

Master Thesis

Agent/Distributor versus Foreign Subsidiary:

“A study into the possibility of setting up a sales organisation for Hartman in Sweden, Spain, Russia & Dubai”



Kamèr Aykaz – University of Twente

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*Public version**

Master Thesis

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* In this version of the thesis all confidential information is deleted by Hartman's request.



Management summary

Hartman Outdoor Products B.V. is an international company founded in the Netherlands that operates in the outdoor furniture market.

Due to the successful business approach on the one hand and the increasing competition in its primary markets on the other hand Hartman had the desire to expand and go abroad to look for new business opportunities. This desire is followed by a feasibility study – executed in June 2008 – in order to find the most promising export markets for outdoor furniture. As a result of this study, Hartman sees structural growth opportunities in the following markets: Russia, Sweden, Spain and Dubai (UAE) (Aykaz and Olthof 2008).

However, Hartman experienced that the current market entry strategies, which are being used in those four markets, show insufficient growth opportunities for the future.

As a consequence, the main purpose of this thesis is to compare Hartman's currently used market entry modes against alternative entry modes in terms of feasibility; in order to find the most profitable market entry mode for Hartman in the four target markets and make the final decision concerning whether or not to change the current market entry modes: agent/distributor vs. foreign subsidiary.

As a result of this, the following central question is being answered in this thesis:

To what extent is it feasible for Hartman to enter the markets of Sweden, Spain, Russia and Dubai (UAE) by setting up a sales organization in combination with a showroom?

Based on this study the following recommendations are made for Hartman:

From the assessment of the *internal conditions* it can be concluded that it is not necessary for Hartman to vertically integrate by setting up a foreign sales organization, in order to have success in the foreign markets. Success can also be achieved through a less integrated form of export, by using agents and/or distributors.

The *external conditions* as well as the *profit conditions* are assessed for each country separately:

Sweden:

Spain:

Russia:

Dubai:





Preface

I have written this report in order to graduate for my MSc in Business Administration – with a specialization in International Management – at the University of Twente in Enschede, the Netherlands.

After six months of intensive working I have written the final part of my thesis based on instructions from Hartman Outdoor Products B.V. in Enschede.

I perceive the finalization of this thesis as an important achievement in my life, I have worked on this thesis with much pleasure, passion and ambition.

This thesis is a continuation of an earlier research which I have conducted for Hartman from May until June 2008. After this, Hartman gave me the opportunity to do a follow up research – based on the findings of my first research – including the possibility to graduate. I am Hartman very thankful for this confidence in me and I can say that I have done my very best to write this report in line with the interests of the company.

Looking back at the past six months the first thing to mention are the pleasant working conditions at Hartman, both the relationship with my fellow colleagues as well as the facilities offered by Hartman. Therefore I can say that I can not picture myself a better working environment for doing an internship.

The whole process of writing this thesis was a great learning experience for me where I put my knowledge of four years studying into practise. I admit that this was not always easy, since the requirements from the university did not always match with Hartman's requirements.

Therefore, my biggest challenge was to write this thesis in accordance with Hartman's as well as the University's expectations and requirements.

I hope that this thesis will have an added value for both Hartman as well as the University of Twente.

I could not write this report without the help of people who supported me, reviewed my work and provided me the required information.

First of all I would like to thank Mr. Stephan Maathuis and Mr. Patrick Blik – my supervisors from the University of Twente – for their support and comments on my work. I have experienced our relation as very good and pleasant – I will miss our meetings!

Secondly, I would like to thank my colleagues from Hartman who were always willing to help me. My special thanks are for Mr. Bert van der Velden – General Director – for his time and effort as being my first supervisor. Despite his busy schedule he was always willing to help me in solving my problems and providing me information.

Also, I would like to thank Mrs. Marije Richter – Export Manager – who has supported me in writing this thesis by reviewing my work and answering many questions from my side.

Finally I would like to thank my family and friends for their general support.

Almelo, June 2009

Kamèr Aykaz





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Chapter 1: Research plan

1.1 introduction

This chapter starts with an explanation of the main reason of this thesis in section 1.2. This is followed by the formulation of the research objective, problem statement and research questions in section 1.3. Furthermore, the research approach and structure is being explained in section 1.4.

1.2 Research background and objective

1.2.1 Research background

Hartman Outdoor Products B.V. (Hartman) is an international company that operates in the outdoor furniture market. Its main activities can be described as follows:

“ The design, development, purchase and sales of high quality outdoor furniture products under the Hartman brand name, which are sold to both retail stores and organizations in the Benelux, UK, Germany, the Czech Republic and some other Western-European countries as well as carefully selected dealers in the rest of the world.”

The “Hartman” brand name is introduced in the early 80’s and got well-known by adapting to the increasing demand of the consumers who were looking for furniture which was resistant to the different weather types and of a high quality. About 70% of the furniture Hartman produced was made of resin and the company was one of the best in producing these products. The resin outdoor furniture was being produced at the Hartman factory, nowadays Enschedese Kunststof Fabriek (EKF) in the Netherlands.

Since the nineties however, resin is sold even less, because the consumer is looking for prestige and charisma in the products and not the cheap looking plastic furniture. As a result of this change in customer preferences, Hartman tried to broaden its assortment by adding outdoor furniture in different materials such as: wicker, aluminium and teak to their collection. However, the impact was not successfully due to the association of the Hartman brand name with resin. This development, in combination with an increase of the competition on the outdoor furniture market and high oil prices resulted into a fixed costs issue; in other words, due to these developments Hartman was not able to cover the fixed costs by its sales what lead to a reorganization of the company in august 2005.

Nowadays, Hartman has successfully adapted its assortment to the preferences from the market and is getting stronger every year – both nationally and internationally.

Due to the successful business approach on the one hand and the increasing competition – in its primary markets – on the other hand Hartman had the desire to expand and go abroad to look for new business opportunities. This idea was followed by a feasibility study in order to find the most promising export markets for outdoor furniture. In this study, eleven potential countries were selected by Hartman’s management by means of their experience and assumptions: Russia, France, Spain, Sweden, Dubai (UAE), Poland, Ukraine, Kazachstan, Estonia, Latvia and Lithuania; after which they were assessed by two students – including myself (Aykaz & Olthof 2008). The main results of this report can be found in *Appendix A*.

As a result of this study, Hartman saw structural growth opportunities in the following markets: Russia, Sweden, Spain and Dubai (UAE) (Aykaz and Olthof 2008).

However, Hartman experienced that the current market entry strategies, which are being used in those four markets (table 1.1), show insufficient growth opportunities for the future.

Table 1.1: Hartman's current activities and turnover in Sweden, Spain, Russia and Dubai.

Country	Current activities	Current turnover
Sweden		
Spain		
Russia		
Dubai		

Therefore, Hartman thought of a different way to do business in those markets; on the one hand to get more control over its distribution channel and subsidiaries, on the other hand to increase its sales potential. In order to overcome the difficulties of the current approach, Hartman's management considered about a new export business model for the target countries: setting up a sales organisation in combination with a showroom to attract both (private) consumers as well as retail organizations.

As a consequence, the main purpose of this thesis is to compare Hartman's currently used market entry modes against alternative entry modes in terms of feasibility; in order to find the most profitable market entry mode for Hartman in the four target markets and make the final decision concerning whether or not to change the current market entry modes.

1.2.2 Research objective

This results into the following **research objective**:

Developing a method for assessing the feasibility of Hartman's currently used market entry modes as well as alternative entry modes, in order to decide whether or not to change the present market entry mode in Sweden, Spain, Russia and Dubai (UAE).

1.3 Problem formulation and research questions

A brief summary of the main points concerning the problem formulation:

- *(Desired) Growth of exporting company*; Due to the successful business model in the Netherlands, Belgium, Germany and the Czech Republic, Hartman desires to grow in a similar way in other countries as well.
- *Export market growth*; Aykaz and Olthof (2008) found sufficient growth opportunities in the four target countries.
- *Diminishing satisfaction with the foreign intermediary*; the current distribution channels are workable, although Hartman expects an acceleration in the growth through selling in a more direct way, by opening foreign subsidiaries.

This leads to the following **problem formulation**:

To what extent is it feasible for Hartman to enter the markets of Sweden, Spain, Russia and Dubai (UAE) by setting up a sales organization in combination with a showroom?

And the main **research questions**:

Research question 1

The first research question sets the focus on the criteria that have to be met when making the decision whether to vertically integrate in the foreign distribution channel or not. As a result of this, a set of criteria followed from the literature study as a framework for answering following research questions:

R1: What are the conditions that have to be met in order to change from agent/distributor towards subsidiary exporting, according to the literature and case studies?

Research question 2

The second research question covers Hartman’s internal environment. By means of the decision criteria and conditions from the first research question I have assessed Hartman’s internal environment:

R2: To what extent do Hartman’s internal company characteristics meet the conditions as specified?

Research question 3

The third research question is also being answered by means of the decision criteria and conditions from the first research question, here the focus is set on the external environment: the situation in the four target countries Sweden, Spain, Russia and Dubai:

R3: To what extent does the situation in the selected countries for Hartman fulfil the conditions as specified?

Research question 4

This research question covers the financial part of the study, where different alternative market entry modes are worked out and assessed by means of their profitability for Hartman:

R4: To what extent does the desired entry mode meet Hartman’s profitability requirements?

Research question 5

The fifth research question can be seen as the final step of the thesis where I come to a well founded conclusion followed by recommendations for Hartman about the best entry mode; whether to enter the markets by an own sales organization, showroom, agents, distributor or a combination.

Here I have combined the results of the internal, external as well as the profitability analysis in order to advise Hartman about the best market entry mode:

R5: What can be recommended to Hartman based on the outcome of the feasibility assessment?

1.4 Research approach

1.4.1 Data collection

Data collection involves both primary and secondary data. Primary data is collected for a specific purpose; where secondary data has been collected for some other purpose and thus is being reanalysed (Saunders et al. 2003).

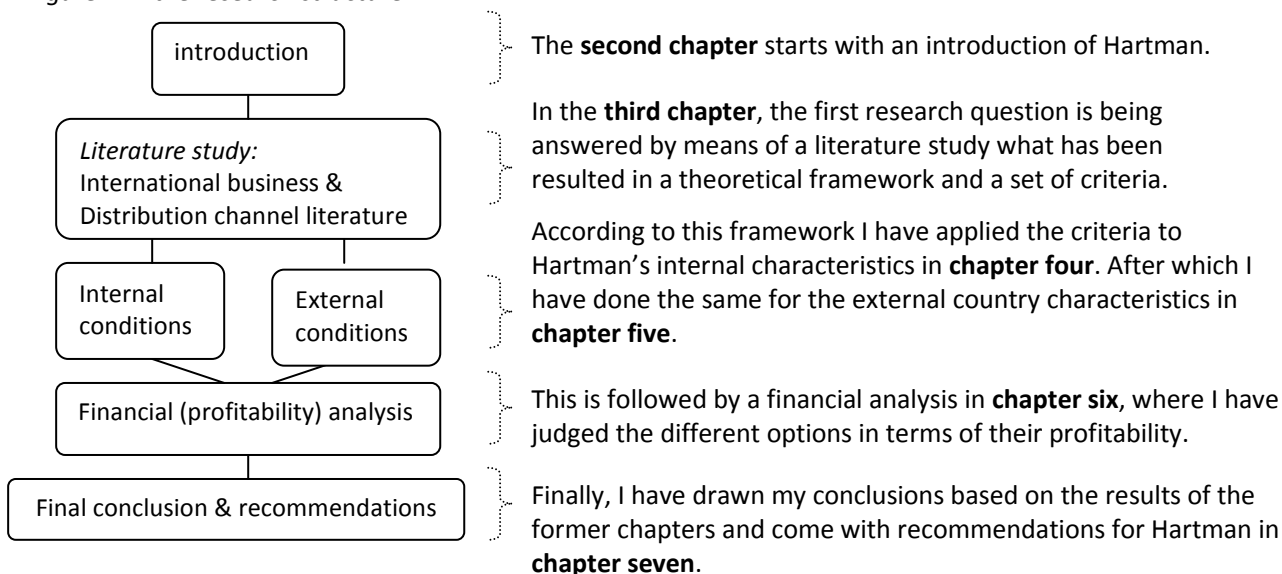
The primary data is collected by means of personal interviews with the management of Hartman in the Netherlands, Germany and the Czech Republic.

The secondary data used in this thesis is collected by means of literature review from textbooks, academic journals, country reports, websites and other similar sources. A more specific description of the used sources is given in the introduction of each chapter.

1.4.2 Structure of the research

A description of the research structure used in this thesis is given in figure 1.1:

Figure 1.1: the research structure





Chapter 2: Company profile Hartman (Confidential)



Chapter 3: Theoretical framework: Changing from Agent/Distributor towards Subsidiary exporting

R1: What are the conditions that have to be met in order to change from agent/distributor towards subsidiary exporting, according to the literature and case studies?

3.1 Introduction

In order to answer the main research questions, I have done a literature study.

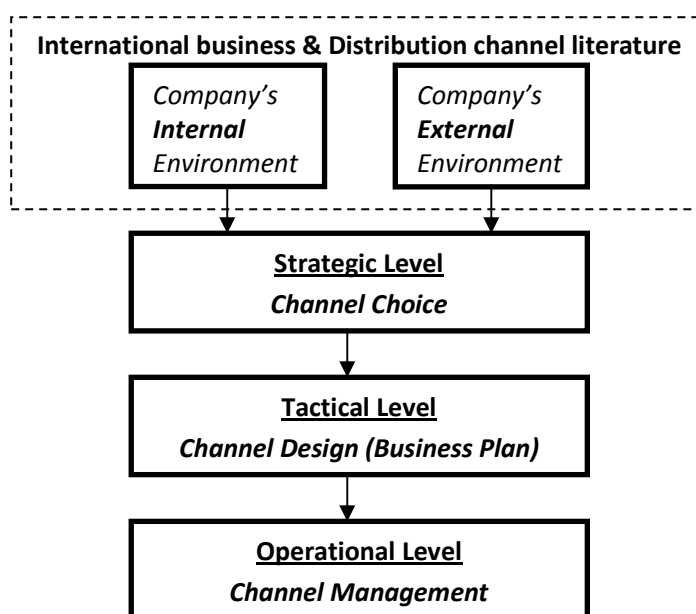
Firstly, the problem which Hartman has to deal with – trying to increase the sales in the four target countries – can be defined as a foreign market entry mode selection problem. In this context it is necessary to conduct a study in order to assess the feasibility of other options for market entry.

Therefore, I have started with a research about foreign market entry decisions and set a focus on the major criteria from the literature concerning market entry by setting up a foreign sales organization in combination with a showroom. This study of international business literature will follow in the next section, 3.2.

Besides the foreign market entry mode selection literature I have also reviewed literature concerning the change of foreign distribution channels in section 3.3, what is more specific. Because of the fact that Hartman is already active in the four target countries, the central problem in this thesis can also be explained as an distribution channel issue: whether to change the current distribution channel or not. Finally, Section 3.4 will summarize this chapter with a conclusion.

Thus, the general theoretical model that is being used in this report will be a combination of both dimensions. Due to the scope of this study and the impact on Hartman’s long term goals, the focus of this thesis can be characterized as strategic. Because of time limitations I am not able to elaborate on the following tactical and operational level decisions. Figure 3.1 explains the different levels which companies have to deal with when they consider whether or not to change their distribution channel.

Figure 3.1: Strategic, Tactical and Operational levels of distribution channel change (Koch 2001)



3.2 International business literature

It is becoming more and more evident to firms that a major task towards maintaining their competitiveness is the expansion of their activities in foreign markets.

In the international business literature it is widely accepted that the selection of the entry mode is of critical importance for the successful outcome of the venture (Terpstra, 1994; Kumar and Subramaniam, 1997; Agarwal, 1990; Chung and Enderwick, 2001; Zhao 2004) since other decisions related to the expansion effort depend on the entry strategy (Hajidimitriou, 2002; Root 1994).

In order to make the entry mode decision, many authors have developed models with criteria to analyze the firm's environment. For this research I found **Root's (1994)** model most suitable because of its general adoptability and completeness – for example, Root also compares the outcomes regarding the criteria among different market entry modes.

According to Root (1994), a company's selection of an entry mode for a target country is the net result of several, often conflicting, forces. To assess the feasibility of an entry mode, he distinguishes several criteria which are both internally and externally oriented.

The internal factors consist of product specific and firm specific factors which are being measured by specific criteria. The external factors are differentiated by target country market factors and environmental factors.

Like Terpstra (1994) states, the firm must evaluate the different factors in order to make the right choice; so far for each decision made, a case-by-case analysis is necessary in order to select the most appropriate factors and exclude the others. Therefore, the most legitimate next step will be making a selection of the criteria according to Hartman's situation.

Table 3.1 gives an overview of the selected Internal and External factors including the main decision criteria and the desired outcomes for setting up a foreign sales organization (subsidiary) – Hartman's desire – and for indirect and agent/distributor exporting – Hartman's currently used entry modes.

Table 3.1: Root's (1994) criteria including the outcomes for two market entry modes.

Criteria	Foreign sales organization (subsidiary)	Indirect and agent/distributor exporting
Internal factors		
Resource availability	Substantial resources	Limited resources
External factors		
Sales potential	High	Low
Competitive structure	Atomistic competition	Atomistic
Distribution infrastructure	Poor	Good
Import policies	Liberal	Liberal
Economic structure (Stability)	High	Low
Exchange controls	Liberal	Restrictive
Exchange rate	Appreciation	Appreciation
Cultural distance	Small	Large
Political risks	Low	High

By adopting these criteria to Hartman I will get a first result about the feasibility of the possible market entry modes in the target countries. These outcomes will be very useful because they are related to a specific entry mode.

Following up on this I am going to select some criteria from the distribution channel literature which are not related to a specific entry mode but to a channel integration or directness decision.

By combining these criteria into one model I will create a suitable model for this thesis.

3.3 Distribution channel literature

In the introduction I have stated that Hartman is already doing some business in the four target countries, so Hartman's desire to change its distribution channel structure in the four target countries can also be explained by means of literature in distribution channel management.

Bell *et al.* (2003) call Hartman's desired situation, whereby a manufacturer or wholesaler reaches end consumers through independent *and* company-owned retailers, "Partial Forward Integration".

This explanation is a more specific one compared to the International market entry mode literature due to its focus on distribution channels, what can be seen as Hartman's main concern.

Stern and El-Ansary (1988) stress that the channel integration decision – where a firm chooses to increase or decrease its ownership and control over the distribution channel – is a critical component of any firm's marketing channel strategy. The decision is of even greater significance in an international context. Choosing the right level of channel integration can make the difference between success and failure in a foreign market, as it represents a point of vulnerability for the firm in terms of both market response and opportunity losses (Klein *et al.*, 1990).

Therefore, it is of major importance in this thesis to figure out whether Hartman makes the right choice by changing the distribution channel or not.

Concerning integration issues in the foreign distribution channels **Anderson & Coughlan (1987)** propose and examine a model, which they have formed by reviewing other literature, with criteria for assessing the feasibility of such decisions in an international context.

Table 3.2 gives an overview of the selected criteria including propositions made by Anderson & Coughlan (1987) with the most likely outcomes when companies choose for vertical integration in the distribution channel in foreign markets.

Table 3.2: Vertical channel integration criteria including the most likely outcomes proposed by Anderson & Coughlan (1987)

Criteria	Vertical channel integration if	No vertical integration if
Product age	less mature	Mature
Service requirements	High	Low
Product differentiation	High	Low
Legal restrictions towards FDI	Liberal	Restrictive
Existing distribution arrangements	High	Low
Relatedness to principal business	High	Low
Importance of the firm's patent	High	Low
Competitive behaviour	High integration	Low integration

Also, **Osborne (1996)** proposes such a model that describes the most important factors influencing the channel integration decision for small- to medium sized exporters. In table 3.3 I have listed the selected criteria from Osborne's model including the proposed outcomes for the important decision: whether to vertically integrate or not.

Table 3.3: Osborne (1996), most important factors that influence channel integration and proposed relationships

Criteria	Integrate if	Do not integrate if
Brand Knowledge	High	Low
Competitive Knowledge	High	Low
Firm's experience	High	Low

Katsuri Rangan (1992) discusses a model about the directness of sales channels by means of customer requirements (table 3.4); in this model he takes into account the criteria from a customer point of view. Therefore, these selected criteria do have an important added value for this thesis.

Table 3.4: Preferred directness of sales channels (Katsuri Rangan, 1992)

Customer requirement	Direct if	Indirect if
Product information	High	Low
Product customization	High	Low
Product quality assurance	Important	Unimportant
Assortment	Non-essential	Essential
Logistics	Complex	Simple

Finally, I have selected some criteria from **West's (1989)** framework, where he points out some important generally applicable decision making criteria and preferred outcomes in order to assess the directness of a distribution channel (table 3.5).

Table 3.5 : Direct versus indirect distribution – some decision making criteria (West 1989)

Criteria	Direct if	Indirect if
Complexity of product	High	Low
Unit price	High	Low
Price negotiation	High	Low
Sales information	High	Low
Frequency of purchase	Low	High
Perishability	High	Low

As an extension to these models I will add two equally important external criteria to the final framework, namely: *company policies* and *marketing infrastructure*. The mentioned criteria were suggested by the management of Hartman Germany and the Czech Republic as critical for this feasibility research.

The company policies comprise all (legal) factors in a specific country which exert an influence upon the choice of starting up a new business.

By means of the distribution infrastructure I will assess the availability and development of transporting possibilities and the development of the distribution structure of the retail and furniture industry. The management of Hartman Germany suggested the following outcomes (table 3.6):

Table 3.6: proposed criteria by Hartman Germany

Criteria	Direct if	Indirect if
Company policies	Liberal	Restrictive
Marketing infrastructure	Good	Poor

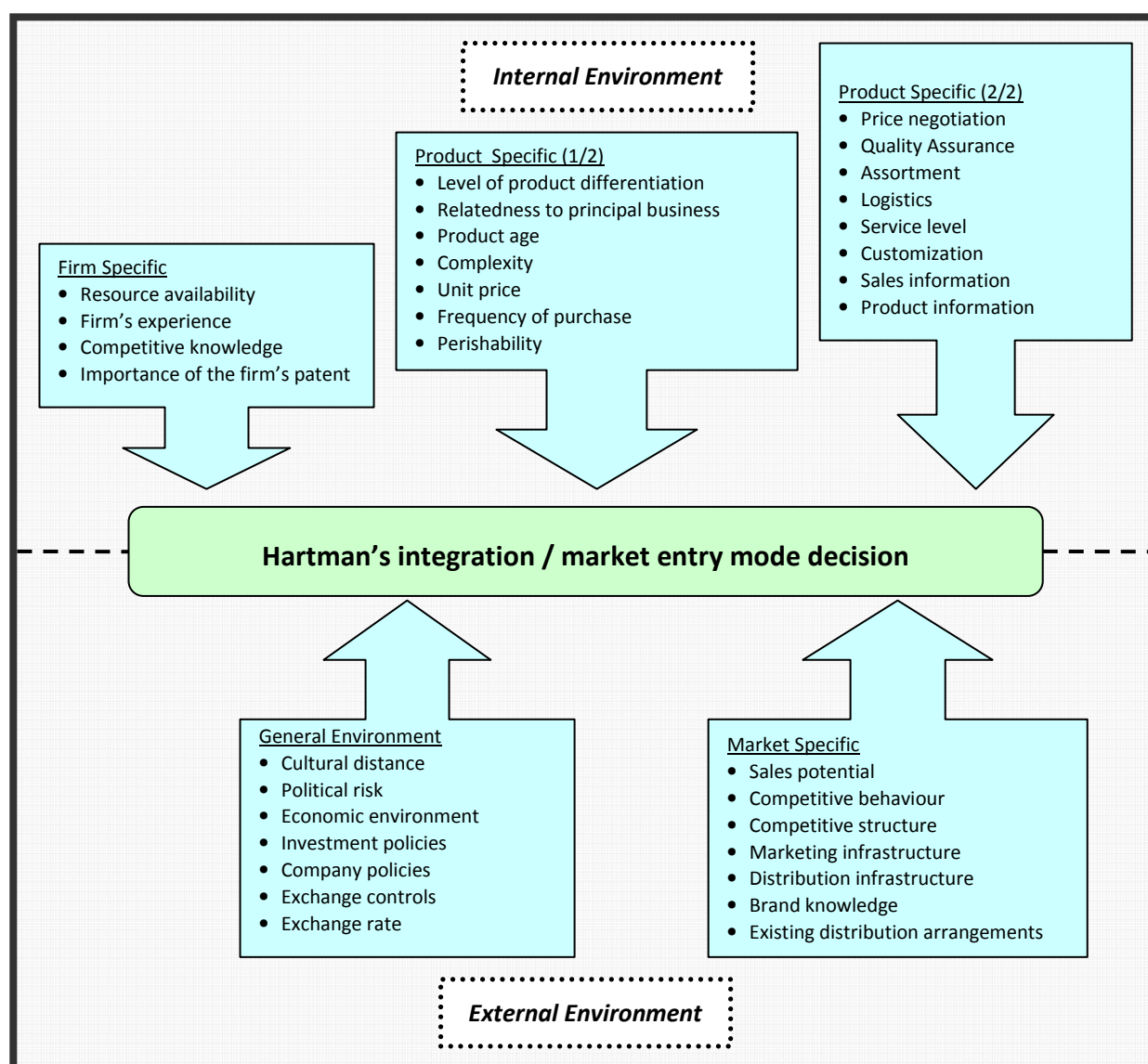
3.4 Conclusion

After doing an extensive literature review in both the international business as well as the distribution channel literature I have selected the criteria which are best suitable to this research. The main goal of the literature study was to merge the selected criteria of the different models into one suitable framework for this thesis and to formulate the conditions for choosing the different market entry modes. Accordingly to the first research question: *What are the conditions that have to be met in order to change from agent/distributor towards subsidiary exporting, according to the literature and case studies?*

In the subsequent figure (3.2) I have sketched the framework which I have used in this thesis. The environmental criteria are separated into internal and external.

The internal criteria are further distinguished into firm specific and product specific; the external criteria are separated into general environmental and market specific. An overview of the complete models used is given in *Appendix B*.

Figure 3.2: the summarizing framework for the practical analysis : subdivided into internal and external criteria



As an extension to the framework described on the previous page I have put all criteria in table 3.7 and classified the criteria as “Qualification” or “Selection”, where the first one is a necessary condition which has to be met and the second one is desirable.

In order to strengthen the final conclusion I have decided to assign different weight factors to each one of the criteria as well as to the internal and external analyses in general. The weight factors are determined by Hartman, by means of their importance regarding the final conclusion. More details about this can be found in *Appendix E*.

In the fourth and fifth column I have listed the most likely outcome to choose for vertically integration (distribution channel literature) and setting up a foreign sales organization (international business literature) on the one hand, and no vertically integration (distribution channel literature) and indirect and agent/distributor exporting (international business literature) on the other hand. After doing the practical research I am going to compare the results to the outcomes in this table and draw my first conclusions – this will be done in the following chapters.

The definitions and operationalization of the criteria can be found in *Appendix C*.

Table 3.7: the criteria including their favourable outcomes – according to the theory.

criteria	Qualification vs Selection	Weight factors	Vertically integration / Foreign sales organization	No vertically integration / Indirect and agent/ distributor exporting
Internal (firm specific)				
Resources availability	Qualification	1	Substantial resources needed	Limited resources needed
Firm's Experience	Selection	0,6	High	Low
Competitive Knowledge	Selection	0,8	High	Low
Importance of the firm's patent	Selection	0,2	High	Low
Internal (product specific)				
Level of product differentiation	Selection	0,8	High	Low
Relatedness to principal business	Selection	0,2	High	Low
Product age	Selection	0,2	Less mature	Mature
Product complexity	Selection	0,2	High	Low
Unit price	Selection	0,2	High	Low
Sales information	Selection	0,6	High	Low
Frequency of purchase	Selection	0,2	Low	High
Perishability	Selection	0,2	High	Low
Price negotiation	Selection	0,6	High	Low
Product quality assurance	Selection	0,8	Important	Unimportant
Assortment	Selection	0,8	Non-essential	Essential
Logistics	Selection	1	Complex	Simple
Product information	Selection	0,6	High	Low
Service level	Selection	0,6	High	Low
Product customization requirements	Selection	0,4	High	Low
External (general environment)				
Cultural distance	Selection	1	Small	Large
Political Risk	Qualification	0,2	Low	High
Economic structure (Stability)	Selection	0,2	High	Low
Investment policies (Legal)	Qualification	1	Liberal	Restrictive
Company policies (Legal)	Qualification	1	Liberal	Restrictive
Exchange controls (Legal)	Qualification	1	Liberal	Restrictive
Exchange rate	Selection	1	Appreciation	Appreciation
External (market specific)				
Sales potential	Qualification	1	High	Low
Competitive behaviour (Competition)	Selection	1	High integration	Low integration
Competitive structure (Competition)	Selection	1	Atomistic competition	Atomistic competition
Marketing (Infrastructure)	Selection	1	Good	Poor
Distribution (Infrastructure)	Selection	1	Poor	Good
Existing distributor arrangements	Selection	1	High	Low
Brand Knowledge	Selection	0,8	High	Low

Chapter 4: Internal Conditions

R2: To what extent do Hartman's internal company characteristics meet the conditions as specified?

4.1 introduction

This chapter contains the first part of the practical analysis which is done by means of the selected criteria in the previous chapter. In this chapter I will describe the main results of the internal analysis where section 4.2 contains the analysis of the firm specific criteria and section 4.3 the product specific criteria. Section 4.4 will finalize this chapter with a conclusion.

The main sources that are used for this chapter are interviews with Hartman's management (Mr. Bert van der Velden, Mr. Ralph Böhmer and Mr. Hauke Nielsen), several other employees of Hartman by means of e-mail and interviews, visits to Hartman's showroom in Krefeld (Germany) and Hartman's office in Belgium, as well as company reports written by other students and a customer survey held by Hartman.

4.2 Firm specific criteria

Resources availability

In order to set up an overseas sales organisation and a showroom, Hartman needs to have substantial resources available for the investment. Nowadays Hartman can be seen as a very healthy company what makes it possible to make some investments. Thus, Hartman does have *substantial resources* available for new foreign business opportunities.

Firm's experience

Hartman does already have some experience in the business environment of the four target markets Sweden, Spain, Russia and Dubai for many years. Furthermore, Hartman does also have experience in using a wide range of market entry modes since they are using distributors and agents as well as export managers to sell the products on the target markets. Besides that, Hartman does also have subsidiaries in Germany and the Czech republic for at more than three years. So, the firm's experience can be seen as *high*.

Country	Current activities
Sweden	
Spain	
Russia	
Dubai	
Germany	Showroom + sales force
Czech Rep.	Showroom + sales force

Competitive Knowledge

Competitive knowledge – what can be differentiated in market knowledge and product knowledge – gives a firm an advantage over its competitors. Compared to the competitors who are already active in the target countries does Hartman have little market knowledge. Second, regarding to product knowledge, Hartman has also little competitive knowledge because the product – garden furniture – is highly substitutable. Thus, Hartman's competitive knowledge can be seen as *low*.

Importance of the firm's patent

Hartman does not have any patents for its products in the target countries. In general, there are lots of similarities in the collections offered by companies in the garden furniture industry. Due to the high copying rate in this industry – what is also slightly done by Hartman – patenting and monitoring the competitors would be too much effort for Hartman. Therefore the importance of Hartman's patent is *low*.

Criteria	Result
Resources availability	<i>High</i>
Firm's experience	<i>High</i>
Competitive knowledge	<i>Low</i>
Importance of the firm's patent	<i>Low</i>

4.3 Product specific criteria

Level of product differentiation

This can be defined as the substitutability of Hartman's product compared to the competitors' products. Like I have already stated, there is a lot of copying from each other in the garden furniture industry. Therefore, there are lots of similarities in the collections what makes the level of product differentiation *low*.

Relatedness to principal business

Hartman's core business is selling garden furniture, these are the only products where the Hartman brand name is associated with. Regarding to this, the desired business in the target countries can be seen as *highly related* to Hartman's principal business.

Product age

Garden furniture is widely available in almost every country for a long time. Therefore, the product age can be seen as *mature*.

Complexity

There is no technology involved in garden furniture, and it is relatively easy to manufacture. Therefore the complexity of the product is *low*.

Unit price

Hartman is known for its high quality products for middle to *high* end prizes. For this reason, the furniture sets are relatively expensive compared to competitors. Where a DIY store sells a furniture set for €500,- similar sets of Hartman are sold for the plural.

Sales information

The required sales information by the consumer is important for the directness of the channel. The more direct a channel, the better a firm can provide sales information to its customers.

Because of the high similarities in the garden furniture collections of the suppliers, Hartman finds it very important and advantageous to reach the customer directly with their marketing activities.

Therefore, the sales information – or marketing activities – required by the consumer can be considered as *highly important* for Hartman's competitive advantage.

Frequency of purchase

Garden furniture sets can be found in different qualities and materials. The durability of a set depends on these two factors. The frequency of purchase in the Netherlands is measured by Hartman in June 2008 by means of a customer survey (556 respondents). The results of this survey show that 55% of the respondents are using their current garden furniture set for a period longer than 4 years.

By means of this result I can say that the frequency of purchase of a high quality (Hartman) set is *relatively low*.

Perishability

The perishability level of a garden furniture set depends on the maintenance level and the material. For example, teak furniture has to be intensively maintained to enhance the quality; aluminium and resin furniture need less maintenance and their durability is however higher. But in general, the perishability of garden furniture is *very low*.

Price negotiation

Because of the relative high prices of the garden furniture sets and high competition, customers are in an advantageous position. They negotiate *very often* on the consumer price, however this really depends by the country's business culture.

Product quality assurance

Because of the relative high prices of Hartman's garden furniture, customers expect a certain level of quality and guarantee from Hartman. In the same survey, the respondents were also asked to grade seven features of garden furniture by their importance. Quality, one of the seven, was grades as most important. Thus, the product quality assurance of the customers is *very high*.

Assortment

Outdoor furniture is a product which is difficult to sell to customers without showing them the physical product. Customers prefer judging the quality and comfort by themselves before buying the product (Hartman customer survey 2008). Thus, having an overseas showroom with a big assortment will enhance Hartman's competitiveness in the target countries. In other words, the assortment requirements from the customer's point of view are *high*.

Logistics

Hartman's garden furniture is sold directly to the retailers, distributors as well as to end consumers. These consumers require different levels of logistical complexity.

The major part of the retailers and distributors is supplied directly from the manufacturing plants by containers. This is the easiest way for Hartman to transport the products. When retailers or distributors order bulk quantities (20 ft. or 40 ft containers), they will get a discount and Hartman will ship the goods directly to them.

On the other hand, there are also some small retailers who do not have the financial capability to order a container. They are supplied from Hartman's distribution centres in Enschede (Netherlands) and Kamen (Germany). Taking care of these orders is a more complex and administratively intensive process for Hartman.

The delivery from the goods sold to the end consumers at the Hartman showroom in Germany also depends on warehousing facilities for stock keeping. Though, the delivery from the warehouse to the end consumer is not that complex; this can be done by the shop clerk with a small van.

Therefore, the logistical requirements of the biggest part of Hartman's customers are *relatively low*.

Product information

Buying a garden furniture set is mostly a long term investment that is why most consumers take their time to find the most satisfying furniture set. An important fact here is the product and brand information requirements of the end consumers. For Hartman, this means a high competition on the shopfloor at the point of sale. As a consequence of this, Hartman pays attention to the marketing activities in the retail stores where their products are sold. For example, Hartman has published a magazine in which the new collection is presented to the end consumers; this magazine is being distributed in the retail stores. Another important fact is the product and brand information requirements of the end consumers. Therefore, Hartman trains the salespersons on the shopfloor by providing them more product information and information about the Hartman brand. Providing the salespersons this important knowledge will give Hartman a competitive advantage. Also, the accountmanagers are experiencing a higher sales when the salespersons are able to provide the consumers more product information. So, the product information requirements of the end consumers can be seen as *high*.

Service level

Hartman has an excellent level of product quality, what leads to just 1% of the products returned because of damage. The service level required for Hartman is relatively low, according to Mr. van der Velden – general director – most damaged products are easily to fix by the salesperson. Therefore, the service level required by the consumer can be seen as *relatively low*.

Product customization requirements

Despite many differences between countries in terms of demographics and culture, and the customer preferences that deal with those differences, it is not likely in the garden furniture industry to adapt the products to the different consumers. A major reason for this is the delivery time of the product, which is 11

weeks. Due to this long delivery time it is not likely for the end consumer to choose for this option. A customer prefers to have the product delivered as soon as possible after buying it.

So, Hartman's products are produced in big quantities – also known as *mass production*. However, it is technically possible to customize the products but this is not in line with the customer requirements regarding the delivery time. Therefore, the product customization requirements are *low*

Criteria	Result	Criteria	Result
Level of product differentiation	Low	Price negotiation	High
Relatedness to principal business	High	Product quality assurance	High
Product age	Mature	Assortment	High
Complexity	Low	Logistics	Low
Unit price	High	Product information	High
Sales information	High	Service level	Low
Frequency of purchase	Low	Product customization requirements	Low
Perishability	Low		

4.4 Conclusion

In this chapter Hartman's internal – firm and product specific – environment is being analysed in order to answer the second research question:

To what extent do Hartman's internal company characteristics meet the conditions as specified?

The main results of this chapter can be found in table 4.1, including a weighted total score regarding the two options.

As a general conclusion of the internal analysis – where 19 criteria are analysed – I can state that Hartman's internal factors are in favour of a less integrated market entry mode. Vertically integration in the distribution channel or a foreign sales organization do have a total score of 7 points versus a score of 5,2 for no vertical integration or indirect and agent/distributor exporting. However, this does not mean that vertically integration or a foreign sales organization are impossible to be successful beforehand.

More specifically, this means that Hartman's firm specific characteristics as well as the product outdoor furniture show more preference towards a less integrated or indirect and agent/distributor way of exporting; except for the criteria resources availability, all criteria are selection criteria and do not necessarily have to be met.

Looking at the firm specific criteria, Hartman's resource availability shows an aim for an integrated way of exporting, however no integration or indirect- as well as agent/distributor exporting can also be attained in Hartman's situation because there are less resources needed for this approach. Also, Hartman's experience is favourable for exporting in a more vertically integrated way but exporting through agents/distributors can also be feasible for Hartman because there is less experience desired to choose for this way of exporting, since the agents or distributors do have most of the required experience.

Considering the product specific criteria, the highly relatedness of garden furniture to Hartman's principal business shows opportunities for direct export by means of a foreign subsidiary, however indirect export or direct exporting through agents/distributors might also be workable according to this outcome. Other product specific criteria: unit price, sales information, frequency of purchase, price negotiation, product quality assurance and product information are favourable for exporting through an foreign subsidiary since these characteristics require Hartman a more direct interaction with the consumer. In other words: according to the outcomes of those criteria, Hartman is more likely to be successful when having a foreign sales organization.

On the other hand, the low level of product differentiation shows a preference for direct exporting through agents/distributors. Also the criteria competitive knowledge, importance of the firm's patent, product age, product complexity, perishability, assortment, logistics, service level and product customization requirements show a preference for this, less vertically integrated, way of exporting.

According to those outcomes, it is not necessary for Hartman to export in a direct way by setting up a foreign subsidiary, since this way of exporting requires more resources and a higher investment. Exporting through agents/distributors is also workable for Hartman looking at the outcomes of these criteria.

Thus, it is not necessary for Hartman to vertically integrate by setting up a foreign sales organization in order to have success in the foreign markets. Success can also be achieved through a less vertically integrated form of export, however the rate of success might vary.

Table 4.1: main results of the internal conditions: preferred directness of the sales channel by the literature.

Criteria	Qualification vs Selection	Weight factors	Vertically integration / Foreign sales organization	No vertically integration / Indirect and agent/ distributor exporting
Internal (firm specific)				
Resources availability	Qualification	1	Substantial resources needed	Limited resources needed
Firm's Experience	Selection	0,6	High	Low
Competitive Knowledge	Selection	0,8	High	Low
Importance of the firm's patent	Selection	0,2	High	Low
Internal (product specific)				
Level of product differentiation	Selection	0,8	High	Low
Relatedness to principal business	Selection	0,2	High	Low
Product age	Selection	0,2	Less mature	Mature
Product complexity	Selection	0,2	High	Low
Unit price	Selection	0,2	High	Low
Sales information	Selection	0,6	High	Low
Frequency of purchase	Selection	0,2	Low	High
Perishability	Selection	0,2	High	Low
Price negotiation	Selection	0,6	High	Low
Product quality assurance	Selection	0,8	Important	Unimportant
Assortment	Selection	0,8	Non-essential	Essential
Logistics	Selection	1	Complex	Simple
Product information	Selection	0,6	High	Low
Service level	Selection	0,6	High	Low
Product customization requirements	Selection	0,4	High	Low
Total (maximum score = 10)			4,8*	7*

(*) The scores in the table refer to the preferred directness of the sales channel by the theory. The higher the score, the more that specific directness is advised by the literature. An important remark regarding the results for each condition: the blue marked options are the most preferred modes by the literature – though, the unmarked options do not have to be considered as impossible.

Chapter 5: External conditions

R3: To what extent does the situation in the selected countries for Hartman fulfil the conditions as specified?

5.1 Introduction

This chapter contains the second part of the practical analysis which is done by means of the selected criteria in chapter three. In this chapter I will only describe the main results of the external analysis, where section 5.2 contains the analysis of the general environmental criteria and section 5.3 the market specific criteria. The main research (e.g. tables and figures) can be found in *Appendix D-1* (General environmental criteria) and *Appendix D-2* (Market specific criteria). This chapter will end with a conclusion in section 5.4.

The information for this part is gathered through several sources including interviews with Hartman's management in the Netherlands, Germany and Belgium, but mostly by using secondary sources like reports from the Economist Intelligence Unit (EIU), the Worldbank, furniture associations as well as specific website's (e.g. exchange rates) and another part of the information is gathered by my own research (e.g. competitor's analysis).

5.2 General Environmental criteria

5.2.1 Cultural distance

I have chosen to assess this determinant by means of Geert Hofstede's cultural dimensions which give a detailed overview of a country's culture. Hofstede compares the different cultures along 5 dimensions: power distance index (PDI), individualism (IDV), masculinity (MAS), uncertainty avoidance index (UAI) and long term orientation (LTO). In the table below (5.1) I have compared the four target countries culture along the different dimensions against the Dutch culture, Hartman's home country culture.

Table 5.1: Cultural distance, Netherlands vs. Sweden, Spain, Russia and Dubai.

	NL	SW	+/-	SP	+/-	RU	+/-	DU	+/-
PDI	38	30	- 8	59	+ 21	90	+ 52	80	+ 42
IDV	80	75	- 5	50	- 30	40	- 40	29	- 51
MAS	17	3	- 14	41	+ 24	38	+ 21	50	+ 33
UAI	57	30	- 27	85	+ 28	95	+ 38	65	- 8
LTO	(42)	(35)	- (7)	-	-	-	-	-	-
Total distance	0		54 (61)		103		151		134

Sweden

With a distance of 54 points from the Netherlands, the Swedish culture can be seen as relatively close to the Dutch culture. Due to this, the cultural difficulties for Hartman in Sweden will be minimal.

Spain

With a distance of 103 points from the Netherlands, the Dutch culture is highly different from the Spanish culture. Due to this, the cultural difficulties for Hartman in Spain will be large.

Russia

The cultural distance from the Netherlands is the highest in Russia with 151 points. Because of this high cultural distance Hartman can expect cultural difficulties when doing business in Russia.

Dubai

Also the Arabic culture is relatively dissimilar from the Dutch culture due to a distance of 134 points. Hartman will face here also cultural difficulties when doing business.

Country	Cultural distance
Sweden	<i>Small</i>
Spain	<i>Large</i>
Russia	<i>Large</i>
Dubai	<i>Large</i>

5.2.2 Political risk

To assess the attractiveness of the political environment I have chosen to use the results of an extensive study done by the Economist Intelligence Unit (EIU):

The EIU makes regularly extensive country analyses and forecasts of almost every country in the world. The results of these analyses are summed up in a table differentiated by many indicators. These results of each determinant are presented as a score from 1 to 5 where a score of 1 is very bad for doing business and a score of 5 is very good for doing business. I have chosen to make use of results because of the high comparability and extensiveness of the reports, furthermore I have only selected the most suitable criteria for this research for the years 2008-2012.

To measure the political stability in the target countries I have picked 13 different indicators (see Appendix D-1).

Sweden

According to these results the Swedish political situation can be seen as very good for doing business with a total score of 63, out of 65. Hartman will face relatively low difficulties regarding the political situation in Sweden.

Spain

The Spanish political situation can also be seen as relatively good for doing business with a score of 51, where all criteria do have a score of 3 or higher. Therefore, Hartman will face relatively low political problems when doing business in Spain.

Russia

With a score of 33, the Russian political environment can be seen as relatively unstable and unpredictable. Almost all criteria are given the score of 3 or lower. For Hartman, there are expected threats related to corruption, social unrest and violence, unfair legal systems and bureaucracy, crime. Therefore the political threat can be seen as relatively high.

Dubai

With a score of 46, the political stability in Dubai can be seen as relatively good for doing business. However, there might be some problems due to the chance of international disputes and the untransparency and unfairness of the legal system; the government in Dubai can be very unpredictable. Thus, the political situation for doing business is relatively stable but has to be watched carefully.

Country	Political risk
Sweden	Low
Spain	Low
Russia	High
Dubai	Low

5.2.3 Economic structure (Stability)

The economic structure, or stability, is also being assessed by means of the results of the EIU analysis. Here they have analysed the macro environment for 2008-2012 by looking at seven different indicators.

Sweden

The economic structure in Sweden scores 33 points out of 35, which means that it is really stable and healthy. All indicators are given a score of 5 (very good for doing business), except for the asset prices which has a score of 3. Apart from the moderately high asset prices, the Swedish economic structure can be seen as very good for Hartman.

Spain

Unlike Sweden, there are some remarks about the Spanish economic situation. With a total score of 26 points, the Spanish economy has the lowest score compared to the other target countries. This is mainly to the unfavourable current account balance compared to the GDP and the high asset prices. This means that Hartman has to watch out for economic problems in Spain.

Russia

With a score of 29, the Russian economy can be seen as relatively stable and healthy for doing business. Nevertheless, Russia can be seen as one of the biggest emerging economies; though Hartman should be aware of institutional underpinnings and moderate asset prices in Russia.

Dubai

With a score of 28 the economic stability in Dubai can be compared to Russia, characterised by relatively stability and good for doing business. However an important fact which has to be taken into account are the high asset prices.

Country	Economic stability
Sweden	High
Spain	Low
Russia	High
Dubai	High

Legal restrictions

The legal restrictions imposed by the foreign government are of major importance when a firm starts doing business in an overseas country. Therefore, this determinant is differentiated into **company policies**, **investment policies** and **exchange controls**.

5.2.4 Company policies

This sub-determinant is important for Hartman in assessing the feasibility of setting up a subsidiary in the target countries. To assess the attractiveness of the company policies in the target countries I have used two sources: the EIU and the Worldbank.

The EIU uses nine different indicators to describe the policy towards private enterprise and competition, where I have selected also nine indicators from the report “doing business 2009”, published by the Worldbank (table 5.2).

Table 5.2: main indicators of company policy restrictiveness from the Worldbank

	Sweden	Spain	Russia	Dubai	
Ease of doing business ('09 rank out of 181)	17	49	120	46	Best score
Starting a business (rank out of 181)	30	140	65	113	Second best
Procedures (number)	3	10	8	8	Third
Time (days)	15	47	29	17	Fourth
Tax rate (%)	28	30	24	0	
Payments (number per year)	2	8	22	14	
Documents to import (number)	3	8	13	7	
Time to import (days)	6	10	36	10	
Cost to import (USD per container)	735	1.121	2.150	587	
Overall ranking	1	4	3	2	

Source: Worldbank doing business 2009 (www.doingbusiness.org)

Sweden

With a score of 40 – out of 45 – Sweden has the highest rating and a supportive policy towards private enterprise and competition. According to the EIU results, Hartman will face no legal threats in Sweden. This is also underlined by the research done by the Worldbank, where Sweden scores very good. The company policies are in favour of Hartman.

Spain

Like Sweden, Spain has also a sufficient score regarding the company policies with 35 points. All indicators are given a score of 3 or higher so there is less threat for Hartman when they want to start up a business. However, the Worldbank scores shed a negative light on the Spanish company policies. This is mainly due to the difficulties and required time to set up a new business. Hartman should be aware of these difficulties in Spain.

Russia

Russia is given the lowest score (23) regarding the company policies, all indicators are scored 3 or lower. This means that Hartman will face relatively high legal difficulties when they set up a new business in Russia, according to the EIU.

Also the Worldbank supports these findings by mentioning the legal complexities of starting up and running a business.

Dubai

Dubai is given a score of 29 by the EIU, which is relatively favourable for doing business. However, Hartman should be aware of some important policies like local content and sponsor requirements for starting up a business, what is also mentioned by the Worldbank. Once started a business, the policies are favourable for doing business.

Country	Company policies
Sweden	<i>Liberal</i>
Spain	<i>Liberal</i>
Russia	<i>Restrictive</i>
Dubai	<i>Liberal/Restrictive</i>

5.2.5 Investment policies

In reviewing the target countries' policies towards foreign investment I will once again use the EIU analysis where they have assessed this determinant by means of 5 different indicators.

Sweden

With a score of 24 – out of 25 – Sweden once again scores excellent regarding the investment policies of the government. This means that Sweden is encouraging investments.

Spain

Spain is given a score of 21 by the EIU, which means that the legal policies towards investments are favourable for starting up a business.

Russia

Unlike the other countries, Russia is given a low score of 11 regarding the investment policies. This means that the government is not supportive to foreign investments what makes it risky for Hartman to invest.

Dubai

The investment policies in Dubai are relatively good for doing business according to a score of 20. There is less threat for Hartman when investing in Dubai, though, important to mention are the restrictions set by the government in Dubai for investing over there in an own company. Foreign company ownership outside the Free Zone's is restricted to a maximum of 49%, where a minimum of 51% of the shares have to be owned by a UAE national.

Country	Investment policies
Sweden	<i>Liberal</i>
Spain	<i>Liberal</i>
Russia	<i>Restrictive</i>
Dubai	<i>Liberal/Restrictive</i>

5.2.6 Exchange controls

Finally, the policies against foreign trade and exchange controls per country are analysed.

This determinant is also being measured by means of 5 indicators selected from the EIU research.

Sweden

Sweden is given a score of 24 – out of 25 – regarding the foreign trade and exchange controls. This means that Hartman will face no exchange difficulties when trading its products.

Spain

Spain is also given a favourable score of 23 by the EIU. Therefore, Hartman will face no exchange difficulties in trading its products in Spain.

Russia

Russia is also given a relatively high score of 20 by the EIU. Hartman will face hardly no problems with exchange controls when trading its products to Russia.

Dubai

Like the other countries, Dubai is also given a favourable score (23) for doing business over there. Therefore, Hartman will face no difficulties with exchange controls.

Since January 2008 six Gulf states United Arab Emirates, Bahrain, Qatar, Kuwait, Saudi Arabia and Oman have formed a trading block or customs union – Gulf Cooperation Council (GCC). For Hartman this means that the products can be easily distributed to these countries once they are imported to Dubai. Thus, an office and showroom in Dubai can be seen as an important connection to the Middle Eastern region.

Country	Exchange controls
Sweden	<i>Liberal</i>
Spain	<i>Liberal</i>
Russia	<i>Liberal</i>
Dubai	<i>Liberal</i>

5.2.7 Exchange rate

The exchange rate is also an important determinant of a target country's attractiveness. Hartman's main currency is the Euro, therefore I am going to assess the exchange rate of the four target countries' currency's against the Euro. Here, I am going to look at the real exchange rate developments of the past six months (September 2008 – March 2009)

Sweden

Sweden has the Swedish Krone (SEK) as national currency. The exchange rate of the past six months shows a slight devaluation of the SEK against the Euro, what will make Hartman's products relatively more expensive in Sweden.

Spain

Because Spain is also a member of the European Union and has the same currency as the Netherlands, there will be no difference in the exchange rate. Here Hartman will face no problems regarding the exchange rate fluctuations.

Russia

The Russian Rubel also shows a slight devaluation over the past six months. What also leads to a decrease of the demand for European products.

Dubai

The Emirati Dirham (AED) which is the national currency of Dubai. This currency is being coupled to the US dollar and therefore is fixed to: 1 USD = 3,673 AED. In the past six months the Euro showed a slight devaluation against the AED – in other words the AED is worth more, so goods from the Eurozone will be more attractive to customers in Dubai.

Country	Exchange rate
Sweden	<i>Devaluation</i>
Spain	-
Russia	<i>Devaluation</i>
Dubai	<i>Appreciation</i>

5.3 Market Specific criteria

5.3.1 Sales potential

Making accurate sales forecasts or assessing the sales potential of a business is a difficult task for every company, especially in relatively unknown foreign markets.

However, when combining some indicator scores you can make a general estimation about the chances of success and a careful estimation of the sales in a specific market.

In order to assess Hartman’s sales potential in the four target countries I have chosen to use the market opportunity analysis of the EIU and the main findings of my former research (Aykaz & Olthof 2008).

The general market opportunities in the target countries are assessed by means of 9 indicators by the EIU. From the preliminary research I have selected 14 outcomes of indicators which are related to the sales potential of a country; these can be found in table 5.2.

Table 5.2: Important indicators of the sales potential (Aykaz & Olthof 2008)

	Sweden	Spain	Russia	Dubai

Sources: Euromonitor, EIU, Hartman, Worldbank, CBI.

Sweden

With a score of 34 – out of 45 – the market opportunities in Sweden can be seen as moderate according to the EIU. All indicators are given a score from 3 to 5, where the GDP growth and the imports are moderate scored with 3 points.

The indicators of table 5.2 assume a moderate market size with market opportunities for Hartman because of the relatively high incomes and retail sales growth.

Spain

The market opportunities in Spain are given a score of 36 by the EIU, which is good for doing business.

Also the indicators from my preliminary research underline these opportunities. Spain has a huge (outdoor) furniture market, many big cities and inhabitants with relatively high purchasing power. However, the consumer expenditure is decreasing at the moment due to the economic crisis. Also important to mention is the big contract market for outdoor furniture in Spain.

Russia

With a score of 35, the EIU marks Russia as good for doing business regarding the market opportunities.

All indicators are scored moderate to high, except for regional integration; which means that the market opportunities are not similar all over Russia. Therefore, Hartman should focus on the more developed cities such as Moscow.

The outcomes of the preliminary research emphasize these results from the EIU. Russia has a great market which is growing very fast, big cities with market opportunities and a continuously growth of the retail sales.

Dubai

Dubai is given a score of 36 by the EIU, with good market opportunities for doing business. Also, the results of the preliminary research show good market opportunities in Dubai. However, the major disadvantage is its relatively low market size compared to the other countries.

Country	Sales potential
Sweden	Moderate-high
Spain	High
Russia	High
Dubai	Moderate-high

Competition

Also the competitive situation in the target markets has impact on Hartman's decision. In the preliminary research I have also done an extensive competitor's analysis which I am also going to use in this report. Because of the importance of this determinant I have differentiated competition into **competitive behaviour** and **competitive structure**.

5.3.2 Competitive behaviour (Popularity of the Market entry mode by the competitors)

Firstly, the competitive behaviour; in other words, what kind of market entry modes are Hartman's competitors and other furniture companies using in the target countries?

In order to answer this question I have extended the competitor's analysis of my previous research with more competitors and also other furniture selling companies (beds, office, indoor), 13 in total. Table 5.3 summarizes the main results, the whole table can be found in *Appendix D-2*.

Table 5.3: competitive behaviour in the (outdoor) furniture industry

	Distributor/ Importer (export manager)	Direct to Retailers (external agent)	Direct to Retailers (export manager)	Showroom + office / sales force	No activity
Sweden	5	4	3	0	1
Spain	4	2	2	4	1
Russia	4	2	2	1	4
Dubai	5	0	2	2	4

Sweden

According to this analysis, Hartman's currently used entry modes in Sweden are most popular by the competitors. Exporting through a distributor or importer is the least risky and easiest way to export to Sweden. Also direct sales to retailers by using an external agent as well as an export manager are commonly used in Sweden. However, none of the analysed companies does have an own sales organization or showroom in Sweden.

Spain

The most used entry modes by competitors exporting through distributors or importers, also integration in the distribution channel in Spain is commonly preferred. On the other hand, direct sales to the retailers is less used in Spain.

Russia

The Russian market entry modes by competitors are also characterized by using distributors or importers, though some competitors also use external agents and export managers to sell directly to retailers. One of the companies is fully integrated with an own salesforce and showroom.

Dubai

Also the competitors in Dubai are making use of distributors or importers, this is by far the most used entry mode. This is due to the requirement of a local sponsor to sell the products. None of the competitors is making use of an external agent, perhaps this is due to the difficulties in finding a suitable agent and the complicated agency laws. Also a showroom and salesforce is commonly used by the analysed companies.

Country	Competitive behaviour
Sweden	Low integration
Spain	High integration
Russia	Low integration
Dubai	Low integration

5.3.3 Competitive structure

Secondly, the competitive structure in the target countries. Table 5.4 shows Hartman's main competitors in the target countries including an estimation of the competitive intensity and product supply, major indicators of the competitive structure.

Table 5.4: competitive structure in the target countries.

	Competition intensity	Product supply	Main competitors
Sweden	High	Diverse	Harbo – Brafab – Ato Fritid – Cane Line – Dedon – Kettler – Gloster – Kettal
Spain	High	Diverse	Dedon – Gloster – Royal botania – Kettler – Kettal – Sungarden – Gandia Blasco
Russia	Moderate	High and Low end	Dedon – Gloster – Kettler – Kettal
Dubai	Moderate	Diverse	Dedon – Gloster – Kettal – Gandia Blasco – Global furniture solutions

Sweden

The competitive intensity in Sweden is very high, both from national and foreign companies and the product supply is very diverse – from low to high end. However I assume that the market is very atomistic which means that there is a perfect competition with small market shares for all competitors.

Spain

The competitive intensity in Spain is also very high, mainly from domestic companies but also foreign competitors are selling on the Spanish market due to the big size of it. The product supply is also very diverse. According to my analyse I assume a perfect atomistic competition on the Spanish garden furniture market.

Russia

The competition in Russia is moderate compared to Spain and Sweden. I have found less competitors active on the Russian market, according to my research I found mainly very low and very high end furniture sets. However the competitive situation can be seen as atomistic, since none of the competitors has a major market share.

Dubai

Like in Russia, I could not find many foreign competitors selling garden furniture in Dubai. Therefore, the garden furniture market in Dubai is also characterised with moderate competition. However, the product supply is very diverse. Because there are no major competitors, I assume that the competitive situation in Dubai as atomistic.

As a conclusion, I can assume that there is perfect atomistic competition in all four countries – the markets are not dominated by a couple of big companies.

Country	Competitive structure
Sweden	Atomistic
Spain	Atomistic
Russia	Atomistic
Dubai	Atomistic

Infrastructure

The determinant infrastructure is differentiated into **distribution** and **marketing infrastructure**.

5.3.4 Distribution infrastructure

The development of the distribution infrastructure in the target countries is assessed by the EIU by means of 5 different indicators. More specific, the distribution infrastructure of the retail and furniture industry is being assessed by own research which can be found in table 5.5.

Table 5.5: distribution structure in the target countries.

Country	Distribution structure	Selling points	Furniture store sizes
Sweden	Well organized and concentrated buying groups	1,270 furniture outlets, mainly large furniture chains and stores grouped together in voluntary buying groups.	Increasing store sizes, outside city centres.
Spain	Well organized and concentrated (developing stage). Trend: buying groups	13.500 furniture outlets. 85% sold through specialized furniture stores. 15% sold through big retail chains.	Increasing store sizes, outside city centres
Russia	Weakly organized and not concentrated. Trend: distributors.	Mainly single independent retail stores.	Increasing store sizes and shopping locations.
Dubai	Based on my own findings: weakly organized and not concentrated.	Mainly single independent retail stores.	?

Sources: CSIL Milano, www.uaenet.com, EVD

Sweden

With regard to the infrastructural facilities Sweden has an excellent score of 25 – out of 25 – which means that Hartman will face no problems with transporting the products. Also the distribution structure of the retail and furniture is well organized according to table 5.5. This will make the sales to retailers much easier.

Spain

With a score of 20, the Spanish transporting network is also good for doing business. Also the retail and furniture distribution structure is well organized which means that the business to business sales are easier.

Russia

With a score of just 15, the transport infrastructure in Russia can be seen as a barrier for doing business. All indicators – except for the rail network – are given moderate or low scores. Also, the distribution structure of the retail and furniture industry is weakly organized, therefore Hartman has to do a lot more selling efforts in Russia.

Dubai

Dubai is given a score of 20 regarding the transporting facilities which is favourable for doing business. Besides that, Dubai can also be a good strategic location to enhance the sales in the middle eastern region; according to the table which can be found in *Appendix D-2*, the important countries in this region can be easily visited from Dubai. On the other hand the retail and furniture stores are weakly organized which makes the sales more difficult for Hartman.

Country	Distribution infrastructure
Sweden	Good
Spain	Good
Russia	Poor
Dubai	Poor

5.3.5 Marketing infrastructure

The marketing infrastructure has also to be considered by Hartman in order to assess the market attractiveness of the target countries. The EVD (governmental) organization in the Netherlands has made some general judgements about the marketing infrastructural conditions of the target countries.

Sweden

The Swedish marketing infrastructure is described as very well developed with lots of different options to choose for companies. The most important media are daily newspapers and TV ads, also the internet is upcoming. In general, advertising holds an important position in the Swedish business environment.

Spain

The Spanish marketing infrastructure is also defined as well developed, in line with the western standards. The daily newspapers as well as television are seen as the most important media. However, the media expenses are slightly decreasing in 2009 due to the economic crisis.

Russia

just like in the other markets there are also lots of different media available to choose for in Russia. According to the EVD, Russia's marketing infrastructure is good developed at the moment and continuing to improve in the next years with also an increase in expenses.

Dubai

Also the marketing infrastructure in Dubai is seen as well developed. however, there is a little remark on the use of advertising because there are some (religious) restrictions on advertisements by the law. This should be taken into account by Hartman.

Country	Marketing infrastructure
Sweden	Good
Spain	Good
Russia	Good
Dubai	Good

Brand Awareness

Having brand awareness in a specific country means a lot for a company, they can for example more easily introduce new products with less marketing expenses. Hartman's brand awareness in its home country the Netherlands is very high, many people know the brand and are able to associate the Hartman brand name with garden furniture. This is the result of huge advertising expenses. However, this cannot be said for the target countries. At this moment, the Hartman brand name is relatively unknown outside its home market, even in Germany.

Hartman experienced that it takes much effort and investments in order to build brand awareness, especially abroad. It is not likely to invest in advertising looking at their current turn over in the four target markets.

Country	Brand Awareness
Sweden	Low
Spain	Low
Russia	Low
Dubai	Low

5.3.6 Existing distributor arrangements

When having already a good distributor network including a good customer base it is much easier to integrate in the distribution channel for Hartman.

Sweden

Since Hartman has a good distributor network including an agent in Sweden vertically integration will be more likely.

Spain

Also in Spain does Hartman have a good distributor network as well as a good customer base; so vertically integration is more easy for Hartman.

Russia

The Russian distributor arrangements are poorly, since Hartman has only one customer; this will not support a possible vertical integration in the distribution channel.

Dubai

Also the existing distributor arrangements in Dubai are poorly, because Hartman has only one small customer over there. According to this, vertical integration is not likely in Dubai.

Country	Existing distributor arrangements
Sweden	High
Spain	High
Russia	Low
Dubai	Low

5.4 Conclusion

In this chapter I have analysed Hartman's external – general and market specific – environment in order to answer the third research question:

To which extent does the situation in the selected countries for Hartman fulfil the conditions as specified?

The main results of this chapter – for each country apart – can be found in table 5.1, including a weighted total score regarding the two options. The scores in the table refer to the preferred directness of the sales channel by the theory. The higher the score, the more that specific directness is advised by the literature. An important remark regarding the results for each condition: the blue marked options are the most preferred modes by the literature – though, the unmarked options do not have to be considered as impossible.

Sweden

The external conditions in Sweden – assessed by means of 14 external criteria – show a preference for vertically integration or setting up a foreign sales organization. With a score of 8,4 against 4,8 for no vertically integration or indirect and agent/distributor exporting.

In other words, the situation of the Swedish external environment is favourable for Hartman regarding the start up of a foreign sales organization. Also the qualification criteria are all in favour of direct exporting by setting up a foreign subsidiary.

Looking at the general environmental conditions it can be concluded that they are almost all in favour of direct exporting through a foreign sales organization in Sweden. The cultural distance, political risk, economic structure and legal policies do not block the start up of a foreign sales organization. Thus, regarding these outcomes setting up a foreign subsidiary will have a big chance of success in Sweden. However, this does not mean that exporting through agents/distributors is not feasible.

The market specific criteria are showing a little preference for agent/distributor exporting, this is mainly because of the competitive behaviour, distribution infrastructure as well as the brand knowledge. All in all, the external situation in Sweden shows chances for a foreign sales organization.

Spain

The outcomes of the external environment show a preference for vertically integration/setting up a foreign sales organization, with a total score of 8,2. The other option – no vertically integration/indirect and agent/distributor exporting – gets a score of 4. Here, most of the general environmental conditions show a preference for exporting through a foreign subsidiary. However, the cultural distance and the economic structure might be a barrier for Hartman to make such an investment.

The market specific criteria do also show a little preference for subsidiary exporting in Spain. This is mainly due to the high sales potential, competitive behaviour (direct export is often used by competitors) and the existing distributor arrangements. On the other hand, high competition, infrastructural developments and the low brand knowledge might be a barrier for setting up a foreign sales office in Spain.

Russia

The results of the analysis of Russia's external environment show a strong preference for no integration and less direct ways of exporting. The score for vertically integration/foreign sales organization is only 5,2, compared to a score of 7 for indirect and agent/distributor exporting. The general environmental conditions show no preference for opening a foreign subsidiary and can be seen as barriers for Hartman. This is due to the high cultural distance, unstable and risky political environment and the restrictive and unpredictable lawmaking in Russia. What can be seen as a major problem for firms that want to invest in Russia.

Besides the high sales potential and the less small amount of other distribution opportunities there are no other conditions for choosing a direct way exporting by means of a foreign subsidiary. More specific: the low integration rate of the competitors, existing distributor arrangements and the brand knowledge.

This means that the Russian environment is not favourable for Hartman to make investments and vertically integrate into the distribution channel. Because of the high risk, it is more obvious to export in a less vertically integrated way: by means of agents and/or distributors.

Dubai

The external conditions in Dubai show a preference for indirect and agent/distributor exporting with a score of 8,8, versus 5,4 for direct exporting through a foreign subsidiary. Looking at the general environmental conditions, it is clear that the cultural distance can be a barrier for a more vertically integrated way of exporting. On the other hand, the political situation in Dubai can be seen as relatively stable – what is favourable for making investments. Due to some specific legal restrictions for doing business in Dubai on the one hand and encouraging policies on the other hand – the legal environment is moderately restrictive. Therefore, the specific laws should be taken into account when doing business in Dubai.

The market specific conditions do also show a mixed preference for both options since the outcomes are mostly moderate: e.g. the sales potential and infrastructure. On the other hand, the low brand knowledge and existing distributor arrangements show a preference for direct exporting through agents/distributors in Dubai.

This means that the environment in Dubai might be possible for direct export, however there are some important and highly risky factors that have to taken into account. Therefore, direct exporting to Dubai through agents and/or distributors will be more obvious for Hartman, due to the lower investment and risk.

Table 5.1a: Results external conditions: preferred directness of the sales channels by the theory; Sweden & Spain.

Criteria	Qualification vs Selection	Weight factors	Sweden		Spain	
			Vertically integration / Foreign sales organization	No vertically integration / Indirect and agent/distributor exporting	Vertically integration / Foreign sales organization	No vertically integration / Indirect and agent/distributor exporting
External (general environment)						
Cultural distance	Selection	1	Small	Large	Small	Large
Political Risk	Qualification	0,2	Low	High	Low	High
Economic structure (stability)	Selection	0,2	High	Low	High	Low
Investment policies (Legal)	Qualification	1	Liberal	Restrictive	Liberal	Restrictive
Company policies (Legal)	Qualification	1	Liberal	Restrictive	Liberal	Restrictive
Exchange controls (Legal)	Qualification	1	Liberal	Restrictive	Liberal	Restrictive
Exchange rate	Selection	1	Appreciation	Appreciation	Appreciation	Appreciation
External (market specific)						
Sales potential	Qualification	1	High	Low	High	Low
Competitive behaviour (Competition)	Selection	1	High integration	Low integration	High integration	Low integration
Competitive structure (Competition)	Selection	1	Atomistic competition	Atomistic competition	Atomistic competition	Atomistic competition
Marketing (Infrastructure)	Selection	1	Good	Poor	Good	Poor
Distribution (Infrastructure)	Selection	1	Poor	Good	Poor	Good
Existing distributor arrangements	Selection	1	High	Low	High	Low
Brand awareness	Selection	0,8	High	Low	High	Low
Total (Maximum score = 12,2)			8,4	4,8	8,2	4

Table 5.1b: Results external conditions: preferred directness of the sales channels by the theory; Russia & Dubai.

Criteria	Qualification vs Selection	Weight factors	Russia		Dubai	
			Vertically integration / Foreign sales organization	No vertically integration / Indirect and agent/ distributor exporting	Vertically integration / Foreign sales organization	No vertically integration / Indirect and agent/ distributor exporting
External (general environment)						
Cultural distance	Selection	1	Small	Large	Small	Large
Political Risk	Qualification	0,2	Low	High	Low	High
Economic structure (Stability)	Selection	0,2	High	Low	High	Low
Investment policies (Legal)	Qualification	1	Liberal	Restrictive	Liberal	Restrictive
Company policies (Legal)	Qualification	1	Liberal	Restrictive	Liberal	Restrictive
Exchange controls (Legal)	Qualification	1	Liberal	Restrictive	Liberal	Restrictive
Exchange rate	Selection	1	Appreciation	Appreciation	Appreciation	Appreciation
External (market specific)						
Sales potential	Qualification	1	High	Low	High	Low
Competitive behaviour (Competition)	Selection	1	High integration	Low integration	High integration	Low integration
Competitive structure (Competition)	Selection	1	Atomistic competition	Atomistic competition	Atomistic competition	Atomistic competition
Marketing (Infrastructure)	Selection	1	Good	Poor	Good	Poor
Distribution (Infrastructure)	Selection	1	Poor	Good	Poor	Good
Existing distributor arrangements	Selection	1	High	Low	High	Low
Brand awareness	Selection	0,8	High	Low	High	Low
Total (Maximum score = 12,2)			5,2	7	5,4	8,8

Chapter 6: Profitability analysis

R4: To what extent does the desired entry mode meet Hartman's profitability requirements?

6.1 Introduction

After the assessment of Hartman's internal and external criteria in the previous chapters, in this chapter I will make a more specific analysis on my way to draw the final conclusions and recommendations. Both Hartman's management as well as the literature (Osborne 1996) are emphasizing the importance of a profitability analysis in order to choose the best way of operating in a foreign country. This chapter will start with a brief explanation of Hartman's main strategic goals regarding the business in the target countries – section 6.2. This will be followed by a description of the main elements and assumptions regarding the analysis – section 6.3. Hereafter I will make a detailed profitability analysis including an estimation of the start up costs – section 6.4; and a profit and loss statement for the first three years in section 6.5. Finally this chapter will end with a conclusion in section 6.6.

The information for this analysis is gathered by means of my own research (websites) about the costs in the different countries, another part is used from existing financial statements of Hartman's showroom in Krefeld (Germany).

6.2 Company goals

Hartman's main goal for the future is to extend its sales in the foreign markets – specially in the four target countries studied in this thesis. However, like already pointed out Hartman perceives that the currently used market entry modes in the target countries show insufficient growth opportunities for the future.

In order to reach the main goal Hartman is willing to invest some capital; but the main condition that has to be met is the financial feasibility of the investment (market entry mode).

Like already mentioned, setting up an own sales organisation including a showroom abroad is a desired alternative for Hartman. The actual pay back time of the investment will be longer and the management is aware about this. Though, *it should not take more than 2 years to make profit or at least break even* and Hartman's goals are formulated according to this.

6.3 Main elements of the profitability analysis

In this part I will describe the main elements of the profitability analysis. Earlier in this thesis I have distinguished the following market entry modes: *foreign distributor, foreign external agent, company owned retail store with or without an accountmanager*. Although, the fixed costs and investment requirements of an external agent and distributor are limited and Hartman is currently experiencing the benefits of these entry modes. Therefore I will focus solely on the alternative entry mode: *company owned retail store – with or without an accountmanager*.

For this assessment I have drawn two different scenario's which were requested by Hartman – table 6.1. More details to support the choices made regarding the different scenario's can be found in *Appendix F-1*.

Table 6.1: different elements of the financial profitability analysis

Scenario 1: 500 m2 showroom / Scenario 2: 1000 m2 showroom			
Operational costs, requirements and salesforecasts	Year 1	Year 2	Year 3
Estimated sales to end consumers			
Showroom salesperson			
Salaries			
Showroom			
Warehouse			
Marketing & Sales			
Logistics			
General costs (overhead, Electricity etc)			
Estimated B2B sales accountmanager			
Accountmanager			
Salaries			
Car & Travel costs accountmanager			

Since the costs for renting a showroom are the highest, compared to the other operational costs I have done an extensive real estate analysis of these costs for each country. In this analysis, which can be found in *Appendix F-4*, I have selected some suitable locations for Hartman according to their preferences and calculated the actual rental costs. Due to time limitations I have only worked out one of the alternative locations for each country in the Profit & Loss statement (table 6.2). More details the selected locations and of other potential locations can also be found in the *Appendix (F-4)*.

Table 6.2: selected showroom locations for the profit & loss analysis.

Country	Location*	Size in m2	Montly/Yearly Price per m2
Sweden			
Spain			
Russia			
Dubai			

* In the potential location analysis I have found more suitable locations for Hartman but in this analysis I only have used one of the options.

** Due to the unavailability of a 1000 m2 location for rent in Dubai and Sweden I have taken these locations of resp. 500 and 375 sq. meters as a basic and calculated the rent for 1000 m2 in the profit and loss account. In order to compare the different locations to each other I have calculated the costs for the location in Barcelona for 1000 m2 in stead of 1090 m2.

By means of these two scenario's and selected locations I will firstly make an estimation about the start up costs, followed by a profit and loss statement for the first three years.

6.4 Start up investment estimations – main results

Regarding the start up costs I can say that Hartman can easily find a suitable delivery truck for approximately € – see *Appendix F-1* for two different occasions.

I have estimated the renovation or construction investments at about € according Mr. Böhmer – sales director Hartman Germany. The other general investments are estimated €.

The differences in start up investment are mainly because of the minimum start up capital requirements in the different countries. These are the highest in Dubai, followed by Sweden, Spain and Russia.

Start up investments	Sweden	Spain	Russia	Dubai
Truck				
Renovation costs*				
Furniture, merchandise and other general costs				
Minimum start up capital				
Total				

* these costs can vary, dependent on the condition of the building.

6.5 Profit & loss estimations – main results

This profit & loss statements can be seen as the primary part of the financial analysis; which I have split up into two parts: **showroom** and **accountmanager**. In the first part I will assess the profitability of setting up a showroom including a small warehouse in Stockholm (Sweden), Barcelona (Spain), Moscow (Russia) and Dubai (UAE). The second part will consist of a cost/benefit analysis of hiring one accountmanager in the target markets. However, I will only pay attention to the main results of this analysis – more details can be found in *Appendix F-2* (showroom) and *F-3* (accountmanager).

I would like to make a remark concerning the tables in this section; the numbers in the tables seem very accurate, however these are just the results of my assumptions about the revenues and costs.

6.5.1 Showroom

Table 6.3 describes the total operating costs (excl. purchase value of sales) and the required sales to cover these costs for the first three years.

It is easy to see that the total costs for Sweden are the lowest, this is due to relative low rental costs for a showroom. Sweden is followed by Spain and Dubai, Russia has the highest estimated operating costs for a showroom. This is mainly due to the high rental rates in Moscow. Therefore, the required sales to break even are the lowest in Stockholm and highest in Moscow.

Table 6.3: total operating costs and required sales to break even for a showroom – 2 scenario's.

		Scenario 1: 500 m2 showroom Total operating costs and Required sales to break even			Scenario 2: 1000 m2 showroom Total operating costs and Required sales to break even		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Sweden	Total costs						
	Req. sales						
Spain	Total costs						
	Req. sales						
Russia	Total costs						
	Req. sales						
Dubai	Total costs						
	Req. sales						

In table 6.4 I have put the main results of the profit & loss statements for each location and scenario. Reminder: I have calculated these according to a salesforecast of € in the first year, € in the second and € in the third year. When using other forecasts these results will also be different. The red marked (-) are estimated losses related to the sketched situation.

Table 6.4: EBIT and EBITDA for a showroom – 2 scenario's

		Scenario 1: 500 m2 showroom: EBIT & EBITDA			Scenario 2: 1000 m2 showroom: EBIT & EBITDA		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Sweden	EBIT						
	EBITDA						
Spain	EBIT						
	EBITDA						
Russia	EBIT						
	EBITDA						
Dubai	EBIT						
	EBITDA						

Sweden

The profitability of the Swedish showroom shows some chances for Hartman due to the relatively low rental costs for a showroom. According to my assumptions the mentioned showroom (scenario 1) in Stockholm can start making profits in the third year. Also scenario 2 has some little possibilities to survive but has to generate some more sales in order to make the investment worth it.

Spain

Also in Barcelona the first scenario shows opportunities for Hartman. According to my assumptions the showroom will make profits in the third year after losses in the first two years. Though, the sales in the second will not cover the costs within the first three years in the second scenario.

Russia

According to my assumptions a showroom in Moscow can not be profitable within three years. To start making profit the sales has to be over € in the first scenario and over € in the second scenario. This investment will be the biggest risk for Hartman.

Dubai

According to my assumptions it will be difficult for Hartman to start up a profitable showroom in Dubai within three years. Like in Moscow, the assumed sales do not cover the costs to make profits, however the losses are less compared to the situation in Moscow.

6.5.2 Accountmanager

Table 7.5 describes the total costs of an accountmanager and the required sales to cover these costs for the first three years.

The costs for an accountmanager are the lowest in Russia, followed by Dubai and Sweden, the highest costs for an accountmanager are in Spain.

Table 6.5: Total costs and required sales to break even for an accountmanager.

		Accountmanager: Total costs and Required sales to break even		
		Year 1	Year 2	Year 3
Sweden	Total costs			
	<i>Req. sales</i>			
Spain	Total costs			
	<i>Req. sales</i>			
Russia	Total costs			
	<i>Req. sales</i>			
Dubai	Total costs			
	<i>Req. sales</i>			

In table 6.6 I have put the main results of the profit & loss statements for an accountmanager in the four countries. Reminder: I have calculated these according to a salesforecast of € in the first year, € in the second and € in the third year. When using other forecasts these results will also be different. The red marked (-) are estimated losses related to the sketched situation.

Table 6.6: result (costs-benefits) of an accountmanager.

		Accountmanager: Result		
		Year 1	Year 2	Year 3
Sweden				
Spain				
Russia				
Dubai				

Sweden

According to my assumptions an accountmanager will cover its costs in the third year, this is mainly due to the high salary costs.

Spain

Also an accountmanager in Spain will take at least 2 years to make profit, also because of the high salary costs.

Russia

According to my assumptions an accountmanager in Russia will be very likely for Hartman, due to the relative low costs it will start making profit after the first year.

Dubai

Also in Dubai an accountmanager is relatively expensive, according to my assumptions it will make the first profits after two years.

6.6 Conclusion

In this chapter I have explored the financial feasibility of alternative market entry modes for Hartman in the four target countries. Hereby, I have tried to answer to the fourth research question:

To what extent does the desired entry mode meet Hartman's profitability requirements?

Regarding the goals and profitability requirements in the four target countries, the main condition that has to be met according to Hartman is that it should not take more than 2 years to make profit or at least break even. Therefore, I am going to assess the results of this analysis according to Hartman's main goal.

Sweden

Confidential

Spain

Confidential

Russia

Confidential

Dubai

Confidential

Chapter 7: General conclusion, reflection and recommendations

R5: What can be recommended to Hartman based on the outcome of the feasibility assessment?

7.1 Introduction

In this chapter I will come to the final conclusions of my thesis where I combine the results of the internal, external and profitability analyses (section 7.2), followed by a short reflection about the thesis in section 7.3. At last I will give a couple of recommendations for Hartman in section 7.4.

7.2 General conclusion

This research is being executed upon instructions from the company Hartman in the Netherlands. The main objective of this thesis was to find out the most feasible market entry mode in Sweden, Spain, Russia and Dubai. The options were differentiated into: vertical integration in the distribution channel by setting up a sales organization in combination with a showroom *and* no vertical integration or indirect or direct exporting by using agents or distributors.

The first market entry alternative is currently not used by Hartman in the target countries, therefore it can be seen as desired in order to increase its sales.

The second market entry alternative is already used by Hartman in the target countries, this can be seen as the current situation. In this thesis I have compared the current situation to the desired situation by means of the following problem statement:

To what extent is it feasible for Hartman to enter the markets of Sweden, Spain, Russia and Dubai (UAE) by setting up a sales organization in combination with a showroom?

When combining the different conclusions of each analysis into a final conclusion (table 7.1) it is clear to see that the results for each of the target markets are different.

Table 7.1a: final conclusion internal and external conditions: preferred directness of sales channels.

	Sweden		Spain		Russia		Dubai	
	1	2	1	2	1	2	1	2
Internal conditions								
External conditions								
Total (weighted)								

1 = Vertically integration / Foreign sales organization

2= No vertically integration / Indirect and agent/ distributor exporting

Table 7.2b: final conclusion profitability analysis

	Sweden	Spain	Russia	Dubai
Showroom				
Accountmanager				

7.3 Reflection

Looking back on the whole process of writing this thesis I can say in general that this has been a great learning experience for me. Besides the fact that I am more specialized in the topics foreign market entry and distribution channel management, I have learned a lot from adopting the theory to a practical situation.

Because of my previous research I had an advantage of knowing Hartman as a company, including some facts and figures about the outdoor furniture industry and the situation in the four target countries. Therefore, the start up phase where I got familiar with the company and the research problem was an easy one for me.

After formulating the research plan I started with an extensive literature study in order to find usable articles and books for the theoretical part. Here, I have found (too) many useful books and articles which I have screened carefully. Because of the huge number of those, it took lots of time for me to find the best suitable criteria for my final theoretical framework. For example, in the beginning I had over 200 different criteria from many different sources. After a while I came to the conclusion that combining and comparing these criteria was an unrealistic challenge – because of the contradictory views of the articles and books – what made the framework only more vague.

Therefore, the final theoretical framework that I have used in this thesis is a combination of just a few articles and books. In order to save me some time in the future, I will keep this step more simple. Next to it, what I have missed in most of the articles and books is a weighting model related to the prescribed criteria. Because of this, my weighting model is only based on Hartman's point of view, without theoretical input or comparison. Hence, more research is needed in this subject to categorize the different determinants by their importance.

In the practical – execution – stage where I have gathered the internal and external information according to the theoretical framework I have experienced some difficulties in finding the information required by the literature. Some information was hard to find or outdated, therefore I have revised the theoretical framework after this stage. I have only selected the feasible criteria and reduced it to a total of 33. But in general, the ease of the information search – both internal and external – was relatively simple. However, the more specific information about competitors and the outdoor furniture market was more difficult to find in Dubai and Russia compared to Sweden and Spain.

Besides that, I would like to make an important comment about the assumptions that I have made and the facts and figures that I have used in this thesis; I did my best to find the most recent information for my thesis and based by conclusions and recommendations on that information. However, due to the worldwide economic crisis which started in 2008 and is still going on, the situation in the target countries can be different (less favourable) from the sketched situations in this thesis. Hartman has to take this into account by the time the final decision is being made.

Finally I would like to mention my experiences with the University on the first hand, and the company Hartman on the other side. While I was writing this thesis, sometimes it was difficult for me to meet the interests of both supervisors. The main difficulty for me was finding a balance between the practical interests of Hartman and the more theoretical interests of the university. After all, I hope that I have found the right balance and satisfied both Hartman and the University of Twente.

Further research/action by Hartman is needed after deciding whether or not to invest in the target countries. The following steps are the definition of a marketing/business plan and a monitoring and control system to do successfully business over there.



7.4 recommendations



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List of appendices

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