, the government is strongly influencing the market. Centrally planned economies often have a communistic regime. Examples are the former USSR and China.

The Dutch economic structure is market based and depends heavily on foreign trade. Supply and demand are the most important dominators of the economy. The government regulates relatively little; mostly environmental and health issues. Companies with a competitive advantage can easily enter markets like the road transport market.

#### **Economy's size, performance and target market's importance**

The foreign country economy's size, the economy's absolute level of performance, and the target market relative economic importance, are also influencing target country environmental factors. These factors can be measured by respectively the gross domestic product, the gross domestic product per capita, and as the sector's percentage of the gross national product. Normally, these factors are closely related to the target market size.

The economy's size of the Netherlands, expressed by the gross domestic product (GDP), was 400.4 billion euro in 2005. The Czech GDP was 124.3 billion euro. The Dutch absolute level of economic performance, expressed by the gross domestic product per capita, was 24.364 euro in 2005, a decrease of 1.2 percent in comparison to 2004. Capita has been relatively constant over the last years. The GDP per capita was about constant in 2002 and 2003, and grew with 3.3 percent in 2004. The Czech GDP per capita was 12.150 euro in 2005. The total population is currently 16.32 million and increases by about 0.4 percent per year (CIA worldfactbook).

The target market consists of the road transport sector in the Netherlands. The road transport sector's sales were 19 billion, at 1 January 2006. Therefore, the target market's relative importance is  $19/400.4 = 4.75$  percent. Both the road transport sector as the Dutch economy grew, respectively by 2 and 1.5 percent. Hence, the target market's relative importance grew slightly. The transport sector is one of the smaller sectors in the Netherlands, but also an import one.

#### **Economy's dynamics**

The economy's dynamics are described by factors like rate of investment and growth rate of the gross domestic product. The rate of investment is a percentage of the gross domestic product. It was 19.3 percent in 2006. This rate is a little below the European Union rate of 20.4 percent. The rate of investment in the Czech Republic in 2006 was well above the EU rate with 26.2 percent.

The growth rate of the gross domestic product was 2.0 percent in 2004 and 1.5 percent in 2005. The European economic growth is a little higher, with 2.4 percent in 2004 and 1.6 percent in 2005. The 10 new EU-members are growing faster than the 'old' EU-15. Their grow rates were 5 percent average in 2004 and 4.4 percent in 2005. The Czech GDP is expected to grow with 5.6 percent in 2006, and will probably keep a high economy growth for the next years. Their GDP is expected to exceed 200 billion euro in 2009. The EU average GDP growth rate in 2006 is estimated to be 2 percent.

### **External economic relations**

The external economic relations will be measured by direction, value of exports and imports, balance of payments, debt service burden, and exchange rate behavior. Substantial changes of the external economic relations in a one way direction indicate future changes in government policies on trade and international payments (Root, 1994).

The external economic direction is very international orientated. Trade is a very important economic dimension in the Netherlands; it is embedded in the Dutch culture. Import by sea will increase, mainly because of China, but trucks have only a little part in distributing those goods. The Dutch external economic direction will stay international orientated in the future. Germany is the main target market of the international road transporters, the sales percentage slightly decreased to 37.3 percent. France's sales percentage is 12.5 percent, the Benelux's 7.3 percent, and domestic 12.9 percent.

The Dutch export was 293.6 billion euro in 2005, which is 5.5 percent higher than in 2004, and almost the same as the relevant world trade growth of 5.4 percent. The Dutch export is very high; it is the eighth largest in the world. Italy and the UK are exporting about the same, France and Germany more; respectively 356 and 816 billion. Czech's export was 60.6 billion euro in 2005, which is about a fifth of the Dutch export. Dutch export to the Czech Republic was 3.4 billion euro in 2005, which is 1.16 percent of the total Dutch export. This export increased enormously since the Czech EU membership, by 48 percent in 2004 and 42 percent in 2005. Main part of Dutch export to the Czech Republic are machines and chemical products, nevertheless the export is quite divers (Transport in cijfers, 2005).

The Dutch import was 262.6 billion euros in 2005, which is 5.1 percent higher than in 2004. The Netherlands is the fourth highest importer in the EU. Italy's export is about the same, France and the UK export about 386 billion and the Germany 644 billion. The Czech import in 2005 was 61.6 billion euro. Dutch import from the Czech Republic was 1.7 billion euro in 2005, which is 0.65 percent of the total Dutch import. This import increased heavily since the Czech Republic joined the EU in 2004. Main part of Dutch import from the Czech Republic are machines and transport material. The share of these sales increased from 37 percent in 2000 to 72 percent in 2005. The relatively small import growth occurred because of decreasing import of communication and audio equipment. Import of those goods from Asia increased by 28 percent.

The account balance is the difference between export and import. It was 31 billion euro in 2005. The higher percentual growth of the export, in comparison to import, increased the account balance with 10.8 percent which equals to 3.8 billion euro. The external debt was 1323 trillion euro in 2005.

The exchange rate behavior is quite constant. The Dutch currency is the euro, the same currency as most other European Union members in West Europe, except for the United

Kingdom. The euro gained strength in comparison to the US dollar over the last few years. New EU-members will introduce the euro in a few years, the Czech Republic probably in 2009. At the moment, the Czech crowns (Kc) value increases in comparison to the euro. The current exchange rate of euro to Kc was 27.67 in January 2007 ([www.xe.com](http://www.xe.com)). The Dutch inflation rate in 2005 was 1.7 percent; together with the rate in 2004, 1.2 percent was the lowest rate of the last sixteen years.

### **3.3.3 Cultural**

#### **Cultural distance**

Cultural distance is the difference in culture in the home country and the target country. Examples are values, social structure and language. A large cultural distance decreases the number of entry modes. Managers may feel ignorant about the country and become fearful about their capacity to manage activities in the foreign country. A large distance also increases the cost of information acquisition. So, a large cultural distance favors an entry mode that limits the company's commitment in the foreign target market. The Czech Republic and the Netherlands are both EU-members which decreases all kinds of cultural differences. Nevertheless, the countries differ a lot and cultures change very slowly.

The Netherlands is a well developed first world country, with a trading mentality embedded in its culture. The Czech ways of thinking and acting are still influenced by their communistic past. Examples are bureaucracy and corruption. The country's economy is growing fast, but the Czech Republic is still a second world country. Prague is the capital of the nation and the centre of the Czech economy and wealth. Prague has obviously a smaller cultural distance with the Netherlands than the rest of the country. As mentioned before, the Czech government used to influence the domestic economy, whereas the Netherlands has an open economy in which the main forces are demand and supply.

The language difference is a problem. Most Dutch road transport companies can communicate in several languages, at least in Dutch and English, and often in German and French too. Cargospol has no Dutch speaking employees and English is still a problem, although all employees are currently having English courses. In time payment is another cultural difference. Companies in the Netherlands are used to in time payment, whereas Czech companies are not. Last is the Dutch prejudice against East European countries. A lot of things are changing in the Czech Republic, but outsiders still remember the country in the way it used to be.

### **3.3.3 Geographical distance**

A geographical distance can cause extreme transportation costs that make it impossible to export successfully. The cost of transport can be so high that the products can not compete with the goods in the target market. Cargospol's main activity is international transport. The distance between the capitals of the Netherlands, Amsterdam, and the Czech Republic, Prague is about 900 kilometers. Long distance transport is normally conducted by train, boat and airplane, depending on issues like infrastructure, and price and weight of goods. Transport of goods by train in the European Union over a distance of over 500 kilometer has a share of 62 percent. Transport by truck is 14 percent, which seems to be little, but it is still an enormous amount of transported goods (Transport in cijfers, 2005).

### **3.3.4 Conclusion**

The conclusion of target country environmental factors that influence the choice of entry mode is described in this section. The political forces in the Netherlands are favorable. Dutch

government policies and regulations are pro trading and pro European Union. Political risk is minimal

The conclusion of the economic forces in the Netherlands is described in this section. The Dutch economic structure is a form of market economy, in which the government plays a regulating role. The Dutch road transport sector's relative importance grew slightly over the last years. The transport sector is one of the smaller sectors in the Netherlands, but also an import one. The size of the Dutch economy, measured by the GDP, is quite large. The performance is a little above the EU average and about three times the Czech GDP. Changes in the Dutch economy's dynamics are a little positive and about the same as the EU average. The Czech Republic's economy is a lot smaller, but grows strongly. The Dutch external economic relations are international orientated. Trade with the Czech Republic is increasing significantly over the last years, especially since their EU membership in 2004. Dutch export and import are both extremely high.

The cultural distance between the Netherlands and the Czech Republic has decreased because of the Czech EU membership, but it still exists in the way of thinking, language and prejudices.

The geographical distance between the Netherlands and the Czech Republic is quite high for transport by truck. Train is an alternative for long distance transports from the Czech Republic.

### **3.4 Home country factors**

Market, production, and environmental factors in home country can also influence the choice of entry mode. Important factors are market size, competitive structure, economic structure, production cost in comparison to target country, and the policy of the home country government towards exporting and foreign investment by domestic firms. The factors are discussed below.

#### **3.4.1 Market size**

##### **Present market size**

The present market size of the Czech road transport sector consists of 157 road transport companies, an employment of 102.569 people and 466 million tons transported in 2004. The Czech transport, logistics and sales combined were 29.7 billion euro. About 3 percent of the international transport of goods from the Netherlands is done by the Czech road transporters. The total amount of transport goods to and from the Netherlands was 1.4 million ton in 2005 ([www.cbs.nl](http://www.cbs.nl)).

##### **Projected market size**

The projected market size of the Czech road transport sector is a steady growth for the next years. The growth was 4 percent in 2004 and 5 percent in 2005, mainly because of the EU-membership in 2004. The Czech Republic has a good geographical location, and the infrastructure is good in comparison to other East European countries, but still a little below average in the EU. The logistics sector grows rapidly at 15 a 20 percent per year, because of the demand of large foreign companies.

#### **3.4.2 Competitive structure**

All Czech road transport companies are privatized. Most of them have small numbers of employees and trucks. The sector deals with overcapacity, therefore many companies have extended their activities with logistics, selling of fuel and spare parts, etcetera. Most companies are modern and comply with high requirements.

### **3.4.3 Economic structure**

The Czech economic structure used to be a centrally planned economy, just like other eastern European countries before they joined the European Union. In such an economic structure the rules of supply and demand do not apply, because the state owns a lot of companies. The Czech Republic is in a transformation stadium, a transition welfare state, since their European Union membership in 2004. They are changing to a form of market economy. Many elements are already transformed, like legislation and privatization of state owned companies. The current legislation is comparable with Western Europe, but the interpretation of still differs. Changing into a market economy like the Netherlands will take quite some time.

### **3.4.4 Production cost in comparison to target country**

The production costs of road transport companies like Cargospol mainly exist of drivers and fuel. The labor costs in the Czech transport sector are approximately 9 euro per hour, which is about 45 percent of the labor cost in the Netherlands, and one of the lowest in Europe. Nevertheless, the Czech labor costs for drivers were only 17 percent of the Dutch labor cost in 2000. The East European labor costs are expected to rise rapidly to a level around 70 percent of the Dutch level in 2010 ([www.nieuwsbladtransport.nl](http://www.nieuwsbladtransport.nl)). The low Czech labor productivity and high absenteeism decrease the labor cost advantage.

The fuel price, VAT excluded, is around the Dutch level, which makes it a big cost pool; it is relatively much more expensive than in the Netherlands. The costs for trucks and spare parts are equal to the Dutch level. Maintenance is much cheaper, because of the labor costs and less government control at quality of trucks and trailers.

### **3.4.4 Government policy towards international trade**

The Czech government encourages international trade, like exporting and foreign investment by domestic firms. The Czech Republic is a democratic, transition welfare state; it is changing from a communistic regime to a form of open market economy since their membership of the European Union in 2004. As mentioned above, the rules are comparable with Western Europe, but the interpretation still differs. Over 67 percent of the trade has shifted from the former Comecon members, East European countries, to EU-members.

### **3.4.5 Conclusion**

The conclusion of home country factors that influence the choice of entry mode is described in this section. The market size of the Czech road transport market is quite small, but grows steadily. The competitive structure exists of many small companies. Demands exceed capacity. Many companies have extended their activities to increase profitability. Most companies are modern. The Czech economic structure is a transition welfare state. It changes from a communistic structure to an East European market economy. The Czech production costs are a huge advantage because of the low labor costs. The cost of Czech labor will rise rapidly over the next years to about 70 percent of the Dutch level. The Czech government encourages international trade. However, factors like the way of thinking, bureaucracy and corruption may cause problems.

### **3.5 Conclusion**

The objective of this chapter is to analyze the influence of the external factors, which are obtained in the previous chapter, to obtain a basis for further research in chapter five. The research question that is answered in this chapter is:

#### **❖ What is the influence of the external factors on the choice of entry mode?**

##### **The target country market factors**

The target country market factors show that the Dutch road transport sector is important. The market sector is relatively small compared to the entire Dutch transport sector, but large compared to the Czech transport sector. The competitive structure has similarities with an oligopolistic competitive structure. A relatively small number of companies is large and over 80 percent of the companies is small, under ten employees. The international road transport sector is unfavorable for Dutch companies. Only large companies (over 50 trucks) make profit, mainly by extra logistic activities. The margins decrease because of increasing competition, fuel prices and tollage. The sector has a huge number of small companies, most of them suffer high losses. The transport sector will probably slightly improve their position on the European market.. The increasing competition is mainly created by new EU-member states. This shows the possibilities in the Dutch transport market. The marketing infrastructure extended, so local agents and distributors are widely operating in the Netherlands.

##### **The target country production factors**

The target country production factors show high quality, quantity and costs of materials, labor and energy in the Dutch road transport sector. The price of energy, fuel, is comparable with Czech prices. Quantity of labor can be a problem in a few years. Labor costs are the largest cost pool in the Dutch road transport sector; it is about 43 percent of the total production cost. The Dutch labor costs are also very high compared to the Czech Republic. The economic infrastructure is highly developed and extended.

##### **The target country environmental factors**

The target country environmental factors show that the political risk is very low and government policies and regulation are pro international trade. The Dutch economic structure is a form of market economy, a same kind of economy as the Czech Republic is transforming to. This economic structure is interesting for foreign investors. The Netherlands have a relatively strong and steady economy. The Czech economy is a lot smaller but grows fast. The Dutch economy is very international oriented and export and import are both extremely high. Import, but especially export to the Czech Republic has increased enormously since 2004. Main part of Dutch export to the Czech Republic are machines and chemical products, nevertheless the export is quite divers. A very large part, over 70 percent in 2005, of Dutch import from the Czech Republic are machines and transport material. The euro is a strong and constant currency, which provides reliability and trust. The Czech crown's value increases in comparison to the euro. The Czech Republic will probably introduce the Euro in 2009. The cultural distance between both countries has decreased over the last years, mainly because of the disappearance of the communistic regime and the EU membership. A culture distance does still exist in the way of thinking, acting, laws, language and prejudice. Dutch companies may react fearful and prejudiced. Information acquisition can be expensive. The geographical distance between the Netherlands and the Czech Republic is quite high for transport by truck. Nevertheless, transport by truck between the Netherlands and the Czech Republic is very

common and Cargospol is already transporting to most western European countries and grows steadily every year, so it is definitely possible and profitable to transport goods in the EU over large distances.

### **The home country factors**

Last, the home country factors show that the Czech road transport market is quite small, but is growing steadily. The Czech road transport sector consists of a lot of small companies and has to deal with demands that often exceed capacity. Many road transport companies, Cargospol included, have extended their activities to increase profitability, for example with logistic activities and storage depots. Most companies are modern and differences with Dutch companies will probably be relatively small. The Czech Republic has low labor costs. The Czech labor costs are only 45 percent of the Dutch costs. Therefore, the low Czech labor costs are very favorable for entry modes that involve Czech drivers. The cost of Czech labor is expected to rise rapidly in the next years, to approximately 70 percent of the Dutch costs, which will decrease the current advantage. The Czech government encourages exporting and foreign investment by domestic firms.

Finally, the positive and negative influencing external factors are listed to show an overview of the findings.

- ◆ Positive Dutch factors for entering the Dutch road transport sector are:
  - The Dutch road transport sector is of significant importance,
  - The appearance of other East European companies shows the entry mode opportunities and decreases negative prejudices,
  - High quality, quantity and cost of materials and energy,
  - Dutch labor is very expensive and may become scarce in a few years,
  - Political risk is low,
  - International trade attitude is embedded in the Dutch culture and government policy,
  - Dutch export and import are extremely high. Export and import with the Czech Republic increased enormously since 2004.
- ◆ Positive Czech factors for entering the Dutch road transport sector are:
  - Relative small differences between Dutch and Czech companies,
  - Many modern companies, with skilled personnel,
  - Low labor cost,
  - Pro international trade government attitude.
- ◆ Negative Dutch factors for entering the Dutch road transport sector are:
  - The Dutch road transport sector is struggling, margins are low because of extremely high competition, increasing fuel prices, tollage in foreign countries, and increasing competition from East European countries,
  - Mainly large companies are able to gain profits, mostly by secondary logistic activities,
  - Cultural distance still exists in the way of thinking, language and prejudices.
- ◆ Negative Czech factors for entering the Dutch road transport sector are:
  - The cost of labor will rise rapidly in the next few years.

It is obvious that the external factors have several, often conflicting forces. The selection of entry mode is the result of these forces. Chapter five will use the outcomes of this chapter to obtain a suitable entry mode for Cargospol.

## **H4. Internal factors that influence the choice of entry mode**

This chapter answers the second research question by analyzing the internal factors influencing the choice of entry mode. The influencing internal factors consist of a company's product factors, and a company's resource and commitment factors.

### **4.1 Product factors**

The product factors of a company are divided in five parts that influence the choice of entry mode. The parts are product differentiation, required pre- and post service, service strategy plan for foreign target country, technology intensive products, and adaptation of products. The products of the company Cargospol are services.

#### **4.1.1 Differentiation of products**

Highly differentiated products with distinct advantages over competitor's products or services give sellers a significant degree of pricing discretion. In contrast, weakly differentiated products or services force sellers to compete on a price basis, which may be only possible by some form of local production (Root, 1994).

Cargospol's services are not highly differentiated, it offers mainly standard services. The company transports, trades and stores goods. Transport is their main activity. Their services are quite differentiated in comparison to Czech competitors and about average in comparison to Dutch road transport companies. The number of provided services strongly differs per customer. Some companies use all of Cargospol's services, others just one. Two companies, a television manufacturer of Panasonic and car part manufacturer of Opel, use up to 30 percent of Cargospol's transport capacity, others have only used Cargospol once to transport one truckload. Cargospol's transport capacity consists of 45 trucks, most of them are able to carry 24 tons of cargo. According to themselves, the company has a good reputation in the Czech Republic and Germany, which differentiate its services from some of their competitors. Unfortunately, Cargospol is quite unknown in the Netherlands. Another factor of differentiation is the multiple languages that the employees are able to speak; Czech, German, French and English. Nevertheless, only two persons speak English, only one person speaks French and nobody speaks Dutch. Currently, every employee is having English courses.

The storing of goods, from April 2007, increases the company's service differentiation compared to most Czech competitors. Dutch road transport companies often provide storage possibilities.

#### **4.1.2 Required pre and post services**

Products may require a number of pre and post purchase services, which makes it more difficult to market the product at a distance. These actions often demand nearness to customers.

Cargospol's current activities do not require many pre- and post purchase services. Pre purchase service for Cargospol is the creation of good contact with the customer before action. A lot of contact is done by phone and email. Contracts with important new customers are often settled in person, these business trips are expensive and cost a lot of time. Knowledge of foreign languages, transport programs like 'Raalte Transport' and 'Timocom', and computers in general are necessary. Required post purchase services are minimal.

The required pre and post purchase services are analyzed further in chapter six; the marketing plan.



### **4.1.3 Service strategy plan for foreign target country**

A service strategy plan is useful if the company's product is a service. The company needs a plan to perform its service in the foreign country, because a service can normally not be exported. A service strategy plan strongly depends on the choice of entry mode.

Cargospol's products are services, so a service strategy plan is useful. Nevertheless, Cargospol's main product is a special kind of service; international transport of cargo by truck. Hence, the mentioned problem of service export does not exist in this case, because the service *is* mainly exporting and importing of goods. Though, a service strategy is still necessary and will be analyzed in chapter six; the marketing plan.

### **4.1.4 Technology intensive products**

Technology intensive products provide the option to license technology in the foreign target country, rather than use alternative entry modes (Root, 1994).

Cargospol's products are not technological intensive. Transporting techniques are at a higher level in the Netherlands generally, so instead of license technology in the Netherlands, it is more interesting for Cargospol to get Dutch technology. An example is technology about the organization of storages depots.

### **4.1.5 Adaptation of products**

Products or services that require much adaptation to be marketed in the foreign target country favour entry modes that bring the company close to the chosen market. Examples are branch/subsidiary exporting, local production, or a small geographical distance.

Cargospol's services need little adaptation. The company is already active in most countries in Western Europe, so essential service adaptation requirements are already adopted. Factors like legislation and cultural distance, like language and in time payment, may force the need for adaptation. These factors are analyzed in the previous chapter. The need for adaptation will be discussed further in chapter six; the marketing plan.

## **4.2 Resource & Commitment factors**

Many and strong resources increase the number of possible entry modes. But, resources must be joined with a willingness to commit them to foreign market development.

### **4.2.1 Company resources level**

The company's resources in management, capital, technology, production skills and marketing skills strongly influence the number of entry options. Therefore, company size is often a critical factor in the choice of entry mode, because it is a determinant of a company's resources level.

Cargospol's resources level is probably a little below average compared to the Dutch resources level of road transport companies. The Dutch standards of resources are, in average, higher than the Czech level. As mentioned in the previous chapter, many Dutch road transport companies are struggling because of decreasing margins. Czech resources levels are currently catching up with the Dutch levels. Nonetheless, it will take several years before the levels of resources become equal. The quantity and quality of labour is a strong resource of Cargospol. Their drivers are well skilled and willing to travel outside the Czech Republic for a few weeks at a time. They are also said to have a good reputation in the Czech Republic and Germany, and with their clients in other countries. Nonetheless, Cargospol is unknown in the Netherlands, as is its reputation. The resource management seems to be a little weak. The size of the company is above average with 45 trucks transporting fulltime, in comparison with the

Czech as well as the Dutch road transport sector. The growth of Cargospol, measured in the number of trucks, is steady with an increase of about three of four trucks a year.

#### **4.2.2 Commitment**

High commitment will create a wider range of alternatives to select, regardless of the company's size and resources. Low commitment will cause any entry mode to fail. The degree of company's commitment towards foreign activities increases normally with increasing international experience and degree of international success.

Cargospol's senior management is very committed to increasing international business. This is not a real surprise because their core competence is international transport. Examples of their commitment are many business trips, and the hiring of a student consultant for the creation of an entry strategy.

### **4.3 Conclusion**

The objective of this chapter is to analyze the influence of the internal factors, which are obtained in the second chapter, to create a basis for further research in chapter five. The research question that is answered in this chapter is:

#### **❖ What is the influence of the internal factors on the choice of entry mode?**

##### **The product factors**

The product factors show that the service differentiation of Cargospol is quite small, as is the differentiation of most companies in the transport sector. Their differentiation is below average in comparison to profitable Dutch competitors, about the same as the Dutch average and high in comparison to Czech competitors.

The required pre- and post actions are relatively low. Examples of Cargospol's pre actions are contacts and contracts. Contact in person is important for mutual trust. Increasing long distance transport requires more business trips to their clients, which is expensive, time consuming and requires linguistical skills and knowledge of the foreign culture. Contact by phone and email is also important. On the other hand, linguistical skills and foreign knowledge should be improved.

A special service strategy plan for a foreign target country is not necessary, because its service *is* export and import. Cargospol's products are not technology intensive. Technology from the Netherlands about the organization of storages depots can be interesting for Cargospol.

The products will not need much adaptation, because the company has already adapted their products for most European countries. Some adaptation may be necessary for country specific issues, like legislation and cultural distance.

##### **The resource & commitment factors**

The company's resources level is probably a little below average compared to the Dutch resources level of the road transport sector. Cargospol has a very valuable resource, which is labour. Their drivers are skilled, labour costs relatively very low, and the drivers are willing to be in foreign countries for a few weeks at a time. Cargospol has a good reputation among its customers, although their reputation has not spread to the Netherlands yet. The resource management is not very strong, which may cause problems during the entry process. The size of Cargospol, measured in the number of trucks, is above Dutch and Czech average. Cargospol's commitment towards the entry of target markets is high.

Finally, the positive and negative influencing internal factors are listed to show an overview of the findings.

- ◆ Positive Cargospol factors for entering the Dutch road transport sector are:
  - International experience,
  - Entering the Netherlands will not need many adaptations, because of the current sales markets in many European countries,
  - Drivers are skilled, cheap and willing to work abroad for several weeks at a time,
  - Cargospol has substantial financial resources to invest in the entering of the Dutch market,
  - Senior management's commitment towards entering the Netherlands is very high,
  - The entry mode direct export is already used for entering all other target countries.
  
- ◆ Negative Cargospol factors for entering the Dutch road transport sector are:
  - Cargospol has never used a formal entry strategy plan,
  - Entry mode management skills are low,
  - Linguistic skills are quite low,
  - In time payment will cause problems.

## **H5. Entry mode decision**

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This chapter answers the third research question by performing the second step of Root's entry mode selection model. First, the conclusions of the third and fourth chapter are combined to find the feasible entry modes. Next, the feasible entry modes are compared to each other in order to find suitable entry modes for the company. The entry mode decision will be made by the ranking in an overall comparative assessment expressed in a decision matrix.

### **5.1 Obtain feasible entry modes**

In this section the entry modes that are feasible for Cargospol's entry of the Dutch road transport market are obtained. The conclusions of the third and fourth chapter are combined to be able to analyze the different entry modes. The different entry mode options are shown again in the figure below.

#### **5.1.1 Non-equity modes**

As mentioned in chapter two, the choice of entry mode normally changes over time, in a rather predictable way. A company becomes more experienced over time and therefore it is likely to take more risk. Until now, Cargospol has never used a formal strategy plan, nor any equity modes. Nevertheless, the company is experienced in the use of direct export. Therefore, the choice for non-equity modes is very likely.

The key element of export entry modes is that a company's product is manufactured outside the target country and subsequently exported to it. In this case study the core activity of the company is a service; international transport of cargo by truck. Therefore the export entry modes concern the mode to arrange export agreements with potential customers. Export is divided in two main types; direct export and indirect export.

#### **Direct export**

Direct export means that a company sets up its own export organization within the company and has direct contact with parties in the target country, with or without intermediaries. Direct export without an intermediary is conducted by a salesperson of the company. An intermediary is often an agent or distributor in the target country and responsible for selling the product in this target country. Direct export requires some knowledge of the exporting company about the target country and export.

Cargospol has its own export department within the company and uses direct export without intermediaries for all businesses with its target countries. Export agreements are set by the transport department at Pilsen. The transport department employs three persons with some linguistic skills to arrange transports with mainly Germany, France and England. These persons are Czech, their knowledge about the foreign cultures is relatively low.

Direct export to the Netherlands without intermediaries requires a salesperson that masters English and has knowledge about the Dutch (and Czech) road transport sector, like the business culture, language, legislation. Such a salesperson is currently not present at Cargospol. Therefore, direct export without intermediaries may require the hiring a new salesperson, preferably with Dutch roots, study, or living background. This new salesperson can operate from Pilsen or from the Netherlands. Operating from the Netherlands is probably more effective, because of personal contact, but a lot more expensive due to the high Dutch labor costs. Another solution is to provide courses to a selected sales department employee in

order to increase knowledge about English and Dutch business culture, and organize business trips to the Netherlands. This solution is less effective, will take more time and the level of knowledge will probably stay quite low. An advantage is the relatively low costs. Dutch linguistic skills are not necessary, because English is very common for international operating Dutch road transport companies

Direct export to the Netherlands with the use of an intermediary has the advantage of little effort and expertise needed by Cargospol, and the likeliness of an extended Dutch distribution network and knowledge about the Dutch sector. Disadvantages are high costs, relatively difficult contact between the intermediary and Cargospol, and little control for Cargospol. The available distribution network is probably more extended than direct export without an intermediary.

Direct export to the Netherlands without an intermediary is an attractive and quite simple extension of Cargospol's current activities. Direct export with an intermediary can also be feasible for Cargospol.

### **Indirect export**

Indirect exports means that a company uses an intermediary in the home country to arrange the export agreements. This intermediary can be a trading house, a broker or an export management company. So, the company does not manage export contracts by itself, it uses another party in the home country to do it for them.

Indirect export to the Netherlands requires an intermediary with knowledge about the Dutch (and Czech) road transport sector. It can be hard to find a suitable intermediary in the Czech Republic. An intermediary operating from the Czech Republic is likely to have some difficulties with Dutch customers contact as with knowledge about the Dutch sector. Advantages are relatively low costs and efforts, easy communication between the intermediary and Cargospol, and more control for Cargospol than in case of an intermediary in the Netherlands.

Indirect export can be suitable for Cargospol. The change with the current situation at Cargospol will be relatively small.

### **Cooperative export**

Cooperative exporting is characterized by a company having an agreement with another local or foreign company. In this case study, the foreign company should be affiliated to the Dutch road transport sector. The cooperative company will use its distribution network to arrange export agreements.

Cooperative export can be interesting for Cargospol. The ability to use the distribution network of a Dutch road transport company is very valuable. Cargospol can use the cooperative company's Dutch network instead of creating its own. An extended distribution network of the Dutch cooperative company is necessary for creating a feasible entry mode option. Implementation will be relatively easy, although the search for a suitable cooperative company can be hard. Cooperative export with a Czech company is not likely to be feasible for Cargospol. Most Czech companies do not have a rich Dutch distribution network.

### **Contractual**

Contractual entry modes are long-term associations between an international company and an entity in the target country that involve the transfer of technology or human skills. Most contractual agreements are not useful for Cargospol. Co-marketing can be an option. Co-marketing is an agreement among a number of firms to jointly market their services. The advantage is the possibility to reach more customers, while disadvantages are limited control and coordination. The set up of a solid contractual agreement among several Czech road

transport companies will be difficult and slow. Cargospol probably lacks the skills to develop co-marketing and is likely to be unwilling because of diminishing control. Therefore, co-marketing is not a feasible entry mode.

### **5.1.2 Equity modes**

Joint ventures and wholly owned subsidiaries involve the acquiring of equity in the foreign target country. Risk, cost, time, and needed changes are significant. An equity entry mode will be a huge change for Cargospol, which is a quite rigid company. The analyses of the environmental factors showed several elements that make equity entry modes unfavorable. The high investment and operational costs in the Netherlands, combined with a low cost of investment and operational issues in the Czech Republic, make any equity mode unlikely to be successful. The absence of import restrictions and need for adaptation make the suitability of equity entry modes even less likely.

#### **Joint venture**

A joint venture is a strategic alliance between two or more parties to undertake economic activity together. Cargospol is not skilled enough for a majority joint venture and the environmental factors, mentioned above, make joint ventures in general unlikely to be successful. A minority or 50/50 joint venture are more likely, but are still not feasible for Cargospol.

#### **Wholly owned subsidiaries**

A wholly owned subsidiary is the entering of a foreign target market with a 100 percent ownership. Cargospol's resources and the environmental factors make a successful entry mode very unlikely.

### **5.1.3 Conclusion**

It can be concluded that several non equity modes are likely to be feasible entry modes for Cargospol. All the export modes; direct export with and without intermediaries, indirect export, and cooperative export, are feasible entry modes. Cooperative export is only feasible with a Dutch cooperative company. Equity modes are not likely to be feasible for Cargospol. The option not to enter the Dutch road transport market is also unlikely to be feasible, because the analyzed influencing forces show many opportunities favoring the selected feasible export entry modes.

## **5.2 Identification of suitable entry mode**

This section will compare the feasible entry modes of Cargospol with each other in detail. The comparison is based on Root's strategic entry selection approach, as mentioned in chapter two. The assumption is to maximize the profit contribution over the strategic planning period. The different analyses are respectively; comparative profit contribution analysis, comparative risk analysis and comparative analysis for nonprofit objectives. Each of these analyses will rank the feasible entry modes.

Unfortunately, sufficient hard facts about the profit contribution of Cargospol have been hard to obtain. Hardly any useful document was available and interviews also did not give sufficient information. Linguistic problems strongly decreased the possibilities to obtain vital information. Therefore the comparative analyses will lack quantitative expectations. Appendix D does show an example of the comparative profit contribution and the comparative risk analysis with fictive figures.

### 5.2.1 Comparative profit contribution analysis

Root states that the profit prospect of the new entry mode should be set out for a period of three to five years. The required rate of return, the hurdle rate, must be included to see whether the project is profitable enough. This analysis is identical to a cash flow analysis, when regarding all entry mode decisions as investment decisions. These 'entry mode investments' includes all once-for-all allocations of a company resource that are intended to generate income over a future period. Therefore, included are investments like a warehouse, as well as startup costs like hiring personnel (possibly with new skills), negotiating with businessman and government, market research, adapting the products, developing distribution channels, and securing permanent working capital.

All revenues that would be received by the company from the use of each feasible entry mode should be identified over a period of three to five years. The same must be done for startup and operating costs. The next step is the calculation of the net profit contributions for each year of all the feasible entry modes. The expected profit contributions should be adjusted for the time value of money by calculating their net present values at the company's hurdle rate. The final step is the ranking of the feasible entry modes by the size of the net present value (Root, 1994).

The feasible entry modes for Cargospol are direct export, indirect export, and cooperative export. As mentioned above, the comparative profit contribution for Cargospol is not set out with figures due to limited information. The cumulative net present values, which are the estimated net profit contributions adjusted for the time value of money by the company's hurdle rate, should be estimated for each year in the strategic planning. The first year will be negative for all entry modes, because the entry modes require initial investments. The feasible entry modes are all non equity modes, so the investment costs are relatively low.

Direct export should be exploited from Cargospol by a salesperson of Cargospol, or from the Netherlands by an intermediary or salesperson of Cargospol that lives in the Netherlands. The labor costs of the sales person operating from the Czech Republic are about 2.5 times lower than the salesperson operating from the Netherlands, which is the difference between Czech and Dutch labor costs. The total cost differences can be smaller, because less expensive business trips from Pilsen to the Netherlands are needed. Nevertheless, the salesperson in the Netherlands is expected to operate without an office, or at minimal costs, otherwise the total costs will be too high. The costs of an intermediary are by far the highest. The wage will exceed the wage of Cargospol's employee living in the Netherlands. Cost for office space will also be included.

The expected sales from all direct export options are expected to rise every year. The growth of sales is likely to be similar to a product life cycle curve. It is expected to be relatively small in the beginning; contact and trust has to be gained with potential customers. Next, the growth of sales is expected to rise significant for a few years, because it will be relatively easy to find some potential customers, and after a few try outs with new customers the amount of cargo to be transported per company is likely to increase. After a few years the growth becomes smaller, because it gets harder to find new customers, although the knowledge about the Dutch road transport sector increases.

The expected sales from the salesperson in Pilsen are the lowest of the direct export modes, because of less communication possibilities with Dutch customers and probably less knowledge about the Dutch sector. All export modes will not have a fulltime job with arranging export agreements in the Netherlands. A salesperson at Cargospol can easily be used for agreements in other countries. Nevertheless, a salesperson in the Netherlands

becomes less effective and therefore too expensive if used for export agreements in other countries. Hence, this salesperson will probably have to work part time for Cargospol, which is likely to be relatively more expensive.

The best solution regarding direct export by an employee of Cargospol is probably to use a salesperson that travels regularly to the Netherlands for a stay in which several business meetings are united. This solution keeps the labor costs low, because a Dutch wage is not necessary, and the salesperson can easily be used for export agreements with other countries while being at Cargospol, Pilsen. An intermediary can also be used part time and the sales are expected to be higher than Cargospol's traveling salesperson can accomplish. The costs will be higher too though. It is not possible to choose between both options by this analysis. Both can be suitable for Cargospol. Variables like expected costs and added value by increasing distribution network are for a significant part specific per unique situation.

The entry mode indirect export is exploited by an intermediary from the Czech Republic. The costs of indirect export are lower than the costs of direct export with an intermediary in the Netherlands, because of the large cost differences in labor and overhead costs like office space. The costs of direct export with a salesperson of Cargospol can be about the same, but depend on variables unique to each situation as mentioned in the previous section.

The expected sales from the indirect entry mode option are expected to have similarities to a product life cycle curve, roughly the same as the direct export modes. One could assume that the Czech intermediary's Dutch distribution network and knowledge of the Dutch culture is lower than the Dutch intermediary's, but higher than Cargospol's salesperson. Contact with Dutch customers is probably less than both direct export modes, which decreases the sales potential. Business trips can be included by the Czech intermediary, but this will be quite expensive.

The feasible cooperative entry mode should be exploited with a Dutch cooperative company affiliated to the Dutch road transport sector. The cost of cooperative export depends on variables like the size and potential of the Dutch company's distribution network and the question whether Cargospol can deliver added value to the cooperative company, other than money. The expected profit contribution of the cooperative entry mode can be high, if both companies manage to create synergy by working together. Nevertheless, it is difficult to estimate the profit contribution because of many influencing variables.

The ranking of the feasible entry modes for Cargospol, considering the comparative profit contribution analysis is shown below. The ranking options are "+", "0", "-", respectively positive, neutral, and negative.

<i>Feasible entry modes</i>	<i>Ranking</i>
Direct export by Cargospol	+
Direct export from the Netherlands	+
Indirect export from the Czech Republic	+
Cooperative export from the Netherlands	+

*Table 5.1: Ranking comparative profit contribution analysis*

## 5.2.2 Comparative risk analysis

Root suggests a comparative risk analysis to adjust the yearly profit contributions of each feasible entry mode for both market and political risks. This analysis lowers the incentive for the entry modes. The comparative risk analysis has two different approaches. The first



approach is to add one multiplier to the investor's domestic hurdle rate for all the project's political risks together and one for all the market risks together. This first approach is a fast and simple method to analyze risks. Drawbacks are the risk of manipulating by managers for their own interest, and unrealistic outcomes because the different political and market risks are captured in just two discount rates that are fixed for the entire strategic planning period. The second approach is more sophisticated and without the drawbacks mentioned above. It adjusts the feasible entry mode's estimated cash flow period by period for specific political and market risks.

The political risks for any entry mode of Cargospol in the Netherlands are minimal. The governmental attitude towards international is not expected to change. Therefore, the multiplier that reflects the political risks should be set very close to 1, so the influence is minimal. High political risk is unfavorable for all entry modes. Nevertheless, direct export modes are the least influenced by this risk compared to the other kinds of entry modes.

The market risks for entry modes of Cargospol in the Netherlands are of significant importance for the risk analysis. The conclusions about the target country market factors show that profit margins are very low at the Dutch road transport market and competition is fierce. Especially small and medium sized companies (below 50 trucks) are struggling. Nevertheless, it also shows that the cost of Czech labor is much lower than the Dutch cost's, so the profit margins of Cargospol can be significantly higher than their Dutch competitors. Still, the multiplier reflecting the market risks should have a value significantly larger than 1 and differ per entry mode. The market risks seem to be relatively constant for the next few years, so different multipliers per year are not necessary.

Market risks are obviously negative for the incentives to enter the foreign target country. Non-equity modes like the feasible exports modes can be changed or stopped quite easily, so the effects of market changes are relatively small. Reversibility and therefore flexibility of the feasible entry modes is very important for the suitability of these modes regarding market risks.

The vulnerability for market risks is the lowest for direct export from Cargospol. It will be easy to change or stop the activities in the Netherlands. The other feasible entry modes are harder to change, because of the use of external parties; intermediaries or cooperative organizations. These entry modes are still relatively easy to change and therefore suitable.

The ranking of the feasible entry modes for Cargospol, considering the comparative risk analysis is shown below:

<i>Feasible entry modes</i>	<i>Ranking</i>
Direct export by Cargospol	++
Direct export from the Netherlands	+
Indirect export from the Czech Republic	+
Cooperative export from the Netherlands	+

*Table 5.2: Ranking comparative risk analysis*

### **5.2.3 Comparative analysis for nonprofit objectives**

Nonprofit objectives vary per company. Examples of these objectives are targets for sales volume, growth and market share, but also control, risk and establishment of a reputation. Managers should be clear about nonprofit objectives and about the importance of them to the company (Root, 1994).

The observing of Cargospol showed the importance of several nonprofit objectives. One obvious nonprofit objective for Cargospol is the establishment of a reputation. Several employees mentioned the strong reputation of Cargospol and the desire to expand the reputation. Control is another important nonprofit objective for Cargospol. The senior management strictly controls the actions performed by the employees. Hierarchy is strong. The distance between the senior management and the rest of the employees is large. The urge for control is probably a result of the Czech culture, which is still strongly influenced by former communistic regimes. The most important nonprofit objective of Cargospol for the choice of entry mode is probably the view of the director about the entry strategy.

Unfortunately, the senior management did not provide their view upon the found feasible entry modes. Hence, it is difficult to decide on the ranking of the feasible entry modes. The chosen ranking is based on the researcher's opinion, formed by the two month observation at Cargospol. The researcher's opinion of the senior management's view about the suitability of the feasible entry modes is discussed next.

Cargospol's senior management likes to control all actions. They have never used a formal strategy plan to enter a foreign country. Until now, Cargospol applied unknowingly Root's 'pragmatic entry selection approach', which focuses at an entry mode that works but is not necessarily the best entry mode. Cargospol's senior management is not used to changes, although they are committed to enter the Netherlands. An entry mode that requires significant changes in the way the company acts is probably undesirable for the senior management. Their trust in other company's loyalty and opportunities is quite low. Their trust in other company's loyalty and possibilities is quite low.

The senior management will probably like the export entry modes. Direct export by Cargospol will be very suitable according to the senior managements view; it is easy to implement and already used for the entering of the current target countries. The other feasible entry modes are also likely to be approved because of the expertise and the use of another company's network. Drawbacks are less control and communication. The fear of losing control will probably exceed the advantages of the use of external knowledge. Therefore only the direct export by Cargospol will be really suitable for Cargospol according to the senior management's view.

The expected ranking of the feasible entry modes for Cargospol, considering the nonprofit objectives is shown below.

<b><i>Feasible entry modes</i></b>	<b><i>Ranking</i></b>
Direct export by Cargospol	+
Direct export from the Netherlands	0
Indirect export from the Czech Republic	0
Cooperative export from the Netherlands	0

*Table 5.3: Ranking comparative nonprofit objectives analysis*

### 5.3 Overall comparative assessment

This section will combine the rankings of the comparative analyses about profit contribution, political and market risk, and nonprofit objectives to make an overall comparative assessment of the feasible entry modes and obtain one or more suitable entry modes.

The different factors will be set out against the different feasible entry modes in a decision matrix. The entry mode with the highest score will be the most suitable according to the comparative analyses. Nevertheless, there is no objective procedure to capture the three analyses in single digits. Assumptions can be inadequate, wrong or changing, which influences the results of the single analyses and the overall comparative assessment. Therefore, it is not a definite outcome for the choice of entry mode, but it does provide a well considered view upon the entry mode opportunities.

	Comparative analyses			Overall assessment
	Profit contribution	Risk	Nonprofit objectives	
<b>Feasible entry modes</b>				
Direct export by Cargospol	+	++	+	++++
Direct export from the Netherlands	+	+	0	++
Indirect export from the Czech Republic	+	+	0	++
Cooperative export from the Netherlands	+	+	0	++

Table 5.4: Overall comparative assessment decision matrix

Therefore, according to overall comparative assessment decision matrix, direct export by a salesperson of Cargospol is the suitable entry mode for Cargospol. The other export modes have a positive ranking as well, so may be good alternatives if direct export by Cargospol should fail.

Feasible entry modes	Ranking
Direct export by Cargospol	++++
Direct export from the Netherlands	++
Indirect export from the Czech Republic	++
Cooperative export from the Netherlands	++

Table 5.5: Ranking overall comparative assessment

### 5.4 Conclusion

The objective of this chapter was to obtain feasible entry modes from the outcomes of chapter three and four, and to perform comparative analyses to these feasible entry modes in order to find one or more suitable entry modes for Cargospol. The research question that is answered in this chapter is:

- ❖ Which entry mode can be concluded based on the confrontation of the influences of the external and internal factors?

In the first section, the feasible entry modes for Cargospol were obtained from the results of the third and fourth chapter. It can be concluded that all export modes; direct export with and without intermediary, indirect export and cooperative export are feasible. The option not to enter is not feasible.

Next, the comparative analyses have compared the feasible entry modes with each other, by performing four analyses; comparative profit contribution analysis, comparative risk analysis, comparative analysis for nonprofit objectives, and overall comparative assessment. The result of each analysis was a ranking of the feasible entry modes. The feasible entry mode 'direct export by Cargospol' should probably be operated from Cargospol. The salesperson should travel regularly to the Netherlands.

Overall comparative assessment is applied in the last section. The comparative analyses were combined to find the suitable entry modes for Cargospol. The entry mode direct export by a salesperson of Cargospol was found to be suitable for the entering of the Netherlands by Cargospol. The differences in suitability of the other export entry modes are small. All feasible entry modes are positive. The entry mode direct export will be analyzed in the next chapter, the marketing plan.

## H6. Marketing plan

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This chapter answers the last research question, by formulating a marketing plan for the suitable entry mode for Cargospol; direct export by Cargospol. This suitable entry mode is selected in chapter five. The marketing plan described below provides guidelines and needs further research for completion. First, literature about marketing is discussed shortly, next the marketing mix model is set out, and finally the marketing mix is extended by industrial service marketing that focuses on the buyer – seller relationship.

### 6.1 Marketing introduction

As mentioned in chapter two, an entry strategy depends on both the choice of entry mode and the choice of marketing plan. The marketing plan is the last stage of the entry strategy, intending to enter the foreign target market. The choice of entry mode is the basis for the marketing plan. An entry mode determines the degree of a company's control over the marketing plan in the target country. The selected entry mode direct export by a salesperson of Cargospol, gives and forces Cargospol full control over the marketing plan.

One of the best known theories is the marketing mix model (Borden, 1964). The model can be used to define the marketing strategy. The marketing mix is useful for a short-term planning period, with a focus on consumer goods. The company Cargospol needs a long-term planning, with a focus on industrial partners; Cargospol delivers a service, the transport of industrial goods to other companies. Therefore the marketing mix needs to be extended in order to deliver the wanted performance. Gronroos (1997) describes the relationship based marketing plan: 'the company must continuously demonstrate its capability of handling the interactions throughout the whole process' in order to keep its clients. This marketing plan focuses on long term planning and a relationship between buyer and seller. Furthermore, Gronroos (1989) describes a marketing plan specific for industrial service marketing. The marketing mix discusses instruments for the marketing plan, the relationship based marketing plan shows how to use these instruments.

### 6.2 Marketing mix

A marketing plan is often based on the 'marketing mix model', also known as the 4 P's; product, price, channels of distribution (place) and promotion. It is used to generate the best response in the target market to the export entry mode(s). To design a marketing plan, managers must make decisions on policies relating to the four marketing mix elements. Applying the marketing plan requires managers to make trade-offs between the user benefits of adaptation, and the cost of adaptation. The marketing plan for a target country should be determined over a strategic planning period of three to five years. The marketing mix model can be adjusted on a frequent basis to meet the changes in the target market and other dynamics in the external environment. One needs to decide therefore not only the initial mix, but also changes over time. The several mix elements are highly interdependent, so no single element can be fully effective without the support of other elements. Hence, managers need to make joint decisions about the elements in order to design an, integrated, marketing plan. An optimal marketing plan maximizes profit contribution over the planning period. It requires the total marketing effort to be increased up to the point where its incremental cost equals its

incremental revenue. Managers can move toward optimization by raising two questions about the marketing mix for a target market:

If we increase the overall level of our marketing effort, will it add more to revenues than to cost?

Given our overall level, can we increase the profit contribution by shifting resources from one element to another?

Factual answers to these questions are difficult, but even approximate answers are better than none at all.

### **6.2.1 Product**

The marketing mix element product can be influenced mainly by changes of package, physical and service. Cargospol's customers are other companies. Such business to business relations are mostly based on rational buying motives, like cost, performance and services. Cargospol's main activity is the transport of goods. These goods are not owned by Cargospol and the company is not supposed to make changes to their cargo. Therefore, both the package as the physical must be seen as constant for Cargospol.

Service is very important for Cargospol. Aspects like reliability, in time delivery and payment, and linguistic skills are crucial for proper entry of the Dutch market. An important general service issue for Cargospol is in time payment. Cargospol is used to delay payment by a month or so, which is very common in the Czech Republic. The Dutch culture is very punctual, so delayed payment will cause problems. A new service possibility for the direct export mode is the warehouse facility near to Pilsen. Required pre- and after purchase services are discussed in the next section about industrial service marketing. Contact with customers should be improved. Especially direct export requires high skills of Cargospol's salespersons, because the company controls the marketing plan completely by itself. Therefore knowledge of language, business, government and culture in general should be increased.

### **6.2.2 Price**

A pricing strategy for international market entry is normally difficult, because of uncertainty about own costs, demand and competition in the target market over the strategic planning period. Moreover, aspects like antitrust, and legal and policy constraints of both home and target market should be considered. Interests and perspectives on international pricing are often diverse and conflicting. Finally, the element price needs to be integrated with the rest of the marketing mix.

Entry pricing approaches are full-cost pricing, incremental-cost pricing, and profit-contribution pricing. Full-cost pricing is simply the sum of total unit costs attributed to a product and a profit margin. Severe weaknesses are ignoring demand and competition in the foreign target market. Incremental-cost pricing distinguishes between variable costs (labor, materials, and specific marketing costs) and fixed costs. The incremental costs of entry are therefore the new costs of that entry which would not exist in its absence. The most advanced pricing approach is profit-contribution pricing, incremental revenues minus its incremental costs over the planning period. Elasticity, the sensitivity of total sales revenues to price changes is included in this approach. Customers demand can be researched by: buyer surveys, market testing, and statistical analysis of past relationships between sales and price. Further research should elaborate the entry pricing approach for Cargospol.

Entry pricing strategy is intended to obtain the maximum profit contribution for the entire marketing plan over the planning period, taking into account the other elements of the

marketing mix. Pricing objectives may be quick profits, minimum risk, target market share, or enhancing a high quality image. The pricing strategy for Cargospol should be based on low cost pricing. Low prices are the competitive advantage of Cargospol regarding Dutch competitors. The quality of Dutch competitors is likely to rise Cargospol's, but Cargospol can set its prices significantly lower, while remaining profitable.

### **6.2.3 Channel of distribution**

Channels of distribution serve as the means for getting the product to the target customers. These channels of distributions are direct- or indirect export options. The different export options are already discussed in chapter two and chapter five. Cargospol's suitable entry mode is direct export, so Cargospol uses itself as channel of distribution. Therefore this marketing mix element's variations are not relevant for Cargospol.

### **6.2.4 Promotion**

Promotions are all communications initiated by a seller that are addressed to final buyers, channel members, or the general public, with the intent to create immediate sales or a positive image for the seller's product or company. Promotion includes personal selling, advertising, sales promotion, and publicity (Root, 1994).

A promotion issue is 'made-in' images; already formed judgments about the manager's country by potential customers. These judgments can be factual but are often a mixture of facts and conventional stereotypes. They are often both positive as negative and can change over time. Knowledge about made-in images is very important, because it can be very helpful for the content of the promotion strategy.

The six most disturbing issues for Dutch companies doing business with foreign companies that enter the Netherlands (EIM, 2004) are respectively: reliability of foreign partner, reliability of foreign government, language, business culture, skills of employees, and administrative procedures.

#### **Promotion strategy**

The first and most important decision about promotion strategy concerns the role promotion should have in the marketing mix. This role depends on the objectives for the foreign market entry, specifying target audience, deciding on buying propositions, deciding on optimum channel mix, and adapting the promotion message to cultural differences

Cargospol's objectives for entering the Dutch transport sector are very general; to increase their profit and sales market. Business to business promotion is often based on rational buying motives, like cost, performance, and services. Direct export requires promotional actions by Cargospol itself. The objectives of the company are discussed in the next section about marketing industrial services.

Next the target audience needs to be specified. The identity of the audience largely determines the general purpose of promotional messages. Cargospol likes their consumers to buy their service. Cargospol should know why they want to communicate with the target audience and know about the audience preferences, in order to formulate a suitable promotion strategy. Cargospol's target audience mainly exists of companies which are suppliers of goods that need to be transported internationally, like manufacturers, and Dutch road transports, like Cargospol.

The third step is deciding on the buying proposition, which is the dominant idea of the promotional messages. The creation of an effective buying proposal requires that managers view their product and company from the perspective of the intended receivers in the target market. The dominant idea of Cargospol's promotional messages will be low cost transport. Cargospol has a significant price advantage compared to Dutch competitors. Home country buying propositions can sometimes be fully transferable to the foreign target country. Adding promotional messages of Cargospol should be the removal of several Dutch prejudices against Eastern European transporters. How the proposition is presented depends on the choice of promotion channels.

The fourth step decides on the communication channel mix. Communication channels can be divided in personal or impersonal. Personal selling relies on personal, face-to-face contact, impersonal channels rely on advertising and publicity that reach a mass audience. Sales promotion relies on both personal and impersonal channels. The applying of the communication mix is discussed in the next section about marketing industrial services.

Advertising, the dominant channel for mass promotion, is any paid form of non personal communication by a sponsor to promote a product or company. Advertising channels are for example direct mail, newspapers, magazines and outdoor posters. Advertise decisions depend on effectiveness and costs.

Publicity is also a channel for mass promotion. It is commercially significant news about a company, product or service, distributed to the public and not paid for by a sponsor. Publicity can be very valuable and more effective than advertisements. Nevertheless, it is hard to have positive publicity. Control about this kind of impersonal promotional messages is quite low. Cargospol's entry of the Netherlands will probably not be mentioned in Dutch media, so publicity will be very hard to accomplish.

Personal selling is generally the most effective channel, but the cost per sale can be very high because international sales representatives must travel great distances. In contrast, advertising offers relatively low cost per contact, but usually it also generates lower average sales per contact. A mix of channels is likely to provide a more cost-effective promotion plan than a single channel.

The last step deals with adapting of the promotion message to cultural differences. Therefore a full understanding of the foreign target audience is necessary. Culture differences between Cargospol and the Dutch transport sector are already discussed in chapter three. As mentioned above, the reliability of Czech companies and government, and the Czech business culture are cultural problems. Further research should be done to detail the effect of the cultural differences on the promotional messages.

### **6.3 Marketing industrial services**

Gronroos (1989) distinguishes producer services and customer services. Producer services are part of the industrial services marketing area. Gronroos focuses on the progress of client needs and created a three stages marketing plan that encloses the different stages of the client's needs. The marketing objective should be to manage all sources that have an impact on the changing customer's preferences. Consequently, the marketing function has to be spread throughout the whole company. The nature of marketing is quite different at the three stages.

A service company cannot become marketing oriented by just applying common marketing strategies like the marketing mix that focuses on developing mass marketing activities and personal selling. The most important part remains outside this scope; the changing needs of



the client. As mentioned above, the marketing mix discusses the instruments for the marketing plan. This section discusses how to use these instruments.

### **6.3.1 Initial stage**

The first stage of the industrial services marketing is the initial stage. The client starts to look for transport operators in a rather vague and unspecific form, thus becomes a potential customer. It develops a general interest in a service company and its services. The marketing objective in the first stage is to develop interest in the company and its services.

In this first stage Cargospol needs to become recognized by potential clients as a possible provider of needed services. A basic effort in creating interest is to develop an attractive corporate image. If the image is too negative, potential customers may not even notice marketing efforts. Negative prejudices against are East European, as mentioned above, are issues to focus on. At this first stage traditional mass marketing efforts, such as various kinds of advertisements can be used to put the company on the list of possible companies that the potential client may contact for an offer. It is critical to get on such a list, in order to have a chance to get the business. Examples of mass marketing activities are adverts at trading sites that are intensely used by Dutch buyers, and mailing to potential consumers. Duplicating adverts to other target countries could also be valuable for Cargospol.

Personal selling can also be used to develop client interest. Public relation activities and sales promotion efforts are also important. An example is to invite key representatives of potential buying companies to take part of an activity in order to get familiar with the service company, its representatives, the service itself and the Czech culture, like showing the new warehouse during a business trip and perhaps an interesting place in the Czech Republic, like the interesting cities Prague or Karlovy Vary with its famous spa's. Such activities can decrease negative prejudice. Obviously, pricing is very important for Cargospol, because it creates the main comparative advantage to Dutch competitors.

### **6.3.2 Purchasing stage**

The second stage of the industrial services marketing is the purchasing stage. The client makes the purchasing decision and commits itself to one company which produces the service, in order to satisfy its specific needs. The marketing objective in the second stage is to turn general interest into sales.

In this second stage Cargospol needs to become the company that is selected from the client's list of possible companies and given the assignment. Stages one and two are often not totally separated from each other. Advertisements and perhaps other mass marketing efforts are only useful in the first stage, so in order to create interest. Personal selling is still useful, it can turn interest into sales. Cargospol's selected salesperson should visit and invite representatives from interested client companies to turn interest into sales. Sometimes personal selling only occurs at the second stage. Currently Cargospol already uses face-to-face contact by itself for their direct export activities to other countries. Their personal contact is part of the second and third stage, which is useful according to Gronroos.

### **6.3.3 Consumption stage**

The third stage of the industrial services marketing is the consumption stage. The service offering company can prove its need-satisfying capabilities and thus lead to an enduring client contact. The marketing objective of the last stage is to secure resales and thus develop enduring client contacts.

Cargospol should continue its marketing after the service is successfully sold once. Most companies stop their marketing efforts after the first sale, which can result in losing the customer, especially in the service sector; the customer can get unsatisfied with the delivered service. After the purchase, the Cargospol should show that it is able to create a service that really matches the needs of the client. This continuing marketing can result in a lasting client contact. In this stage Cargospol should focus on specific, special, customer services, which are also a kind of marketing. Examples are last minute deliveries and flexible storage capabilities. Flexibility is a key issue in these specific marketing efforts. Cargospol also uses face-to-face contact in this stage, which can be useful but not very effective.

This stage is usually separated from the previous two stages. Personal selling and advertisements efforts are not very effective in showing the customer that delivered services are suitable. Instead, 'the management of the *buyer – seller interactions* of the consumption process will be of utmost importance to the success or failure of the service provider. The contact between the client and its representatives and the means of production and the production process, respectively, will strongly influence the client's future purchasing behavior.' These buyer – seller interactions can already start at the second stage. An example of direct interaction is a business trip to Cargospol's new site or warehouse in which the key representative of the buying party gets in contact with representatives of Cargospol, its trucks, office, etcetera, as mentioned above. Another example of buyer – seller interaction is the indirect interaction by the delivered service. The client will notice the result of the transport, quality, punctuality, etcetera. Even the little direct contact between Cargospol's truckers and the representatives from off the client can improve, or decline, the buyer – seller interactions. These interactions significantly influence the client's perception of the service company and the delivered service, and therefore the durability of the client contact. 'Every component, human and non human, in service context, including every stage of the marketing process should be the concern of marketing' (Gronroos, 1989).

## **6.4 Conclusion**

The objective of this chapter was to formulate a marketing plan matching the suitable entry mode direct export by Cargospol. This entry mode is selected in the previous chapter. The marketing plan described in this chapter provides guidelines and needs further research. The research question that is answered in this chapter is:

### **❖ What is the desired marketing plan for the selected entry mode?**

The marketing plan for Cargospol is based on a combination the marketing mix and industrial service marketing theory. The marketing mix discussed instruments for the marketing plan, the industrial service marketing theory discussed the implementation of these instruments. The marketing plan is used to generate the best response in the target market to the selected direct export entry mode over a long period of time, while focusing on buyer – seller relationships. The selected direct export mode gives Cargospol full control over the marketing plan.

### **Marketing mix**

In this thesis the marketing plan is partly based on the 'marketing mix model', also known as the 4 P's; product, price, channels of distribution (place) and promotion. The mix should be adjusted over time. Applying the marketing plan requires that managers make trade-offs between the user benefits of adaptation, and the cost of adaptation.

### **Product**

The marketing mix element product normally can have variations by changes of package, physical and service. Service is a useful variable for Cargospol's marketing plan. Contact with customers is important. Direct export requires high skilled personnel, because all marketing activities are performed by Cargospol. Cargospol's current marketing skills are not very high.

### **Price**

A pricing strategy for international market entry is normally difficult, because of uncertainty about costs, demand and competition in the target market. Interests and perspectives on international pricing are often diverse and conflicting. Entry pricing strategy is intended to obtain the maximum profit contribution for the entire marketing plan over the planning period, taking into account the other elements of the marketing mix. The pricing strategy for Cargospol should be mainly based on low cost pricing. The quality of Dutch competitors is likely to outpace Cargospol's, but Cargospol can set its prices significantly lower, while remaining profitable.

### **Channels of distribution**

The selected direct export entry mode uses its own distribution channel; transport by truck. Therefore, this marketing mix element's variations are not relevant for Cargospol.

### **Promotion**

Promotions are all communications initiated by a seller that are addressed to final buyers, channel members, or the general public, with the intent to create immediate sales or a positive image for the seller's product or company. Promotion includes personal selling, advertising, sales promotion, and publicity. A promotional issue is 'made-in' images. Business to business promotion is often based on rational buying motives, like cost, performance, and services.

### **Marketing industrial services**

Cargospol provides producer services, which are part of the industrial services marketing area. The progress of client needs is crucial for the marketing plan. Therefore a three stages marketing plan encloses the different stages of the client's needs. The marketing objective should be to manage all sources that have an impact on the changing customer's preferences. Consequently, the marketing function has to be spread throughout the whole company. The nature of marketing is quite different at the three stages.

### **Initial stage**

The marketing objective in the first stage is to develop interest in the company and its services. Cargospol needs to become recognized by potential clients as a possible provider of needed services. A basic effort in creating interest is to develop an attractive corporate image, in order to get noticed at all. Negative prejudices against East European are issues to focus on. Mass marketing efforts, such as advertisements can be used to get on the list of possible companies that the potential client may contact for an offer. It is critical to get on such a list. Personal selling can also be used to develop client interest, public relation activities and sales promotion efforts too. Such activities can decrease negative prejudice. Obviously pricing is very important; it is Cargospol's main comparative advantage.

### **Purchasing stage**

The marketing objective in the second stage is to turn general interest into sales. Cargospol needs to become the company that is given the assignment. Personal selling is still useful, mass marketing not. Cargospol's selected salesmen should visit and invite representatives from their buying companies. Cargospol already uses face-to-face contact, this should be continued and extended.

### **Consumption stage**

The marketing objective of the last stage is to secure resales and thus develop enduring client contacts. Cargospol should continue its marketing after the service is successfully sold once. Most companies stop their marketing efforts after the first sale, which can result in losing the customer, because it gets unsatisfied with the delivered service. Cargospol should show that it is able to create a custom service, for example by special services like last minute deliveries and flexible storage possibilities. This continuing marketing can result in a lasting client contact. Personal selling and advertisements efforts are not very effective in this stage. The face-to-face contact that Cargospol applies in this stage in other target countries should be focused on the second stage. Instead, the management of *buyer – seller interactions* is of great importance for a long lasting customer relationship. An example is a business trip to Cargospol's new site or warehouse in which key salespersons of a buying company get in contact with representatives of Cargospol, its trucks, office, etcetera. Also indirect interaction, like the noticeable quality and punctuality are very important.

## H7. Conclusions & Recommendations

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In this chapter the conclusions and recommendations of the thesis are presented. The first section deals with the conclusions, the second section provides the recommendations for the company and for further research. Finally a reflection is provided.

### 7.1 Conclusions

The object of the research was to answer the problem definition:

*What is a suitable entry strategy for Cargospol, with regard to the road transport sector in the Netherlands?*

The research was divided in several research questions, which were obtained from the problem definition and the theoretical framework. The answers of the research questions together answered to the formulated problem definition. A literature study about entry strategies has created the theoretical framework in which a market entry strategy was set out. A market entry strategy requires a suitable entry mode as well as a marketing plan. The first part of the research has dealt with the entry mode selection, the second part has described guidelines for the marketing plan.

The choice of entry mode depends on influencing forces in the external and internal environment of a company. Cargospol's external environment is categorized in target country factors, the Netherlands, and home country factors, the Czech Republic. The internal environment deals with Cargospol's resources. Conclusions regarding the entry mode selection are listed below:

- ◆ The Dutch road transport market is suitable for entering by Cargospol.
- ◆ The suitable entry mode for Cargospol is direct export by Cargospol.
- ◆ A suitable salesperson for direct export to the Netherlands is not present at Cargospol.
- ◆ The sales person should operate from Cargospol and travel regularly to the Netherlands.
- ◆ Caution is needed, because the profit margins of the Dutch road transport sector are very low.
- ◆ Cargospol's low labor costs are a very strong competitive advantage at the Dutch road transport market.
- ◆ The Czech membership of the European Union since 2004 decreased many entry mode barriers like differences in government, culture, and economy.
- ◆ Cultural differences do still exist.
- ◆ Cargospol's entry mode management skills are quite low.

Next, the conclusions about the marketing plan are listed. The marketing plan is based on the marketing mix model, extended with theory about industrial service marketing. The marketing plan is used to generate the best response in the target market to the selected direct export entry mode over a period of three to five years, while focusing on buyer – seller relationships. The formulated marketing plan provides guidelines and needs further research.

- ◆ The pricing strategy should be mainly based on low cost transport services.

- ◆ Marketing has to be spread throughout the entire company.
- ◆ Anticipation to the change of customer needs in a buyer – seller relationship is crucial. Three stages are distinguished:
  - Initial stage: develop interest in Cargospol and its services,
  - Purchasing stage: turn general interest into sales,
  - Consumption stage: secure resales by developing enduring client contacts.

## **7.2 Recommendations**

Several recommendations are obtained from the conclusions above and the observation of the researcher at Cargospol.

### **Recommendations regarding the entry mode selection**

- ◆ Use an entry mode strategy for entering the Netherlands. A specific entry mode is needed for each target country and a specific marketing plan is needed for each target market.
- ◆ Hire a suitable salesperson for the direct export to the Netherlands, otherwise educate an employee thoroughly. The salesperson should master English and have knowledge about the Dutch road transport sector, government, and culture.

### **Recommendations regarding the marketing plan**

The different stages of customer needs in a buyer – seller relationship require different marketing efforts.

- ◆ Initial stage:
  - Develop an attractive corporate image in order to get noticed, by decreasing negative prejudices and focusing on the competitive advantage; low cost transport services.
  - Use mass marketing, like advertisements at Dutch oriented trading sites and magazines, and emails to potential customers. The website should be updated and extended.
  - Personal selling, public relations, and sales promotion can be useful too.
- ◆ Purchasing stage:
  - Extend the personal selling, use the salesperson and senior management to persuade potential customers.
  - Mass marketing is not effective in this stage.
- ◆ Consumption stage:
  - Continue marketing efforts after a sold service to secure resales.
  - Arrange indirect buyer – seller interaction by focusing on custom services, like last minute deliveries and flexible storage possibilities. The transport department should be mainly responsible for these services.
  - Arrange direct buyer – seller interaction to extend the relationship, for example by organizing activities with both parties.

### **Other recommendations**

- ◆ Cargospol should improve several elements in order to perform better at the Dutch road transport sector, increase corporate image attractiveness, and decrease cultural differences:
  - Improve in time payment and overall punctuality.

- Improve the skills of the English language, Dutch business culture, government and culture in general, for all personnel that will have contact with Dutch customers.
- ◆ Participate in transport databases like ‘Timocom’ in which both Dutch as Czech companies are united. This kind of direct export is very easy to implement and likely to be effective.

### **7.3 Reflection**

The author intended to provide a clear entry strategy regarding the entering of the Dutch road transport market. Both parts of the entry strategy require further research. The entry mode selection for Cargospol is not entirely accurate because critical information about the company could not be obtained. Regardless the author’s efforts, hard figures and exact specification about cost, profit, objectives and strategy are not provided. Communication with Cargospol proved to be difficult. The amount of documents about the company was very limited and in Czech, and only two employees spoke English at an appropriate level. The senior management’s opinion about the suitable entry mode is also not obtained. Poor linguistic skills of the director resulted in general information about opinions, objectives and strategy. The marketing plan just provides guidelines due to the size of the bachelor thesis.

Nevertheless, it is the author’s opinion that the rapport is useful for Czech companies willing to enter the Dutch road transport market. The rapport provides the framework for entry mode selection as well as a compatible marketing plan, including an extended case study.

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## Appendices

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## Appendix A: Organization chart Cargospol

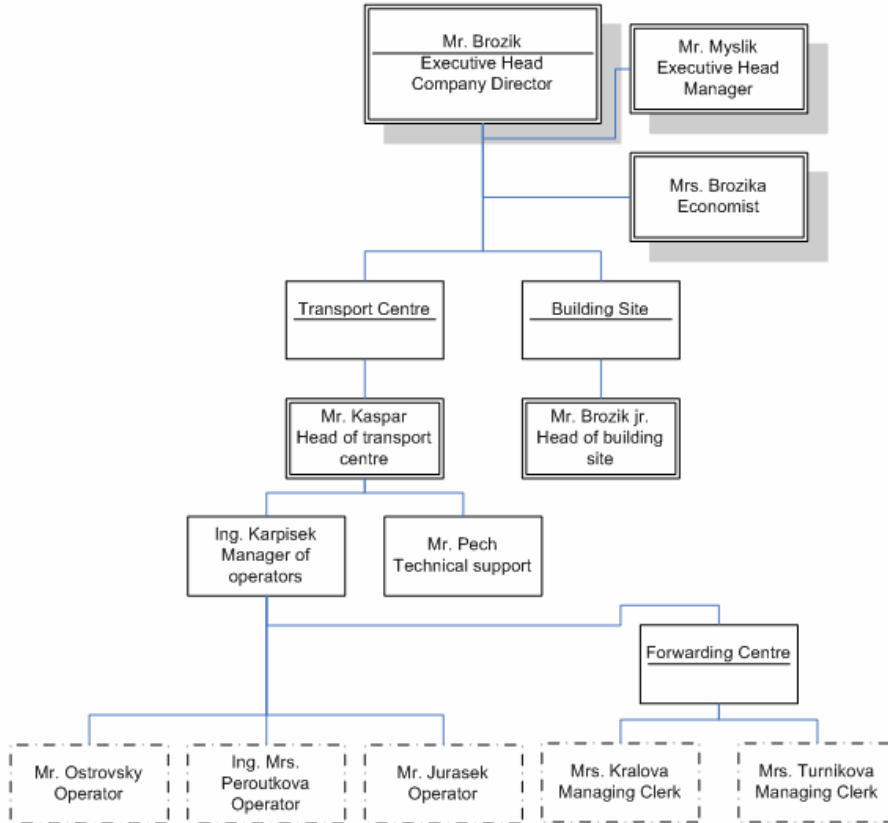


Figure A1: Organization chart Cargospol

## Appendix B: Literature overview of criteria that influence the choice of entry mode

Marketing literature		International business theory
Kramer (1964) Deschampsneufs (1967) Litvak and Banting (1973) Robinson (1978) Walvoord (1980) Douglas and Craig (1983) Cundiff and Hilger (1984) Green and Allaway (1985) Connolly (1987) Ball and McCulloch (1993) Root (1994)	Market size and growth	Hirsch (1967)
Root (1994)	Factors of production	Smith (1775) <sup>a</sup> Ricardo (1800) <sup>a</sup> Heckscher and Ohlin (1933) <sup>a</sup> Vernon (1966) Hirsch (1968) Wells (1968) Krugman (1990) Porter (1990)
Kramer (1964) Deschampsneufs (1967) Litvak and Banting (1973) Robinson (1978) Walvoord (1980) Douglas and Craig (1983) Cundiff and Hilger (1984) Connolly (1987) Ball and McCulloch (1993) Root (1994)	Economic development	Clark (1940) Linder (1961) Maizels (1963) Vernon (1966) Sherbini (1967) Wells (1968)

Figure A2: Criteria that influence the choice of entry mode (Russow & Okoroafo, 1996)

## Appendix C: Factors influencing the foreign market entry mode decision

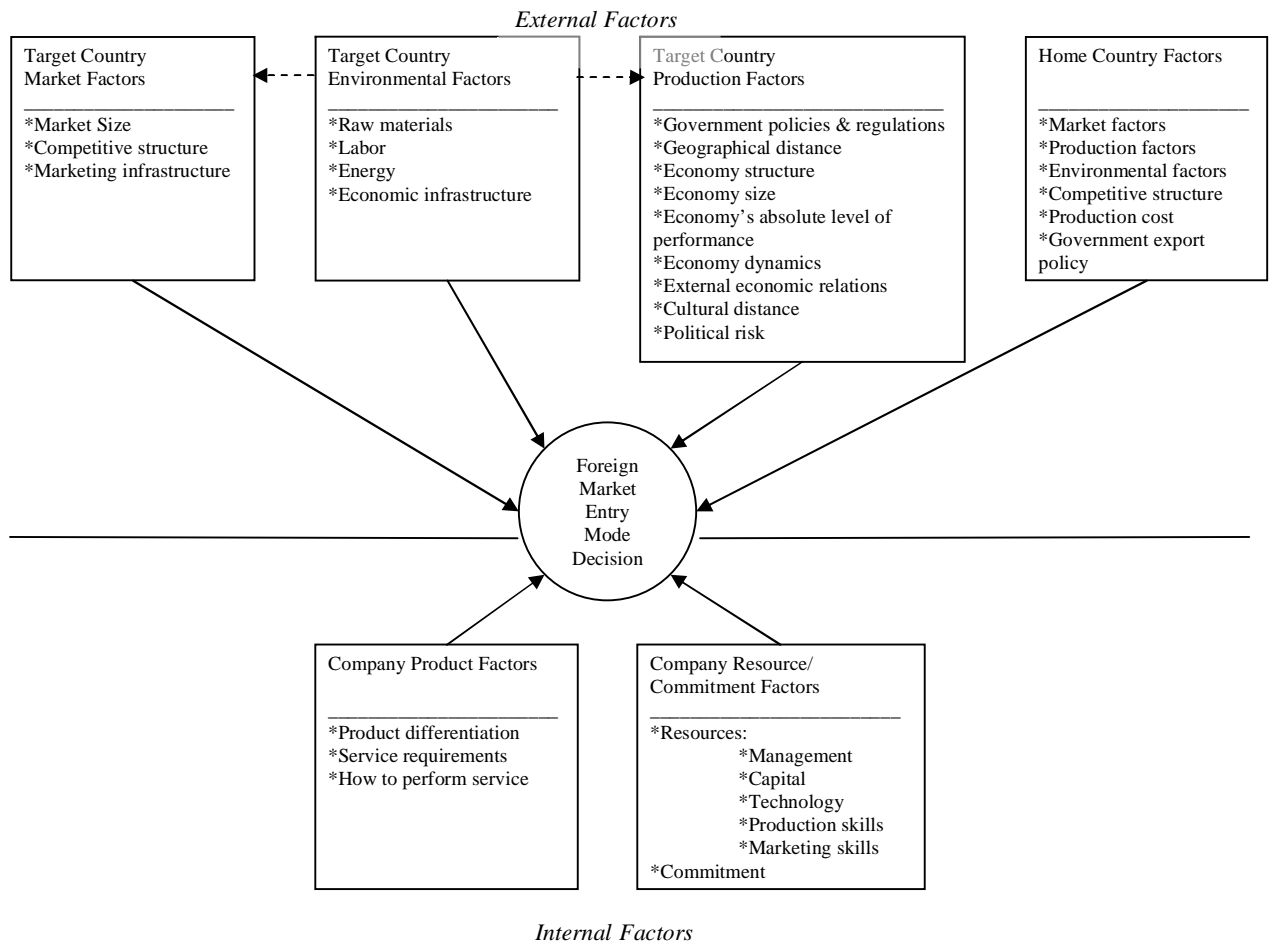


Figure A2: Factors influencing the foreign market entry mode decision, extended version (Root, 1994)

## **Appendix D: Example of comparative analyses calculations**

This appendix show a calculation example of the comparative analyses discussed in chapter five. The example uses the feasible export entry modes direct, indirect, and cooperative, as well as the joint venture entry modes minority and 50/50.

The estimated net profit contributions of the feasible entry modes, the cumulative net present values, and the ranking are shown below. The used figures are fictive.

	<u>End of year</u>						<u>Cumulative</u>
	0	1	2	3	4	5	
<b>Feasible entry modes</b>							
Direct export	-2.5	2.5	5	7	8	8	28
Indirect export	-5	4	7	9	10	11	36
Cooperative export	-2.5	4	6	8	9	10	34.5
Minority JV	-20	2	6	10	14	17	29
50/50 JV	-40	2	5	13	25	35	40

*Table A1: The estimated net profit contributions of feasible entry modes by each year of the strategic plan*

	<u>End of year</u>					
	0	1	2	3	4	5
<b>Feasible entry modes</b>						
Direct export	-2.5	-0.325	3.455	8.061	12.637	16.613
Indirect export	-5	-1.52	3.772	9.694	15.414	20.881
Cooperative export	-2.5	0.98	5.516	10.78	15.928	20.898
Minority JV	-20	-18.26	-13.724	-7.144	0.864	9.313
50/50 JV	-40	-38.26	-34.48	-25.926	-11.626	5.769

*Table A2: The cumulative net present values of the feasible entry modes*

The negative profit contribution in year ‘0’ represents the initial investment in the chosen entry mode. Cargospol’s required rate of return, the hurdle rate, is set at 15 percent, which is an average percentage. A higher rate decreases the incentive to enter and vica versa. This rate is used to discount the foreign project’s net cash inflows over the next 5 years. A positive cumulative net present value of net cash inflows indicates that the project’s return exceeds the 15 percent hurdle rate, so it becomes recommendable. According to the comparative profit contribution analysis are all feasible entry modes recommendable within 5 years. All exports modes are recommendable after just 1 year.

The ranking of the feasible entry modes for Cargospol, considering the comparative profit contribution analysis is:

Cooperative export	5
Indirect export	4
Direct export	3
Minority JV	2
50/50 JV	1

*Table A3: Ranking comparative profit contribution analysis*

The cumulative net present values of the feasible entry modes, adjusted for political and market risks are shown below. The hurdle rates are raised to respectively 20, 19, 18, 17 and 16 percent. The market risks seem to be relatively constant for the next few years, so different multipliers per year are not necessary.

	<i>End of year</i>					
	0	1	2	3	4	5
<b>Feasible entry modes</b>						
Direct export	-2.5	-0.345	3.37	7.857	12.273	16.081
Indirect export	-5	-1.58	3.537	9.153	14.493	19.509
Cooperative export	-2.50	0.89	5.20	10.07	14.71	19.08
Minority JV	-20.00	-18.32	-14.08	-8.15	-1.17	5.96
50/50 JV	-40.00	-38.33	-34.86	-27.34	-15.28	-1.22

*Table A4: Cumulative net present values of the feasible entry modes, adjusted for market risks*

According to the comparative profit contribution analysis, all feasible entry modes are recommendable within 5 years, except the 50/50 JV. All export modes are already recommendable after the end of year 1. The ranking of the feasible entry modes for Cargospol, considering the comparative risk analysis is:

Indirect export	5
Cooperative export	4
Direct export	3
Minority JV	2
50/50 JV	1

*Table A5: Ranking comparative risk analysis*

## Appendix E: Interview about general issues & strategy

**Date:** 22-11-2006

**Interviewed:** Dr. Karpisek

**Interviewer:** Dr. Charles

**Subject:** Strategy & General issues

### Interview questions:

#### Part 1: General

#### Historical facts:

- How did Cargospol's profit change over the years?

*Answer: The first four years were hard (1995-1999) for Cargospol, because of the relative big cost pool 'leasing of trucks'. Cargospol has been profitable from then on. 2006 is the best year so far, with a really nice profit. Cargospol owns the trucks after the leasing period (the truck is entirely paid for after the period), of three, mostly four years, which decreases the costs significantly.*

How did the number of 'business countries' change over the years?

*Answer: Cargospol has transported to most West European countries from the beginning in 1995. Transporting to Italy started later, the same goes for France and the Benelux.*

#### Supply:

How does the supply change over the year?

*Answer: Lets start in the summer; the summer months have a low supply because of the holidays. After the summer, august and on, the supply increases almost linear to the highest point of the year in the last week of December. In January, the supply has a dip because of Christmas and end of year expenses. Springtime, February until Mai, shows a parabolic growth. In June, the supply decreases because of the coming holidays.*

Yearly supply chart of Cargospol

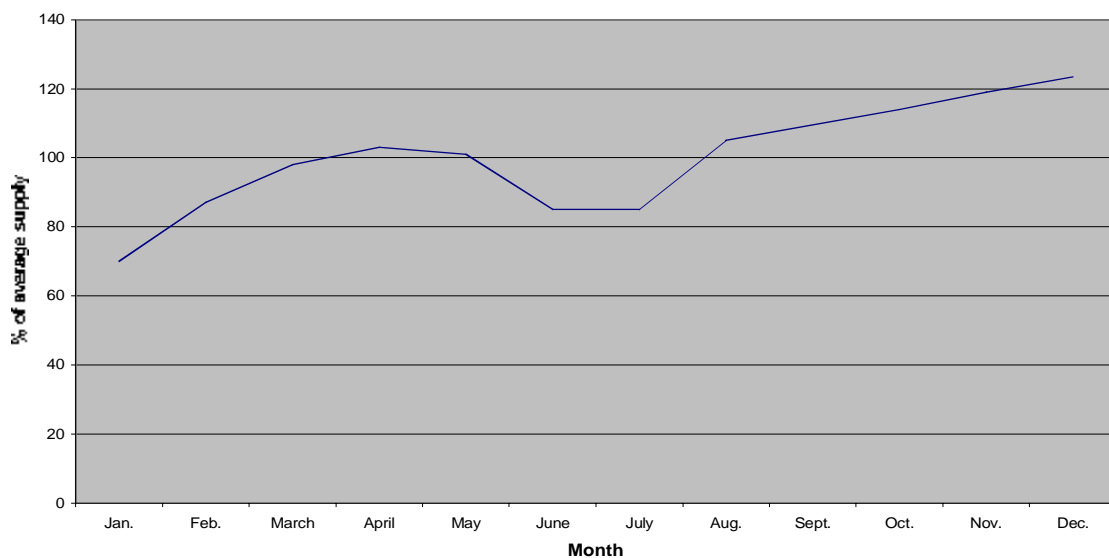


Figure A3: Yearly supply chart of Cargospol



**Warehouse:**

How will the warehouse be organized with personnel and material?

Answer: *I don't know yet. It will be difficult to manage.*

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**Part 2: Strategy**

**General strategy**

- What is the kind of strategy that Cargospol uses?

(For example: Enter of entire Western Europe / maximize growth)

Answer: *Steady growth. Cargospol should growth with about 10 trucks a year, so incremental. In 5 year the company should have 100 trucks; a 100 percent growth regarding the current situation. The new trucks are usually leased at the end of the year. New lease contracts provide tax benefits.*

*The building of the warehouse will start in April next year (2007), and probably takes about half a year to build. The new site, just outside Pilsen, will able us to store the trucks together with the management department.*

**Entry strategy**

What is the entry strategy that Cargospol normally uses for a country?

Answer: *First, companies are found in the database, the computer program 'raalte transport' in which supply and demand from all over Europe is united. The second step involves contacting these companies by email/fax. Normally an emailing of about 100 mails only provides only about 10 replies, of which about two companies seem suitable to do business with. Third, contact by phone. Fourth, arrange a meeting with the company. Business trips to potential customers are common. After these steps transport can begin. Sometimes transports start in an earlier stadium.*

What are specific strategies for individual countries?

Answer: *The entry strategy is the same for every country.*

On which factors does the entry strategy depend?

(For example: prospects, language, price, distance, culture difference)

Answer: *The entry strategy depends on different factors:*

*The prospects have to be good. We do not transport to Eastern Europe because it is less profitable, the prices are lower. Distance can influence the prospects too. For example, we do not transport to Spain, because it is too far and less profitable than the current countries that we do business with. The distance makes it less profitable too.*

*Language also influences our strategy. We have linguistic experts for German and French. English is a bit hard, but we try to improve it; all employees follow an English course. Entering the Netherlands can be done by speaking English, Dutch is not necessary.*

*Cultural differences do not stop our efforts for new clientele. For example, we do business with England and Italy, in spite of the language barrier.*

- I have read about the Dutch top 10 complaints about doing business with Czech companies. In time payment was one of the highest ranked issues. Does Cargospol pay in time, or are delays common?

Answer: *Well, I think that about 40 days delay is average. It is just the way we do business in the Czech Republic.*

**Strong/weak points:**

Please focus on the following aspects, along with others, while answering the questions about strong and weak points: flexibility, delivery on time, payment on time, theft risk, image, quality of service, market share, and price in comparison to competitors.

What are strong points of Cargospol in comparison to Czech competitors?

Answer:

+ *Cargospol has a good image; on time delivery, little errors, high quality of service.*  
+ *We have good drivers, equipment and maintenance.* (red. See the answer to the next question).

*I do not really know specific strong points in comparison to Czech competitors.*

What are strong points of Cargospol in comparison to competitors from other countries?

Answer:

+ *Our prices are lower than most competitors. The price difference with countries like Germany, Austria and the Netherlands is normally 10 to 15 percent, sometimes even up to 25 percent.*

+ *Language; mentioned in the answer about factors that influence the entry mode decision above.* (red. Is language a strong point of Cargospol?)

+ *'Drivers, management, equipment and maintenance'. The drivers and management are skilled. Equipment and maintenance is at a high quality level. Like mentioned above.*

- What are weak points of Cargospol in comparison to Czech competitors?

Answer:

- *We are expensive in comparison to Czech competitors.*

- *We have a good image, but we are not known in entire Czech because we are not big enough. Our size, currently 45 trucks, is about average.*

What are weak points of Cargospol in comparison to competitors from other countries?

Answer:

- *It is getting hard to find good drivers. This can be a problem for our growth plans. The driver's force is aging. The supply of new drivers is low, a reason is the expensive driver's license.*

Does Cargospol also transport national, so within the Czech Republic?

Answer: *Yes, we do transport national too.*

- What percentage of the total transport?

Answer: *I don't know. I will let you know next Monday.* (red. Unfortunately, Mr. Karpisek has not let me know what the percentage is. Though I have asked him several times about it).

Can you give me more detailed costs information about driver, truck, and other elements of the total cost price?

Answer:

- *The wage of the driver is about 175Kč/hour; around 9 Euro/hour.*

- *I do not know the cost of truck, lease, insurance, etc. I will let you know next Monday.*

(red. Unfortunately, Mr. Karpisek has not let me know what the percentage is. Though I have asked him several times about it).

Can you give me more detailed information about; sales, margins and profit?

Answer: *I will let you know next Monday.* (red. Unfortunately, Mr. Karpisek has not let me know what the percentage is. Though I have asked him several times about it).

## Developing an entry strategy for Cargospol