Understanding western European SME distributor selection in developing countries.

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Preface

This thesis was conducted as the last requirement to obtain my Master's degree and as a project assigned by Comfoor's brand Pluggerz. I would like to thank Jeroen Verdam, the former CEO of Comfoor, for giving me the opportunity to write my thesis in the company. Coming from a different cultural and educational background, this experience gave me the business perspective on how things function in the workplace and made me notice avenues for personal improvement. I would also like to express my appreciation to Linda Bijsterbosch, the company supervisor, for her piece of advice for my future professional career.

Special thanks to the external supervisor Manon Spin for always making time to answer my queries and supporting me beyond the academic issues that appeared along the way. I would also like to thank Ariane von Raesfeld for the long supervisors' feedback sessions at her office.

Gracias también a mi mamá, papá, hermana y a la familia Avendaño que aunque no estuvieron presentes durante el desarrollo de mi tesis, el pensar en ellos me hizo recordar de dónde vengo y de todo lo que he hecho para llegar hasta donde estoy. A ti Dave por aguantarme en los malos momentos y por tu apoyo incondicional.

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Management Summary

Expansion to new markets is no longer a characteristic of large companies. On the contrary, nowadays more and more small and medium enterprises (SMEs) are expanding their businesses overseas. However, along with the decision to internationalise there are a myriad of aspects facilitating and/or constraining SMEs entrance to new markets. Thus, this research identifies and explores the aspects influencing western European SMEs in their selection of business partners in Latin American markets. Specifically two markets are explored: Mexico and Brazil. Three main concepts were identified in the extant literature to influence SMEs business partner selection: ***macro-environmental forces*** embedded in the host country, the ***selection criteria*** companies use to choose the most suitable partner, and trust and commitment as the basis for ***successful business relationships***. All these concepts are summarized in the following research question: *Which aspects do western European SMEs have to take into account to select local distributors in order to enter Latin American markets?*

Because little research has been conducted in the context of SMEs selecting their channels of distribution in Latin American markets, this research takes a qualitative, exploratory approach. The specificity of the subject required the use of purposive sampling to collect data. Interviewees include 4 Dutch SMEs exporting to Latin America, the consultancy firm Holland Brazil and a total of 6 companies including distributors and audiology stores in Mexico and Brazil. Secondary data were used to discuss general information about both markets and semi-structured questionnaires were used to give interviewees the freedom bring (new) insights on the topic.

The findings indicate the legal – more in Brazil than in Mexico –, and cultural environments are the most significant macro-environmental forces affecting Dutch SME distributor selection. Moreover, culture is the macro-environmental force influencing successful business relationships the most. This is because Latin American distributors are more likely to continue doing business with suppliers if the relationship is perceived as strong; showing the high value Latin Americans place on personal relations over pure financial rewards. Lastly, from the 5 criteria studied, 3 appear to have more influence on successful business relationships: dealing with competitors' products, geographic coverage and language proficiency to a lesser extent. All these criteria require (potential) distributors to make pledges to show their trust and commitment to make the business venture a fruitful one.

In short, as in the words of one interviewee "doing business in Latin America is 90% about bonding with their suppliers and 10% about business". The findings suggest the Latin American business environment is relationship related and Dutch SMEs must consider and if necessary adapt their way of doing business to make the venture a successful one.

Recommendations to management

This study concludes Mexico holds the biggest potential for Pluggerz to export. The determinant reason is the exemption of import duties thanks to a Free Trade Agreement between the European Union and Mexico. Besides this, Mexican authorities do not require earplugs to be tested in order to enter the local market, eliminating entry costs. Likewise, European technology scores above American or Chinese technology in the preference of local end consumers giving Pluggerz a great opportunity. Attention to hearing protection is mainly given in the western world; hence, it is recommended to use local distributors to push a relatively "unknown" product locally. The use of local distributors is also relevant because of

time differences, (6 to 7 hours difference), which could hinder communication and other types of interaction between Pluggerz and Mexican clients. A step further would be paying a commission to an agent focusing on only selling Pluggerz.

Brazil is to a less extent interesting for Pluggerz because import taxes are relatively high, 18%. Moreover, there is a big chance earplugs need to be tested, requiring a big investment from Pluggerz. If Pluggerz were to start business in Brazil, the best option would be partnering with a local distributor. Geographical and cultural distance/differences justify this recommendation. The pace in which business is done in Brazil and in other Latin American countries tends to be slower. Here, personal relationships come before any business deal can be sealed. Thus, a local representative would be an asset in such environment to profile the product amongst potential buyers. Despite the not so encouraging landscape in Brazil, it is not to be totally discarded for a future venture. Since a few years the European Union has been negotiating a trade agreement with the free trade sub-regional bloc MERCOSUR, which includes Brazil as one of its members. The implication of this agreement, if signed, would be the reduction or exemption of import taxes, tests and other related procedures for products coming from the European Union.

Lastly, Pluggerz requested to consider a storage facility in Mexico, Brazil or another Latin American country in case import costs were too high. Using a warehousing facility in Mexico or Brazil is not advantageous. On the contrary, it only increases costs. Leasing a storage space in Panama would be recommended if Pluggerz decides to export to several Latin American countries simultaneously. Panama has a Free Colon area, near the Panama Canal, which allows companies to import merchandise exempted from paying import taxes as long as products remain in this free trade area. This also applies for products not having

Panama as its final destination. The only costs involved would be the leasing of a storage facility and administrative costs charged by the Third Party Logistics (3PL) company providing the warehousing services.

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List of abbreviations

ANVISA: Brazilian Health Surveillance Agency

COFEPRIS: Federal Commission for the Protection against Sanitary Risk

COFINS: Contribution for Social Security Financing

CFZ: Colon Free Zone

DTA: Customs Processing Fee

EU: European Union

FDI: Foreign Direct Investment

FTA: Free Trade Agreement

HS: Harmonized System

II: Import duties

i.e.:   id est – that is

INMETRO: National Institute of Metrology, Quality and Technology

IPI: Industrialized Products Tax

IVA: Value-added tax

MERCOSUR: Southern Common Market

MNE: Multinational enterprise

MNF: Most Favored Nation

NAFTA: North American Free Trade Agreement

NB: Nota bene

NOM: Mexican Official Standards

OECD: Organization for Economic Cooperation and Development

PIS: Social Integration Program

SME: Small and medium enterprise

VMI: Vendor Managed Inventory

I. Introduction

I.I. Research Background

The appearance of internationally active small and medium-sized enterprises (SMEs) is one key worldwide trend (Knight, 2000). As a consequence of globalization, trade barriers have decreased paving the way for SMEs to expand to new markets. For this expansion to occur, many SMEs – including the firm for which this study is being conducted – opt to use exports as their entry mode to international markets (Lado, Martínez-Ros & Valenzuela, 2004). However, along with the decision to internationalise there are a myriad of aspects facilitating and/or constraining SMEs entrance to new markets. Here is where most firms' "success or failure is determined by how effectively and efficiently their products are sold through their distribution channel members" (Mehta, Dubinsky & Anderson, 2002, p. 429).

This study is being conducted for Comfoor, a Dutch company selling for more than 30 years universal and custom-made hearing protectors, and custom-made ear moulds. When the company started, its focus was on selling custom-made ear moulds. Currently, custom-made ear moulds are sold under the brand Comfoor. Also, custom-made and universal-fit hearing protectors for industrial use are sold under the brand Comfoor but sold under the brand name Pluggerz to end customers. The latter, universal-fit hearing protectors for end customers, Pluggerz, are the focus of this research. In the last few years Pluggerz has been expanding its presence in the local market rapidly. As a result, Comfoor wants to know whether Mexico and Brazil are good markets to export to and if so which distribution channel would be the most suitable. From here onwards, the term focal SME will be used to refer to Comfoor's brand Pluggerz.

Distribution channels, also known as marketing channels (Ellis, 2011) are defined as "the external contactual organization[s] that management operates to achieve its distribution objectives" (Rosenbloom, 2013, p. 28). From the focal SME's experience in expanding to foreign markets, there are three distribution channel options of particular interest and are mentioned in order of importance: (1) retailers; (2) local distributors; and (3) the use of a warehousing facility. The channel that leaves the highest profit margins determines the order of importance of the distribution channels previously mentioned. From the focal SME's experience retailers demand between 50% and 60% margin; local distributors between 30% and 40% margin; and the use of a warehouse would imply the payment of import duties for the products owned by the SME, thus the products in storage that have not been sold to clients, leasing for the storage space and other related costs.

Local distributors and warehouses are regarded as intermediaries because they act as the "middlemen" performing distribution tasks such as "storage, sales, financing and relationship building better than most manufacturers" (Krafft, Goetz, Mantrala, Sotgiu, & Tillmanns, 2015, p. 1). Additionally, "retailers are also technically considered intermediaries – i.e. between manufacturers and consumers – in what ultimately are considered B2C markets (Ellis, 2011, p. 98). Besides selecting the most suitable distribution channel(s), "cross-border relationships […] moving toward highly relational partnerships" (Bello, Chelariu & Zhang, 2003, p.1). Hence, the purpose of this research is to study western European SMEs' distribution channel selection and the importance of building business relationships in two developing countries, Mexico and Brazil. To the focal SME this translates into determining the most suitable option for distributing their products in both countries.

The consideration of the three distribution channels mentioned above was determined by the focal SMEs' experience. However, approaching retailers can be challenging because "retailers have no shelf space, they carry competing brands, and they don't trust that the brand will sell" (Johansson, 2000, p. 131). Moreover, from the focal SME's experience finding the right person to talk to in big retail chains is often challenging and getting a hold on them as a small "unknown" company make the chances of approaching them low. Thus, this option falls outside the scope of data collection for this research. The focus will be on the other two options, local distributors and the use of a warehouse. the theoretical concepts will be concentrated on the former. This is because the latter requires the use of secondary data sources to evaluate which location, costs, etc. is the best for having such storage space.

SMEs selecting local distributors are facing one of the most important choices in exporting and are considered one of the top ten issues by managers (Cavusgil et al., 1995; Ramaseshan & Pitt, 1990; Anderson & Coughlan, 1987; Zafar & Ahmed, 2005). Selecting a suitable local distributor that can operate in the best interest of the exporter abroad takes time, financial resources, and patience (Moore, 1987; Cavusgil et al., 1995). As a result, SMEs exporting are significantly challenged in terms of "identification, qualification, and management of overseas agents and distributors" (Wilkinson & Brouthers, 2006, p. 239). Furthermore, because there is nearly no channel that fits a SME perfectly, firms need to consider the trade-offs each distribution channel option pose to make thoughtful decisions and seize market opportunities (Magrath & Hardy, 1987). As a consequence, selection criteria are applied to appraise the suitability of distribution channel prospects (Rosenbloom, 2013). It was mentioned previously that the focal SME is located in a developed country – The Netherlands – and is weighting its chances to expand to Mexico and Brazil, two developing countries. Having said this, evidence shows that companies seem to prefer using local

distributors when cultural differences are bigger (Anderson and Coughlan, 1987). With this in mind, while studying SMEs distribution channel selection in developing countries, this research identifies key criteria from the extant literature – and later on verified with data obtained from interviews – to facilitate such decision.

Because of the cooperative nature of distribution channels, trust and commitment are fundamental mediating variables to establish successful business relationships (Morgan & Hunt, 1994; Zhang, Cavusgil & Roath, 2003). In Latin American countries, high importance is given to building strong business relationships between distributors and their partners (J. Bestebreurtje, personal communication, June 30, 2015). As a result, "good personal contact with the market and close relationship with channel members enhance the firm's capability for careful planning and control of the export activity" (Madsen, 1989, p. 50). Good business relationships result in SMEs and intermediaries "involved in fewer, but increasingly significant, working relationships in which better coordination of marketing and technical activities are essential for their mutual success in the customer marketplace" (Anderson & Narus, 1990, p. 42). For example, in a study conducted on buyer-seller relationship strength and repurchase intentions, Hewett, Money & Sharma (2006) found that buyers in Latin America seem to be more likely to continue purchasing from sellers when they perceive relationships with those suppliers to be strong.

Since trust and commitment have a positive effect on exporter-importer business relationships in developing markets (Bianchi & Saleh, 2010), this research considers these variables are of importance when doing business in Brazil and Mexico. Trust is defined as "the belief that the exchange partner's word or promise is reliable and will fulfil its obligations in an exchange relationship" (Kim & Frazier, 1997, p. 154). Commitment is

defined as the "enduring desire to maintain a valued relationship" (Moorman, Deshpandé, & Zaltman, 1993, p. 316). Once SMEs have selected their distribution channel, trust and commitment are essential for exporter-importer positive relationships outcomes (Bianchi & Saleh, 2010).

Export experience is one important factor for firms to succeed in distant geographic markets (Lado et al., 2004). Once SMEs acquire experience in less risky and closely located markets, they expand to more distant geographical locations (Burpitt & Rondinelli, 2000; Ojala & Tyrväinen, 2007; Johanson & Vahlne, 1990). Here is where uncontrollable dimensions embedded in the foreign market could facilitate or constraint the cost of entry (Johansson, 2000). As such, this research takes the premise that uncontrollable macro-environmental forces affect SMEs' distribution channel selection and the formation of successful business relationships. Macro-environmental forces have "become more critical than ever to the success of all distribution channels" (Hoppner & Griffith, 2015, p. 14). These forces are defined as "the general trends and forces which may not immediately affect the relationships that a company has with its customers, suppliers, and intermediaries, but sooner or later, as this environment changes, will alter the nature of such micro-level relationships" (Palmer, 2012, p. 51).

From the discussed above, there are gaps with regards to the extant literature in channel research. First, the topic of distribution intermediary selection in emerging economies has been understudied (Ma, 2006). Second, most of the articles published on international distribution channels are basically ethnocentric, only showing the perspective of markets with the highest business activity such as the U.S. or Western Europe (Dijkstra, Meulenberg & Van Tilburg, 2001; Kim & Oh, 2001; Jia & Wang, 2013; Hoppner & Griffith, 2015;

Leonidou, 2004; Cunningham and Green, 1984; Kale, 2012). This leaves the question mark as to whether the results are generalizable to developing markets. In the same vein, limited attention has been paid to developing regions (Kale, 2012), such as Latin America (Baena & Cerviño, 2011). Third, extensive research on how managers actually make critical strategic decisions show that the distribution channel selection process is often non-systematic and based on little information, which is mainly related to managers' unfamiliarity with foreign settings and few guidelines to use (Anderson & Coughlan, 1987). Lastly, research on trust and commitment has focused on obtaining and analysing data from only one side of the dyad – i.e. from exporters' perspectives – as opposed to also studying it from the perspective of the importer located in a developing country – (Krafft et al., 2015; Bianchi & Saleh, 2010). Because trust and commitment are the results of interpersonal interaction and interpersonal relations, dyadic relationships need to be considered (Kenny, Kashy, & Cool, 2006; Kale, 2012).

In practical terms, this research is conducted in the context of a Dutch SME seeking to select the most suitable distribution channel in two prospective markets: Brazil and Mexico. In theoretical terms, this research focuses on the macro-environmental forces influencing distribution channel selection and the formation of successful business relationships in developing countries. All these variables bring about the selection of the most suitable local distribution partner.

Mexico and Brazil were previously selected by the focal SME. On the one hand, Brazil is considered the largest economy in Latin America, the fifth largest country and seventh-largest economy in the world (U.S. Commercial Service, 2014; European Commission website). Mexico, on the other hand, is the most populated Spanish speaking

country (U.S. Commercial Service, 2014), and the second largest market in Latin America (Johansson, 2000). Furthermore, Mexico and Brazil are the two largest trade partners of The Netherlands in Latin America (Globe Magazine, 2015). The focal SME has not conducted previous market research to select these two countries. The potential the focal SME sees in these two markets is based on the CEO's personal experience and perception of the economic importance of both countries.

I.II. Research questions

In light of the previous discussion, the central question guiding this research is:

Which aspects do western European SMEs have to take into account to select local

distributors in order to enter Latin American markets?

Additionally, this research attempts to answer the following sub-questions:

Which macro-environmental forces influence distributor selection criteria and successful

business relationships?

What is the effect of macro-environmental forces on distributor selection criteria?

What is the effect of macro-environmental forces on successful business relationships?

What is the effect of distribution selection criteria on successful business relationships?

II. Literature Review

This section presents the theories and concepts in which this study is grounded to answer the research questions. It describes previous contributions relevant to the issues touched upon here. First, to answer the first research sub-question this study identifies the macro-environmental factors discussed in extant channel and exports literature, and that are expected to influence SMEs' decision to enter new markets. Second, this research assumes macro-environmental forces determine local distributor selection, and hence identifies relevant criteria based on the literature – and later on complemented with interviews with Dutch SMEs and local distributors – that are expected to influence this selection. Third, because commercial relationships go beyond the business arena, this study discusses the extant literature on trust-commitment theory to analyse how these variables influence successful business relationships. As it will be seen throughout this section, some of the variables included in this research are linked with each other; thus they will not only be discussed in their respective sub-sections but also included in the subsequent sub-sections. Given the remaining three research sub-questions address the effect the three concepts have on each other, this chapter only focuses on partially answering the first sub-question partially while discussing prior research on every single concept. The remaining three sub-questions will be answered with the support of data collected for this study that will be presented in subsequent chapters.

II.I. Macro-Environmental Forces Influencing Distribution Channel Intermediary Selection

Macro-environmental forces influence channel relationships (Kale, 2012), and how these channels are conformed (Rosenbloom, 2013). The environment within which international distribution channels function is more complex than the local environment due to the myriad of differences that exist within countries (Moen & Servais, 2002; Rosenbloom,

2013). This is especially the case between developed and developing countries, which in turn has an impact on dyadic channel relationships (Kale, 2012). Additionally, smaller firms give a higher degree of significance to external barriers than larger firms do because of the high risks they face in terms of firm resources (Ghauri & Kumar, 1989). Hence, a starting point to understand SMEs' distributor selection is by analysing the macro-environmental factors affecting such selection, which simultaneously influences successful business relationships.

Several macro-environmental forces have been identified by extant literature: legal, political, economic, competitive, cultural, technological, and ecological (De Búrca, et al., 2004; Palmer, 2012, Rosenbloom, 2013; Johansson, 2000; Leonidou, 2004; Woord & Robertson, 2000; Stern, El-Ansary & Coughlan, 2001; Cambra-Fierro, Hart & Polo-Redondo, 2008). However, some of these forces have been recognized mainly taking large manufacturing firms and multinationals as reference points (Ojala & Tyrvainen, 2007; Kale, 2012). Moreover, for SMEs barriers entering new markets are sector and industry dependent (Lloyd-Reason & Deprey, 2009). From all the macro-environmental forces mentioned, previous research has shown barriers with the highest impact are from economic and legal nature (Leonidou, 2004). Additionally, the geographic and cultural distance have an impact on smaller manufacturing firms that try to overcome the limitations of inadequate information about foreign markets by choosing partners in the targeted host country markets (Wilkinson & Brouthers, 2006; Leonidou, 2004). Hence, this section discusses three of the most significant macro-environmental forces affecting SMEs entry to new markets.

II.I.I. The Economic Environment

"The economic environment is probably the most obvious and pervasive category of [macro]-environmental variables affecting all members and participants in the channel" (Rosenbloom, 2013, p. 103). The economic environment of a nation influences the behavioral

relationships within distributors channels (Kale, 2012). The same author argues channel partners in developed countries use 'extensive problem solving' processes to evaluate potential distribution intermediaries. Developing countries, on the other hand, "use purely subjective criteria such as their existing personal friendship with the middlemen, the social and political contacts of the prospective middlemen, and so on" (Kale, 2012, p. 103). Moreover, the economic development in the host market is a major indicator for understanding and evaluating buyer behavior (Johansson, 2000).

"Today's economic environment is turbulent and unpredictable" (Schulz, Borghoff & Kraus, 2009, p. 7). As such, deteriorating economic conditions abroad are considered to have a very high impact on SMEs exporting abroad (Leonidou, 2004). As a result, SMEs require the support from local distributors to cope with changing economic circumstances (Zhang, Cavusgil & Roath, 2003). Despite the high risks economic environments can have on SMEs, "evidence from other regional economies suggests that SMEs came through crises better than large enterprises" (Muhammad, Char, bin Yasoa & Hassan, 2010, p. 68). In short, this research will investigate the economic environment with relation to the country's current financial situation.

II.I.II. The Cultural Environment

"Emerging markets are usually markets with a high cultural distance, so [Western] companies need to accumulate knowledge before being fully involved" (Checchinato, Hu, & Vescovi, 2014, p. 5). For this reason, distribution channel selection is not only dependent on distributor proficiencies, but also on considering cultural factors unique to the host country (Kim & Daniels, 1992; De Búrca et al., 2004). "Culture is a multidimensional construct" (Donthy & Yoo, 1998, p. 179). Considering cultural differences between home and host countries can be determinant when expanding to Latin American countries (Baena & Cerviño,

2011). Thus, the study of cross-cultural dimensions lays in considering resemblances or dissimilarities, observed or actual, between the home and host countries (Hoppner & Griffith, 2015).

Anderson & Coughlan (1987) provide an example on how differences/similarities on the cultural environment – between home and host country – affect distribution channel selection. The authors found that American companies choose to have own agents (i.e. own sales force and own distribution division) in Western European countries due to fairly comparable cultural settings, and foreign distribution channels in Japan and Southeast Asia because of bigger cultural dissimilarities. Firms seem more likely to use integrated distribution channels when high degrees of transaction specificity of assets exist, higher product service levels are required, when there are cultural similarities between the home and host country, among others (Anderson & Coughlan, 1987). Based on these results, it could be argued the use of foreign distribution channels in distant cultural markets are more attractive for it relieves SMEs from taking financial and logistical (i.e. storage of goods) risks – also in terms of poor infrastructure – while providing information about end consumers' preferences (Ellis, 2011).

"The culture […] of actors in a channel dyad is shaped by a society's position on the dimensions of individualism, power distance, uncertainty avoidance, and masculinity" (Kale & McIntyre, 1991, p. 34). In a later study, Hofstede (1993) added long-term orientation as another dimension. These five dimensions exist cross-culturally and were found by Hofstede (1993) in his study of culture across 40 countries. The differences in scores between Western and Latin American countries are contrasted and discussed in this sub-section.

Power distance is defined as "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Geert Hofstede's website). The high score shown by Latin American countries implies that an imbalance of power exists in favour of the more powerful party of the channel dyad, whereas the low level shown by Western European countries implies apparent equity in the contract with the other party of the dyad and reaching the final agreement through consensus (Kale & McIntyre, 1991). This could mean local distributors would have more power when establishing business relationships with SMEs attempting to enter new markets with a product which benefits and importance the local population is not much aware of.

Uncertainty avoidance is defined as "the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these" (Geert Hofstede's website). In countries with high uncertainty avoidance, channel partners place high value on predictability and stability in business relationships with their partners (Kale & Singh, 1991). Figure 1 below shows Mexico (82) and Brazil (76) having high scores on uncertainty avoidance. Interestingly, The Netherlands' score (53) shows a slight preference for uncertainty avoidance (Hofstede's website). Based on the score above intermediate for The Netherlands, it could be argued Dutch SMEs would be slightly informal and flexible in their approach towards establishing channel relationships.

Long-term orientation is defined as "how every society has to maintain links with its own past while dealing with the challenges of the present and future" (Geert Hofstede's website). Figure 1 below shows The Netherlands scores high (67) on long-term orientation compared to a low score for Mexico (24) and medium score for Brazil (44). These scores show that Western countries are objective oriented, pragmatic and easily adaptable to

changing situations (Hofstede, 1993). When transposing SMEs' – from developed countries – long-term orientation to their business relationships with foreign distribution channels members, it would translate into SMEs' willingness to act in a flexible way to the changing requirements and special requests of its foreign partner (Bello et al., 2003). Furthermore, as it will be discussed in a further sub-section, long-term orientation has a positive effect on business relationships based on trust and commitment (Fink, Harms & Kraus, 2008). On the other side of the spectrum, the lower scores in long-term orientation for Brazil and Mexico could imply that foreign distribution channel members could loose interest in pushing a new product that requires significant human, financial resources and time to create awareness amongst potential customers/consumers.

Masculinity is defined as "the distribution of roles between the sexes which is another fundamental issue for any society to which a range of solutions are found" (Hofstede, 1994, p. 3). People in highly masculine societies would be more assertive when attempting establishing business relationships with potential channel partners, and display a greater focus on achievement, success and thus purely financial rewards (Kale & McIntyre, 1991; Hofstede's website). Interestingly, however, Mexico has a higher score (69) on masculinity compared to Brazil's (49) intermediate score showing significant differences in a region mainly considered as strongly masculine. Those in low masculine – Western – societies, on the other hand, tend towards less aggressive and more co-operative bargaining, consensus and towards a focus on caring on others and on relationships over purely financial rewards (Kale & McIntyre, 1991; Hofstede's website). Hence, it could be expected Dutch SMEs would attempt finding consensus and being supportive when establishing business relationships with potential channel members.

Individualism is defined as "the degree of interdependence a society maintains among its members" (Geert Hofstede's website). As Figure 1 below shows, Mexico and Brazil are collectivistic countries, whereas The Netherlands is highly individualistic. This shows developing countries consider the whole group, attempting to take care of each other with the expectation of getting loyalty in return. (Geert Hoofstede's website). Western countries, on the other hand, are individualistic and deem good performance characteristics – as in merit – more important when identifying candidates to begin a channel relationship with (Kale & Singh, 1991). The implication of this dimension on distribution channel selection could be interpreted as developed countries selecting their distribution channel members based on objective performance – selective – criteria, while developing countries focusing on "we" characteristics (Kale & Singh, 1991). Moreover, it could be argued the collectivistic nature of developing countries reinforces the need for SMEs from developed countries to focus on building and maintaining business relationships based on trust and commitment.

Netherlands
in comparison with Brazil and Mexico

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long Term Orientation
Netherlands	38	80	14	53	67
Brazil	69	38	49	76	44
Mexico	81	30	69	82	24
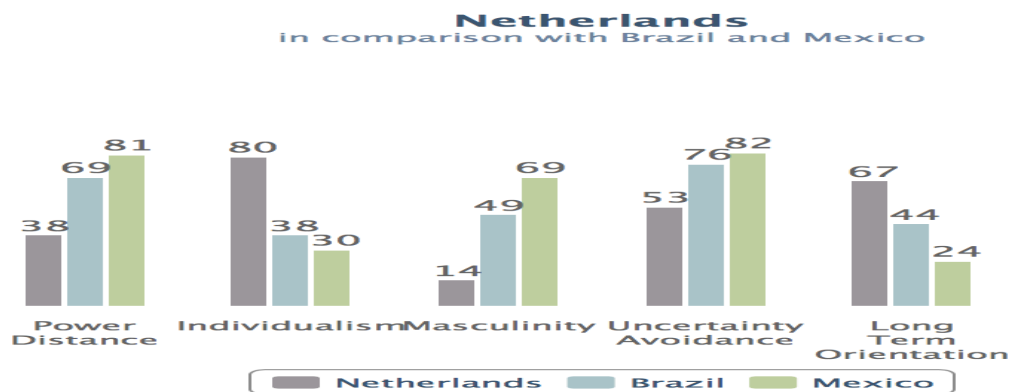
Figure 1. Scores for cultural differences between The Netherlands, and Mexico and Brazil.

Source: Geert Hofstede's website.

"Empirical findings suggest that cultural differences warrant consideration in developing successful purchasing strategies" (Cannon, Doney, Mullen & Petersen, 2010, p. 506). Thus, sensitivity to foreign cultures improves communication and decreases conflict, while positively influencing business relationships (LaBahn & Harich, 1997). Additionally,

cultural aspects are linked to other macro-environmental factors. For example, high uncertainty avoidance in Latin American countries give way to the establishment of laws and rules to make citizens feel they are living in a safe environment (Geert Hofstede's website). Hence, the next sub-section discusses the legal environment in more detail.

II.I.III. The Legal Environment

Besides economic development and cultural differences, firms are more likely to use foreign distributors when legal restrictions are more prevalent (Anderson & Coughlan, 1987). SMEs entering international markets with the support of a partner – i.e. a distributor – can help to overcome legal obstacles (Fink, Harms & Kraus, 2008). The literature has identified four main dimensions concerning legal barriers/enablers in foreign markets: (1) tariffs and taxes in the foreign market; (2) non-tariff barriers of the foreign market; (3) procedure barriers regarding documentation; and (4) other country dependent legal considerations (Wood & Robertson, 2000; OECD website; Leonidou, 2004; Suárez-Ortega, 2003; Ramaseshan & Soutar, 1996). An example of other legal considerations is listed on the Organization for Economic Co-operation and Development's (OECD) website: arbitrary tariff classification and reclassification; high costs of Customs administration; and competitors with preferential tariff by regional trade agreement. These barriers could hinder distribution channel selection and even SME entrance to the new market at all.

"With respect to foreign practices being incompatible with domestic business may include such occurrences as foreign business practices being difficult to understand, confusing import regulations and procedures and risks involved in selling abroad" (Julian & Ahmed, 2005, p. 74). These difficulties contribute to SMEs' decision to rely upon local distributors (Zhang, Cavusgil & Roath, 2003).

Barriers from legal nature seem to be the ones with the highest impact on small business export development (Leonidou, 2004). Accordingly, the focal SME deems legal barriers as important, if not determinant, for their go-no-go decision to enter new markets. In Brazil for example, complicated tax laws are in place and these vary state-by-state contributing to regulatory uncertainty (Kirshnan, Parente & Shulman, 2007). Additionally, a recent study conducted by the Dutch Brazilian Chamber of Commerce (2015) found that Dutch investors active in Brazil consider tariff and non-tariff barriers big obstacles affecting their businesses. Something similar happens in Mexico, where bureaucracy, complicated tax systems or massive paperwork requirements could potentially hinder firms' business activities (FDA, 2009).

In sum, this research deems economic, cultural and legal aspects as the main macro-environmental forces influencing the focal SMEs' distribution channel selection and the type of distributor-SME business relationship. Figure 2 below shows an overview of the macro-environmental forces and their indicators supporting the analysis of this research.

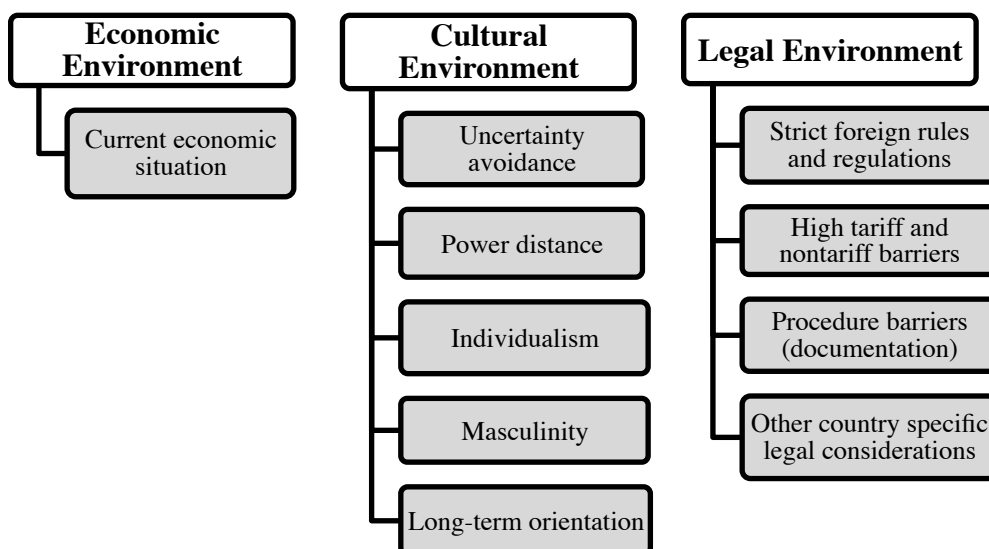| **Economic Environment**	**Cultural Environment**	**Legal Environment**
Current economic situation	Uncertainty avoidance	Strict foreign rules and regulations
	Power distance	High tariff and nontariff barriers
	Individualism	Procedure barriers (documentation)
	Masculinity	Other country specific legal considerations
	Long-term orientation	

Figure 2. Macro-environmental forces affecting SMEs' distribution channel selection and business relationships in prospective markets.

II.II. Distribution Channel Selection Criteria

"When candidate channel partners have been identified, the entrant [firm] must use some decision criteria to winnow the list down to the best choice" (Stern et al., 2001, p. 512-513). In theory, SMEs should select "an optimal distribution channel that would offer the desired level of effectiveness in performing the distribution tasks at the lowest possible cost" (Rosenbloom, 2013, p. 196). However, there is no such thing as selecting the "best" distribution channel. Therefore, firms have to make a selection they must keep in mind that each channel always involves trade-offs (Magrath & Hardy, 1987).

The choice of (a) distribution channel(s) depends heavily on country environmental characteristics (FDEA, 2009). As mentioned previously, many SMEs do not count with the financial resources to invest in the foreign market (i.e. through foreign direct investment). Therefore, firms are increasingly relying on local distributors to carry out distribution tasks (Lin & Chen, 2008; Bello, Chelariu & Zhang, 2003). Local distributors relieve the focal firm from the burden of dealing with local market environmental restrictions (Berman & wHerring, 1995). Because SMEs are leaving their chances of success to partners that are sometimes far away, selection criteria are worthwhile to choose the most suitable distributor.

It is interesting to note that with the growth of international strategic alliances and joint ventures, most recent literature is related to partner selection in these contexts (Wang & Pekka, 2006; Wu et al., 2009; Shah & Swaminathan, 2008; Al-Khalifa & Peterson, 1999). Nevertheless, the criteria listed by the literature in those subjects remain relevant for distribution channel selection. Hence, this sub-section complements the literature in distribution channel selection with the literature in international strategic alliances, partnerships, and joint ventures to identify the most relevant criteria. From the literature, three

main criteria were identified: marketing capabilities; facilitating factors; and distributor's strengths and risk factors (Cavusgil, Yeoh & Mitri, 1995; Magrath & Hardy, 1987; FDEA, 2009; Wu, Shi & Chan, 2009; Lin & Chen, 2008). Based on the literature consulted, sub-criteria were identified for each of these main criteria (see Figure 3).

Marketing capabilities refer to the skills and market knowledge international trade intermediaries can transfer across borders (Ellis, 2010). These capabilities are sub-divided into knowledge of local business practices and geographic coverage (Wu et al., 2009; Cavusgil et al., 1995; FDEA, 2009; Lin & Chen, 2008). As in many developing countries, poor infrastructure poses a particular challenge concerning logistics (Pellegrini & Reddy, 2013; U.S. Commercial Service, 2015). Thus, the ideal scenario would be to find a distributor covering large geographical areas (FDEA, 2009) or focusing on areas where the largest concentration of population is located. Moreover, distributors with experience in the market in question are interesting for the focal firm (Lin & Chen, 2008).

Facilitating factors refer to compatibilities between the firm and the distributor in terms of corporate and personal goals (Cavusgil et al., 1995). As such, the sub-criterion considered in this research is: language proficiency (Cavusgil et al., 1995; FDEA, 2009). Evidence suggests that smaller companies trying to enter the global market seem to be more sensitive and place a higher value to foreign languages than larger companies (Fixman, 1990). While nowadays many people in the big cities in Mexico and Brazil speak English, there might be difficulties when conducting elaborated discussions in English (U.S. Commercial Service, 2014).

The third and last selection criterion, distributor strengths and risk factors, refers to assessing the interest and commitment of the potential distributor to the SME and the potential match a distributor has with the firm's needs (Shipley, 1984; Cavusgil et al., 1995). The sub-criteria identified under this category refer to distributors capacity and the dealing with competitors' products (Cavusgil et al., 1995; Shah & Swaminathan, 2008). Capacity refers to distributor's ability to satisfy product demand by the market efficiently or to foresee where potential demand would occur next (Magrath & Hardy, 1987).

Shipley's et al. (1991) findings suggest that the use of one or the other distribution source depends on the type of industry and product. On the one hand, distributors outperformed direct sellers in relationship-based criteria (i.e. keeps promises, helpful in emergencies, delivery service, etcetera). On the other hand, direct sellers outperformed distributors in terms of economic and technical factors (price competitiveness, product quality, technical know-how, etc.). In the same vein, "products that are relatively technical, complex or sophisticated […] are usually distributed through short channels […]" (Rosenbloom, 2013, p. 194).

But, where to find potential distribution channel members? Trade shows and exhibitions are good means for establishing contact with prospective channel members (Rosenbloom, 2013; Ellis, 2011; FDEA, 2009). Other information sources include bilateral chambers of commerce and industry in the host country, trade promotion agencies, consulting firms, or the home country's embassies and consulates in host countries (FDEA, 2009). For example, trade shows and international conventions are good reference points for the identification of agents and distributors, which in turn contribute to SME satisfaction with export performance (Wilkinson & Brouthers, 2006; Johansson, 2000). Coincidentally, trade

shows are the approach the focal SME has been mainly using to meet and flag potential distributors and retailers overseas. This approach facilitates follow-ups, which could generate higher sales productivity when distributors have already been exposed to the firm's product at a trade show (Smith, Gopalakrishna & Smith, 2004).

The interaction between SMEs and their potential business partners encourages collaboration; a key aspects of a good partnership. Hence, the following sub-section discusses trust and commitment as the basis for successful business relationships.
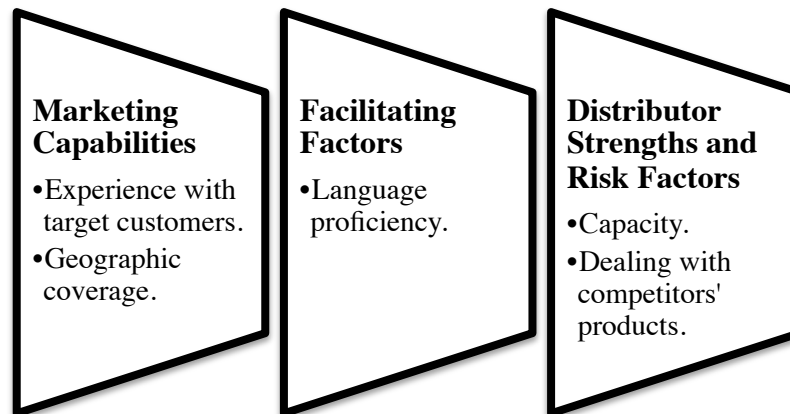

Figure 3. Evaluation criteria for local distributor selection.

II.III. Trust and Commitment for Successful Business Relationships

The intense level of competition in the global marketplace influences the need for SMEs to rely on "mutually beneficial, trust [and commitment]-based relationships with local distributors" (Zhang, Cavusgil & Roath, 2003, p. 550). The use of selection criteria not only allows screening the "most promising" from the "least promising" distributors but also the interaction between SME and distributor during the selection process lays the foundations for fruitful business relationships. Hence, once the SME selects its local distributor, trustworthy and committed relationships need to be reinforced.

In strategic alliances partner selection is the first step to make, while developing trust and commitment relationships belongs to the post-formation phase (Hoffmann & Schlosser, 2001). Interestingly, Kale & Singh (2009) consider commitment as one of the key drivers of alliance success already in the partner selection phase of the alliance, while trust as part of the post-formation phase. Strategic alliance literature argues commitment is – or has to be – already present during partner selection (Kale & Singh, 2009), while other authors include trust on partner selection (Hoffmann & Schlosser, 2001). This, however, is not always possible for SME distributor selection. The combination of SMEs' financial and human resources constraints adds up to the fact that geographical distant countries such as Mexico and Brazil are challenging for SMEs to build trust from a distance. For example, in a study the U.S. Commercial Service (2015) advises companies wanting to do business in Brazil to visit the country because that way strong personal relationships can develop. This perhaps is feasible for big firms, while it is not always a possibility for SME.

"Trust builds the basis for commitment" (Fink et al., 2008, p. 430). Additionally, "because commitment entails vulnerability, parties will seek only trustworthy partners"

(Morgan & Hunt, 1994, p. 24). This suggests channel partners need first to trust each other in order to be able to commit. Due to the interaction between potential distributors and SMEs during the selection process, this research assumes some form of trust and commitment has developed. Once the distributor has been selected both trust and commitment are further developed to, hopefully, its full potential to create a successful business relationship.

"National cultural distance and communication have significant impact on trust and commitment, […] and the degree of commitment toward the foreign distributor or agent is directly related to the financial performance in that market" (Nes, Solberg & Silkoset, 2007, p. 405). In collectivistic nations, such as Latin American countries trust and commitment are essential to enhance distributors' relationship performance and cooperative behaviours (Bianchi & Saleh, 2010; Hewett & Bearden, 2001). The trust one exchange partner has on the other contributes to endurance – and hence commitment – in channel relationships (Anderson and Weitz, 1989). As such, trust and commitment are long-term oriented because it not only requires establishing and maintaining the firm-distributor relationship, but it also brings the opportunity to grow and strengthen (Kozak & Cohen, 1997), contributing to successful working relationships (Shah & Swaminathan, 2008). Conversely, despite the importance Latin American countries give to trustworthy and committed relationships, some of these countries are short-term oriented – as is the case of Mexico, whereas Brazil holds an intermediate position –, contradicting the nature of enduring relationships. Hence, SMEs keeping in mind these somewhat contradictory cultural differences can have positive outcomes in terms of distributors' commitment and trust (Bianchi & Saleh, 2010; Kim & Oh, 2001).

Together, trust and commitment "stimulate a relational bond between the supplier and the customer which stimulates the establishment of productive collaborations" (Gournaris, 2005, p. 126). For example in Brazil, "it is of great importance to have a good network of personal relationships to be able to make the company successful, and to protect its continuity as much as possible" (Nederlands Braziliaanse Karmer van Koophandel, 2015, p. 10). Further evidence shows the positive effects trust and commitment have on successful relationships between firms and foreign distributors. For example, Anderson & Weitz (1992) found firms with committed distributors obtain more access to market knowledge, acquire more distribution assistance, and decrease distributors' interest in selling competitive brands. In the same positive direction, trust reduces the need for control bringing down transaction costs, facilitate interorganizational relationships and enhance business relationships (Hoffmann & Schlosser, 2001; Doney, Cannon & Mullen, 1998).

A firm showing commitment to its foreign distributor translated into financial performance in the market (Nes et al., 2007). For SMEs and local distributors to be perceived as trustworthy and committed to the business relationship both sides of the dyad have to make unilateral commitments such as making resource contributions and avoiding opportunistic behaviour (Hoffmann & Schlosser, 2001). Moreover, the lack of safety nets of controls, legal contracts or sanction mechanisms, and SMEs' providing the adequate human and financial resources to the international venture contribute to successful business relationships (Fink et al., 2008; Nes et al., 2007; Bello et al., 2003).

"An emphasis on retaining customers as opposed to obtaining new buyers may be more effective in Latin American countries" (Hewett, Money & Sharma, 2006). Referring back to the cultural macro-environment, for example, the high levels of uncertainty avoidance

in Latin American countries could play to the favour of European SMEs maintaining business relationships with their local distributors. This is because in Latin American "people tend to cling to the familiar before venturing into the unknown" (Hewett et al., 2006, p. 389). In addition, "suppliers" resources and capabilities drive importer trust and a committed relationship in developing countries" (Bianchi & Saleh, 2010, p. 33). As such, ensuring business relationships with Latin American distributors could be achieved through SMEs focusing more on providing social benefits rather than purely focusing on financial rewards (Hewett et al., 2006).

Moreover, it could be argued that local distributors would perceive their relationships with SMEs more personal as opposed to dealing with bigger firms that not always have the time to give their local distributors the attention needed. When Latin American buyers perceive their relationships with their suppliers as strong, they seem more likely to continue the business relationships (Hewett et al., 2006). As a result, firms showing trust and commitment to their foreign distributor(s) are likely to achieve financial performance in the market (Nes et al., 2007). Other aspects contributing to SME performance and committed and trustworthy relationships are flexibility, solidarity and information exchange to the business partner (Bello et al., 2003).

II.IV. Theory Synthesis

In short, this research proposes that macro-environmental factors embedded in local settings influence SMEs distributors selection and the creation and maintenance of trustworthy and committed business relationships. To choose a distributor SMEs use criteria and during this information exchange closer relations start developing. Additionally, the fact that potential distributors share information with SMEs shows signs of a high degree of certainty in making the relationship a successful one. Lastly, this research posits all these three main groups of variables contribute to SME selection of the 'best' distribution partner. Figure 4 below illustrates the concepts guiding this investigation.
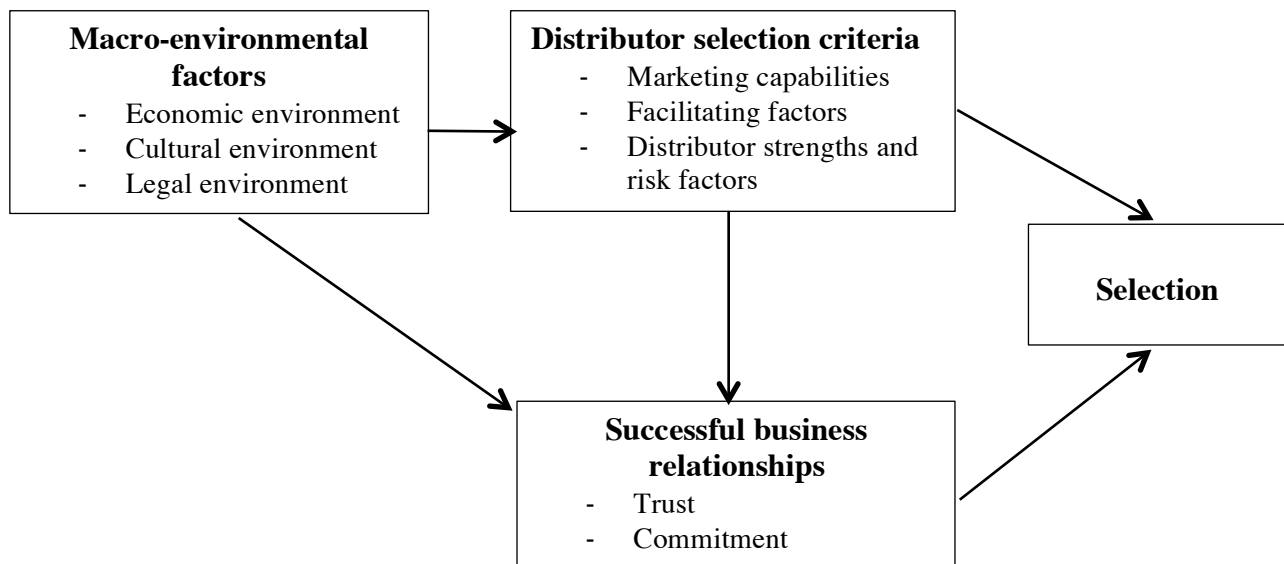
Figure 4. Research concepts.

III. Methodology

This section presents the methodological choices underlying this research. It starts by presenting the research design, followed by a description of the characteristics of the interviewees collaborating with the study, the criteria used for their selection and how the contact information was obtained. Second, the questions that supported the measurement of all the variables included in this research are discussed. Third, a subsequent sub-section describes how the data was collected. Lastly, the approach for data analysis is presented.

III.I. Research Design

Because the premise of this research is to find out which distribution channel is most adequate for western European SMEs in developing countries, an explorative approach seemed to be most appropriate to lead this study. Additionally, this exploration is complemented with qualitative data collected by means of a semi-structured questionnaire. The details are disclosed in the following sub-sections.

III.II. Interviewees

Due to the specificity of the research topic, interviewees included in this research were purposely selected. The use of purposive sampling is because selecting interviewees 'on purpose' allows approaching people who are knowledgeable about the topic in question (Hennink, Hutter & Bailey, 2011). Initially, it was attempted to only include as interviewees Dutch SMEs and distributors in the health and beauty sector in Brazil and Mexico. This was to some extend achieved. However, as the research progressed, the scope for the search of interviewees had to be broadened. This was because there are not many Dutch SMEs in the beauty and health industry exporting to Latin America. On the other hand, the lack of awareness about the focal SME's type of product in Mexico and Brazil showed there were not many distributors with experience in importing such product. Moreover, because cold calling

was used to approach distributors, they showed some reservations to share information. Hence, besides distributors, interviewees in Mexico and Brazil also included audiology stores.

This research defines small and medium enterprises as companies having no more than 250 employees (Hauser, 2005). Even though the focal SME has less than 100 employees, this research uses Hauser's (2005) broader definition to increase the chances of finding SMEs to be interviewed. Following this definition, a total of 5 Dutch SMEs collaborated with this research. The first SME (51-200 employees) is a company with 20 years experience in exporting its beauty products to Brazil. The second SME (30 employees) is a company in the beauty and health industry exporting its products to Colombia and Mexico. The third SME (11-50 employees) is active in the food production sector and exports its products to several four markets in Latin America; Brazil, Chile, Colombia and Mexico. The focal SME (50-80 employees) was also interviewed for this research. The fifth company is Holland Brazil (3 employees); a Dutch consultancy agency specialized in advising Dutch companies wanting to enter the Brazilian market. Interviewees from 3 of the Dutch SMEs were Sales/Account Managers and one was Business Developer. The interviewee representing Holland Brazil was one of the company owners.

A total of 6 Brazilian and Mexican companies agreed to collaborate with this research. Here the term "companies" is used because not all interviewees were distributors. The Mexican market counted with 3 interviewees from which all of them were distributors. The first interviewee was a distributor already registered in the database of the focal SME. The second interviewee was a distributor in the beauty industry importing perfumes and make-up into Mexico. The third interviewee was a distributor of products for hearing aids and protection and also sold these in its own shops. The Brazilian market counted with 3

interviewees, from which 1 was an audiology store, the other was an audiology store its owner also runs an International Support company providing assistance to foreign companies in Brazil. The remaining interviewee was a distributor in the beauty industry mainly selling appliances to hairdressers and hairdressing salons.

Sources to find potential interviewees and their contact information were acquired through approaching by telephone and e-mail the embassies and consulates of The Netherlands in Mexico and Brazil, Secretaría de Economía in Mexico (in English, the Bureau of Economic Affairs), Fenedex (in English, Federation for Dutch Export), the Netherlands Council for Trade Promotion and the focal SME. The sub-sections below explain in detail where and how interviewees for this research were found.

III.II.I. Contact information Dutch SME interviewees

The Netherlands Council for Trade Promotion facilitated the names of Holland Brazil and the name of the SME in the food production sector. The name of the SME in the beauty sector was obtained thanks to the thesis supervisor. Lastly, the name of the SME in the beauty and health industry was found when searching online for Dutch companies doing business in Latin America.

III.II.II. Contact information Mexican interviewees

Through the website of Secretaría de Economía a list with the contact information of 83 distributors and specialized stores in hearing aids was obtained. However, from the 83, 17 had to be discarded because they belonged to other business areas such as veterinaries, ophthalmologists, doctors' offices and distributors of oil and gas. From the remaining 76 potential contacts, 10 were randomly selected and contacted by phone. However, from the companies that were approached, only 1 lead became a interviewee in this study. The contact

information of 1 of the distributors was obtained by accessing the focal SME's database. The contact information for the remaining distributor was obtained through an Excel list with 80 contacts provided by Fenedex. From this list, 25 contacts were discarded because they were active in other areas. From the remaining 55 contacts, 10 companies were randomly selected and approached by phone.

III.II.III. Contact information Brazilian interviewees

Contact information of Brazilian interviewees was mostly acquired through the focal SME's database. The idea when selecting interviewees in Mexico and Brazil was looking for information sources unknown to the focal SME, while combining audiology stores and the distributor already in the focal SME's database. This allowed having the perspective of "outsiders", in terms of stores and distributors that did not have experience with the focal SME's product. On the other hand, hearing the perspectives from interviewees already in the focal SME's database would provide better insight on aspects that would increase the chances of the focal SME in entering both markets.

III.III. Measurement

This research has 5 main measures, these being: macro-environmental factors comprising economic, cultural and legal aspects; distributor selection criteria; and trust and commitment as the basis for successful business relationships. Secondary data are used to answer the following questions about the economic environment: What is the current economic situation in Mexico/Brazil?; and How is the market in Mexico/Brazil for the SME product category? For the legal environment two questions were asked: "What are the regulations to exports that need to be considered?" and "Which aspects would you say are the most challenging during the export process?" The questions about the legal barriers were: What are the regulations to exports that need to be considered?, and Which aspects would you say are the most

challenging during the export process? Both questions were asked to interviewees and later complemented with country specific legal data found in secondary sources.

As discussed in the previous section, culture is measured with 5 variables: uncertainty avoidance, masculinity, long-term orientation, individualism and power distance. Theory suggests individualistic countries (such as The Netherlands) are driven by merit, personal achievement and cut right to the chase meaning focusing on only doing business, whereas collectivistic countries (such as Mexico and Brazil) believe more in interdependency as in taking care of their group members in exchange for loyalty, thus being relationship oriented. Hence, the question for individualism was "When doing business do you talk about the product right away or do you begin with relational aspects?" Extant literature suggests countries with high masculinity scores – Mexico and Brazil to a lesser extent – would display a bigger focus on purely financial rewards contrasted with less masculine countries – such as The Netherlands – who show less aggressiveness and more co-operative bargaining. Thus, the question to study masculinity was: "Are businesses based on relationships more important than financial outcomes to you?" Countries with high scores in power distance imply power imbalances and the actors or organizations involved in this interaction accept power to be distributed unequally. For power distance the following question was asked, "Who determines the 'rules' when starting to do business with a new distributor/supplier?" Countries with high uncertainty avoidance, such as Mexico, Brazil and The Netherlands to a lesser extent, value predictability and stability in their relationships with business partners. This research operationalizes avoidance to the "unknown" as the establishment of a written agreement or contract specifying the expectations of both business partners. Hence, the question asked in terms of uncertainty avoidance was: "Do you prefer to work with a contract and why?" Countries with a long-term orientation – The Netherlands among other western countries –

are objective oriented and adapt easily to situations. Long-term orientation implies easy adaptability to the changing requirements of foreign partners. On the contrasting side are short-term orientated – such as Mexico and Brazil – countries that focus on the present and as a result expect quick results. For long-term orientation the following question was asked: "Could you say you maintain durable relationships with your business partners and why do you think this is?" For trust and commitment the following questions were asked: "How do you ensure your business partners are reliable?" and "How do you ensure you maintain business relationships with your partners?"

As defined in the previous chapter, distribution selection criteria include distributor's strengths and risk factors, marketing capabilities and facilitating factors. Two main criteria include 2 sub-criteria; only distributor's strengths and risk factors have 1 sub-criterion. The questions related to the criteria were only directed towards Dutch SMEs. For distributor strengths and risk factors two questions were asked, for capacity "Do you take into account warehouse capacity when selecting your distributors and why?" and for dealing with competitors' products "How do you feel about doing business with distributors selling products from competitors?" To gather data about marketing capabilities two questions were asked: "In your experience is it important your distributor has experiences with your target customers and why?" and "Do you focus on a particular geographic area when selecting distributors? Why yes, why no?" For facilitating factors two questions were asked: "Which language do you use with your distributors?" Table 1 below shows an overview of each variable with their respective questions and the data collection methods.

Macro-environmental factors	*Economic aspects*	- What is the current economic situation in Mexico/Brazil? - How is the market in Mexico/Brazil for the SME product category	Secondary data
	Legal aspects	- What are the regulations to exports that need to be considered?	Secondary data/interview question
		- Which aspects would you say are the most challenging during the export process?	Secondary data/interview question
	Cultural aspects	**Individualism** - When doing business do you talk about the product right away or do you socialize first?	Interview question
		Masculinity - Are businesses based on relationships more important than financial outcomes to you? Please elaborate.	Interview question
		Power distance - Who determines the 'rules' when starting to do business with a new distributor/supplier?	Interview question
		Uncertainty avoidance - Do you prefer to work with a contract and why?	Interview question
		Long-term orientation - Could you say you maintain durable relationships with your business partners and why do you think this is?	Interview question
Distributor selection criteria	*Distributor's strengths and risk factors*	**Capacity** - Do you take into account warehouse capacity when selecting your distributors and why?	Interview question
		Dealing with competitors - How do you feel about doing business with distributors selling products from competitors?	Interview question
	Marketing	**Experience with target customers** - In your experience is it important your distributor has experience with your target customers and why?	Interview question

	capabilities	**Geographic coverage** - Do you focus on a particular geographic area when selecting distributors? Why yes, why no?	Interview question
	Facilitating factors	**Language proficiency** - Which language do you use with your distributors?	Interview question
Successful relations	*Trust*	- How do you ensure your business partners are reliable?	Interview question
	Commitment	- How do you ensure you maintain business relationships with your partner?	Interview question

Table 1. List of questions for each measurement and data collection methods.

III.IV. Data Collection Method

This research applies two sources to gather data: secondary data and semi-structured interviews. Secondary data represent "studies made by others for their own purposes" (Cooper & Schindler, 2014, p. 130). When primary data – collected by the researcher for the original research – is not sufficient to make a decision to solve a problem, secondary data are valuable sources of information (Cooper and Schindler, 2014). Secondary sources include "public documents such as those deriving from legal investigation, mass media outputs such as newspaper articles, virtual outputs such as Internet sources, and official documents such as those deriving from organizational sources" (Bryman & Bell, 2015, p. 554). These secondary data sources were used to obtain information about the economic environment of the two potential markets, the legal aspects each country requests and – although not included in this sub-section – to discuss the option of using a warehouse. The websites consulted to gather the information include: The Directorate General for Trade of the European Commission, a report from the Dutch Brazilian Chamber of Commerce which was provided by the Consulate of The Netherlands in Brazil, market studies of both countries published by the U.S. Commercial Services, the Swiss Federal Department of Economic Affairs, the website of the Dutch bank ABN Amro, The Economist, BBC World News, Euromonitor International, McKinsey &

Company and The Georgia Tech Logistics Innovation & Research Center. The database of the Directorate General for Trade of the European Commission provided valuable information on the legal environment in terms of tariffs, procedures and formalities and trade barriers on both markets. The website of the Directorate General for Trade of the European Commission and the Georgia Tech Logistics Innovation & Research Center were used to find information about the use of a warehouse. The websites and reports from the remaining secondary data sources provided market information as well as background details of both countries that were used throughout this thesis. The information obtained from the semi-structured interviews was used to analyze the variables discussed in the previous chapter: the macro-environmental factors affecting distribution channel selection and the building of successful relationships about both markets.

The question guide list is employed as a memory aide by the researcher throughout the interview (Hennink et al., 2011). As a result, a list with questions based on the research questions and the review of the literature were inferred and used as guidance for the interviews with interviewees (see Appendix 1). In addition, other questions included in the question guide list were related to specific queries from the focal SME.

Even though the aim with Dutch SMEs was having an interview face-to-face, two of them were not able to meet in person for an interview. The SME in the food production sector agreed only to be interviewed by phone. The owner of the SME in the purchasing and logistics industry is mostly based in Brazil; hence a phone interview was conducted. The remaining 3 SME interviewees and Holland Brazil were interviewed in their offices. Data from Brazilian and Mexican interviewees was obtained through semi-structured phone interviews and in some cases through open-ended questionnaires sent via e-mail. Whenever

needed, follow-up calls and/or e-mails were made to clarify certain answers. To facilitate data analysis, interviews were conducted in English with Dutch SMEs and Brazilian distributors and audiology stores. The interviews with Mexican distributors were conducted in Spanish.

The use of semi-structured interviews as data collection method falls under the qualitative approach. In terms of this research, the advantage of applying qualitative research is to understand the phenomenon of interest (Patton, 2001). Furthermore, qualitative researchers argue that it is nearly impossible to understand "why someone did something or why something happened in an organization without talking to people about it" (Myers, 2013, p. 5). Hence, qualitative semi-structured interviews are beneficial in this setting because "they are in-depth rather than based on standardized questions" (Babbie, 2010, p. 318). The advantage of conducting semi-structured interviews is that "the conversation is free to vary, and is likely to change substantially between particiapants" (Fylan, 2005, p. 65). This method facilitated a fluid conversation where interviewees shared their experiences, while in some cases providing contrasting as well as confirmatory answers.

III.V. Data Analysis

All interviews were transcribed to keep reference points on what interviewees had said and to use direct quotes from the answers obtained. Given the small number of interviewees no software and no codes were used to classify and scrutinize the data. Only two interviewees sent their answers via e-mail, one in Mexico and one in Brazil, respectively. For the responses sent by e-mail notes were made whenever additional questions originated from the answers. Only one interviewee in Brazil was sent an e-mail with further questions for clarification.

IV. Findings

This chapter presents the findings obtained from the interviews conducted with Dutch SMEs and distributors and audiology stores in Mexico and Brazil. Dutch SMEs are considered as one actor and distributors and audiology stores as the counterpart of the dyadic business relationship. The perspectives of Holland Brazil, a consultancy company, are also included in this chapter for it being a good information source about the Brazilian market. This section starts with a short description of both markets based on secondary data sources. It is followed by the answers obtained from interviewees on the macro-environmental factors and trust and commitment from the perspectives of both actors in the dyad. Only the results on the legal environment combine secondary data and interviews. Moreover, in the sub-section for the legal environment the option of using a warehouse in a nearby country is discussed using secondary data. Because selection criteria rely on the decision of companies, the results on these criteria are only discussed from the perspective of the SMEs interviewed for this study. The results are presented in the same sub-sections for both Latin American countries. Because of its specificity, only the legal environment of both countries is discussed in separate sub-sections.

IV.I. Macro-environmental Factors

IV.I.I. Economic environment

IV.I.I.I. Economic environment in Brazil

"Brazil is the largest economy of Latin America" (The Directorate General for Trade of the European Commission website). However, as a result of a corruption scandal and economic recession the country has undergone a deceleration of its economy (The Economist website). Despite disappointing levels of growth, some sectors of the economy have been less

affected. In the retail sector, for example, "other articles of personal and domestic use" increased by 7.3% in 2014 (U.S. Commercial Service, 2015).

Several external factors have a positive impact on companies wanting to enter the Brazilian market such as young population with an average of 29 years of age, reduced unemployment and a growing middle class (De Nederlands-Braziliaanse Kamer van Koophandel, 2015). Thus, although consumption may decrease, "Brazilian consumers are still among the top 10 most optimistic worldwide" (McKinsey & Company, 2015, p. 7).

IV.I.II. Economic environment in Mexico

Mexico is another interesting country for international companies because it's the second largest economy and the second largest country in number of inhabitants in Latin America (Directorate General for Trade of the European Commission website). Mexico's economic development is also reflected in the investments the government has been making in terms of infrastructure during the past decade on the construction of highways and increasing the capacity of airports (Rijksdienst voor Ondernemend Nederland website; ABN Amro website). Additionally, recent developments have shown the Mexican economy is growing faster than that of Brazil's (ABN Amro, website). Nevertheless, Mexico remains as the second biggest economy in Latin America while Brazil remains first (BBC website).

A study published in 2015 has shown the demand for luxurious products in Mexico has increased 25,9%, surpassing Brazilian consumers (Euromonitor International website). The products with most success in the Mexican premium market include jewelry, watches, beauty products and perfumes, among others (BBC website). Remarkably, the richest segments are not the main consumers of these premium products. On the contrary, middle class young adults, also known as aspirational buyers, wanting to show their ascent in the

societal ladder are the biggest purchasers of these products (BBC website). The middle class segment comprises 39,2% of the Mexican population (The Economic website). Based on this evidence there is potential for companies attempting to enter the Mexican market with premium products. This research considers the focal SME's product as premium due to its high price compared to other products for hearing protection already being sold in the Mexican market. The same holds for Brazil.

IV.I.II. Cultural environment

Uncertainty avoidance

It was discussed in Chapter II that the high scores on uncertainty avoidance for Mexico (82) and Brazil (76) could translate into the need for signing a business contract with suppliers. Interestingly, one Dutch SME mentioned they were the ones pushing forward the signing of a contract with a Mexican distributor, which in the end turned into a Dealer Account Plan setting up "softer" selling targets. The same Dutch SME said that Latin American distributors consider the minimum amount of investment they require as high, which seems to explain distributors reservations about signing a contract binding them to commit to high targets. In contrast, one of the first questions posed by a potential Mexican distributor negotiating with the focal SME was the signature of a contract of exclusivity. Under some circumstances the decision of not working with a contract is not only preferred by distributors, but also by SMEs. For example, the focal SME mentioned not having a contract makes it easier for them to finalize the working relationship and find a new distributor or business partner in case the existing one is not performing as desired. Moreover, if the product targets different segments, in some cases exclusivity could be granted to business partners over a segment in particular and not all the product range allowing for a wider coverage. In this regard, the focal SME said: "What we have [is] a sole distributor

contract which gives them exclusivity on a segment. For example, our products can be bought by a retailer just drugstores or hypermarkets, supermarkets but it can also be sold to a motor stores, pharmacies, audiologists. All these kind of segments doesn't cross each other".

Besides high investments, distributors reservations have also to do with the fact that some of them are cautious until they seal a deal with a client, thus avoiding risk by starting with smaller orders. The Netherlands has a slightly above medium score (53) on uncertainty avoidance, which indicates an inclination towards reaching solid agreements to ensure predictability. For example, the SME on the food production industry said when doing business with Latin American countries – and other countries as well – it is paramount for them that their clients comply with a minimum number of orders per year to forecast production. This is more important for SMEs in such industry – compared to SMEs in the beauty and health sector – because overproduction not only means financial underperformance but also brings losses concerning goods perishability. Conversely, the SME in the beauty sector said when a distributor wants to start selling their products; distributors must start big because the initial phase is very important, which also is a good sign of distributors readiness to undertake big risks. In brief, in most cases both actors in the dyadic relationship would prefer working with exclusivity contracts. This written engagement is beneficial for production and sales forecasting purposes. However, in some cases not having a contract could be beneficial for both parties. This could be either because distributors consider the minimum amount of investment high or because not having a contract could facilitate SMEs to end a business relationship when business partners are not performing as they expect.

Power distance

The question for this variable was "Who determines the 'rules' when starting to do business with a new distributor/supplier and why?" In this regard, all SMEs agreed distributors have the power in their hands to determine the "rules" when negotiating a business relationship. This seems to confirm that Dutch SMEs assume a more conciliator role when dealing with potential distributors. An audiology store also said the type of product also determines whether the "rules" are dictated by the company or distributor. One distributor said if the general public is not aware about the properties or importance of using a specific type of product then it is more likely the distributor would dictate the terms of a business relationship.

One Dutch SME made the interesting remark that sometimes the back and forth that occurs with Latin American clients takes longer than with other regions in the world. Even when Latin American distributors are not interested in the product being offered they avoid saying no. They usually beat around the bush by coming up with reasons as to why not "yet" saying yes. This trait could be related with distributors either not saying "no" because of cultural politeness or an attempt to trigger a reaction from SMEs in terms of better business conditions. Nevertheless, there is no sufficient evidence to distinguish the reason behind such behavior. In short, the results suggest distributors seem to determine the rules when a business relationship is about to start. Two factors seem to stand out from the business relationship to lean favorably towards distributors: type of product and price. Whenever a product requires significant efforts to market the product and create awareness distributors seem to be on the winning end. It must be noted also that distributors are intermediaries for a product that still needs to get to the end consumer, which means distributors are the entry doors for these

products and hence in the position to determine which margin they are to receive when introducing a product.

Individualism

The question asked for this variable was "When doing business do you talk about the product right away or do you socialize first?" One SME said the final goal of a company is to make money but in his case that does not imply they are only talking about the product. One SME said that when she started doing business in Latin America she had to change her way of doing business. She said in Latin America is 90% talking about family and letting your (potential) distributor to know you personally and 10% about the product. Another SME said, "With a Latin American country, I talk more about the content of the products and why people in the market like them so much. It's much less talking about numbers but more about giving an opinion, much more about why I like the product or what we can offer them. The interest of a Latin American distributor goes more into the type of service whereas the interest of a European distributor goes more into numbers and margins". Conversely, a Mexican distributor said that relational aspects are important but to he also emphasized a number of characteristics in terms of functionality a new product needs to have to enter the local market.

In addition, another SME mentioned Latin American clients seem to require more attention than clients from other parts of the world. This seems to suggest the high level of interdependence of Latin American clients on their suppliers. Two Mexican distributors and a Brazilian audiology store suggested something similar by saying that for them is important to keep constant contact with their suppliers by talking to them at least once per week.

Additionally, an SME said Latin American distributors are energy consuming due to the type of interaction that occurs as opposed to European distributors who are more

straightforward and are more interested in the product in question. Conversely, a Dutch SME mentioned his company did not notice any difference between Latin American and other clients around the world. The interviewee said, "I can't say that Latin American countries are more demanding […]. I think it's also the fact they are far away so it's very hard for them to pass by. Many of our distributors in Norway, Finland even Lebanon or Israel they come every 3-4 months. If you do it from Brazil this is very time consuming, it's very expensive, it's a long flight, it's not convenient to come here. So they need to do more through e-mail or we Skype a lot with them. So I couldn't say Latin American countries need more attention than other countries".

Masculinity

The question asked for this variable was: "Are businesses based on relationships more important than attaining financial outcomes to you?" One SME said the main goal of a company is to make money but that is not the only aspect to consider. SMEs are willing to work out terms and to be more flexible to make their business partners succeed in local markets, suggesting they are not only interested in financial rewards. For example, one SME said it provides support to its Brazilian distributor with marketing materials, monitoring and adjusting their prices to respond to local legal changes and supporting with the analysis of their yearly figures to identify areas for improvement. In addition, the focal SME said price has never been an issue, nor has it been a determining factor when doing business. In the words of the focal SME representative: "[…] it's not about a price it's just about if you also are in favor of that person. Because of course it's also a social thing. If you don't really like the person that is sitting next to you then I'm not sure if that's going be a good partnership".

A Mexican distributor said relationships are definitely important but price is not of less relevance when doing business. This statement seems to confirm the high score on

masculinity in Mexico, which implies a greater focus on financial rewards as opposed to countries such as the Netherlands with low scores on masculinity who's focus is on cooperative behaviors and consensus.

An additional interesting trait was found on this variable. For example, one of the Dutch SMEs interviewed in the beauty sector mentioned most of distributors working with the company are family-run businesses, where the husband does the administrative tasks and the wife is in charge of testing the products and procedures. The interviewee mentioned the wife is the one deciding whether a business relationship can be started or not. This seems to be product dependent, however. The SME who gave this statement sells skin care and anti-ageing treatments and crèmes, which mainly target women in Latin America as in other regions in the world. In essence, with the exception of a Mexican distributor that deems relationships as equally or perhaps as slightly less relevant than financial rewards; relationships are more important than pure financial rewards to most interviewees. Supporting business partners to succeed in local markets is a stronger driving force for SMEs than achieving financial outcomes.

Long-term orientation

Hofstede's scores on this variable show contrasts between Western (high) and Latin American (low) countries. One Dutch SME said, "We do business for 20 years with a very good [Brazilian] family, they are excellent and they are one of our top clients. So my experience with them is very positive. If I have to give an answer based on my own experience I would say the Brazilians are a fantastic, hard working bunch of people but this is only something I discovered with them". The interviewee acknowledged because his company works with only one distributor in Brazil his viewpoint is subjective. Contradictory to Hofstede's low score on long-term orientation for Mexico (24), for example, a Mexican

distributor answered "We have a long-term relationship with our suppliers, we know the quality of their products perfectly and are in constant contact with them". For a business relationship to become a long lasting one, the same interviewee answered the (potential) supplier must offer good quality products and at a fair price. A Brazilian audiology store echoed the answer provided by the Mexican distributor while adding if they are satisfied with the product there is no question for not having a durable relationship. To summarize, despite their low score on long-term orientation, Mexican and Brazilian distributors and audiology stores are very much long-term focused in their business relationships. This suggests nuances concerning national and business culture, because both sides of the dyadic relationship are interested in ensuring profit for the long run after all. Table 2 below shows an overview on each variable measuring culture and the answers given by interviewees.

Cultural measures	Answers
Power distance *Who determines the 'rules' when starting to do business with a new distributor/supplier?*	- Distributors determine the conditions most of the times. - Type of product defines terms, conditions, etc. - Distributors in L.A. unable to say 'no'. Cultural politeness vs. obtaining better business conditions.
Uncertainty avoidance *Do you prefer to work with a contract and why?*	- Encourage partners to sign a(n) (exclusivity) contract. - If minimum amount of investment too high, 'softer' targets or plan instead of contract. - No contracts at times beneficial to swap underperforming partners.
Long-term orientation *Could you say you maintain durable relationships with your business partners and why do you think this is?*	- Long-standing partners are good performers. - Good quality products and fair price important for long-lasting business.
Masculinity *Are business based on relationships more important than financial outcomes to you?*	- Money is important but not determinant when selecting a good business partner. - Investing in partners when needed translates in good performing partners.
Individualism *When doing business do you talk about the product right away or do you socialize first?*	- In L.A. 90% talking about family and 10% talking about the product. - More interest in product qualities and less on numbers.

Table 2. Questions to measure culture and answers.

IV.I.III. Legal Environment

IV.I.III.I. Legal environment in Brazil

"Over the last two years, Brazil is among the countries that have resorted to the highest number of new potentially trade-restrictive measures" (The Directorate General for Trade of the European Commission website). A study conducted by the Dutch-Brazilian Chamber of Commerce (2015) showed Dutch entrepreneurs perceive the complexity and

proliferation of strict laws and regulations in Brazil as a hindrance to do business. Moreover, a study published in 2013 ranked Brazil as the fourth country applying most trade defense measures – 15 in total – against exports coming from the European Union (see Figure 5) (The General Directorate for Trade of the European Commission website).

In the words of one Brazilian interviewee, "Brazil has a very protective local industry, hence the high tax rates applied to exports". Additionally, a Dutch SME stated, "After 2 years of trying to get a [imports] license from ANVISA [the Brazilian Health Surveillance Agency], we decided to stop our attempts. That is what holds us back to be present in South America at the moment. It's very difficult". Moreover, Brazil uses high tariff barriers to products being imported with "an applied customs averaging tariff of 13.5%" (The Directorate General for Trade of the European Commission website). Nevertheless, one Brazilian interviewee said, "[the import process] it is very bureaucratic at the start, but once you carry on the first process everything gets smoother". Conversely, Brazilian authorities require the payment of several taxes to importers. To name a few: PIS and COFINS (which are for employees' social security purposes), IPI (industrialized products tax), etc.
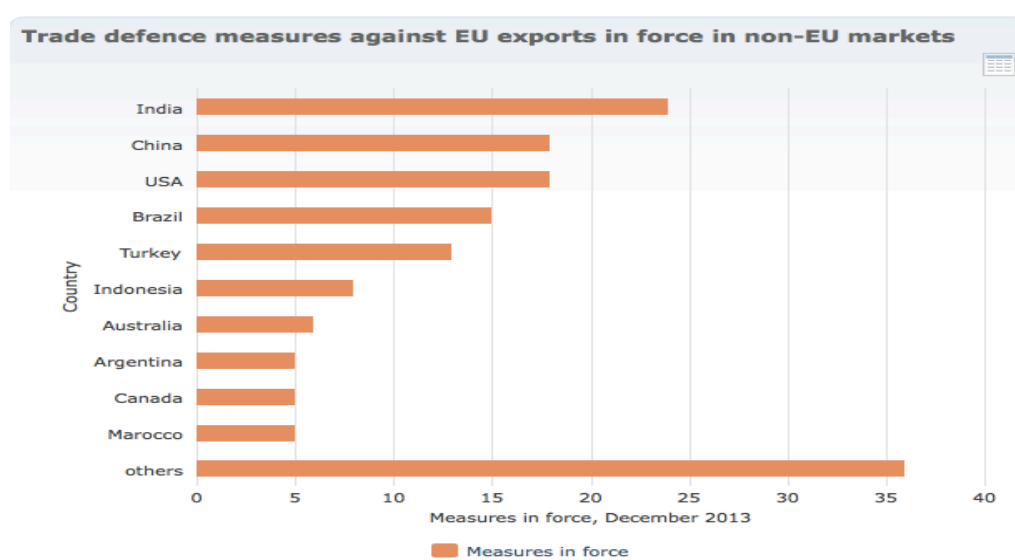

Figure 5. Trade defense measures enforced by countries against EU exports.
Source: The Directorate General for Trade of the European Commission website.

Fortunately, actions are being taken to decrease these barriers against European exporters. Currently the European Union is negotiating a free trade agreement with Mercosur, a sub-regional group – including Argentina, Paraguay, Uruguay, Brazil, Venezuela and Bolivia – that promotes free trade among its members (The Directorate General for Trade of the European Commission website). If negotiations are successful it could bring about opportunities for European countries by "removing tariff and non-tariff barriers to trade and [Foreign Direct Investment] FDI" (The Directorate General for Trade of the European Commission website). Even though it could take years for such agreement to be in place, it shows a window of opportunities that could open for European companies in Latin America's strongest economy.

It must be noted, however, strict rules and regulations are industry dependent. Even within the same industry regulations for certain products could vary. Unlike the Dutch SME having to request the imports license granted by ANVISA, one audiology store in Brazil already had checked out the terms and regulations for importing the SME's product and found the multi-purpose earplugs do not require an imports license. However, the product might require to be tested. Advice as to whether a product coming from abroad needs to be tested or not is given by the National Institute of Metrology, Quality and Technology (INMETRO). It is up to INMETRO to determine whether the product trying to enter Brazil does what it claims to do. Additionally, the same interviewee mentioned INMETRO workers are regularly on strike, potentially hindering the speed with which a product can be introduced to the market. Most importantly, if INMETRO determines a product requires testing it would imply high costs for the SME, increasing the sale price of the product and potentially making it impossible to compete in the local market. The Harmonized System (HS) code for Pluggerz's

earplugs is 3926.90.90 and the import duties requested by Brazilian authorities is 18%. If INMETRO determines the product does not need to be tested, the focal SME would only need to provide the documentation mentioned in Appendix 2.

Other requirements and aspects to consider

Certain product categories require the information on the packages, labels and marking to be in Portuguese. In the case of the focal SME's product authorities require the packing to be in (preferably Brazilian) Portuguese.

IV.I.III.II. Legal environment in Mexico

For companies exporting to Mexico, the Mexican law requires the use of a Customs Broker – in Spanish known as "agente aduanal" – to clear products through Mexican Customs. "All commercial imports into Mexico, whether they are temporary or permanent, must be executed by a qualified and authorized Mexican Customs Broker" (Exports.gov website). A Mexican distributor interviewee added, "He [the Customs Broker] is the one auditing and makes sure all import norms are being respected. That's why all importers have a Customs Broker working for the Customs office in Mexico, he is the one checking all that".

Thanks to the geographic closeness between Mexico and the United States and the North American Free Trade Agreement (NAFTA), some companies import their products into Mexico from their branches in the United States. In this regard one Dutch SME commented, "It has been very easy for us to be in Mexico because we have a second branch in the United States. So the branch in the United States is the one sending everything over to Mexico".

According to one Mexican distributor sending products from the United States to Mexico brings advantages in terms of purchase volume and rapidness in delivery. In the distributors own words, "Because you already have the product in the US, you could charge

me a bit more for the product because you already paid the freight. So you charge me a bit more. But it doesn't matter, I prefer buying 200 boxes quick from the States to Mexico because I cannot take all the volume you are asking me to send me a container from your country". The focal SME leases a warehouse in the United States to distribute to its clients in that country which could be a good opportunity for fast delivery to Mexico.

However, there are other opportunities for Dutch SMEs to export to Mexico. The European Union and Mexico have a Free Trade Agreement (FTA) in force stipulating "[…] goods originating within the EU members are eligible for preferential rates" (The Directorate General for Trade of the European Union website). The EU-Mexico FTA translates into 0% import duties for European companies who are able to prove their products are from European origin. In brief, the focal SME could take advantage of two options; shipping fast[er] – as opposed to sending all the way from The Netherlands – products from their leased warehousing facility in the United States or sending straight to Mexico because no import duties have to be paid thanks to the extant FTA between the EU and Mexico.

In addition, SMEs in the health and beauty industry must get an imports license from the Federal Commission for the Protection against Sanitary Risk (COFEPRIS). This entity determines whether a product requires to be tested or not. In the case of the focal SME, a test would not be required because earplugs are not regulated. Appendix 2 shows the documentation the focal SME would have to provide to the Mexican customs authorities.

Other requirements and aspects to consider

Additionally to the documents listed in Appendix 2, a Mexican distributor mentioned the exporting company has to make sure its product comes with the right labelling. The Mexican Official Standards (in Spanish, NOM) – specifically standard NOM-050-SCFI-2004

– requires all consumer goods be labelled in Spanish (The Directorate General for Trade of the European Union website). Furthermore, the packaging must contain: name or generic name of the product (if not visible to the consumer), manufacturer's and importer's information (including name and full address[es]), specifications such as instructions, description of its components, risk warning if applicable and country of origin.

Legal aspects	Brazil	Mexico
Strict foreign rules and regulations.	- Protective of own industry. - Several trade restrictive regulations against EU exports. - Long, bureaucratic and changing procedures. - Product might require imports licence from ANVISA. - Product might requite to be tested by INMETRO. If so, the high cost of the test could be determinant for an SME to enter the market or not.	- Mandatory use of a Customs Broker to import products. - Most, if not all, distributors have own Customs Brokers. - Some product might require an imports license. - Product might require to be tested by COFEPRIS. They determine if the product needs to be tested or not.
High tariff and nontariff barriers.	- Tariffs are product dependent. Tariff for focal SME's product is 18%. - Strikes by employees in the local governmental bodies. - Importers have to pay several types of taxes.	- Tariffs are product dependent. Preferential rate for EU members because of FTA with Mexico. Focal SME's product tariff: 0%. - Some EU products are not exempt from import duties payment.
Procedure barriers (documentation).	- Amount of documentation requested is product dependent (i.e. focal SME little paperwork required).	- Amount of documentation requested is product dependent (i.e. focal SME little paperwork required).
Other country specific legal considerations.	- Labelling, packaging and marking need to be in (Brazilian) Portuguese.	- Labelling, packaging and marking need to be in Spanish.

Table 3. Legal considerations for products entering Brazil and Mexico.

IV.II. Distributor Selection Criteria

IV.II.I. Marketing Capabilities

Experience with target customers

One SME in the beauty industry categorically said potential distributors must have experience with products related to their industry. This SME said, "They [the distributors] have to know what they are talking about, you have to know the experience in this beauty industry, those kind of things". On the contrary, the other SME active in the same sector argued sometimes lack of experience is not what prevents them from selecting a new distributor. Sometimes the professionalism and dedication a candidate shows wins over a well-experienced and arrogant candidate. Additionally, the SME in the food production industry said experience to them is not that important. This has to do with the fact that they sell directly to retailers and food chain restaurants who already know what the product means to them. In brief, distributors having experience with target customers are in most cases determinant to be selected by SMEs. Nevertheless, inexperienced distributors showing their eagerness to learn and make the new business work can overrule SMEs conventional criterion to select well-experienced and overconfident distributors.

Geographic coverage

Based on its experience, the owner of Holland Brazil answered: "Forget about the rest of the country. You must focus on Rio, that's where the business is". Supporting this statement a SME mentioned they have recently started exporting to Mexico, only focusing on Mexico City. The SME said they are aiming at the capital because that is where they believe are the people with the financial means to buy their products. Additionally, Mexican and Brazilian interviewees confirmed this by saying if they were to select new areas for distribution they would focus on other big cities.

Conversely, another SME said, "Our competitors focus on the big cities because that's where the money is, leaving other regions unattended which is a big opportunity for us". These unattended areas, according to this SME, are the ones where business opportunities are missed. Furthermore, the same SME gave an interesting example: "In Pakistan which is not a very big market for us we focus on rural areas or non-capital areas. You could say why don't you focus on the capital it's a big market, there's a lot of people, the most wealthy people live in the capital, true. But also other big companies focus on the capital. So it's a lot harder to win salons or win clients". Prioritizing some geographic areas – especially if the focus is not in the big cities – over others is something that SMEs could not do without the support of a local distributor who is able to identify such opportunities. In short, interviewees have agreed almost unanimously the focus should be on the big cities because the buying power of the population is mainly located in those areas. If an SME decides to do business in less "popular" cities would depend on the attractiveness and potential of the business plans presented by distributors, if convincing enough SMEs might want to venture into least "conventional" cities.

IV.II.II. Facilitating Factors

Language proficiency

For the two SMEs in the beauty and health sector and the focal SME it is very important their distributors speak English. In this respect, one SME in the beauty sector said, "[We want] someone in the business that speaks English at least because we always do everything in English". Furthermore, the other SME in the beauty sector said distributors appreciate when the SME's representative makes efforts to speak the language of the distributor, but English is the language they use to communicate and do business. However, SMEs with staff that can speak the customers' mother tongue is very much appreciated. For example, the representative of one SME said the fact that she speaks Spanish gives a plus

when communicating with the distributors in Spanish speaking countries but official agreements and any type of documentation are filled out in English. Moreover, it shows empathy and cultural sensitiveness.

Conversely, for the SME in the food production sector and Holland Brazil, speaking the local language is a must when doing business in Brazil. Nevertheless, one SME said they have been doing business in Brazil for over 20 years and communication always occurs in English and the fact the company representative doesn't speak Portuguese has not been an issue. Moreover the SMEs interviewed, including the focal SME, participate every year in trade shows in Europe and the United States where most distributors attending those shows must speak English because the companies presenting their products come from all over the world. In short, speaking the distributors mother tongue creates empathy and influences the likeliness of starting doing business. However, it does not seem to be a determinant factor to win over a distributor.

IV.II.III. Distributor Strengths and Risk Factors

Capacity

SMEs interviewed considered this aspect as one of little importance. One SME said, "[…] this is not the most vital point. Of course you need to make sure they can store but most of the people we talk to they already have these facilities. So yeah, it is important but this is something you can easily obtain quickly". Another SME said: "I mean if they have a lot of money, they have experience, they are committed, buying or renting a place were they can store the stuff you can do it overnight".

Dealing with competitors' products

All the SMEs interviewed prefer their distributors to only focus on selling their brands. In this regard, one SME commented, "When I talked to this person in Mongolia a year

ago she said, 'I also have two [other] Italian brands'. I said, 'Listen, respectful lady I love the fact that you want to do business with us but we know from experience that focusing on only one brand is the most successful strategy'". Another SME said distributors speak honestly when they are selling competitor brands. This SME said, "[…] in all cases they tell us. What I do is I agree with them the time that they need to put all those products out and then to introduce our products". The same SME said they give their distributors a period of 6 months to get competitors' products out of their shelves, but ideally they prefer distributors remove those products immediately. In addition to this argument, one SME said: "So if I have 10 brands I would enter your door and if you wouldn't want buy the first I would say 'Well I have a second brand, a third brand'. But if I only have 1 brand, I'll make sure I know everything about the brand and I know 15 000 arguments to ensure I sell this to you". In brief, SMEs prefer their distributors to only deal with one product while ruling out those of competitors. This means a distributor has to eliminate any competitive product because it is believed that a distributor focusing on a single product is critical to be successful in a market.

Marketing Capabilities	*Experience with target customers*	-	Experience with similar products is a must.
		-	Nevertheless, in some cases eagerness to learn and dedication wins over a well-experienced and arrogant candidate.
	Geographic coverage	-	The focus must be in big main cities.
		-	However, only focusing on big cities misses chances. Opportunities are in exploring smaller cities where not many companies reach.
Facilitating Factors	*Language proficiency*	-	English is a must because of official business paperwork.
		-	Speaking distributor's language is a plus but not a must.
		-	However, others consider speaking Portuguese as essential.
		-	Depends on SMEs employees' language proficiencies.
Distributor Strengths and Risk Factors	*Capacity*	-	Does not have much importance.
		-	Can easily be arranged.
		-	When the investment is big, the higher the chance capacity can be increased if necessary.
	Dealing with competitors	-	Focus must be on only one brand per product type. Thus it is critical that a distributor does not sell a competing brand.
		-	Distributors get a window period to remove competitive products before SMEs' products can be sold.

Table 4. Distributor selection criteria.

IV.III. Successful Business Relationships

As mentioned in previous chapters, successful business relationships are addressed in this dissertation in terms of trust and commitment. The question to study trust was: "How do you ensure your business partners are reliable? Most of the SMEs interviewed said they make sure to visit their business counterparts at least once before the business starts. In Europe, SMEs are used to visit clients and speak about business right away, whereas in Latin America it appears not to be the case. Despite previous e-mail/phone interaction, SME representatives have to spend some days in the country socializing before the business talk takes place. Even though visits might take longer, it is in most cases fruitful as SMEs acquire a better grasp on how business works in Latin America, while decreasing the likelihood of distributors behaving unfairly. One of the SMEs said: "okay it costs you a couple of airplane tickets and

the hotel, but if you do business with them for 10 years I mean is all worth it". Likewise, two distributors said they also like to visit their suppliers to ensure they will be able to meet future demand, as well as to get to know their business partners. Furthermore, visits help to ensure the business relationship is a continuous one. Hence, this investment seems to increase the possibilities of having long-lasting business relationships than when not going them at all.

Moreover, one SME representative said she has had to switch her focus on mainly giving advice from her personal experience because Latin American distributors are more into knowing why the product is good and what it can do for their clients rather than asking about numbers and margins. By asking personal insights and experiences, distributors reinforce their trust on suppliers. Latin American distributors seem to place high value to the social aspects of a relationship before business talks take place. The findings suggest the high effect the cultural environment, in terms of relational aspects, has on the establishment of successful business relationships in Latin America.

One thing to take into account, however, is that the probability of an SME visiting a distributor in its home country would also depend on the amount of investment distributors are willing to make. One SME said if the distributor is located in a small country then they would rather use videoconferences to get to know the distributor rather than going all the way to its home country. If SMEs cannot afford to visit a distributor they have to use their intuition or " gut feeling" to say whether a distributor is trustworthy. A complementary way to assess distributors' reliability is that SMEs request prospective distributors to provide references: "We never actually call references because we know is that they are pretty much trustworthy if they put the references on there with a phone number, with an e-mail address then there is not really a reason to call upon their customer".

Trust relates to business partners believing they are honest with each other. The visits and closer interactions between business partners not only foster trust, but also form the basis for commitment. The question to study commitment was: "How do you ensure you maintain business relationships with your partner? The fact the SME is willing to put itself in the position of showing its facilities to distributors shows commitment to make the relationship to work. Similarly, distributors allowing SMEs to check their company numbers surpasses the levels of trust going into a high commitment level from SMEs to support its distributor and helping in identifying aspects for improvement. Additionally, an audiology store said good service and assistance they get from suppliers ensures a continuous business relationship. Another distributor said good communication ensures the solving of problems that might appear while preventing any upcoming issues.

As mentioned in Chapter II, the building of successful business relationships has a long-term outlook. In this regard, one SME commented most of their distributors have been clients for several years – they have a distributor in Brazil since the late 1990s – and because of this they make sure their distributors are being supported. For example, the business developer visits distributors to share best practices, sending professionals present the products within the same community, give discounts, provide marketing materials, give away products that are about to exit the market, and receive distributors' representatives in their main office in The Netherlands to give train them. One SME said their business relationship with their sole distributor in Brazil has remained for over 20 years because they are constantly monitoring changes in increasing taxes to provide the distributor with discounts whenever possible to allow their distributor to still making sales. Even though this means less profit for

the SME, the volume of sales in Brazil – as being a big country in size – remains higher than that in other countries obtaining more margins.

Lastly, the length of the selection process can also be a good means for building relationships with distributors. For example, one SME mentioned they send three forms to candidate distributors, one after completion of the previous. This practice helps to discriminate between distributors having a genuine interest in doing business from those trying to collect information about a potential new threat to the brands already in the market. Because such forms go from asking general information up to designing a business plan to introduce the SME's product, it puts the distributor in the somewhat vulnerable position of showing its business ideas that could be used by SMEs without necessarily working with that distributor.

IV.VI. The Use of a Warehousing Facility

Besides exporting through local distributors, if the local environments in Mexico and Brazil were too harsh and/or import duties too high, the third possible option for distribution was using a warehousing facility. The options for location would be in Mexico or Brazil in case there were benefits or reductions in import duties. If this were not the case the other option to consider, would be using a warehousing facility in another Latin American country. The paragraphs below discuss these three options and the factors that could facilitate or constraint their use.

IV.VI.I. Warehousing Facility in Brazil

The main criterion mentioned by the focal SME was if using a warehousing facility would imply fewer costs in import duties. Because of the high import duties and other additional taxes requested by the local authorities, the option of having a warehousing facility

in Brazil would only bring additional liabilities to the focal SME. Hence, this option is left out.

IV.VI.II. Warehousing Facility in Mexico

Despite the benefits in import duties exemptions thanks to the FTA between Mexico and the European Union, warehousing is an option that could still be considered because of its advantageous promptness in order delivery. A way to store products in Mexico is through customs warehousing (in Spanish "depósito fiscal"). The space is a secured facility authorized by customs authorities "that allow the storage of goods of foreign or domestic origin […] in authorized facilities" (Mexicoxport website) where the owner of the goods can choose when to pay taxes or other administrative charges for importation procedure of the goods. If the focal SME would decide to use such facility it would imply that taxes and other related charges would only be paid when the goods are definitively imported into Mexico.

The advantage of this option is that it gives the SME the flexibility to pay the charges for the goods upon withdrawal from the warehousing facility, thus for example when a client buys the goods from the SME. Nevertheless, the use of a warehousing facility also implies expenses in leasing the storage space and transport costs. In short, having the products already in storage in a customs warehouse would facilitate quick delivery to clients as well as differing payment. Even though interesting, the ideal situation is to keep the distribution chain as shorter as possible to avoid (unnecessary) costs and keep higher margins.

IV.VI.III. Warehousing Facility in Panama

In case import duties were too high in Mexico and Brazil another option to consider is using a warehousing facility from a 3PL (Third Party Logistics) company in a neighbouring country if it decreases costs to export to Mexico and Brazil. The focal SME is already leasing

a warehousing space from a 3PL company in the United States, from where orders are sent to clients in Canada and the United States and could eventually be extended to deliver to Mexico. However, the warehouse is located in Pennsylvania, which is in the northern side of the country, very far away from Mexico. Moreover, this solution would facilitate shipping orders to Mexico and not so much to Brazil due to the big distance and no benefits in import costs.

Table 2 shows the import duties for the focal SME product requested by customs authorities are 0% and 18% for Mexico and Brazil, respectively. These rates are quite high compared to other Latin American countries showed in the table. Countries requesting the lowest import duties to the focal SME's product are Chile (6% in import duties), Panama (6% in import duties) and Peru (5.7% in import duties). Given the geographical distance, the most convenient of the three countries would be Panama, which is located between Mexico and Brazil.

Country	Most favoured nation (MNF) *	European Union (EU) **
Argentina	18%	-
Bolivia	10%	-
Brazil	18%	-
Chile	6%	0%
Colombia	10%	10%
Costa Rica	14%	9%
Cuba	15%	-
Dominican Republic	20%	20%
Ecuador	20%	-
El Salvador	15%	10.5%
Guatemala	15%	9%
Haiti	10%	-
Honduras	15%	9%
Mexico	0%	0%
Panama	6%	6%
Paraguay	8% or 18%	-
Peru	6%	5.7%
Uruguay	18%	-
Venezuela	18%	-

Table 6. Import duties applied to the focal SME's product in Latin America.

Source: The Directorate General for Trade of the European Commission website.

* MNF: Is a clause in a trade agreement between two nations providing that each will extend to the other any trading privileges it extends to third nations. It applies except for tariff preferences granted under Free Trade Agreements or special, lower tariff regimes.

** EU: Goods originating from the 28 European Member states forming the European Union are eligible for preferential rates.

NB. The rates presented here are based on the Harmonized System code of the focal SME's product. It must be noted, however, the rates shown in Table 5 above are indicative because each country has the autonomy to add extra digits to these codes, which might result in higher or lower rates.

In 2012, the European Union signed the EU-Central America Association Agreement that among other benefits provides the "tariff elimination in all industrial products" (The Directorate General for Trade of the European Union website). The signatory parties of the

agreement are the 28 members of the European Union and Costa Rica, Guatemala, El Salvador, Nicaragua, Honduras and Panama. If the focal SME also uses a 3PL company in Panama would imply benefits in terms of elimination of import duties.

In addition to the EU-Central America Association Agreement, Panama has established a Colon Free Zone (CFZ), which is a free trade zone near to the Panama Canal dedicated to re-export diverse goods to all parts of the world. This free trade zone has as main objective to "promote international trade under a tax exempted work frame where commercial activities are wholesale oriented, and logistics and banking activities support them" (The Georgia Tech Logistics Innovation & Research Centre website). Despite the incentives given by Panamanian authorities, Dutch companies cannot benefit from import duties exemptions when reexporting if the country of origin of the product is not Panama. This means that if the focal SME leases a space from a 3PL company to store its products in the Panamanian free trade zone it would be exempted from paying import duties when importing to Mexico because of the EU-Mexico FTA, but it would still have to pay the same import duties when reexporting to Brazil (18%). In other words, products would only be exempted from paying import duties if the country of origin of the product has free trade agreements with the final destination countries.

Besides a lack of benefits when reexporting, another disadvantage of establishing a warehouse is that the focal SME would have to store non-sold products, thus bringing up financial risks. In this regard, evidence shows that "the resources needed to undertake such investments often exceed internal capabilities" (Solberg & Nes, 2002, p. 385-386). In summary, even though some countries have very low import duties compared to Mexico and Brazil, the whole process of leasing a warehouse in another country is very tricky. This is not

only in terms of taking financial risks for having non-sold products in storage but also demanding in terms of SME resources to find business partners ordering sufficient amounts to justify maintaining such channel of distribution. The use of a warehouse would mean the focal SME would have to focus on winning over retailers as clients, which is not always easy, while skipping local distributors because of the 30% margin they request, lowering SMEs' profits. Unfortunately, the main issue is that exporting to Brazil is expensive and no benefits exist at the moment for products of European origin. The only advantage for using this option would be having a central point facilitating the rapid distribution in the event the focal SME decides to expand its business scope to other Latin American nations.

V. Discussion

This chapter reviews and interprets the main findings for the sub-questions formulated in the introductory chapter. Moreover, the findings shown in this research are discussed in light of previous research.

The effect of macro-environmental forces on distributor selection criteria

The results indicate the three macro-environmental factors identified in this study influence host markets differently. First, the findings suggest the economic environment can be used as an indicator of the current local situation, but does not determine SMEs decision when selecting distributors. This finding seems to contradict the extant literature, which considers the economic environment is an important indicator selecting new markets (De Búrca et al., 2004; Kozlinkskis & Guseva, 2006; Leonidou, 2004). Conversely, previous research has shown the economic environment is more relevant for companies interested in foreign direct investment (Zhang, 2001). Moreover, results suggest SMEs receive enough motivation to initiate export activities to distributors placing orders from "less performing" countries (Merriless & Tiessen, 1999). In other words, SMEs consider distributors in less prominent markets as long as they have a good business plan.

Second, SMEs seem to prefer to work with local distributors in Latin American markets because of cultural differences. Some, but not all, of the SMEs interviewed have established offices in other western countries confirming Anderson & Coughlan's (1987) finding about big manufacturers using local distributors when cultural dissimilarities are perceived as great. This finding is to be interpreted with caution, however. In the case of Dutch SMEs, the establishment of offices in other developed countries seems to be more a question of financial resources availability rather than SMEs common practice. Specifically,

the combination of cultural differences, long geographical distances and time differences make western European SMEs select a local business partner to make the business flourish.

Third, previous research has shown firms are more likely to use local distributors when legal restrictions are more prevalent (Julian & Ahmed, 2005; Leonidou, 2004). The results of this study show this is more the case in Brazil than in Mexico. The EU-Mexico free trade agreement makes SMEs to export easily and do not necessarily require the support of a local distributor. The use of a distributor in Mexico is more related to common export practice combined with cultural differences. Consequently, further evidence suggests such barriers would be very difficult to overcome without the support from local partners (De Nederlands-Braziliaanse Kamer van Koophandel, 2015). The results suggest in Brazil SMEs definitely require the support of a local distributor because of a combination of long, bureaucratic and changing procedures as well as trade restrictive regulations against EU exports. In other words, SMEs need a local ally to monitor and respond quickly to possible changes.

The effect of macro-environmental forces on successful business relationships

The findings show on this sub-question the cultural environment is the macro-environmental force influencing successful business relationships the most. Previous research has found Latin American firms are eager to repurchase when the relationship with business partners is perceived as strong (Hewett et al., 2006). This finding matches this thesis results evidencing Latin American markets value personal relations more than purely focusing on financial rewards.

Theory suggests collectivistic and individualistic cultures are not negatively related, on the contrary, these contrasting orientations show they can contribute to the start of a

business opening (Tiessen, 1997). Despite the opposing views the Netherlands (individualistic) and Mexico and Brazil (collectivistic) have, the findings show alignment to some extent. Results suggest Dutch SMEs adapt to the way Latin American partners do business. This implies showing a higher interest on personal capabilities going towards personal experiences with the product in question. Interestingly, Dutch SMEs relegate their view on their individual achievement to work as a team with local distributors and make the business work. As a result, it could be said that both Dutch SMEs and Latin American partners seem to hold a collectivistic perspective when doing business. Hence, the fact that both parties want the business to flourish indicates both sides trust each other and are willing to act fairly, which corresponds with the moral domain of doing what is right (Husted & Allen, 2008).

Countries with high uncertainty avoidance "tend to respond to uncertainty in the environment by building up a system of high formalization and hierarchy" (Barkema & Vermeulen, 1997 p. 848). This research found SMEs and their Latin American partners prefer to have a formalized commitment in the form of a contract. This seems to be the way to show both parties understand each other and know they both are commitment to make the business a success. Conversely, previous research says trust and commitment between business partners do not require "the safety net of controls or sanction mechanisms" (Fink et al., 2011, p. 430). Nevertheless, the use of contracts seems justified to avoid misunderstandings because of cultural distance and other aspects related to both parties' backgrounds.

Long-term orientation implies channel members working jointly to better serve customer needs and increase mutual profitability (Ganesan, 1994). The results show SMEs who support their distributors have transcended to extensive business relationships.

Conversely, a long-term focus could also limit the supplier to remain with a specific client precluding it from trying all possible opportunities (Kalwani & Narayandas, 1995). Nevertheless, the results strongly suggest long-time distributors are the best performing clients in SMEs portfolios. Moreover, business activities "are becoming increasingly oriented towards the need to build and maintain relationships" (Ellis, 2011, p. 324). This could be because as the relationship develops it enters a more personal level where both the SME and distributor would put their best efforts to mutually benefit each other, hence turning a limiting relationship into a cooperative one.

Additionally, the results show intensive communication via e-mail and over the phone between Dutch SMEs and their Latin American distributors occur because regular visits are not always an option for SMEs. It was suggested during the interviews Latin American partners require more attention than other distributors. This apparent limitation is actually an advantage because previous research says regular SME-distributor communication has a positive impact on importer commitment (Bianchi & Saleh, 2011). Lastly, most Dutch SMEs interviewed stated they have to adapt to a different way of doing business where 90% is about personal relations and 10% about talking about business. This seems to confirm previous research about the "potential role of relationships and networks as catalysts to international business" (Merriless & Tiessen, 1999, p. 342). In the case of Latin America it could be said relationships seem to be even more valuable than in other regions of the world.

The effect of distributor selection criteria on successful business relationships

The criteria used in this research for distributor selection came from studies conducted in multinational enterprises (MNEs). Interestingly, our findings have shown these criteria are also relevant for SMEs when selecting distributors overseas. The applicability of MNEs'

distributor selection criteria seems to explain the gap identified earlier by this study about the lack of research on SME distributor selection criteria. In the words of prior research: "the limited consideration of SMEs may be due to the fact that some authors demonstrated that theories developed for large MNEs also work reasonably well in SMEs" (Schwens, Eiche & Kabst, 2011, p. 331).

From the 5 criteria included in this study, 3 appear to have more influence on successful business relationships: dealing with competitors' products, geographic coverage and, to a lesser extent, language proficiency. Vast territories and urban dispersion make foreign SMEs to search for local partners that can cover areas where the product has the most potential to succeed (Child & Rodrigues, 2008; Cavusgil et al., 1995). The implication of this criterion is that SMEs have to trust in the good judgment of local distributors when selecting an area that has the potential to make the business thrive. In exchange, SMEs share best practices and provide support in terms of giving discounts and provide trainings whenever needed. This confirms a previous finding that sharing know-how through exchange activities between business partners stimulates trust and mutual understanding (Fink et al., 2011).

For SMEs it is a must potential distributors stop selling competitors' products. In this regard, carrying a lower number of products allow distributors to give their full attention to a particular company's product (Rosenbloom, 2013; Zhang et al., 2013; Leonidou, 2004). The fact that distributors agree to exclusively sell products of the SME shows their trust on the product and also demonstrates a strong commitment to the relationship. This seems to confirm the findings of previous research stating pledges done by business partners result in commitment and hence successful channel relationship (Anderson & Weitz, 1992).

Another criterion included in this research was language proficiency. For SMEs it is not only important being culturally sensitive but also having the sufficient language abilities to communicate with partners around the globe (Johansson, 2000; Fink, Harms & Kraus, 2008). For instance, previous research has shown "it is difficult to overcome the challenge of language […] in Brazil without personal mediation through a local employee or agent" (Child & Rodrigues, 2008, p. 42). Despite the language in the business world is mainly English, SMEs speaking their clients' languages shows empathy and can help avoid misunderstandings.

In short, the results confirm macro-environmental forces, selection criteria and trust and commitment have to be considered by European SMEs when selecting their distributors in Latin American markets. Yet, as earlier discussed not all these factors influence SME distributor selection in the same way, some are more important than others. The next chapter will elaborate on the concluding remarks about the aspects studied in this research.

VI. Conclusion and Recommendations

This final chapter first answers the main research question. It then presents the limitations of this study and the avenues for future research. The chapter closes with recommendations for Pluggerz, the company that assigned this investigation.

VI.I. Conclusion

The central research question guiding this research was:

Which aspects do western European SMEs have to take into account to select distribution channels in order to enter the Latin American markets?

The results confirm macro-environment forces, selection criteria and trust and commitment have to be considered by western European SMEs when selecting the most suitable local distributor. Nevertheless, from all the aspects explored in this research some are more influential than others. Based on the evidence presented it can be concluded the legal – more in Brazil than in Mexico –, and cultural environments are the most significant macro-environmental forces affecting Dutch SMEs' distributor selection. In terms of the legal environment, on the one hand, Mexico is more "accessible" because of the EU-Mexico FTA exemption in payment of import duties for products from European origin. Brazil, on the other hand, is a far more demanding and difficult market to enter. On top of that, the geographical and cultural distance between Dutch SMEs in Latin American markets make them rely on the expertise of local distributors. These local partners are the ones constantly monitoring the market, they know local potential clients, as well as they are up to date on changes in requirements, taxes, documentation, etc. This is an asset for Dutch and western SMEs in general because sealing a business deal in Latin America take time and patience.

Moreover, culture is the macro-environmental force influencing successful business relationships the most. This is because Latin American distributors are more likely to continue doing business with suppliers if the relationship is perceived as strong; showing the high value Latin Americans place on personal relations over pure financial rewards. The long-term orientation implication of successful business relationships also shows longstanding distributors are the best performing clients in SMEs portfolios.

Lastly, the criteria used by large companies to select their distributors are also applicable to the context of SMEs. The applicability of selection criteria used by MNEs on smaller companies seems to explain the lacuna in literature on SMEs. From the 5 criteria studied, 3 appear to have more influence on successful business relationships: dealing with competitors' products, geographic coverage and language proficiency to a lesser extent. Because in many cases SMEs are not able to visit distributors – especially from far away countries – in their home countries, they must trust their intuition or their so-called "gut feeling" and use it to select the most suitable distributor. As such, all these criteria require (potential) distributors to make pledges to show their trust and commitment to make the business venture go round.

VI.II. Limitations and future research

Despite the criteria used in this study come from big organizations – and this research found they were also applicable to SMEs – it would be interesting for future research to find out if there are criteria only used by SMEs to select their distributors. Furthermore, research could also investigate whether these criteria vary per geographic location, as for example developed versus developing countries.

In terms of data collection, finding and approaching (potential) interviewees in Mexico and Brazil was a major drawback. On the one hand, time differences between the Netherlands and Mexico particularly made it difficult to get a hold of people. On the other hand, interviewees in both countries did not respect or forgot about the arrangements made to collaborate with this research. On this basis, some interviewees had to be discarded because they never sent their answers via e-mail as promised, despite telephone contact occurred in some cases in several occasions. On the first phone conversation people were eager to help and gave a date and time for the interview to take place, however most of the times they requested to be called later on the same day but then they were not in the office anymore or were simply no longer available. A better approach to increase interviewee numbers would be visiting the countries to collect data because it increases the likelihood of people willing to participate and getting access to more information.

This research aimed at gathering the perspectives of the two actors in the dyadic business relationship: SMEs and distributors. While it was possible to obtain the perspectives from SMEs doing business with distributors, it was not possible to obtain perspectives from distributors doing business with SMEs. This was more from the perspective of distributors doing business with manufacturing companies in general, not necessarily with SMEs. Thus, it might be interesting to find out whether there are nuances when distributors do business with large manufacturing companies and distributors doing business with SMEs.

This study was assigned Mexico and Brazil because Pluggerz considers these two countries as the ones with most potential in Latin America. For future research it might be noteworthy to expand the scope of research to other Latin American countries to find out differences/similarities between Mexico and Brazil and less 'explored' markets. Lastly, as

self-reflection, this research was very ambitious by including several variables aiming at portraying the several aspects influencing SME distributor selection. The broad scope was also at the expense of not discussing results in more depth. Future research could be more insightful if fewer concepts are studied.

VI.III. Recommendations to Pluggerz

Comfoor assigned this research for their brand Pluggerz's universal fit earplugs. The premise for this investigation was to figure out whether there is potential for the company in Mexico and Brazil. Additionally, from three options retailers, local distributors or the use of a warehouse, the company wanted to know which channel would be the most suitable to distribute its products in each country. This sub-section presents general recommendations, followed by country-specific recommendations.

VI.III.I. General Recommendations

- It is a great opportunity for Pluggerz to pursue the Mexican and (to a lesser extent for reasons explained further on) Brazilian markets.

- If Pluggerz would have to prioritize one of the two markets Mexico would be more interesting. Brazil ranks second because of the high tariff and non-tariff barriers.

- For the product to be successful in both markets Pluggerz needs the input and dedication of local intermediaries to give a relative unfamiliar product the necessary attention and publicity. This is as a consequence of a lack of awareness in both markets and the need for someone constantly pushing the product locally.

- Doing business in Latin America takes time and patience. There is a lot of back and forth before a business deal can be sealed. Additionally, convoluted bureaucracy, especially in Brazil, requires the support of a local business partner to monitor and keep Pluggerz up to date on any changes.

- Language is another reason backing up the need to use local intermediaries. Based on my experience, it is easier to find people who speak English in Mexico than in Brazil. For example, Mexican authorities translate their governmental websites and provide support in English, whereas in Brazil it is very hard to find someone who speaks English or governmental websites translated into English.

- The advantage of Pluggerz is that neither Mexico nor Brazil has a similar product on their markets. Moreover, end consumers in both countries prefer European technology over the American and definitely over the Chinese, being a great opportunity for Pluggerz (see Appendix 3).

- Pluggerz price for their earplugs might be considered high compared to Chinese earplugs. However, there are more highlights to the product than drawbacks: good product aesthetics (nice packaging), focus on one single product category, and the 'wow' factor because local perception about products coming from Europe is superior in quality than Chinese or American products.

- In the eventuality Pluggerz decides to expand to other Latin American countries, the use of a warehouse in Panama would be a good solution to store products and quickly respond to delivery demands. Besides its strategic location (between North and South America), Panama has a Colon Free Zone located near the entrance to the Panama Canal in which companies could lease a space to store their merchandise without paying any import duties even when Panama is not the goods final destination (more details in pages 61-64).

VI.III.II. Summary of findings and recommendations for the Mexican Market

- It is advisable to work with an agent to represent Pluggerz in Mexico. Having a person working on commission (and eventually paying a salary) would decrease the 30% margin distributors require consequently increasing the product price. Moreover, this

person would be taking care of importation, paperwork, visiting clients, do market follow-ups and constantly working on raising awareness in the local market. Distributor Boca Promoservicios could support in finding such person.

- The HS code for Pluggerz's earplugs is 3926.90.11. The Free Trade Agreement (FTA) between the EU and Mexico exonerates Pluggerz's earplugs from paying import duties, which without preferential tariff treatment would otherwise be 16%.

- In Mexico, the import duty and taxes are calculated on the commercial value of the goods imported. The expenses linked to the importation process are: 16% VAT; 280 Mexican pesos (13,15 euros approx.) for the customs processing fee, in Spanish 'derecho al trámite aduanal' ('DTA'); and 270 Mexican pesos (12,68 euros approx.) for the preliminary recognition, in Spanish 'reconocimiento previo', of the goods sent.

  o For example, if Pluggerz sells 300 earplugs at a price of 3 euros per box, the equation would be the following: 300 x 3 + 13,15 + 12,68 = 925,83 euros. These expenses would be paid by the importer.

- The Mexican customs authorities require the use a Mexican Customs Broker (in Spanish, 'agente aduanal') to take care of all the formalities and to request the authorization to allow customs clearance. NB: in most, if not all, cases the importing party has already such broker.

- The documentation required for importing into Mexico is: commercial invoice, packing list, bill of lading and certificate of origin. Pluggerz's earplugs would be exonerated from import duties payment as long as a certificate of origin is provided.

- Earplugs are not regulated, thus no controls or tests are required by the Federal Commission for the Protection against Sanitary Risk (COFEPRIS).

- The use of a warehousing facility was going to be considered in case import duties were too high in Mexico and the use of such facility would decrease import costs. As

this is not the case, Pluggerz could simply ship from The Netherlands straight to Mexico. Nevertheless, three warehousing options are briefly discussed as a matter of background information:

- o Customs warehouse: Is a temporary storage space where Pluggerz could store merchandise and only pay the cost associated with the importation (as shown in the equation previously) once they decide to definitely import the products into the country. In other words, it delays payments of taxes and other costs until the goods leave the customs warehousing procedure. However, the cost involved with the renting of the warehousing space, given the EU-Mexican FTA, would only increase costs. Costs to consider: expenses for leasing the space and transportation from the warehouse to the client.

- o Vendor Managed Inventory (VMI) in Mexico: Pluggerz already uses this form of warehousing in the United States. Pluggerz would pay the expenses related to the import process on the factory value of the goods. Once again this option would be interesting if Pluggerz would have to pay the 16% import duties if no FTA would be in force. Costs to consider: Pay the factory cost of the company-owned merchandise in storage, lease of the warehousing space and transportation costs from the warehouse to the client.

- o Warehouse in the United States: orders could be sent from the facility in Pennsylvania; however, the location is too far away from Mexico. Costs to consider: transport costs from the US to Mexico and within Mexico to reach the client.

VI.III.III. Summary of findings and recommendations for the Brazilian Market

- This is a trickier market. For this market a distributor would be preferable. More specifically, the owner of the audiology center Praia Grande, Mr. Ricardo Boas, would

be a great asset to support Pluggerz to become a success in Brazil. His idea is to work as a distributor to target retailers, specialized sports stores, etc. to introduce the product.

- The advantage of using a known contact is that the he has seen the product, believes in its big potential and is committed to explore possibilities.

- Having a business partner who can speak in Portuguese with potential clients is paramount because English proficiency in Brazil is not that prominent.

- Despite the recommendation to enter the market, the final decision is still dependent on one governmental body: the National Institute of Metrology, Quality and Technology (INMETRO). This body determines which product coming from abroad requires to be tested or not. In case a test is needed it would imply a high cost that would also impact Pluggerz's earplugs sales price. If the price becomes too high it might be a no-go for Pluggerz.

- The HS code for Pluggerz's earplugs is 3926.90.90 and the import duties are levied at a rate of 18% (in Portuguese 'imposto de importação', abbreviated 'II') on the customs value of the goods, which is the value given in the Commercial Invoice. Additionally, three types of taxes and their definitions are presented below to give an overview of the expenses importers have to incur and could affect Pluggerz's product competitiveness on the Brazilian market:

  o Industrialized products tax (IPI): In Portuguese 'imposto sobre produtos industrializados', this tax has to be paid by both national and foreign products. It has a rate of 15%.

  o PIS: Is the Social Integration Program. It is the social tax contribution paid by companies in order to finance the payment of unemployment insurance and

abandonment to the employees who earn up to two minimum salaries. It has a rate of 2,10%.

o COFINS: Is the abbreviation for what in English would be Contribution for Social Security Financing. It is a federal contribution also paid by tax destined to social security that covers retirement and health care. The rate for this type of tax is 10,65%.

o For example, if Pluggerz sells 300 earplugs at a price of 3 euros per box, 18% import duties are to be paid over the commercial value, which is the commercial value stated in the Commercial Invoice. Thus, the equation would be the following converted to Brazilian Real = 300 (earplugs) x 13,44 (3 euros) x 0,18 = R$ 720,38 (160,46 euros). The table below shows the same example including some taxes to give an idea of how many levies importers have to pay. The following website is very useful in calculating the exact amount to be paid using the day's conversion rate: http://www4.receita.fazenda.gov.br/simulador/BuscaNCM.jsp. NB: the website requires a specific customs value (listed as 'valor aduaneiro' on the website) to make the calculation.

Customs value:	900 € = R$ 4002,12	
II:	18%	R$ 720,38
IPI:	15%	R$ 708,38
PIS:	2,10%	R$ 84,04
COFINS:	10,65%	R$ 426,23
Total (taxes + import duties)	--	R$ 1939,03 = 431,91 €

Results given in Brazilian Reales.

- The documentation required by customs authorities include: commercial invoice, proforma invoice and packing list. Additionally, the product packaging must be translated into (preferably Brazilian) Portuguese.

- Because of the high import duties, the use of a warehousing facility would not bring any benefits to Pluggerz and would only increase costs.

- To keep in mind: Despite the high costs related to exports, other Dutch companies exporting to Brazil said the beginning was hard but once they go over the initial phase, the volumes they are able to sale in Brazil (because of its substantial population) compensates the efforts.

- Currently the European Union is negotiating an Association Agreement with Mercosur (a sub-regional group including Argentina, Paraguay, Uruguay, Brazil, Venezuela and Bolivia), which if successful would remove tariff and non-tariff barriers to trade and foreign direct investment (The Directorate General for Trade of the European Commission website). If INMETRO determines the earplugs need to be tested and because of that Pluggerz gives a thumbs-down to the Brazilian market, they might want to give it another go once the EU-Mercosur Association Agreement becomes a reality.

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Appendix 1

Interview Guide for Distributors

Introduction

This research is being conducted to get to know the perspectives of distributors in the health and beauty sector about distribution channels in Brazil and Mexico. I would especially like to know the aspects that motivate distributors to take on a new venture with a European SME trying to enter the local market. I am conducting this research for my master's education at the University of Twente in the Netherlands. The questions that I will ask you will be related to the aspects SMEs need to take into account when expanding to new markets, the type of and criteria used to select distribution channels in your country, and the importance of good working relationships to your business. Everything that you say during this interview will not be used for any other purposes than this research. Your identity will be kept anonymous. Do you have any questions before we begin?

Opening questions

1. What type of products do you distribute?
2. To what kind of businesses/stores do you distribute?

Macro-environment

    Questions about cultural environment

3. When doing business do you talk about the product right away or do you begin with relational aspects?
4. Are businesses based on relationships more important than financial outcomes to you? Please elaborate.
5. Who determines the 'rules' when starting to do business with a new distributor/supplier?
6. Do you prefer to work with a contract and why?
7. Could you say you maintain durable relationships with your business partners and do you think this is?

    Questions about legal environment

8. What are the regulations to exports that need to be considered?
9. Which aspects would you say are the most challenging during the export process?
10. What other legal considerations do European SMEs need to take into account?

Trust and commitment

11. How do you ensure your business partners are reliable?

12. How do you maintain your business relationships with your business partners?

Closing questions

Practical questions

13. If you would have to select strategic areas/states for distribution possibilities, which would be and why?

14. If you were the SME, which regions/states would you target and why?

Product related questions

15. What kinds of competitors are there?

16. What would determine you buying Pluggerz's products?

Interview Guide for SMEs

Introduction

This research is being conducted to get to know the perspectives of SMEs in the health and beauty sector about distribution channels in Brazil and Mexico. I would especially like to know how SMEs select their distribution channels in distant markets and the factors affecting this decision. I am conducting this research for my master's education at the University of Twente in the Netherlands. The questions that I will ask you will be related to the aspects SMEs deem relevant to consider when expanding to new markets, the type of and criteria used to select distribution channels by your company, and the importance of good working relationships to your business. Everything that you say during this interview will not be used for any other purposes than this research. Your identity will be kept anonymous. Do you have any questions before we begin?

Opening questions

Practical Questions

1. How does your company do it when selling/distributing abroad?
2. Why do you use this channel to distribute your products?
3. Where and how do you distribute your products in Mexico/Brazil?

Theoretical Questions

Macro-environment

Questions about economic environment

4. To which regions/states in Mexico/Brazil do you send your products?
5. What are the reasons for targeting "only" these regions?
6. From your experience, is the type of product determinant to selecting regions to distribute? Why yes, why no?

Questions about cultural environment

1. When doing business do you talk about the product right away or do you begin with relational aspects?
2. Are businesses based on relationships more important than financial outcomes to you? Please elaborate.
3. Who determines the 'rules' when starting to do business with a new distributor/supplier?
4. Do you prefer to work with a contract and why?

5. Could you say you maintain durable relationships with your business partners and do you think this is?

Questions about legal environment

7. How does your company perceive regulations are in Mexico/Brazil?

8. What are the regulations to exports that need to be considered?

9. Which aspects would you say are the most challenging during the export process?

Distributor selection criteria

Distributor's strengths and risk factors

10. Do you take into account warehouse capacity when selecting your distributors?

11. How do you feel about doing business with distributors selling products from competitors?

Marketing capabilities

12. In your experience is it important your distributor has experience with your target customers and why?

13. Do you focus on a particular geographic area when selecting distributors? Why yes, why no?

Facilitating factors

14. Which language do you use with your distributors and why?

Trust and commitment

15. How do you ensure your business partners are reliable?

16. How do you ensure you maintain business relationships with your partners?

Closing question

17. From your experience, what would you recommend other European SMEs thinking on entering the Mexican/Brazil market?

Spanish version of interview guide with distributors
Guía de preguntas para entrevistas con distribuidores

Introducción

Esta investigación está destinada a conocer desde la perspectiva de distribuidores en el sector de la belleza y salud cómo funcionan los canales de distribución en México. Me gustaría saber especialmente los aspectos que motivan a los distribuidores a iniciar negocios con empresas europeas que intentan ingresar al mercado local. Estoy haciendo esta investigación para obtener mi obtener mi título de maestría en la Universidad de Twente en los Países Bajos. Las preguntas que le haré están relacionadas a los aspectos que pequeñas y medianas empresas (MYPEs) deben de tomar en cuenta cuando ingresan a nuevos mercados, los tipos de criterios que deben considerar al elegir canales de distribución en el país, y cómo son las relaciones de negocios entre el canal de distribución y la MYPE. Toda la información que usted proporcione durante la entrevista será utilizada únicamente para esta investigación y para proporcionar reflexiones a la empresa Pluggerz. Su identidad no será develada. ¿Tiene alguna pregunta antes de empezar?

Preguntas iniciales

1. ¿Qué tipo de productos distribuye?
2. ¿A qué tipos de negocios/tiendas distribuye?

Preguntas teóricas

Entorno macroeconómico

Preguntas sobre el entorno cultural

3. Cuando hace negocios, ¿se limita a hablar del producto desde el inicio o prefiere conocer más a su socio?

4. ¿Tener una buena relación con su socio es más importante que los resultados financieros para usted? Por favor comente.

5. ¿Quién determina las "reglas", lidera la interacción al momento de iniciar negocios con un nuevo proveedor, y por qué?

6. ¿Qué medios utiliza para establecer y asegurar una relación de negocios con un nuevo proveedor y por qué?

7. Desde su experiencia, ¿podría decir que sus relaciones de negocios con proveedores son duraderas? ¿Por qué piensa que es así?

Preguntas sobre el entorno legal

8. ¿Qué regulaciones se deben de tomar en cuenta para la exportación de productos a su país?

9. ¿Qué aspectos considera usted que son los más complicados durante el proceso de exportación a su país?

Preguntas sobre confianza y compromiso

10. ¿Cómo asegura que sus proveedores sean fidedignos?

11. ¿Cómo asegura la continuidad de una relación de negocios con sus proveedores?

Preguntas finales

Preguntas prácticas

12. Si tuviera que seleccionar nuevos lugares/estados para distribuir, ¿cuáles serían y por qué?

13. Si usted fuera el proveedor, ¿en qué regiones/estados se enfocaría y por qué?

Preguntas relacionadas al producto

14. ¿Qué tipo de productos ofrece la competencia?

15. ¿Qué puede determinar que usted compre los productos Pluggerz?

Appendix 2

Documentation required from Pluggerz to export to Brazil

Commercial invoice

This document contains the details of the transaction and is requested for customs clearance. Its name in Portuguese is "Fatura Comercial". The invoice may be prepared in any language. However, the description of the goods in the invoice needs to be prepared in Portuguese, Spanish or English. Otherwise, the invoice has to come with a certified translation of the product description in one of the three languages mentioned previously.

Proforma invoice

This is a document that goes in addition to the Commercial Invoice. It contains the details of the transaction made out prior to the proper invoicing. In fact, the Proforma Invoice contains the same information as the Commercial Invoice, but it may be more concise (The Directorate General for Trade of the European Commission website). In Portuguese this document is called "Fatura Proforma".

Packing list

This is an itemized list of all the articles contained in each shipping package and serves as a basis for the customs treatment of goods (The Directorate General for Trade of the European Commission website). It is required for customs clearance. Its name in Portuguese is "Romaneio de Embarque". This document together with the Commercial Invoice is to be submitted electronically via the attachment module (Anexação de Documentos) of the system Vicomex (Visão Integrada de Comercio Exterior) of the single portal for foreign trade (Portal Único de Comercio Exterior) at www.siscomex.gov.br/vicomex for customs clearance. The original and/or further copies may be required for other purposes.

Documentation required from the focal SME to export to Mexico

<u>Commercial invoice</u>

This document contains the details of the transaction for shipments with a value more than 300 USD. Its name in Spanish is "Factura Comercial" or "Comprobante de Valor Electrónico" (COVE). The invoice may be prepared in any Spanish, English or French. The form must be submitted electronically via the Mexican Single Window of Foreign Trade (VUCEM) before customs clearance of the goods. Usually, this document is provided by the company and submitted by the Mexican Customs Broker.

<u>Packing list</u>

For multi-purpose earplugs the Mexican customs authorities require the submission of the packing list, known in Spanish as "Lista de Empaque" for customs clearance. The information this document contains is details about the content of the packages, description of the goods, marks and numbers (The Directorate General for Trade of the European Commission website).

<u>Certificate of origin</u>

This document certifies the country in which a good or commodity was manufactured. It comprises the information concerning the destination of a product and the country of export (Investopedia website). Its name in Spanish is "Certificado de Origen". This is an important document to present because is the one that shows Mexican customs the product would be exonerated from paying import duties.

Appendix 3

<table>
<tr><th colspan="7">Competitors' Products in Mexico</th></tr>
<tr><th>Brand</th><th>Price in Mexican Pesos</th><th>Price in Euros</th><th>Type</th><th>Material</th><th>Noise reduction rating</th><th>Product Picture</th></tr>
<tr><td>Rompeolas</td><td>MXN 2,32</td><td>€ 0,12</td><td>Swim (adults and kids)</td><td>Silicone</td><td>25 dB</td><td></td></tr>
<tr><td>Macks</td><td>MXN 100,00</td><td>€ 5,33</td><td>Shoot, power tools, loud events, swim, shower/bathe, water sports.</td><td>Silicone</td><td>27 dB</td><td></td></tr>
<tr><td>Radians</td><td>MXN 280,00</td><td>€ 14,94</td><td>Not specific, all uses.</td><td>Moldable silicone.</td><td>26 dB</td><td></td></tr>
<tr><td>Etymiotic Research</td><td>MXN 421,00</td><td>€ 22,46</td><td>Not specific, all uses.</td><td>Silicone</td><td>20 dB</td><td></td></tr>
<tr><td>Dubs Acoustic Filters</td><td>MXN 895,00</td><td>€ 47,74</td><td>Not specific, all uses.</td><td>Plastic, stainless steel, polymer foam and silicone.</td><td>12 dB</td><td></td></tr>
<tr><td>3M</td><td>MXN 149 ****</td><td>€ 7,95</td><td>Not specific, all uses.</td><td>Foam.</td><td>29 dB</td><td></td></tr>
<tr><td>OEM</td><td>MXN 267,39 **</td><td>€ 14,20</td><td>Swim</td><td>Silicone</td><td>Not specified.</td><td></td></tr>
<tr><td>Radians</td><td>MXN 300 *</td><td>€ 16,00</td><td>Not specific, all uses.</td><td>Foam</td><td>32 dB</td><td></td></tr>
<tr><td>Noise Buster</td><td>MXN 4,65 ***</td><td>€ 0,25</td><td>Multipurpose: sleep, travel, city.</td><td>Foam</td><td>33 dB</td><td></td></tr>
</table>

* Price for 25 pairs.
** Includes nose clip.
*** Price for 15 pairs.
**** Price for 10 pairs.

Competitors' Products in Brazil						
Brand	Price in Brazilian Reales	Price in Euros	Type	Material	Noise reduction rating	Product Picture
Hammerhead	BRL 9,90	€ 2,27	Swim	Silicone	Not given.	
Bestway	BRL 9,90	€ 2,27	Swim	Silicone	Not given.	
Poker Soft	BRL 9,90	€ 2,27	Water sports.	Silicone	Not given.	
Gold Sports	BRL 9,90	€ 2,27	Swim	Moldable silicone	Not given.	
Leader	BRL 14,90	€ 3,42	Swim	Silicone	Not given.	
Speedo	BRL 19,90	€ 4,56	Swim	Silicone	Not given.	
Arena Water Instinct	BRL 24,50	€ 5,62	Swim	Silicone	Not given.	
Poker Soft	BRL 14,9 *	€ 3,42	Water sports.	Silicone	Not given.	
Uniqcare	BRL 17,9 **	€ 4,10	Multipurpose: swim, read, and travel.	Silicone	Not given.	
Clear Passage	BRL 19,9 *	€ 4,56	Multipurpose.	Foam	29 dB	
Action Sport	BRL 22,99 **	€ 5,27	Water sports.	Silicone	Not given.	
3M Nexcare	BRL 5,5 **	€ 1,26	Multipurpose.	Foam	24 dB	

Clear Passage	BRL 6,99 - 11,9	€ 2,73	Swim kids	Silicone	Not specified.	
Speedo	BRL 9,9 - 9,99	€ 2,27	Sports, swim, fitness.	Silicone	Not specified.	

* Price for 6 pairs.
** Price for 2 pairs.