THE ANALYSIS OF FOREIGN MARKET ENTRY STRATEGIES ON THE BASIS OF DIFFERENT CULTURAL BACKGROUNDS AND ENVIRONMENTS:
A QUALITATIVE STUDY CHARACTERISING THE DIFFERENCES AND SIMILARITIES OF BRAZILIAN AND EUROPEAN FIRMS

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LIST OF SYMBOLS, ABBREVIATIONS AND ACRONYMS;

Approx.     Approximately
CAGE Framework Cultural, Administrative, Geographic and Economic Framework
CEO         Chief Executive Officer
CRM         Customer Relationship Management
ECB         European Central Bank
EEA         European Economic Area
EFT         Exchange-Traded Funds
ESM         European Stability Mechanism
EU          European Union
FGV EBAPE   Fundação Getulio Vargas Escola Brasileira de Administração Pública e de Empresas
GDP         Gross Domestic Product
PLC         Product Life Cycle
R&D         Research and Development
ABSTRACT
Moving into a new and foreign market can be challenging, especially when such market has a different culture and working environment in comparison to the home market. Thus, it is of utter importance to adjust a company’s strategy to the new market conditions. Currently, there are no concrete guidelines of what aspects are most important when moving from a developing market such as Brazil into a more sophisticated market like Europe, or vice versa. The present study will examine two companies from the same industry, but with different cultural backgrounds and its strategic similarities and differences for operating in multiple international markets. The data was collected via semi-structured interviews with the Chief Executive Officers (CEOs’) from both companies, using an interview guideline that is based on three different theoretical frameworks. The aim is to give recommendations to these two industries of how to efficiently use existing theoretical frameworks and which aspects are most significant when moving into a new market while keeping in mind a company’s size and background.

Keywords: Brazil, Europe, Market Entry Strategy, Similarities Brazilian and European Market, Differences Brazilian and European Market
1. Introduction

Choosing the right strategy when moving to a foreign and unfamiliar market is crucial for a company’s success. With increasing globalization and the rising wealth of developing countries, firms are forced to compete internationally and focus on moving into new markets. There are already popular and widely-spread theories and concepts about companies’ strategies and their advantages and disadvantages, but they are fail to provide guidance on which aspects are most important when moving to new markets. The presented research uses, Porter’s “Generic Competitive Strategies” from 1985 complemented with the “Value Disciple Model” created 1993 by Treacy & Wiersema’s, to classify the strategies used by the observed companies’ in their domestic and international markets. Ghemawat’s “CAGE Distance Framework”, from 2007, is used to get a deeper understanding on how each market is perceived and targeted. The purpose of this study is to describe the similarities and differences of two companies’ originating in different market and operating internationally. As a result, providing guidance to different types of firm when moving into the Brazilian or respectively to the European market.

1.1. Contextualization and Relevance of the Problem

Globalization is challenging companies worldwide to compete with their counterpart in other countries, and at the same time it is enabling them to increase their global market share. The most recent and rapid changes have happened, since the mid 90s, and are expected to continue its exponential growth as information and transportation costs are steadily decreasing. Nowadays, due to technological advances such as the internet, a company does not have to grow to a certain size to deliver their products on the global market. In this sense, low-cost distribution allows even small start-ups to afford international distribution and selling their products all over the world.

1.2. Justification of the Research Theme

One of the problems that most companies face when expanding their product portfolio on a global scale are the economic, institutional, cultural and environmental differences in each country of interest. Not only in regards to their choice of products, but also to the extent to which foreign consumers use them. As an example, a car used in Germany
usually does not have to withstand poor and unpaved road conditions as most highway infrastructure are very well maintained. In a country with the size of Brazil, on the other hand, aiming for an infrastructure system as developed as in Germany is simple not possible with the present resources, especially financially. Therefore, the expectations for what is considered a good car option differs as well as the offered products portfolio.

This study will focus on analyzing the market strategies of two different sized companies in the same industry with different cultural backgrounds. Research questions will be focused on major differences and similarities in their strategies, when addressing the “home” market of each other, respectively. The results will benefit the studied companies to improve their current strategies and assist other companies in choosing profitable strategies when entering a foreign market such as Brazil or Europe.

1.3. Research Structure

The overall structure of the proposed study is divided into four major parts. The first part focuses on the theoretical dimension of the research, highlighting the historical willingness of companies from Europe to enter the Brazilian market and vice versa. Additionally, the main theoretical frameworks such as Porter’s *Generic Competitive Strategies*, Treacy & Wiersema’s *Value Discipline Model* and Ghemawat’s *CAGE Distance Framework* will be introduced in depth in order to analyze the two firms that will be examined. The theoretical frameworks will help establish a connection between the firms and put them into perspective for a better understanding of the fundamental differences of companies operating in the same industry, from different home countries with different size and target groups. The second part is concerned with the methodology used for this research, and will solely rely on qualitative research collected by personal interviews. In the third part, the findings will be displayed, focusing on the main differences and similarities when entering or maintaining their presence in a foreign market. The fourth and final part analyses the results of the qualitative research performed and underlines the synergies and advantages that can be created when entering the Brazilian and, respectively, the European market.
2. Research Questions and Objectives
The recent economical troubles in Europe and the prolonging currency crisis in Brazil are making investments and business expansions within these markets interesting to analyze. These complementary facts have raised questions, among the authors’ interests, for conducting research in the area of market expansions between Brazil and Europe. The main objective of this research is to examine the present cultural and economical differences between companies of each market and their implications on domestic and international strategies. As well as to evaluate their differences and similarities as companies’ to conclude how difficult it is to properly address the international market needs. In this sense, to tackle this objective, several specific sub-goals were set to identify the most important aspects when entering a developed market, or even an emerging market such as Brazil. Therefore, interviews were conducted to the manager from companies with different geographical coordinates, but operating in each other markets. The concluding section of this research will help companies, who are planning to move across the Atlantic Ocean, to better assess their strategy.

2.1. Main Research Question and Sub-questions
By focusing on a specific industry and research area, this study aims to present the data collected and relevance of the findings. Aside from the specifications of the two firms, which originate from different markets and are operating not far from one another, will enable the proposed study to identify main differences among them. The following research question will act as a guideline and a portrayal for the main topic of interest:

*What are the main differences and similarities of a Brazilian and a European firm when addressing the others’ market?*

Furthermore, sub-research questions will assist in identifying the market analysis and penetration strategies of the examined firms. They will identify such similarities and differences, which are expected to be present as the firms have different cultural backgrounds and working environment. These questions are as followed:

- *What are the aspects which describe the Brazilian and the European market best?*
  - *Are there huge differences within the European market or can it be targeted as one? If positive, which regions can be bundled?*
How can the Brazilian market be addressed according to geographical regions? What are their main differences?

- What is the main purpose of a local partnership?
  - To what extent can a local partnership assist?

- What are the most important political aspects (i.e., tax-systems, infrastructure, etc.) when entering a foreign market?

- How does the domestic strategy influence the international market approach?

These sub-questions are key issues that will assist in understanding this study’s main research question. These questions, respectively, will also be used as a base for the interviewing guidelines, which is going to further analyze the entry market approach and continuing strategies of the two firms.
3. Literature Review

The following chapter will introduce and explain three different theoretical frameworks that are used later to analyze the studied companies and put them in perspective to one another. The described frameworks are Porters’s: *Generic Competitive Strategies*, Treacy & Wiersema’s: *Value Discipline Model* and Ghemawat’s: *CAGE Distance Framework*.

### 3.1. Porter’s: Generic Competitive Strategies

In 1980, Michael E. Porter identified the three broadest strategy levels, which at the time were implemented in the most successful firms:

1. Overall cost leadership
2. Differentiation
3. Focus

According to Porter (1980) and his *Five Forces Theory* there are three main generic strategies that leads a company to outperform its competitors. The initial three strategies were later extended to “four” strategies in which the focus strategy is split into *cost focus* and *differentiation focus* to better address the customer needs (see figure 1) (Porter, 1985).

![Figure 1 – Three Generic Strategies (Porter, 1985)](image)

The *cost leadership* strategy focuses primarily at reducing the costs within an organization, while charging average industry related prices. Another possible way, in order to achieve a cost leadership, can be through increasing market share by lowering
price. In both cases, the overall profit of the firm increased due to its lower organizational costs, when compared to its competitors (Porter, 1985).

A firm pursuing a *differentiation* strategy is trying to be unique with those aspects that are most valued for customers. By choosing one or more attributes of a product and making them better than the industry standard’s, the firm can charge a premium price and later compensated for the money invested within the development phase (Porter, 1985). The most common attributes firms change to be unique are features, functionality, durability, support and brand image. A challenge firms face using this strategy is the fact that as soon as they loose their “uniqueness”, i.e. different or above-average, it will loose its customers as they are no longer willing to pay a premium price for their product. (Porter, 1996)

In a previous book, *Competitive Strategies* (Porter, 1980), Porter identified the third generic strategy he named *focus*. He later distinguished this strategy into two when introducing his work on *Competitive Advantages* (1985) five years later. By proposing to split the focus strategy into a) *cost focus* and b) *differentiation focus*, Porter underlined the fact that the strategies targeted at a broad competitive scope can also be applied to a narrow competitive scope. Any company operating within a niche market, has to ensure that it is adding extra value to the customer and deliver a better service than a commercial product provided by a bigger, more resourceful competitor from the broad market. The extra value can be on the low cost side. For example, a lower price can be offered to the customer by providing knowledge about specialized suppliers. On the other hand, a firm operating within a niche market can offer a well-specified product by knowing its customer needs very well and providing them with an optimal product. As customers in a niche market are usually very loyal it makes the market unattractive for bigger firms to enter and competitive advantages remain sustainable over a longer time period compared to a broad target group. (Porter, 1985)

One must be aware that there are some *limitations* to Porter’s generic strategies. Porter does not explain how to implement any of the strategies in a real world scenario. He fails to clarify why it is not advisable to pursue more than one strategy at a time, since according to him if a firm does it will end up “Stuck in the Middle” (Calantone, 2004). Also, in the area of differentiated products, companies have shown that they are able to differentiate their products while lower their internal cost structure (Murray, 1988).
Macmillan & Tampoe (2000) go even further in questioning that costs can not be disregarded, no matter how differentiated products are. Another limitation of Porter’s generic strategies is that it does not take external effects enough into account, by for example looking at different market opportunities in fast-growing or emerging markets (Lynch, 2003). As Porter’s framework does not discuss in detail the drivers of differentiation. That’s why we need a framework that can shed light on the different paths to generate value, discussed below.

### 3.2. Treacy & Wiersema’s: Value Discipline Model

The Value Discipline Model from Treacy & Wiersema (1993) has first been introduced to the public in the Harvard business review in 1993. The article “Customer Intimacy and Other Value Disciplines” describe three ways of becoming a market leader.

1. Operational Excellence
2. Product Leadership
3. Customer Intimacy

These three ways reflect in a sense, the previously described framework, Porter’s generic strategies cost leadership, segmentation and differentiation strategies. The difference between the models is that Treacy & Wiersema extend their model with value disciplines, which gives it a deepened focus on the customer relationship. Whereas Porter’s model is mainly focused on the overall market situation (Dimitroff, 2011).

The first strategy, operational excellence, is characterized by four principles. Starting with “the management of people”, which includes well trained employees who are doing their job on the most efficient and cheapest way possible. The second principle, “efficient transaction” aims at a full supply chain in order to maximize the efficiency of every entity involved. “Information technology” represents the opportunity to ensure constantly high quality and cost control. The fourth and last principle, in order to achieve operational excellence, is “customer service”. A good communication between a company and its customers relies on the managing of customer expectations and fitting them to the product portfolio. The corporate dimensions, which are increased by aiming for operational excellence are an optimized cost structure, a highly adaptable quality testing based on customer needs and an overall higher enterprise performance by
creating more efficient and quicker processes (Treacy & Wiersema, 1995). This value discipline has similarities with the cost leadership generic strategy proposed by M. Porter (1985).

A *Product leadership* strategy is aiming at providing the best possible product to the market and is highly valued by the customer. The main concept, while using this strategy, are the encouragement of innovation, risk-management in terms of directing the portfolio activities, the acknowledgment of past success of the firm and attraction of new talent as a foremost resource and last but not least the willingness to educate and lead the market by introducing new innovational products and services. Once these principles are embraced throughout the firm, it will benefit in the following dimensions. First of all, by maintaining the high level of capabilities in delivering products to the market, while continuing to improve the overall service capabilities. Secondly a firm, with a product leadership strategy, will have an intellectual leverage compared to its competitors as it is constantly attracting new talented people. Lastly as a result, of the first two dimensions, the responsiveness will strongly be increased and making it easier to adapt to new market conditions (Treacy & Wiersema, 1995). Examples of firms with such a strategy are Apple, Google or Nike.

The last strategy describes by Treacy & Wiersema (1995), *customer intimacy*, is comparable to the focus strategy of Porter (1980) as it is targeting at a niche market with a very good understanding of the customer needs. The principles needed for an intimate customer strategy are a “hollow delivery system” and “creating deep relationships”. A hollow delivery system describes the fact that the strength of a company does not necessarily lays in ownership, but in the capability of coordinating expertise and deliver full solutions. When creating deep relationships, a company must be willing to allow breakthrough thinking in order to improve the customer’s situation and should not focus on short-term revenue. Positive dimensions created out of this strategy are a strong product identification, a short cycle time and the range in which the products can be delivered (Treacy & Wiersema, 1995).

**3.3. Ghemawat’s: CAGE Distance Framework**

The cultural, administrative/political, geographic and economic (CAGE) framework helps to identify the key differences of two countries. Furthermore, is it used to recognize countries that are relatively close or far from each other to better distinguish
how difficult it is to expand into a new market (Ghemawat, 2007). For the purpose of this study only the CAGE framework at the country level will be described and can be seen in figure 2.

### The CAGE framework at the country level

<table>
<thead>
<tr>
<th>Cultural distance</th>
<th>Administrative distance</th>
<th>Geographic distance</th>
<th>Economic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Different languages</td>
<td>• Lack of colonial ties</td>
<td>• Physical distance</td>
<td>• Rich-poor differences</td>
</tr>
<tr>
<td>• Different ethnicities; lack of connective ethnic or social networks</td>
<td>• Lack of shared regional trading bloc</td>
<td>• Lack of land border</td>
<td>• Other differences in cost or quality of</td>
</tr>
<tr>
<td>• Different religions</td>
<td>• Lack of common currency</td>
<td>• Differences in time zones</td>
<td>o Natural resources</td>
</tr>
<tr>
<td>• Lack of trust</td>
<td>• Political hostility</td>
<td>• Differences in climate and disease environments</td>
<td>o Financial resources</td>
</tr>
<tr>
<td>• Different values, norms, and dispositions</td>
<td></td>
<td></td>
<td>o Human resources</td>
</tr>
</tbody>
</table>

**Figure 2 – CAGE distance framework (Ghemawat, 2007)**

The *cultural distance* is referring to specific attributes, which are defined by the people living in a country. Cultural differences such as language, religion, different values and norms tend to hinder interactions between two countries. Language in this sense might be the most obvious and feasible distance between two countries, but different values and norms such as the fact that Chinese tolerate copyright and infringements more than western countries can make working with them more difficult. An example for a unilateral distance could be the cross-border relations which for insular countries is relatively low (Ghemawat, 2007).

The *administrative distance* is comprised of laws, policies and institutions, which usually have political background and are enforced by governmental instruments. Next to country specific politics, are international organizations and agreements also part of the administrative distance. Countries tend to have a lot smaller administrative distance to countries that where previous colonies due to their related culture and similar legal systems. Other ways in order to reduce the distance of two or multiple countries are to decree trade and/or currency agreements such as the foundation of the European Union (EU). The member states of the EU already have a short geographical distance and as a result of the Schengen agreement have decreased their administrative distance significantly. Furthermore, an organization like the OECD is a unilateral measure to
decrease distance between the members and its companies as it establishes environmental standards, such as the fight against the corruption and bribery, that lead to more global trade (Ghemawat, 2007).

Geographical distance isn’t solely about the physical distance of two countries. It has been proven that the further two countries are apart the less likely it is that they conduct business, but it is not the only attribute that has to be considered when measuring the geographical distance. Other bilateral attributes are the fact if they share a land border or not, have different time zones or climates, as far as transportation and communication infrastructure that have to be considered in a geographical as well as economical distance. Unilateral attributes are the access to an ocean or not, the topography or a country and the size of country. These attributes are especially important when analyzing big countries such as Russia, China, India, Brazil, Canada or the United States (Ghemawat, 2007).

Economic distance refers to differences in the per-capita GDP of countries and shows big differences when analyzing rich compared to poorer countries. Rich countries tend to have more cross-border activities as poorer countries, rich countries generally have a higher average income due to their higher education and skill levels of their population. Moreover, countries highly differ in terms of natural and financial resources, resulting in more or less advanced infrastructure and information technology. Interactions between rich-rich and rich-poor nations also vary, as rich-poor interactions focus more on arbitrage as the poor country wants/needs the FDI of the rich and companies from rich countries often want to slice their value chain internationally to be less depend on the local economic situation and to profit from the lower wages. Therefore, physical distance isn’t always bad as it can help to diversify a countries/companies portfolio and dependency on local economies (Ghemawat, 2007).
4. Research Methodology

The methodology of this study is based on the research onion from the book “Research Methods for Business students, 5th Edition” by Mark Saunders, Philip Lewis and Adrian Thornhill. Saunders et al. have created the “research onion” in order to clearly distinct between the design and tactics of a research study. Resulting in six layers from which three are concerned about the overall design/plan of the research; Strategies, Choices and Time Horizon. The outer two layers being more concerned about the Philosophies and Approaches used and all playing a role within the center of the onion ensuing the Data collection and data analysis. (Saunders, Lewis, & Thornhill, 2009) All of the above can be seen in the figure 3 below.

The following chapter will describe the methodology used by linking it to the research onion. The six layers of the onion are an effective way to present and visualize the methodology.

![Figure 3 – The Research 'Onion' (Saunders et al., 2009)](image-url)
4.1. Generating the Research Idea

In order to generate the research idea two different approaches were used, the *rational* - and *creative thinking*. According to Saunders et al. (2009), the first stage the *rational thinking* includes the following initiatives:

- Examining your own strengths and interest
- Looking at past project titles
- Discussion
- Search the literature
- Scanning the media

The second stage the *creative thinking* is comprised of:

- Keeping a notebook of ideas
- Exploring personal preferences using past projects
- Building relevance trees
- Discussion of ideas with colleagues

Using these attributes, the researcher developed, over the time period of several months, his main research idea. Major stages towards the final research idea during this time period were the discussions and brainstorming meetings, of possible ideas, with multiple professors and fellow students. Once a certain direction of research ideas was visible a rough literature review helped to identify the most interesting and promising research idea.

4.2. Research Philosophy

The first layer of the research onion focuses on the research philosophy, meaning to create new knowledge which has not been achieved by previous studies. There have been many studies in the past about the Brazilian as well as the European market, nevertheless this study focuses on the market approach of companies from these countries/continents on the respective others foreign market. Regarding the four dimensions, mentioned by Saunders et al. in respects to the first layer: *Positivism*, *Realism*, *Interpretivism* and *Pragmatism* (Saunders et al., 2009). This study relies on *Interpretivism* using qualitative methods such as personal interviews, due to the small
sample size and limited time (Running, Ligon, & Miskioglu, 1999). Next to personal interviews the study will also relate to secondary data and existing theories.

4.3. Research Approach

The second layer of the research onion is concerned about the research approach, there are two different kind of research approaches, the *deductive* and the *inductive* approach. Both of them being fundamentally different, the *deductive* approach derives hypothesis from an existing *theory*, in order to *observe* and finally *confirm or refute* the entire *theory*. The *inductive* approach on the other hand is the complete opposite; The researcher starts by *observing* a certain event/occasion, recognizes a *pattern*, derives *hypothesis* and finally comes up with a new *theory* (Fereday & Muir-Cochrane, 2006).

This study will use a combination of the inductive and deductive approach. Using multiple existing theories and concepts, the two firms’ market approaching strategies are analyzed and evaluated on a managerial as well as cultural basis. In addition to the interviews conducted in both firm, secondary data will be used to emphasize the key findings of the primary data collection.

4.4. Research Purpose

When pursuing the classification of a research purpose it is important to point out that commonly a threefold of exploratory, descriptive and explanatory is used. Nonetheless, the research purpose can, just as the research questions and objective, be descriptive and explanatory at the same time (Saunders et al., 2009) and/or change over time (Robson, 2002).

An exploratory research purpose is generally used to identify the what exactly is happing within a certain process and to achieve a deeper understanding of the process to analyze it in a new way (Robson, 2002). There are three different principles when having an exploratory related research purpose: 1. A mere literature search, 2. Interviewing experts/insider or 3. Conducting focus groups (Saunders et al., 2009).

A descriptive research purpose in the other hand, is concerned about the portraying a very precise picture/profile of a situation, event or person (Robson, 2002). Therefore, it is necessary that have a very clear picture of the to study phenomenon/situation and usually uses prior work to build, which could be exploratory based. In business and
management studies it is common to combine a descriptive and explanatory study as the descriptive study is precursor. Combined studies with a descriptive and explanatory purpose are called *descripto-explanatory studies* (Saunders et al., 2009).

As described earlier explanatory studies usually use a descriptive study as basis or are combined into a descripto-explanatory study. They focus on establishing a relationship between two variables, generally explanatory studies use quantitative data and statistical tools such as SPSS or R to determine the correlations and relationships of the variables (Saunders et al., 2009).

Due to the lack of precursor studies in form of descriptive studies and the deficiency of quantitative data, this study has an exploratory research purpose. With the use of two principles, a literature review on the subject and data from interviews with insiders (two CEOs’ of international corporations).

### 4.5. Research Strategy

There are multiple research strategies that will help researches to get the right information, depending on the type of study conducted and the volitional results one strategy can be more adequate than others. Saunders et al. (2009) consider seven constructive strategies when conducting managerial or business studies: Experiments, survey, case studies, action research, grounded theory, ethnography and archival research.

The nature of this study implies finding the similarities and differences of two companies when entering each others “home” market. Therefore, this study is will have a case study strategy with a multiple (2) cases approach. A multiple cases strategy uses the findings occurring in one case to establish a connection to the other and detect these findings occur in both cases. Lastly, with a multiple cases strategy it is possible to compare the findings of both generalize them, find similarities and differences (Yin, 2003).

### 4.6. Research Choices

While getting closer to the inner circle of the research onion, one needs to decide to on what kind of data will be collected; Qualitative, quantitative data or a mix of both. Quantitative data is predominantly known as data collected by a survey or secondary
databases with a relatively large sample. This type of data is easier to analyze with statistical techniques and generate more numerical data than data collected by qualitative methods. Qualitative data, on the other hand, are usually collected via interviews and therefore does not have a large sample size. The advantage of qualitative data lays in the depth of collected information, it does not have the restrictions of a survey or questionnaire. It can refer to more than just word or numbers it can include pictures and videos (Saunders et al., 2009).

The qualitative methods with a single single data collection technique was chosen for this study, due to the limited time available. This study collects all its data via in-depth interviews and uses qualitative data analysis procedures explained later.

4.7. Time Horizons

Regarding the time horizon of a study, a decision between a cross-sectional and longitudinal has to be made. A cross-sectional study is only concerned about a specific phenomenon at a particular part in time. Whereas a longitudinal study is focused on change and development over time (Saunders et al., 2009).

As mentioned earlier this study is focused on two specific firms and their point of view on the others market and market entry strategy at the current time. Therefore, a cross-sectional time-horizon is chosen.

4.8. Data Collection and Analysis

The qualitative data have been collected via semi-structured interviews using an interview guideline (see Appendix 1). The interview with the CEO of Buddemeyer is conducted in person as part of a visit of the production sight in southern Brazil. The second interview, with the CEO of Vertty, was held via skype due to big distance to Portugal.

The retrieved data of the interviews will be analyzed by using a standardization table and triangulation (Saunders et al., 2009) methods to be able to make the answer of the two interview partners comparable. The standardized interview result table will display the answers, of both interview partners, to the interview guideline questions next to each other make it easy to identify the similarities and differences.
4.9. Interview Guideline

The interview guideline used for the two semi-structured interviews can be found in appendix 1. It has been divided into four groups of questions. The first aiming at general information, learning more about the history and overall structure. Afterwards, the questions are related to the introduced frameworks and intend to let one identify the company’s strategy and positioning by focusing on Porter’s generic strategies, the value discipline model and the CAGE distance Framework.
5. Analysis of the Research Results

The following chapter will display the current situation of the European and Brazilian economy, introduce the interviewed companies and analyze the interview outcomes. The outcomes are going to be used to classify each company’s general strategy as well as the specific strategies in the domestic and international market with more detailed view on the Brazilian and European market.

5.1. The Current Economic Context of Brazil and Europe

Below the current status of the Brazilian and European economies are displayed and contextualized, on the bases of well-grounded information given by international institutions and governments, to better understand the situation and statements of the interviewed companies.

5.1.1. Brazilian Economic Context

Brazil is the fifth largest country in the world in terms of size and population (approximately 200 million inhabitants since the 2013 census). The life expectancy has been rising steadily in the past twenty years from an average age of 69 years old in 1996 to 74 years old in 2003 (The World Bank, 2014c). Another aspect why Brazil is becoming more significant and of interest on an international scale is due to their decreasing poverty level. In 2006, 17,3% of the Brazilian population was living under the poverty line, this number has decreased to an astonishing 8,9% in 2013 (The World Bank, 2014d). Brazil’s Gross Domestic Product (GDP) per capita grew very rapidly between 2002 and 2011 from 2.800 USD to over 13.000 USD in 2011 (The World Bank, 2015). In the past years, however, Brazil like many other South American countries, has suffered from a stagnating and decreasing GDP growth. Nevertheless, it is expected to rise again from 2016 onwards due to foreign direct investment attracted by the low currency (The World Bank, 2014e).

The increased life expectancy rates and the strong decrease of poverty are both indicators that consumerism from the Brazilian population will increase significantly in the future (Ravenhill, 2011). In recent years since 2011, Brazil’s economy has experienced multiple drawbacks as the result of multiple, and highly widespread by the media, corruption scandals, as well as an increasing inflation rate (The World Bank, 2014b). In the past, Brazil was able to compensate its big inflation rate with the strong
and stead GDP growth at the time, but as the GDP growth is presently stagnating the country is facing trouble in the international markets for its undervalued currency (Jorge, Jorge, & Higonnet, 2014). In march 2015, Brazil has passed multiple anti-corruption measures to prevent big scandals, such as the Petrobras scandal, from repeating in the future (Alves, 2015). Brazil’s recent measures has helped to find a solution for the rapidly decreasing value of its currency, which is to sell its monetary reserves. This measure has a short-term effect, however, in the long run foreign direct investments will be needed to help the country to stabilize its currency (Economic Policy Board, 2015).

5.1.2. European Economic Context

The European economic market is commonly known as the European Union (EU). This assumption is only partially true since the EU only represents the 28 members’ state and not all the countries participating in the European economic market. However, the EU is currently considered the biggest trade union worldwide (European Commission, 2012). A different way to analyze the European market is to look at the European Economic Area (EEA), which next to the EU member states’ also includes Iceland, Lichtenstein and Norway (European Free Trade Association, 2014). Due to the well-grounded and public accessible data provided by the EU, this study will focus mainly on the economy of the European Union.

The European Union has a collective population of over 500 million people and comprises over 4 million square meters in geographical terms. The life expectancy, within the EU, has risen in the past 10 years. For men, it has increased around four years, from 74 to 78, and two years for women, from 81 to 83 years old. In regards to unemployment rates, there have been negatively increasing. For youth unemployment (younger than 25 years) there has been an increased from 18,7% in 2003 to 23,5% in 2013; while unemployment between 25 to 74-year-old citizens has risen from 7,8% in 2003 to 9,5% in 2013 (European Commission, 2015). On the other hand, the combined GDP per capita of the EU member states has grown from 24.000 USD in 2003 to over 35.000 USD in 2013 (The World Bank, 2014a). Between 2004 and 2007, the GDP growth was between 2 and 3 percent followed by a negative growth of over 4 percent in 2009, that later on led to a stabilized GDP growth within the EU of 1% in 2014 (European Commission, 2015).
The significant increase of youth unemployment rate and the decrease of growth in GDP per capita can be traced back to the financial crisis starting in 2007-2008 (Karanikolos et al., 2013). When analyzing unemployment rates, caution must be taken for not generalizing the EU data, but to acknowledge that there are big differences regarding the different member states. The large youth unemployment increase has mainly taken place in southern European countries such as Portugal, Spain and Greece (Verick, 2009). Economic measures such as the European Stability Mechanism (ESM), has allowed the EU to bail-out some of the most affected states from collapsing by giving them loans to pay off their country’s debts (Christova, 2011). Another proactive measure currently used by the European Central Bank (ECB), is to support more growth by lowering interest rates in order to make investments more attractive (Dudian & Popa, 2013).

5.2. Introduction of Interviewed Companies

The first company that was interviewed was a Brazilian company called Buddemeyer, a textile company located in the south of Brazil in São Bento do Sul. Buddemeyer produces bedding, towels and bathrobes for kids and adults, with the toweling sector being their main business accounting for 70% of the revenue.\(^1\) The company was founded in 1952 by a German immigrant and his two sons. The well-grounded knowledge of the founder in the area of textile machinery helped the company to grow rapidly and the creation of a strong brand reputation in the Brazilian market. In 1971 the company expanded to new markets through exports to Europe and the United States. The 1990s were a special time for the company as they started to develop a stronger brand name in international markets, through the substitution of their previous strategies of production for other fashion brands. Nowadays, the company is still a family business and is led by the third and fourth generation, being the only the south American company that is invited to display its portfolio at the biggest home textile exhibition (Heimtextil) of its kind in Frankfurt, Germany indicating its high standards and quality.\(^2\)

From the European market a young start-up from Portugal was interviewed. The innovational towel brand, Vertty, was founded in 2012 by three Portuguese students

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\(^1\) Information gathered in an interview with the CEO of Buddemeyer; Rolf Buddemeyer

\(^2\) Information gathered from the company’s website; www.buddemeyer.com.br
who were not satisfied with their beach towels and saw improvements possibilities.³ Vertty’s mission is to “Reshape the beach” and “Create a unique beach towel”, they are trying to reach this mission by turning a common object into a trendy accessory by creating a towel with a modern design, light weight and large size. The biggest change of their innovational towel was the embedment of a waterproof pocket within the towel to store valuables, an environmental friendly and honest production method without child labor and fair wages.⁴

5.3. Interview Outcomes

The interview outcomes are displayed below, following order of the questionnaire, with one paragraph per company in each section. All the information mentioned below was gathered through personal interviews with the CEOs’ of each company. The initial information provided can be found in the table in appendix 2.

5.3.1. General Information

Buddemeyer has two production sites; one in São Bento do Sul in which the products are being finalized and one preprocessing site located 16km outside of São Bento where cotton is refined and colored. As mentioned above the company generated 70% of their revenue in the toweling sector, within this sector their revenue is split in 75% made in the Brazilian and 25% in foreign markets. These 25 percent are generated in the following countries in decreasing order: 1. USA, 2. Argentina, 3. Germany, 4. Canada, 5. Switzerland, 6. Japan and 7. Russia. Overall, the Brazilian toweling production is very strong in exports to Europe & the USA. Buddemeyer account for around 5% of the Brazilian production of towels, but has a domestic market share of 11% due to well placed marketing campaigns and good distribution network. The company uses different concept of market entry, because the level of difficulty in building an own trademark is different in each market. In particular, the French and North American market are strongly designer trademark oriented, meaning customers will only buy products from well-known brands. Whereas the German and Swiss market are more open to unknown trademarks. The brand name, Buddemeyer, helps when targeting these markets, since it is from German origin and considered to be long lasting quality product. Therefore, the

³ Information gathered in an interview with the CEO and Co-Founder of Vertty; Frederico Cardoso
⁴ Information gathered from the company’s website; www.tryvertty.com
German market is one that is target with the companies own brand and exclusive retailers chosen by region. Except in the Russian or Japanese market, the company relies on a direct exporting strategy to have an easier access to the market. Russia and Japan are the only markets, where local team-members are needed during the development phase to properly adapt the offered portfolio and address the market needs. Another exception in distribution strategy is Argentina, in which Buddemeyer has its own distribution center to serve the market needs. When looking for market expansion opportunities, the company has two main indicators: 1. Does the market have easy access in terms of distribution channels? Are synergies with our current channels possible? And 2. Visit international textile fairs to find what is missing in other markets. Overall Buddemeyer employs 1050 people, from which 850 are purely production related, the remaining 200 employees are administrative staff in the areas of finance, legal, human resources and marketing & sales. The marketing & sales sector involves around 50 to 60 people, form which eight are solely responsible for export markets, either product development (3) or international sales (5).

Vertty launched and manufactured their product in 2013 by using first an exclusive manufacturer in Portugal and since 2015 multiple manufacturers, located in Portugal, South Africa and China. In the first two years after its product launch the company sold exclusively online. During 2015 the company started offering their products in stores as well, by choosing global external retail partners. As a result of the shift to the offline market, in 2015 Vertty sold 50% online and 50% at partner stores. In 2016 the online versus offline sales are expected to change even further to 25% online and 75% offline sales. The main market for Vertty are: Australia, United States, Portugal and South Africa. Vertty is no longer supplying the Brazilian market due to reason, which are going to be explained further into the interview outcomes. The concept of market entry used by Vertty is primarily with the use of sales agents and distribution partner, only on special requests made via email or on trade-shows does the company sell its products directly. Exclusive local representatives are chosen in the following markets: Belgium, Netherlands, Luxembourg, Estonia and South Africa, whereas the partner in South Africa is part of a joint venture. Multiple local representatives are used in the markets of Australia, United States, Israel, France, Italy, Qatar and Dubai. When entering a new market, no local team-members are used, as they consider their products as passion design products with a draft towards people that have a cultural tendency towards beach
sports (e.g., surfing, swimming, sailing, etc.). In combination with the company’s unique communication strategy, they believe that a big adaption of the product portfolio is not necessary when moving into new markets. Vertty’s organizational structure is very flat, due to its small size of only 5 to 7 employees. Within the company everyone is working in every area of the business, but nevertheless has its responsible as the chief of management, design, marketing, operations or finance sector.

5.3.2. Porter’s: Generic Competitive Strategies

Both companies were asked to explain their general strategy in order to classify their company according to the generic competitive strategies from Porter.

Buddemeyer’s product prices are very competitive, when presented on a market, such as the Unites States, with the same conditions to all firms present. When competing on the European market, the company faces issues regarding import taxes, which they competitors from Portugal and Turkey are mostly exempt from. Their target clients are primarily in the premium segment and as mentioned above the market is reached by direct exports to whole sellers. Usually Buddemeyer keeps a certain strategy for four to five years to build a strong bond between them and the retailers/partner. The commitment to the partner depends on their performance in selling the products, if the sales numbers are too low the partner gets dropped and a new partner is selected. There are different strategies for different markets, depending on the willingness of the market to accept an own trademark or not. As spoken of, in the general information, for example in Germany Buddemeyer can sell its own brand without using a private brand (i.e., Armani) and has much higher profit margins as in markets such as France. Putting their general strategy in Porter’s Framework, the company’s strategy can be explained as differentiation strategy targeting a broad market.

Vertty as a very young, start-up, company on the other hand has started with a pure online sales system in the beginning in order to find out how willing the market is to adapt their products. The initial stock of products was sold out within six months on the market, with buyers from over 50 countries ranging from Canada to Australia, and proved that the demand of their product was big. The second phase of the company’s sales strategy involved moving to the offline market with retail partners’ worldwide. Vertty’s future sales plan is to move more and more in the offline market, with higher sales number and only shortly lower profit margins. When approaching international
markets, the company uses different communications strategies, in more mature markets the product is placed in a niche targeting beach sports such as surfing, sailing or kiting. On less mature markets the company chooses a broader communication strategy targeting not only the niche, but every potential customer, which includes everyone going to the beach. According to Porter, Vertty is therefore perusing two different strategies. In less mature markets they are targeting a broad customer group with a differentiated product and on more mature markets they are targeting a niche also by using a differentiation strategy.

5.3.3. Treacy & Wiersema’s: Value Discipline Model

Treacy & Wiersema categorize a company with their value discipline model and describe them either as focusing on operational excellence, product leadership or customer intimacy. Following, the two interviewed companies will be categorized as perusing one or more focuses according to the framework.

Buddemeyer uses different pricing strategies depending on the market, in the Brazilian as well as the market in the United States the company offers lower prices, with similar or better quality, than the competition. In other markets such as Europe or Asia this pricing strategy is not possible due to high import and transportation costs. The investment in R&D, mainly product development, is higher than the competition. Investments in new machinery is being approved when a new trend comes to the market, which cannot be followed with the current machinery. As a result of the fully integrated supply chain, the production capacity is very flexible and highly adaptable. Therefore, the company tries to have a shorter product life cycle (PLC) than its competitors and deliver a new product to the market every six months. The relationship with the customer, especially the private labels, is usually very deep and Buddemeyer tries to protect its customers’ products from piracy. Other key success factors mentioned were; the very good understanding of what the customer wants and a 100% anti-complaint strategy, that implies all products that have a defect will be exchanges regardless of if the problem accrued due to mistakes of the company or the customer. Taking all the above mentioned factors into account, the company can be describes as focusing on product leadership and customer intimacy, all while being aware that operational excellence will help to bind the customer closer to the company and increase profit margins.
Vertty uses a similar pricing strategy in each market and generally offers its products at a higher price compared to the competition. The research and development expenses are also higher as the company tries to deliver the perfect product to the market and needs to be up-to-date on the newest technologies and trends. As a result of its high investment costs the product life cycle is much longer than the competing products. Vertty is targeting niche markets as well as broad markets, therefore the communication between them and the customer needs to be very close and intimate. A combination of their easy to buy online platform and representative in the offline location the firm manages to have a very personal and dedicated customer-relationship. Regarding Treacy and Wiersema’s value discipline model, Vertty is focusing on customer intimacy and product excellence. The operational component is completely outsourced and doesn’t play a big part in the future of the company.

5.3.4. Ghemawat’s: CAGE Distance Framework

Ghemawat’s CAGE distance framework displays a companies a company’s main challenges regarding culture, administration (political), geographic and economic distance. The following chapter will show the evaluations of the companies towards international markets, with the main focus on Brazil and Europe, concerning the CAGE framework.

5.3.4.1. Cultural Distance

For Buddemeyer the biggest cultural challenges to overcome, when moving to the European market were the different norms and customer habits, in each country, for example the Netherlands have a different pillow size than Germans and Switzerland yet another. Not only the norms and habits are different across European countries, also their expectation of to the product regarding design, color patterns and functionality. Looking at their home market, Buddemeyer identified a cultural difference between the people from the north and south, the north being much more conservatives than the south.

For Vertty the biggest challenge to overcome, when moving to a new international market is to keep control over all the distribution in all the different markets. Each country has its own way, time and quality of getting work done. For a small company such as Vertty it is especially important to have a good and efficient distribution system
worldwide in order to not decrease their profit margin. The cultural differences between Europe and Brazil does not play a big role to Vertty as their products target a specific niche, which has a similar mindset world wide.

5.3.4.2. Administrative Distance

On the administrative side the most important political aspect, for Buddemeyer, is the tax and duty system of a foreign market. When comparing Brazil to Europe the tax system is not very complex in Europe, but nevertheless has a high burden for non-EU members. Therefore, competitors from Portugal and Turkey have a cost advantage. The Brazilian tax system is very complex, even though the burden overall is not high the complexity makes it more expensive than the European. Buddemeyer identified a big advantage of Europe over Brazil in the infrastructure, which is very well developed in Europe, whereas in Brazil there is a lot of investment needed. The biggest challenge to overcome in the domestic market is get out of the comfort zone of the subsidies provided by the government and change the traditional mental framework of most Brazilian companies that it is difficult to compete internationally. On the other hand, the biggest challenge to overcome, when moving to the European market, is in convincing the customer that the stereotype of Brazilian products being low quality and price is not true.

Vertty, as the international small global player, is most concerned about the import and export taxes, because they may affect negatively their profit margins. In terms of infrastructure, the company, is worried about the warehouse logistic due to the outsources external distribution system. Vertty explained, the tax burden and complexity for foreign products, within their industry, is very high in Brazil that the market gets almost impossible to target, considering their profit margins expectation. The biggest challenge, for Vertty, therefore is managing the margins of its products depending on the import taxes. Markets such as Brazil and South Africa are very protected, in South Africa the company managed to avoid the immense import taxes by creating a joint venture with a local firm. Regarding Brazil, Vertty has had multiple complaints from the customer side that shipments haven’t arrived due to customs rejections, even though all forms and paper were filled out correctly and the taxes were paid. For this reason, Vertty stopped targeting the Brazilian market.
5.3.4.3. Geographical Distance

The physical distance between markets has become less important for Buddemeyer, because transportation costs have decreased significantly in the last 20 years. Logistic costs accounted between 7 to 8 percent in the past, nowadays being reduced to 3 to 4 percent. Therefore, the world has gotten smaller, when it comes to product shipments. Buddemeyer only produces in Brazil, hence it transports its products first to the nearest port in Itapua and from there via ships all across the globe, once on the right continent land transportation (i.e., trucks and railroads) are used to deliver them to the final destination. When asked how and if the European market can be target as one or bundled, Buddemeyer does not agree and says that they strategy is to target specific countries or even regions within countries. Each country needs to have its own sales agent, which speaks the local language, only the British and Scandinavian market can be bundled and targeted with one sales agent as they don’t mind bargaining in English. Especially within the French market, the company, has discovered through experience that a local sales agent is irreplaceable. The Brazilian market is targeted in a similar way, state by state and in case such as Sao Paulo or Rio de Janeiro even supported by multiple sales agents. The product expectations are different in each state or region due to their unique colonial background, only in northern Brazil does the company use one sales agent for multiple states due to big distances and lack of densely populated areas.

For Vertty the physical distance between markets is not a major challenge, because their sales are either done online or handled by a local partner and the logistical costs are relatively low due to the light weight, in spite of the volume, of their product. Another factor that helps the company to decrease physical distance between them and the customer is by using multiple internationally local manufacturers. The company has outsourced the logistical part to external companies, which either deliver directly to the end customer or in big badges to the rented warehouses by ship, plane, railroad and trucks. The European market is partially targeted with special marketing campaigns, only Portugal, therefore Vertty does not need to be differentiate the Europe into bundles. The Portuguese market has its own online and offline marketing campaigns; the other European markets are only served by the website. A difference has been identified between northern and southern Europe, which can be explained by the different climates depending on regions. During the time the Brazilian market was still
target, it was targeted as a whole with very little special marketing campaigns tailored for Brazil.

5.3.4.4. Economic Distance

Within the economic distance Buddemeyer considers the per capita income to be the most crucial indicator, if a market is worth moving to or not. The per capita income is displays the average wealth of one person to spent, this is particularly important as the demand for towels is limited. Therefore, Buddemeyer is looking for markets in which the highest third of the population can afford their towels. Another advantage of being located in Brazil is that it is the 5th biggest cotton producer in the world, which gives manufacturer within a country a cost advantage over producers from countries that need to import all raw materials (i.e., Portugal). Nevertheless, Brazil has disadvantages in terms of skilled labor as the education level is lower compared to Portugal, in which it is easier to find good and skilled labor. However, Buddemeyer mentioned that once their employees are trained and skilled, they usually stay their whole career in one company. Compared to Europe, where the employee turnover rate is much higher, that is an advantage once the initial investment of training the employee is made. When asked to compare the sophistication of the Brazilian to the European market, the perception is split. On the one hand the company enjoys the level of sophistication in Europe that the customer knows very well what kind of products they want. On the other hand, it brings the downsides of the customer knowing the price structure of their products too and are not willing to pay an arbitrary price. Another downside of a high level of sophistication is that is more difficult to bring the right product to the specific market, which involves additional costs for the company. Looking at the capabilities of the Brazilian vs. the European market, the European is much bigger in size, but considering the fact that it can not be targeted as one the Brazilian market get the upper hand over single European markets such as Italy. Observing the product portfolio of Buddemeyer, it seems to be very competitive, with a very high quality/price ratio. This is supported by the fact that the company accounts for only 5% of the Brazilian production, but for 25% of the exports. At last, Mr. Buddemeyer was asked to give his opinion on currency issues and rate the Brazilian Real and Euro. Overall, the impression of the exchange rate of the past is negative (the Real being overvalued against the Euro) and considered to be one of the reasons why they are only maintaining their
international market share and do not expand further. There were years, in which the company made losses with its international customers in order to keep them. The Euro has also suffered reputation during the last economical crisis. During 2015, the Real has been devaluated around 40% against the Euro and the US dollar, creating more favorable conditions to exports from Brazil. Putting the two currencies on scale of 1 to 10, 10 being a very stable currency, the Real was voted a four to five and the Euro an eight.

Vertty considers the same economical factor, the per capita income, as crucial when moving into a new market. Even though the entire production process is outsourced, Vertty considers a close proximity of raw materials and manufacturer important, in order to lower production costs. The recruitment of new employees is currently not a problem within Europe and the Brazilian market is not target. However, if the Brazilian market would be targeted the low educational level is considered to be a problem. On an international scale, Vertty, believes its domestic market (Portugal) to be less sophisticated than others due to the small demand of beach towels compared to Australia, USA and South Africa. The Brazilian market has a small demand for Vertty’s products, because of the low per capita income. Respecting the past economical crisis and the following depreciation of the Euro, the company rates the stability at eight.

Looking at the Brazilian Real and its big fluctuations within short time periods, it is considered to be bad for long term planning when moving to the market and is rated at a low two. Next to the administrative reasons, the currency is another reason why Vertty choose to leave the Brazilian market.
6. Overview and Discussion of the Main Results

The present chapter covers the main differences and similarities of both firms and aims to demonstrate how these companies vary according to the theoretical frameworks and criteria mentioned by previous scholars: Porter, Treacy & Wiersema, and Ghemawat. To conclude, a critical discussion of the results is presented as well.

6.1. General Information

The main difference about the two companies, when looking at the general information, is their founding history and organizational structure. Buddemeyer dates back to 1952 and Vertty dates back to 2012, which clearly demonstrates they both have a different organizational structure. The older company, Buddemeyer, is much bigger in size and employs over 1,000 people. In comparison, Vertty, a small born global start-up, which only employs five people and has a very informal hierarchy where each employee has to contribute in every department of the company. Another main difference is the choice of production methods and locations. While Buddemeyer has a fully integrated supply-chain with exclusive production in Brazil, Vertty relies on an outsourced production from manufacturers across the globe. Buddemeyer is able to reduce costs by optimizing its supplies to the demands, but Vertty can adapt quicker to changing demands and avoid import-export taxes by producing within the potential market. When comparing each company’s methods to address foreign markets, one fact stands out. Both Buddemeyer and Vertty have used the same strategy of indirect exports, using local sales agents and distribution partners. However, Buddemeyer has taken a further step and shifted towards direct exporting techniques to have easier access to markets. Due to its small production size, Vertty relies on local partners to distribute their products to whole sellers. Their only exception is in South Africa where Vertty has a joint venture. Only in a few markets, Buddemeyer and Vertty use the same distribution strategy by having exclusive sales partners. Buddemeyer pursues this strategy in different regions in Germany, while Vertty does it in the following countries: South Africa, Belgium, The Netherlands, Luxembourg and Estonia. Despite both companies having the same strategy for selling their own branded products, Buddemeyer also produces for private labels and is not fully entitled to distribute the products themselves.
6.2. Porter’s: Generic Competitive Strategies

According to Porter’s generic strategies, the companies’ general strategy differs. Buddemeyer is following a differentiation strategy with a broad target segment. Whereas, Vertty, is clearly pursuing a focused differentiation strategy by targeting niche segments with a highly differentiated product.

A very interesting aspect that both companies mentioned is the fact that they pursue different strategies for different markets. While, Buddemeyer, in the European market, follows a broad differentiation strategy in the United States, the company is able to be the cost leader compared to their international competitors. In other words, according to Porter, lower transportation and tax costs allows them to pursue an overall cost leadership strategy in the US market. On the contrary, Vertty’s goal is to seek a broad differentiation strategy in less mature markets to widen their target customer group.

6.3. Treacy & Wiersema’s: Value Discipline Model

To further continue with this analysis, an alternative perspective is found by Treacy & Wiersema’s Value Discipline Model. For these scholars, the two companies are similar in the sense that both invest more than the competition in research and development and are, therefore, trying to achieve product leadership to create a competitive advantage. However, both have a very different strategy in achieving this advantage, Buddemeyer adapts its products to local needs, whereas Vertty follows a “one size fit it all” strategy in providing each market with the same product.

Clear differences of these two companies are seen within their product life-cycle. Vertty has the ideology of keeping the same product on the market for a longer period of time. In contrast, Buddemeyer tries to introduce a new product to the market every 6 months, which they consider an advantage in having a fully integrated supply-chain. Treacy & Wiersema categorize a company with such high levels of product turnover and great flexibility as operational excellence. Another difference between the two companies can be observed in the area of customer relationship. Both try to keep close relationship to the customer by using different CRM approaches. Vertty solely interacts with the customer thru their website, while Buddemeyer adapts its products to customers needs and follows market research when creating new products. As a result, Buddemeyer is a strong believer in the customer intimacy concept of Treacy and Wiersema.
Concluding, Buddemeyer is primarily focused on customer intimacy, trying to differentiate offers according to each market, followed by an operational excellence approach using proper machinery to keep the costs low. Vertty is focused on a product leadership innovation with less regard to the customer need by offering a superior product to customers. Buddemeyer is a good example to the limitations of the framework (see literature review), as according to Treacy & Wiersema, it is not advisable to pursue more than one or two value disciplines at the same time.

6.4. Ghemawat’s: CAGE Distance Framework

The differences and similarities of the CAGE distance framework are important for finding out how a company analyses a specific market and to determine how a specific market is targeted.

When observing the cultural distance of the two companies, variances are found. Both encounter completely different challenges when moving to a foreign market. Buddemeyer mentions challenges of norms and expectations with the European market, and at the same time with the north of Brazil being conservative compared to the non-conservative south. On the other hand, Vertty, mentions difficulties for controlling their distribution on all markets. These differences have three reasons; (1) the different size and production methods, (2) the difference of target customers and (3) the use of different distribution techniques that lead to different checkpoints with the culture of a foreign market.

In terms of administrative distance, both companies agree on an important aspect, the import-export taxes. As both companies operate internationally, the tax system of a market plays a very big role in their financial planning. Vertty is unable to target the Brazilian market due to its very complex, cost intensive tax system. Buddemeyer also mentions the high complexity of their own tax system, but sees the overall cost similar to the customs’ prices in the European market. Even though the companies agree on duties being the most important aspect, their tactics for dealing with the problem are different. The Brazilian company, Buddemeyer, tries to adjust its internal cost structure to offer a product with a competitive price, while the Portuguese company, Vertty, chooses to work with local manufacturers and joint ventures to avoid high import taxes in specific markets. Both strategies have their advantages and disadvantages, but
Buddemeyer’s strategy is harder to implement as it requires a certain size and integrated supply chain.

The physical distance between markets does not play a big role for these companies, as both agreed with low logistical costs when moving products from one continent to another. Buddemeyer sees a disadvantage in logistical terms as relatively small and overlooked, when competing on the global market. Both companies use all available delivery methods (i.e., air, sea and land) to deliver their products to the end customers. However, Vertty hires an external logistic company and Buddemeyer directly handles their logistics exports to the foreign market. Due to their various product portfolios, the two companies address and bundle differently the Brazilian and respectively the European market. While Vertty divides the European market by climate according to the north and south regions, Buddemeyer targets each country specifically and only divides them into a few regions. Buddemeyer’s strategy in Brazil is very similar to the European’s, as the country targets states or regions, or in the case of Sao Paulo and Rio de Janeiro, which are targeted as cities. Compared to Vertty, which sold to Brazil via their website, Buddemeyer’s strategy is more detailed, time and cost intensive, but promises higher sales margins. Vertty focuses on the English speaking markets, such as Australia and the United States, and expects to gain synergies by generating similar marketing campaigns.

Buddemeyer and Vertty consider the per capita income as the most crucial indicator when choosing new markets. Both companies are selling premium products (i.e., high quality/price ratio) when looking for wealthy markets, in terms of expandable income, within the highest third of the of population. It is important to remark that Vertty does not consider the Portuguese-European market as sophisticated compared to other international markets. Buddemeyer, on the other hand, believes the European market to be sophisticated and the customer knowledge to be high. A reason for this discrepancy, between the two, is the different and diverse product portfolio. While Vertty solely sells beach towels, Buddemeyer delivers a bigger variety of products and therefore has a bigger customer group within the European market. Lastly, the companies evaluated the different currencies and placed the Euro at an eight out of ten, which is stable when considering the recent economical crisis. The currency issues or exchange rate fluctuations however, were not rated equally. Buddemeyer gave it a rating of four to five, whereas Vertty rated it as low as two out of ten. Reflecting on the current situation,
one can see why the rating differs. For a company producing within Brazil (Buddemeyer), it is favorable to have a weak currency to be more affordable on the international market. For a company outside of Brazil (Verrty), it is not desirable to get their products paid in a currency that, when transferred to the “home” currency, is not worth much. Meaning, across all industries, exports from Brazil have been positively influenced by the devaluation of the Real, in 2015, against the Euro and US Dollar, whereas imports from other markets into the Brazilian have become less profitable.
7. Recommendation

Buddemeyer’s biggest challenges are related to economical factors since they stopped expanding internationally due to uncertainties regarding the Brazilian currency, Real. In the past, the company has had internationally losses because of the overvalued Real. However, in their current situation it would be careless to not take advantages of such currency’s weakness to expand international market share. Buddemeyer can minimize currency risks by opening a production site or subsidiary outside of Brazil, in which foreign currency profits are held and invested in case the value of the Real increases significantly. Another option to avoid exchange rate risks are by using different hedging techniques such as currency forwards, options, futures or exchange-traded funds (EFT). These methods only protect investments to a certain degree, but still mitigate the risk of losing as much money as without them.

On the other hand, Vertty has a different problem. There is a big risk that their product leadership approach, for implementing long product life cycle, attracts copycats, which could, without copyright infringements, introduce a similar product to the market and derogate their competitive advantage. Vertty should take advantage of its small size and be more adaptable to tailor products for different markets, without high adaption costs as the entire product process is outsourced. Vertty should focus on quickly strengthening its brand, by putting a face (e.g., a celebrity in beach sports) to the company and using radical advertisement campaigns. A partnership with a big brand can also help to raise awareness, while rapidly boosting their customer base.
8. Conclusion
The following chapter will summarize the findings of this study and present its contribution to existing theories. A guideline of which aspects are most important to consider will be described in detailed to firms that are contemplating in moving to the Brazilian or European market in the future. Lastly, the limitations of this study and suggestions for further research work will be displayed.

8.1. Contribution to Theory
This study has transferred existing theories onto tangible businesses and has assisted to analyze how and to what degree companies follow theoretical concepts, as guidance, to approach domestic and international markets. The observed companies follow the main aspects described by the mentioned scholars throughout the paper, often without noticing. However, limitations of those theories are questioned since the two analyzed companies went beyond what theories suggested, but it did not worsen their market position. For example, both Porter’s generic strategies, and Treacy & Wiersema’s value discipline model suggest to only pursue one market strategy. Buddemeyer, on the other hand, is pursuing multiple, and even all strategies at the same time which raises the concerns of whether these theories have the following flaws. First of all, the concept of product excellence, is becoming more difficult to uphold as product life cycles are reducing due to technological advances. Secondly, companies following an operational excellence or cost leadership approach are experiencing a lot of competition with many firms offering the same product on a constantly low price-level, which can’t be sustainable over a long time period. The concept of customer intimacy has lost its uniqueness because it has been incorporated by almost all firms as part of their customer relationship management (CRM). Hence, most theories need to be adjusted to better fit the rapid changes within modern economy, which are a result of the ongoing globalization and rising international competition. Ghemawat’s CAGE distance framework is very useful for companies that are considering moving into a new market since it provides them with the necessary information about the differences and similarities of the new market in comparison to their home market. The limitation of this framework is the validity retention period for the gathered data because especially in developing markets the economic conditions (e.g., currency evaluation, labor laws, export-import taxes, etc.) can change easily and create new and unknown problems.
8.2. Contribution to Managerial Practice

When considering international strategies, one of the issues to account for are the differences between the home and host markets that need to be overcome in order for a firm to be successful. A strategy that works in the home market most likely does not work in the host market, especially when one market is more sophisticated than the other. Depending on the size of a firm, a fundamental decision about possible export strategies has to be made. Larger companies might have easier access to a new market using a direct export strategy, whereas smaller firms will profit considerably from the expertise of local sales agents or joint ventures with local businesses. Furthermore, companies that move from a developing market into an industrialized market have to be aware of customers with higher knowledge about the quality/price ratio. In a sophisticated market, the consumer knows proportionally more about prices and are willing to substitute products more easily than in less sophisticated markets. It is easier to target a niche within those markets due to higher knowledge about the desired product by the consumer. A downside of markets such as Europe is that it usually has to be targeted in small regions as a result of different norms within each country and variations of customer expectations. On the other hand, when moving into a developing market, such as Brazil, mainstream products can usually be targeted to a broader customer group since its historical background on migration and sub-cultures are less strong. Problems accrue on the administrative level such as: (1) the tax systems are more complex and costly even though the taxes themselves are not high, (2) the educational level is lower and it will be challenging to find qualified labor, (3) the infrastructure is less developed and more time intensive to move goods from one place to another and (4) the markets are often protected by high subsidies to promote local production. All these aspects need to be considered before moving to a new market because it might be more profitable to start a joint venture with a local manufacturer or open an own subsidiary. Regarding the physical distance, this study has shown that transportation costs can be neglected because they are as low as they have ever been before and in the toweling industry only account for 3 to 4 percent of the production costs. In the European market, one has to be aware of the fact that each country prefers a local sales person, except in the English speaking market of Great Britain and the Scandinavian countries where a local representative is not necessary. Special attention, when choosing a new market, should be spent on the per capita income, especially when
selling premium products because a small top end of the population, in terms of income, only has limited need for a specific product. Consequently, it is more desirable to choose a market in which the highest third of the population can afford such premium product. The biggest challenge within developing markets like Brazil is the economical factor as market condition such as import-export taxes, labor laws, and the currency exchange can vary significantly within short amounts of time. For example, in 2015 the Brazilian Real has lost around 40% of its value, making imports substantially less attractive. Thus, it is advisable to constantly check changes and create different possible future scenarios, with frameworks like the CAGE distance framework, while gaining ground and knowledge about the new and foreign market.

**8.3. Limits of the Research and Suggestions for Further Research**

When considering potential limitations of this research, the most significant is the limited allotted research time and the qualitative examination of only one company for each market. Future research is highly recommended with quantitative approaches on the basis of the results of this study to further corroborate the findings and ensure validity and credibility.

While the examined companies are specialized in the same industry, they vary in size, level of product differentiation, market positioning and customer segments. Consequently, the findings of this study can have different impacts when applied to other products, industries and businesses.

Economic, political and environmental changes, in both markets, can have a big influence on any potential successful market entry. Thus, further investments and improvements in infrastructure, quality of education, technology and research centers, as well as changes in laws and regulations are advisable to improve the chances of deviation when applying the results of the study.
9. Appendix

Appendix 1

Interview guide

General Information

1. What year and where was your company founded?
2. Where do you produce (i.e., factory, headquarters, country, etc.) your products?
3. How is your domestic vs international estimated percentage market share? If international, to what countries do you deliver to?
4. When, and for what professional or investment reasons, did you choose to enter the Brazilian–European market?
5. What is your mode/concept of entry in each market?
   a. Direct exports from/to Brazil–Europe
   b. Indirect exports (intervening agent – trading company, import company, etc.)
   c. Local representative in the foreign country, if yes is he exclusive?
   d. Sales subsidiary in the foreign country
   e. Joint venture with one or multiple partners
   f. Other kind of partnerships
      i. If yes, to what extent specifically can a local partnership assist and when do you drop them or exchange them for a new or an in-house solution?
   g. Full subsidiary in the country or an adjacent country
6. How many employees do you currently have?
   a. How many employees are assigned to deal with the Brazilian–European market?
7. What is your organizational structure? In the structure could you detail the area(s) responsible to interact with the foreign market? (If possible could you provide an organizational chart)

8. Do you have/use local team-members of the new market when developing a market entry strategy within your company?
   a. If yes:
      i. What is their main contribution/purpose?
      ii. How important are they for a successful market entry?

9. Describe your company’s process of choosing international locations. (e.g., market selection, key success factors (KSF), indicators, etc.)

Porter’s generic strategies

1. How would you describe your general strategy? (e.g., value proposition, targeted clients, channels, price relative to competitors, etc.)

2. What were the reasons in choosing this specific strategy?
   a. Are there different strategies for different markets? (i.e., in particular in international markets)

Value discipline model

1. What are the KSF that give you a competitive advantage over other players? (name examples)
   a. Considering your main competitors:
      i. Do you position your products at lower prices?
      ii. Do you invest as much or higher in R&D?
      iii. Do you have a longer or shorter product life cycle?
      iv. Do you have a deeper customer relationship?
      v. Other factors
CAGE distance framework

Cultural distance

1. What is the biggest challenge to overcome within the foreign market? (e.g., language barriers, ethics, religion, values and cultural norms)

2. How do different cultural habits of the foreign markets reflect in different strategies? What kind of cultural adaptations you have to do in order to be successful within Brazil–Europe?

Administrative distance

1. What are the most important political and institutional aspects you have to take into account when entering a foreign market? (name concrete examples)
   a. Infrastructure
   b. Tax burden and complexity of the tax system
   c. Labor laws
   d. Customs and import–export taxes

2. What are the biggest challenges taken into account regarding the business environment in the countries you operate or will operate?

3. To what extent is corruption considered when entering the Brazilian–European market?

Geographical distance

1. How challenging is it to overcome the geographical distance of the two markets? What are the logistical costs or other concerns in reaching the international markets? (name examples)

2. Which method do you use to deliver your products to the foreign market?
   a. Transportation: ship, plane, railroad or trucks
   b. Production in the others market
3. Are there huge differences within different European markets or can it be targeted as one?
   a. If yes, which regions can be bundled? What are the key aspects of those bundles?

4. How are each of the Brazilian and European market divided into geographical regions? What are their main differences?

**Economic distance**

1. How does per capita income affect the choice of markets?

2. How important is the geographical proximity between suppliers of raw materials and the factory? How would you rate Brazil compared to Europe?

3. How difficult is access to qualified human resources in Brazil compared to Europe?

4. How do you compare the level of sophistication of the customers in the international markets compared to the domestic?

5. How competitive is your portfolio within international markets in relation to local competitors? (e.g., price and quality)

6. How important is the economical size/capability of the Brazilian and European market? What are the main differences?

7. To what extent do exchange rates economically affect your international business? How do you rate BRL to EUR? Please rate each currency on a scale of 1 to 10 (10 being a very stable currency)

**Do you have any further comments you would like to add?**

The provided data will be handled discretely. Within the next few weeks you will receive a transcription of your answers and will be asked to confirm your approval. If there are any uncertainties about the release of sensible data, feel free to exclude it. In the case of further doubts, your company name can be disguised (e.g. Company X from Southern Brazil).
## Appendix 2

### Summary of the content of the interviews

<table>
<thead>
<tr>
<th>Question</th>
<th>Buddemeyer</th>
<th>Vertty</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. What year and where was your company founded?</td>
<td>1952 by the grandfather, father and uncle in Sao Bento do Sul</td>
<td>Started working on creating the company's concept in 2012</td>
</tr>
<tr>
<td>2. Where do you produce (i.e., factory, headquarters, country, etc.) your products?</td>
<td>2 production sights - one directly in Sao Bento - one in a town 30km from Sao Bento</td>
<td>External factories in three countries - Portugal - China - South Africa</td>
</tr>
<tr>
<td>3. How is your domestic vs international estimated percentage market share? If international, to what countries do you deliver to?</td>
<td>Biggest sector (towelling sector) accounts for 70% of the business - Brazil 75% - 25% other countries (1. USA, 2. Argentina, 3. Germany, 4. Canada, 5. Switzerland, 6. Japan and 7. Russia)</td>
<td>In 2013 &amp; 2014, the products were sold exclusively online - In 2013, started to sell offline (external retail partners) around 50/50 in sales - 2016 is expected to be 25% online and 75% offline sales</td>
</tr>
<tr>
<td>4. When, and for what professional or investment reasons, did you choose to enter the Brazilian-European market?</td>
<td>Accounted for 5% of the production in Brazil, but 11% on consumer site - Needed to export to grab more market share - Brazil is very strong in Exports of towels to USA &amp; Europe</td>
<td>European market due to the companies' origin (Portugal) - Main market focus: - Portugal, Australia, South Africa and the United States - Currently no longer present in the Brazilian market</td>
</tr>
<tr>
<td>5. What is your mode/concept of entry in each market?</td>
<td>Very difficult to build a strong own trademark</td>
<td></td>
</tr>
<tr>
<td>a. Direct exports from/to Brazil–Europe</td>
<td>Nowadays mostly direct export to retailers - USA &amp; France are very &quot;designer trademark&quot; oriented - In Germany &amp; Switzerland it is easier to establish an own trademark (the brand name helps as it is German decent)</td>
<td>Received &amp; managed via emails' and trade-shows</td>
</tr>
<tr>
<td>b. Indirect exports (intervening agent – trading company, import company, etc.)</td>
<td>In the beginning, more indirect exports. Later, direct exports for easier market entry</td>
<td></td>
</tr>
<tr>
<td>c. Local representative(s) in the foreign country, if yes is he exclusive?</td>
<td>In Germany, the company has exclusive contracts with special retailers, but it is very difficult to meet their demands as they depend on a small inventory and need high flexibility</td>
<td>Exclusive local representatives: - South Africa, Belgium, Netherlands, Luxembourg and Estonia - Non-Exclusive local representatives: - United States, Australia, Israel, France, Italy, Qatar and Dubai</td>
</tr>
<tr>
<td>4. Sales subsidiary in the foreign country</td>
<td>NOT/APPLICABLE</td>
<td>NOT/APPLICABLE</td>
</tr>
<tr>
<td>5. Joint venture with one or multiple partners</td>
<td>NOT/APPLICABLE</td>
<td>One joint venture in South Africa</td>
</tr>
<tr>
<td>f. Other kind of partnerships</td>
<td>A lot of productions for private labels - In Russia &amp; Japan, the company has local agents that analyze the market similar to a whole sale (very difficult market)</td>
<td>NOT/APPLICABLE</td>
</tr>
<tr>
<td>i. If yes, to what extent specifically can a local partnership assist and when do you drop them or exchange them for an in-house solution?</td>
<td>Commitment to partners depends on their performance, if sales numbers are too low they get dropped</td>
<td>NOT/APPLICABLE</td>
</tr>
<tr>
<td>g. Full subsidiary in the country or an adjacent country</td>
<td>In Argentina, they have their own firm that distributes to the entire market</td>
<td>NOT/APPLICABLE</td>
</tr>
<tr>
<td>6. How many employees do you currently have?</td>
<td>1,050 employees in total - 850 employees in production - 200 in logistics (e.g., administration, legal, finance and HR) - From these 200, around 50-60 are directly employed for marketing &amp; sales</td>
<td>5 to 7 employees</td>
</tr>
<tr>
<td>a. How many employees are assigned to deal with the Brazilian-European market?</td>
<td>From these 50-60, 8 in product development --&gt; 5 specifically for export markets from these 50-60, 30 in sales --&gt; 5 specifically for export markets.</td>
<td>None: Currently, as the Brazilian market is no longer being targeted</td>
</tr>
</tbody>
</table>
### 7. What is your organizational structure? In the structure could you detail the area(s) responsible to interact with the foreign market? (If possible could you provide an organizational chart)

The organizational structure is very flat, because they are a young start-up.

- Everyone has to work on everything, but there is one chief in the following dept. areas:
  - Management (CEO), Design, Marketing, Operations and Finance

### 8. Do you have/use local team-members of the new market when developing a market entry strategy within your company?

Yes, for specific international markets

No, local team-members are used when approaching a new market

### 9. Describe your company’s process of choosing international locations. (e.g., market selection, key success factors (KSF), indicators, etc.)

### Porter’s generic strategies

1. **How would you describe your general strategy?**
   - (e.g., value proposition, targeted clients, channels, price relative to competitors, etc.)

   - Very competitive price compared to competitors from Turkey or Portugal when compared in the US.
   - Europe more difficult due to the duties, which Portugal and Turkey are mostly relieved off.
   - Target clients are in the premium sector.
   - Distribution mainly direct exports to retailers.
   - PLC is relatively short since they try to introduce a new product to the market every 6 months

2. **What were the reasons in choosing this strategy?**

   Usually the company stays with one strategy at least 4-5 years to establish a strong bond between the company and the partner/retailer.
   - Develop an own trademark (more profits compared to private label production(s))

### Value discipline model

1. **What are the KSF that give you a competitive advantage over other players? (name examples)**

   - Depends on the market:
     - In the US market, the company can offer much lower prices due to lower duties and transportation costs.
     - In the US market, the big players have the same condition:
       - same duties and lowest transportation costs compared to far east (Pakistan, India, China) and European (Turkey, Portugal) competitors.
     - Higher Prices than competition
   - Investment in R&D is higher than the competition
### iii. Do you have a longer or shorter product life-cycle?

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Mostly shorter PLC than the competition</td>
</tr>
<tr>
<td>Brazil</td>
<td>The PLC is much longer than the competition</td>
</tr>
</tbody>
</table>

*The PLC is much longer than the competition*  
Quickly and highly adaptable production capacities due to the fully integrated supply chain

### iv. Do you have a deeper customer relationship?

- **Europe**:  
  - How many people are in the top end when looking at the wage level  
  - Highest third of population is better than only the super rich as there is only a limited demand of towels  
  - Very good understanding of what the customer wants  
  - 100% anti-complaint strategy, regardless of the origin of the complaint all the products get changed if a customer complaints  
  - Most complaints from Brazil, due to the low education level of the maids (empregadas), when following washing instructions

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Very personal and dedicated customer relationships</td>
</tr>
<tr>
<td>Brazil</td>
<td>Control of the distribution on all the different markets</td>
</tr>
</tbody>
</table>

### v. Other factors

- **Europe**:  
  - Big differences between the countries and even within, divisions by regions are necessary  
  - When moving to the European market stereotypes have to be overcome in regards to Brazilian products being low quality and low price

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Tax/duty system is most important</td>
</tr>
<tr>
<td>Brazil</td>
<td>Import-Export taxes</td>
</tr>
</tbody>
</table>

### CAGE distance framework

#### Cultural distance

<table>
<thead>
<tr>
<th>Question</th>
<th>Europe</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is the biggest challenge to overcome within the foreign market? (e.g., language barriers, ethics, religion, values and cultural norms)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. How do different cultural habits of the foreign markets reflect in different strategies? What kind of cultural adaptations you have to do in order to be successful within Brazil–Europe?</td>
<td></td>
<td></td>
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</tbody>
</table>

#### Administrative distance

<table>
<thead>
<tr>
<th>Question</th>
<th>Europe</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What are the most important political and institutional aspects you have to take into account when entering a foreign market? (name concrete examples)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. What are the biggest challenges taken into account regarding the business environment in the countries you operate or will operate?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. To what extent is corruption considered when entering the Brazilian–European market?</td>
<td></td>
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</tr>
</tbody>
</table>

#### Tax burden and complexity of the tax system

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Good infrastructure</td>
</tr>
<tr>
<td>Brazil</td>
<td>Needs development (almost no functioning railroads available)</td>
</tr>
</tbody>
</table>

#### Infrastructure

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Complexity low</td>
</tr>
<tr>
<td>Brazil</td>
<td>Complexity very high</td>
</tr>
</tbody>
</table>

#### Labor laws

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Tax burden relatively low, but due the complexity very high cost level</td>
</tr>
<tr>
<td>Brazil</td>
<td>Due to small employee size no worries until now</td>
</tr>
</tbody>
</table>

#### Customs and import-export taxes

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>The Brazilian market is highly protected by sub-sidies</td>
</tr>
<tr>
<td>Brazil</td>
<td>The mentality that it is very difficult to move into the European market is widely spread across industries</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
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<tr>
<td>Brazil</td>
<td>When moving to the European market stereotypes have to be overcome in regards to Brazilian products being low quality and low price</td>
</tr>
</tbody>
</table>

#### Shipments to Brazil have failed multiple times due to customs rejection, even though all papers and taxes were filled-out properly
<table>
<thead>
<tr>
<th>Geographical distance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. How challenging is it to overcome the geographical distance of the two markets? What are the logistical costs or other concerns in reaching the international markets?</strong> (name examples)</td>
</tr>
<tr>
<td>The physical distance to Europe is a partial disadvantage, for example when competing with firms from Portugal or Turkey in the European market. When competing for the US market there is no disadvantage as the distance Brazil-US and Europe-US is very similar. Logistics costs are lower nowadays compared to 20 years ago.</td>
</tr>
</tbody>
</table>
| - In the past, 7-8% of the product cost. Today 3-4%

  - Sales are still mainly done online therefore lower costs
  - Transport costs are considerably low due to the underweight of the packages sent |

| **2. Which method do you use to deliver your products to the foreign market?** |
| Three main ports are fairly near the production sights: 
  - Itapa is used the most (operated by Hamburg Süd) 
  - From here it takes 9 days to Rotterdam and 10-12 days to Strasen or Hamburg.  
  - From these ports the products are further transported by train to Switzerland and by trucks within Germany. |
| All three are used on the delivery to the end customer |

| **3. Are there huge differences within different European markets or can it be targeted as one?** |
| The European market is only partially targeted: 
  - Portugal as the main target and other countries only via online retail (no special marketing campaigns) |
| The Scandinavian countries are the easiest to bundle, but overall have a small market. |

| **a. If yes, which regions can be bundled? What are the key aspects of those bundles?** |
| The Brazilian market was targeted only by the webpage and therefore as a whole (only in the north of Brazil one agent can serve multiple states, because the distances are big and there are not many densely populated areas. Due to the size of Sao Paulo, the city needs more than one agent) |
| - In Great Britain, it is easier as they don't care as much who speaks English to them
  - South and North Europe due to the different climates |

| **b. Production in the other's market** |
| No only production in Brazil (Sao Bento do Sul and surroundings) |
| - If the product is produced in a different country, planes and ships are used to bring them to rented warehouses |

| **4. How are each of the Brazilian and European market divided into geographical regions? What are their main differences?** |
| Usually there is one retail agent in each country or state (Brazil) |
| - In Brazil a separation by state is necessary due to different product expectations
  - Only in the north of the Brazil one agent can serve multiple states, because the distances are big and there are not many densely populated areas |
| - Due to the size of Sao Paulo, the city needs more than one agent |
| - The Brazilian market was targeted as a whole (only online retail) in the past, but was stopped due to the difficulties of importing their product |

<table>
<thead>
<tr>
<th>Economic distance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. How does per capita income affect the choice of markets?</strong></td>
</tr>
<tr>
<td>Crucial</td>
</tr>
</tbody>
</table>
| - How many people are in the top end when looking at the age level
  - Highest third of population is better than only the super rich as there is only a limited demand of towaas |
| The most crucial aspect, due to the high price of the product only wealthy areas hold potential customers |

| **2. How important is the geographical proximity between suppliers of raw materials and the factory? How would you rate Brazilian compared to Europe?** |
| Brazil is the 5th largest cotton producer that gives a cost advantage over Portugal as they need to import everything |
| In Portugal, there are a lot of unemployed skilled workers -- easy to find "good" employees
  - Brazilian, on the other hand, has a low level education, new employees need to be trained a lot
  - Once they are trained and skilled they stay for a long time (often up to retirement) in the same company
  - Europe has a lot higher turnover rates in terms of employees |
| Nevertheless their production is outsourced, the company thinks the proximity between raw materials and factory is important |

| **3. How difficult is access to qualified human resources in Brazil compared to Europe?** |
| The European market is much more sophisticated than the Brazilian's customers know what they want and have a very good understanding of the prices |
| - Therefore, it is also more complex as you need to deliver the right products to the specific markets |
| Not relevant for the company but is believed to be harder in Brazil than Europe |

| **4. How do you compare the level of sophistication of the customers in the international markets compared to the domestic?** |
| The European market is much more sophisticated than the Brazilian's customers know what they want and have a very good understanding of the prices |
| The level of sophistication of the domestic market is believed to be less than in the international market due to the economic crisis and its consequences |
5. How competitive is your portfolio within international markets in relation to local competitors? (e.g., price and quality)

<table>
<thead>
<tr>
<th>Very competitive portfolio</th>
<th>The product portfolio is considered to be very competitive due to very high quality and a unique design</th>
</tr>
</thead>
<tbody>
<tr>
<td>- this is supported by the fact that the company only accounts for 5% of the production, but 25% of the exports</td>
<td>- very, high ratio of quality and price</td>
</tr>
<tr>
<td>- very high ratio of quality and price</td>
<td>- The size of the European market is comparably small, when looking at the toweling sector especially since their product is a pure beach towel</td>
</tr>
<tr>
<td>- The product portfolio is considered to be very competitive due to very high quality and a unique design</td>
<td>- The Brazilian market size is also not the most attractive as the targeted customer group is small due to economic situation and lower per capita income</td>
</tr>
</tbody>
</table>

6. How important is the economical size/capability of the Brazilian and European market? What are the main differences?

<table>
<thead>
<tr>
<th>The total market size of Europe is much bigger than Brazil, but it has to be differentiated and then it comes much closer to the Brazilian size</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Italy, for example is so specific and small that it is not worth moving into the market</td>
</tr>
<tr>
<td>- The size of the European market is comparably small, when looking at the toweling sector especially since their product is a pure beach towel</td>
</tr>
<tr>
<td>- The Brazilian market size is also not the most attractive as the targeted customer group is small due to economic situation and lower per capita income</td>
</tr>
</tbody>
</table>

7. To what extent do exchange rates economically affect your international business? How do you rate BRL to EUR?

<table>
<thead>
<tr>
<th>The entire industry in Brazil is affected by their unstable currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>- the currency is one of the reasons why the company is only maintaining its international market share and does not expand</td>
</tr>
<tr>
<td>On a scale of 1 to 10 (10 being &quot;very stable currency&quot;) the company voted as followed</td>
</tr>
<tr>
<td>+ BRL 4-5</td>
</tr>
<tr>
<td>+ EUR 8 (due to the recent events regarding the European financial crisis)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Euro is considered to be a relatively stable currency, whereas the Brazilian Real is considered to be unpredictable and bad for making business</th>
</tr>
</thead>
<tbody>
<tr>
<td>On a scale of 1 to 10 (10 being &quot;very stable currency&quot;) the company voted as followed</td>
</tr>
<tr>
<td>+ BRL 2</td>
</tr>
<tr>
<td>+ EUR 8</td>
</tr>
</tbody>
</table>
10. Bibliography


