

Master Thesis

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from the
Degree Programmes
International Marketing & Sales Management
of CAMPUS 02 University of Applied Sciences**

**Concept for the market entry for the United Kingdom
on the example of Robustico**

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Graz, May 13th, 2018

Declaration of authenticity

I hereby certify that I have written the present thesis independently and without help from any third parties. I have not used any sources other than those, which are clearly indicated and have duly provided details of sources of direct and indirect quotations.

The present piece of work and parts thereof have to date not been presented to this or any other examination board in the same or similar form, nor have they been published. The present version is the same as the electronic version submitted.

Graz, 2018-05-13

.....
Sabrina, Steiner

Principle of equality

For readability purposes, gender-specific formulations have not been used in the present piece of work. It is, however, hereby expressly stated that when the masculine form is used to denote people, both sexes are being referred to.

Summary

The Baumschule Steiner GmbH is a family owned nursery situated in Hochburg-Ach in Upper Austria. The nursery was founded in 1989. From the beginning they focused on a production of high quality plants. The company has been exporting for over 25 years and has now an export quote of 18%.

Today the family cultivates hedge and heath plants on six hectares. For a successful future they know that it is important to stay innovative and curious. Hermann Steiner, the chief executive officer, is constantly looking for new opportunities to generate sustainable growth. The latest product extension, the *ilex crenata* Robustico, has been successfully launched to the Austrian market. Based on this, the company wants to introduce this box substitute to the United Kingdom.

The aim of this master thesis is to support the Austrian nursery in its internationalisation process. This thesis provides a concept to enter the horticultural market of the United Kingdom successfully.

The main aspects of the theoretical section are the market entry as a small and medium sized enterprise, the selection of the entry mode, and the communication during the market entry. First, the characteristics of a small and medium sized enterprise during their internationalisation are determined. Based on this, different market entry concepts are described and the most suitable market entry concept is selected. Ultimately, a closer look is taken at the entry mode decision as well as the designing of the global marketing programme with the focus on communication.

To gain further information, a secondary and a primary research were conducted in the practical part. During the primary research eight experts in the field of internationalisation, as well as seven experts in the field of the horticultural industry in the United Kingdom were interviewed. The findings of the secondary research and the opinion of the experts were combined for the market entry concept of Baumschule Steiner GmbH. It consists of recommendations on the selected entry mode, recommendations on the communication, and an action plan.

The last part of this master thesis contains further recommendations on the marketing mix, as well as on the implementation.

Abstract

Die Baumschule Steiner GmbH ist ein Familienunternehmen mit Sitz in Hochburg-Ach in Oberösterreich. Die Baumschule wurde im Jahr 1989 gegründet. Von Beginn an lag der Fokus auf der Produktion von qualitativ hochwertigen Pflanzen. Das Unternehmen exportiert seit mehr als 25 Jahren und hat aktuell eine Exportquote von 18%.

Die Familie kultiviert Hecken- und Moorbeetpflanzen auf einer Fläche von sechs Hektar. Um auch in Zukunft erfolgreich zu sein, wissen sie, wie wichtig es ist, stets innovativ und offen für Neues zu sein. Hermann Steiner, der Geschäftsführer, ist ständig auf der Suche nach neuen Möglichkeiten das Unternehmen nachhaltig wachsen zu lassen. Die letzte Produkterweiterung, der Ilex crenata Robustico wurde erfolgreich in den österreichischen Markt eingeführt. Dem zu Grunde liegt die Motivation diesen Buchsersatz auch im Vereinigten Königreich anzubieten.

Das Ziel der Masterarbeit ist es, die österreichische Baumschule in ihrem Internationalisierungs-Prozess zu unterstützen. Die Arbeit beinhaltet ein Konzept für den erfolgreichen Markteintritt in den Gartenmarkt im Vereinigten Königreich.

Die Hauptgesichtspunkte des Theorieteils sind der Markteintritt eines klein- und mittelständisches Unternehmens, die Auswahl des Markteintrittsmodus sowie der Kommunikation während des Markteintrittes. Zuerst wurden die Besonderheiten des Markteintrittes eines klein- und mittelständischen Unternehmens herausgehoben. Auf Basis dessen wurden unterschiedliche Konzepte für den Markteintritt beschrieben und das vielversprechendste Konzept wurde bestimmt. Als letzter Schritt wurde die internationale Marketingkommunikation genauer durchleuchtet.

Um weitere Informationen zu gewinnen, wurden im praktischen Teil der Arbeit eine sekundäre und eine primäre Marktforschung durchgeführt. Während der primären Marktforschung wurden acht Interviews mit Experten im Bereich Internationalisierung, sowie sieben Interviews mit Experten im Bereich Gartenbaumarkt im Vereinigten Königreich durchgeführt. Die Ergebnisse der sekundären und der primären Marktforschung wurden zusammengeführt und das

Markteintrittskonzept für die Baumschule Steiner GmbH wurde erstellt. Dieses Konzept enthält Empfehlungen über den gewählten Eintrittsmodus, Empfehlungen zur Kommunikation sowie einen Aktionsplan. Der letzte Teil dieser Masterarbeit enthält weiterführende Empfehlungen zum Marketingmix sowie zur Implementierung.

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List of abbreviations

AIC = actual individual consumption

BERI = business environment risk intelligence

B2B = business-to-business

B2C = business-to-customer

C = contribution margin

FDI = foreign direct investment

GDP = gross domestic product

HTA = Horticultural Trade Association

LSE = large-scale enterprises

KPI = key performing indicators

P = direct allocable revenue

PLC = product life cycle

R&D = research and development

RHS = Royal Horticultural Society

ROI = return on investment

SME = small- and medium-sized enterprises

UK = United Kingdom

USP = unique selling position

V = direct allocable variable costs

WTO = World Trade Organisation

1 Introduction

1.1 Initial situation

Baumschule Steiner GmbH is a nursery and retailer for outdoor plants that mainly sells plants of its own production. In the 2015/2016 financial year, it had a turnover of 2,300,000 euros. Its highest export rate is to Germany.

Since 2013 the company has been cultivating the *Ilex crenata Robustico* a plant known as a substitute for box trees. The Robustico was introduced in Austria in 2016 and Germany in 2017. Since the box is endangered because of the box tree moth, the demand for Robustico is constantly increasing. From July 2016 to June 2017, the total revenue from Robustico was 182,000 euros.

Whereas the box tree moth is already widespread in Austria, it is only found in a few areas of the United Kingdom (UK) but is spreading there too (cf. Centre for Agriculture and Biosciences International). This is one reason Baumschule Steiner GmbH wants to enter the market in UK, although entry into a new market can result in high investment costs. The company excludes foreign direct investment (FDI) as a possible entry mode for two reasons. First, the company invests in its production in Austria, so there is a lack of resources for FDI in another country. Second, FDI is the entry mode with the highest potential risk (cf. Root 1994, p. 124f).

Due to Brexit, the political situation is unsecure. If tariffs and nontariff barriers are introduced, exporting to the United Kingdom will be more expensive, and so will the products. Moreover, a loss of 1.3% to 2.6% in the average UK household income is predicted (cf. Dhingra, 2016).

During the last two years, the exchange rate between the euro and pound has been volatile, with the pound experiencing losses (cf. Bloomberg). A closer look at economic figures shows that UK has a lower gross domestic product (GDP) per capita than Austria, but the price level for actual individual consumption (AIC) is higher (cf. Eurostat).

The climate in the UK is very balmy with precipitation on many days. The temperatures have a mean daily maximum of 17°C and mean daily minimum of

0°C (cf. meteoblue AG). This is a good climate precondition for growing the Robustico.

1.2 Challenge

Small- and medium-sized enterprises (SME) such as Baumschule Steiner are confronted with many challenges when they decide to expand internationally. For instance, it is more difficult to access critical capacities and resources than it is for larger companies. There are also administrative challenges when targeting international markets. (cf. Haase/Franco 2015)

To overcome these obstacles, a well-planned market entry is necessary. Business texts suggest many different concepts that can help a company structure its market entry. (cf. Hollensen 2011, p. 7)

After deciding whether to go international and which country to enter, the challenge is to choose the most appropriate entry mode (cf. Hollensen 2011, p. 7). There are three different categories of entry modes into a market: export entry modes, contractual entry modes, and investment entry modes (cf. Root 1994, p. 6). As mentioned in the initial situation, Baumschule Steiner has thus far only concentrated on export entry modes and contractual entry modes. For an analytical entry mode decision, several factors must be identified and evaluated (cf. Root 1994, p. 8ff).

The entry mode has an impact on the entire marketing programme. Depending on the entry mode, a different marketing mix must be designed (cf. Albaum/Duerr 2011, p. 392–418). This thesis highlights the international communication concept, with a focus on B2B communications.

Due to shorter product life cycles (PLCs) and higher price pressure in B2B markets, the importance of B2B communication is rising. Challenges in this area include that there is more than one person involved in the buying process; a so-called buying centre makes the buying decision. Not only is identifying the target audience important, but the choice of the right B2B communication instruments is important too. (cf. Bruhn 2015, p. 337ff; cf. Fleiß/Johnston/Sichtmann 2015, p. 171–174)

1.3 Objectives

This section takes a closer look at the company's targets. Furthermore, the thesis objectives are discussed, and non-objectives are mentioned.

1.3.1 *Company objectives*

The revenue from the product Robustico must be 3,000,000 euros in 2021. Twenty-five percent of the revenue should be achieved with existing customers and 75% with new customers in Europe. This target leads to the overall objective for the new market: the revenue from Robustico through export to the UK must be 300,000 Euros by 2019.

1.3.2 *Thesis objectives*

The aim of this thesis is to develop a market entry concept for an SME into the UK horticultural market with a focus on market entry mode selection and communication, using the example of Baumschule Steiner GmbH with the product Robustico. To achieve this goal, the following questions are answered:

- What are the main market entry modes for Baumschule Steiner GmbH regarding the UK market?
- Which factors influence the market entry mode selection?
- What communication measures must be initiated for market entry?

1.3.3 *Non-objectives*

For a clear framework, non-objectives must be defined. These are:

- Execution of the concept
- Taking a closer look at product policy and price policy

1.4 Frame of References

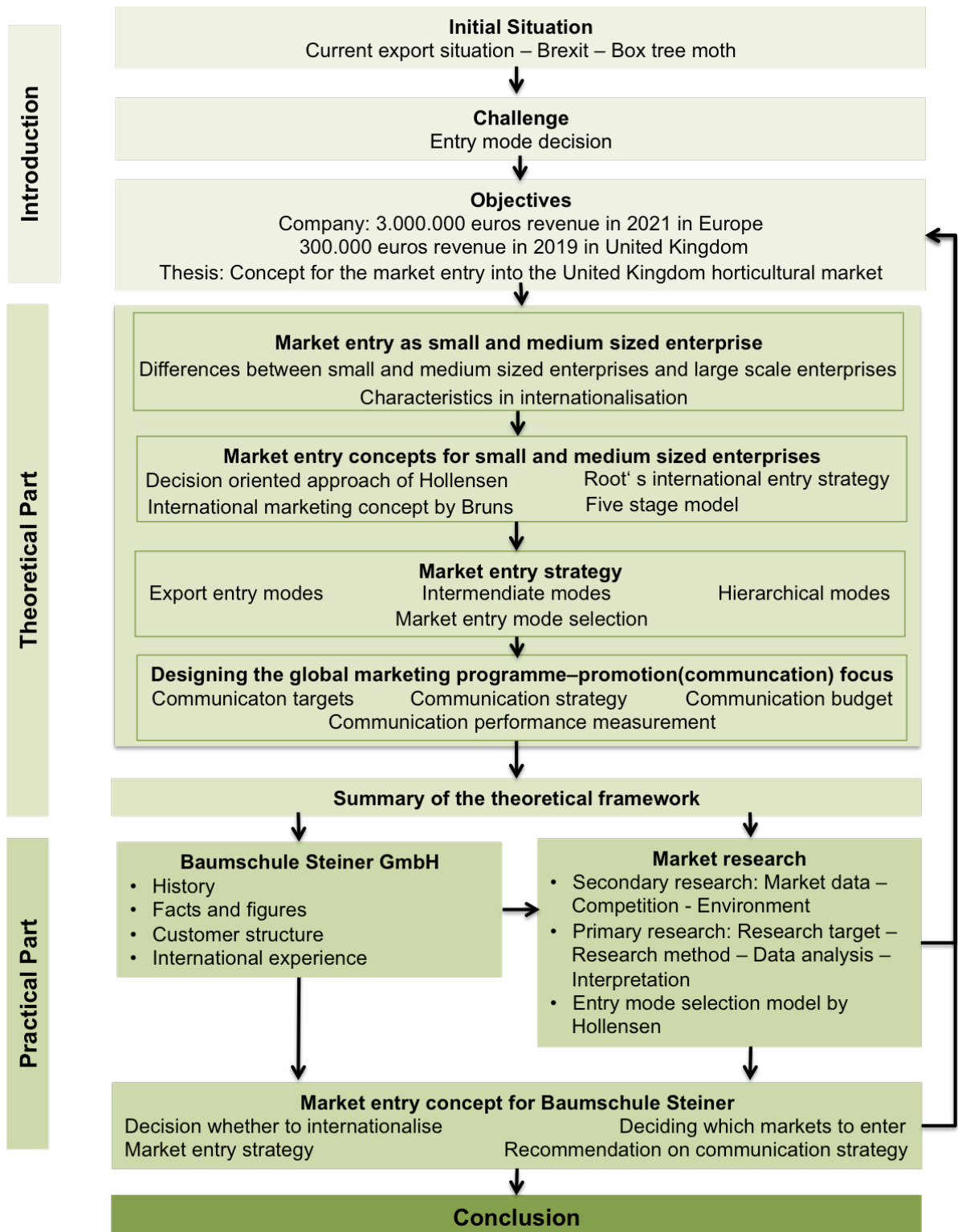


Figure 1: Frame of reference (own presentation)

2 Entering a new market as an SME

SMEs are a powerful and important part of the Austrian economy. They are defined as companies with fewer than 250 employees, a total revenue under 50 million euros, and total assets up to 43 million euros. In 2015 there were 327,500 SMEs in Austria. Altogether, they generated a revenue of 453 billion euros or 64% of the total economy. (cf. KMU Forschung)

2.1 Differences between SMEs and LSEs

SMEs and LSEs need to be managed in a different way. SMEs are not just smaller versions of LSEs; there are significant differences. In contrast to LSEs, in many cases, the owner of an SME leads the company. Such an individual can lack management competences, but the company has a certain dependency on this person. Moreover, SMEs exhibit less or no planning but have fewer possibilities to adjust from wrong decisions. Other differences between SMEs and LSEs are found in the organisation of the company. Whereas LSEs have a structure that is built up and adapted to specific fields of activities, SMEs are structured in a one-way system that is only manageable by a few people. However, SMEs are more flexible than LSEs. (cf. Pfohl 2013, p. 19)

SMEs have some drawbacks regarding resources in comparison to LSEs. The former have a limited equity base; therefore, they often lack resources. Furthermore, they have smaller personnel resources than LSEs, and the expertise of specialists is often missing. Another difference is that LSEs have better chances to utilise economies of scale due to their larger size. This leads to a competitive advantage because of their lower operating costs per unit. (cf. Hollensen 2017, 7 - 16)

A way for SMEs to face these drawbacks is to form strategic alliances to overcome their disadvantages and gain access to resources and the knowledge needed (cf. Haase/Franco 2015).

2.2 Internationalisation of SMEs

In general, there are two ways of being international: on one hand, there is the start of activities in foreign markets, and on the other hand, internationalisation is

seen as a process. This process is more detailed and needs much more information than just starting activities in foreign markets. (cf. Bamberger/Wrona 2013, p. 414 - 421)

The reasons that SMEs start international businesses are the same as for other companies. These reasons for internationalisation can be grouped into categories such as environmental factors, targets, internal elements, and personality characteristics. Environmental factors are, for example, competitiveness and access to procurement and seller markets. The personality characteristics of the CEO of an SME have an influence on internationalisation too; CEOs of exporting companies display higher degrees of aggression, dynamism, flexibility, creativity, innovation, and self-confidence than CEOs of non-exporting enterprises. (cf. Bamberger/Wrona 2013, p. 414–417)

A study in Norway highlights the connection between internationalisation motives of SMEs and entry modes. If the motive of a company is to increase or protect its market share, then it is more likely to opt for an international joint venture or cross-border merger and acquisition than for a foreign wholly-owned subsidiary. In contrast, motives for using a wholly-owned subsidiary are, for example, access to natural resources or economies of scale. (cf. Nisar et al. 2012)

2.3 Entry mode decision of SMEs

A study of Musso und Francioni, in which they analysed 221 Italian SMEs, underlines that only 24.9% use a systematic approach when selecting an entry mode (cf. Musso/Francioni 2014, p. 306). The entry mode decision for an SME is linked to several external and internal factors, including its size. Smaller companies are more likely to choose low-control entry modes such as exporting or licensing. The same is true for the level of international experience. Moreover, if the company has an organisational culture as a sustainable competitive advantage, it is more likely to choose a high-control entry mode such as a wholly-owned or major-owned subsidiary. However, there is no connection between the country's risk and the selected entry mode or the cultural distinction between the host and home countries. (cf. Musso/Francioni 2009)

2.4 International business cooperation

Due to high demands for resources, internationalisation can be a big hurdle for SMEs. To overcome these obstacles, the company can rely on cooperation, a voluntary collaboration between independent legal and economic companies to increase performance. (cf. Mundschütz/Sternad 2013, p. 83)

Typical types of cooperation in international business are export associations. The partners manage the export tasks rotationally, or each partner is responsible for a certain part. Another possibility is an export cartel to generate a competitive advantage in a foreign market. This can be established through common prices or splitting distribution channels. However, it must be mentioned that cartels are illegal in many countries because they can lead to a distortion of competition. A third type of international cooperation is piggyback exporting, which is explained later in the section on indirect exports. (cf. Mundschütz/Sternad 2013, p. 90)

3 Market entry concepts for SMEs

In business literature, two terms often mentioned in combination with internationalisation are international marketing and international management. The word “international” should stress that there is a difference between this and national or domestic marketing. In the former, companies encounter different barriers, consumer behaviour, and competitors. Therefore, it is crucial for a company to analyse the different countries, decide which ones to enter, and adapt their activities accordingly. International management attends to the organisation of a company and the relationship to the environment in international markets. (cf. Bruns 2003, p. 26–31)

The question remains why companies internationalise, and there are of course different reasons. One is stagnation in the home market. Companies are looking for new selling markets outside the country. Another reason is to follow the customer; when key customers decide to enter a new country, this is an opportunity for the supplying company as well. (cf. Root 1994 p. 1ff)

Independent of these reasons, two different approaches exist when companies enter a foreign market (cf. Root 1994 p. 1ff). To begin with, there is the sales approach. It is short term with no systemic choice of the entry mode, and

promotion is mainly through personal selling or via a middleman. Next is the entry strategy approach, in which the market entry is long term to build a permanent market position. Therefore, a company must define an entry strategy to deal with questions about entry mode and international marketing mix. (cf. Root 1994 p. 5) The following is an introduction to prominent entry strategies.

3.1 State-of-the-art review—different market entry concepts

This section gives an overview of different market entry concepts. A more detailed explanation can be found in the appendix (cf. Appendix p. A-3 – A-6)

3.1.1 Five-stage model

The five-stage model is an iterative process which consists of the following stages: (1) corporate readiness, (2) portfolio analysis, (3) target market selection, (4) entry mode decision, (5) planning and implementation of the marketing mix. The advantage of this model is that one stage is never finished completely; new information gained in a later stage can change decisions made in earlier stages. Therefore, a company can always go back and change its strategy. (cf. Fuchs/Apfelthaler 2009 p. 270–275)



Figure 2: Five-stage model (cf. Fuchs/Apfelthaler 2009 p. 270)

3.1.2 International market entry strategy by Root

Many authors mention the international entry strategy by Root. Therefore, a brief overview is given. In his entry strategy, Root mentions the following elements: (1) choice of the target product/market, (2) the objectives and goals in the target

market, (3) the choice of entry mode, (4) the marketing plan, and (5) the control system (cf. Root 1994, p. 2ff).

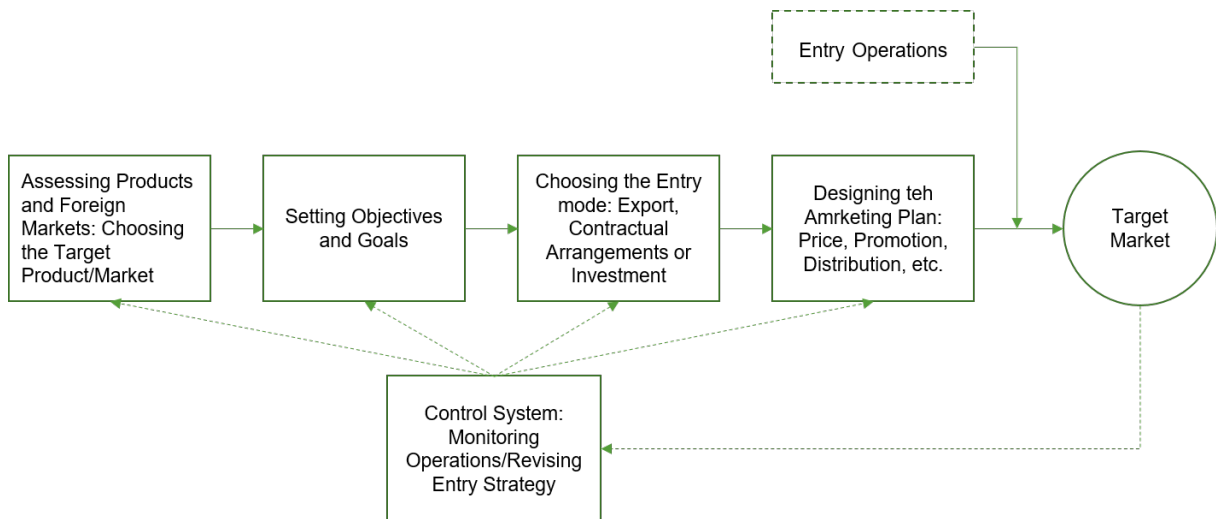


Figure 3: Elements of an international market entry strategy (cf. Root 1994, p. 4)

Root differentiates between a short-term sales approach and a long-term strategic approach to enter a new market. In a world with international competitors, he emphasises that a company cannot be successful with only a sales approach. (cf. Root 1994, p. 3–5)

3.1.3 International marketing concept by Bruns

This concept by Bruns starts with an analysis of international markets, meaning that a company must take a close look at the international frameworks, including risks. Afterwards, the potential markets are combined with internal conditions, which delivers a ranking of the markets. (cf. Bruns 2003, p. 71) The international marketing strategy consists of two parts: the market entry strategy and the market development strategy. First, the company must choose its entry mode, a decision influenced by the international management structure. Then the company creates its marketing mix. (cf. Bruns 2003, p. 91–95)

3.2 Decision-oriented approach of Hollensen

In this five-stage concept, every step is a decision, which a company must make when thinking of internationalisation (cf. Hollensen, 2017, p. 6f). The following figure shows the five stages.



Figure 4: Five-stage decision model in global marketing (cf. Hollensen 2017, p. 7)

This thesis focuses on the third stage, when a company decides on the right market entry mode. In general, there are three different rules about how to decide on an entry mode. The naïve rule means that a company considers only one entry mode, no matter which market it enters. The pragmatic rule dictates that a company first looks at the export perspectives of a target country. The third is the strategy rule, the most complex one, in which an entry mode is chosen for every single market to enter. (cf. Root 1994, p.159–161)

3.2.1 *The decision whether to internationalize*

The first stage deals with the general question of whether the company should internationalise. Motives and international competition have an influence on this decision. A company must possess a sense of global competitiveness to succeed in the international business environment.

3.2.1.1 *Motives for internationalisation*

Motives, triggers, and barriers drive this decision to internationalise (cf. Hollensen 2017, p. 56–72). In general, there are four motives for companies to do so: (1) selling more, (2) buying better, (3) upgrading, and (4) escaping (cf. Cuervo-Cazurra/Narula/Un 2015). Internationalisation triggers are defined as internal or external events taking place that initiate a step toward globalisation (Hollensen 2017, p. 65). Such an event can be the manager's awareness of opportunities abroad or the international demand for a company's product. Whereas motives

and triggers initiate internationalisation, barriers like insufficient finances or a lack of foreign market connection can hinder the move. (cf. Hollensen 2017, p. 65–71)

In addition, another phenomenon related to internationalisation is called born-global, a company that sells its products to international markets at or near its founding. These companies can be seen in almost every industry. (cf. Knight/Tage Koed/Servais 2017 p. 646ff) Similar to SMEs born-global firms have limited resources. Keys to their success are their flexibility and their innovative nature. (cf. Knight 2015, p. 4)

3.2.1.2 International competitiveness

A company possesses a competitive advantage when it can create value for its customers. Having lower prices than its competitors with equal benefits or having unique benefits can deliver a competitive advantage. (cf. Porter 1998, p. xxii) In an international environment, the such advantage depends not only on a company's competitiveness but also on the competitiveness of nations (cf. Hollensen 2017, p. 108), which is influenced by four components: factor conditions, demand conditions, relating and supporting industries, and structure of firms and rivalry. (cf. Rugman/Hodgetts 2000, p. 13) These are referred to as Porter's diamond:

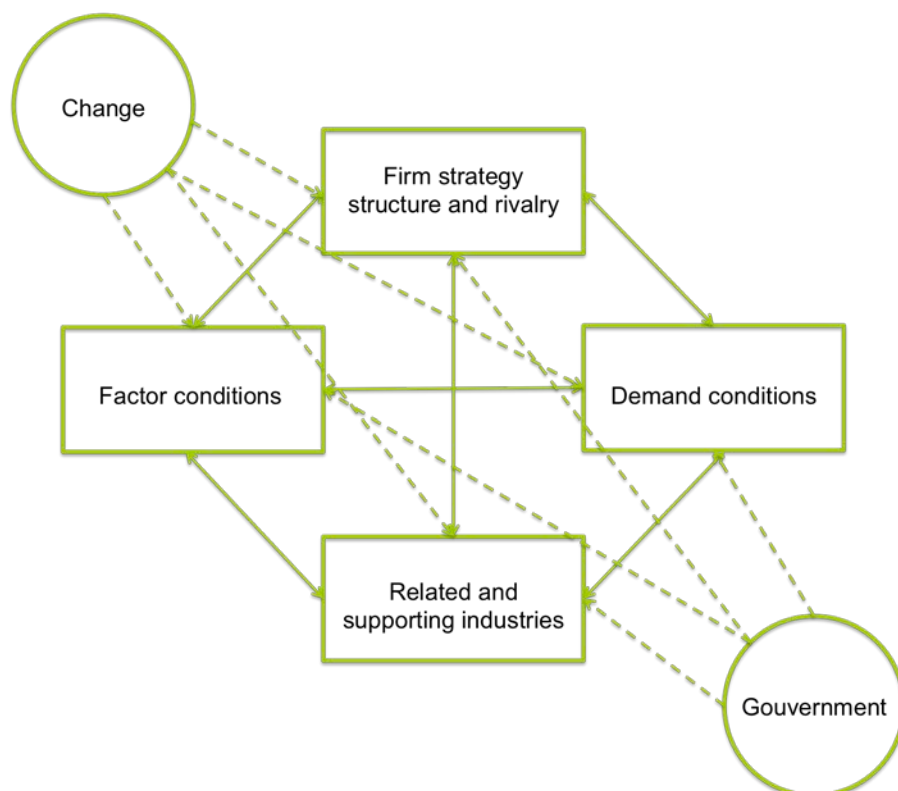


Figure 5: Porter's diamond (cf. Porter 1998, p. 136)

The determinate factor condition means that every nation possesses factors which are important for production. These factors are grouped into the categories of human resources, physical resources, knowledge resources, capital resources, and infrastructure. A company can create competitive advantage if the available factors enable it to produce with low costs or to produce products of outstanding quality. (cf. Porter 1998, p. 79–81)

The influence of the home market demand is reflected in the determined demand conditions. The home demand influences how companies interpret and respond to customers' needs. Buyers from the home market can force the company towards new innovations, which can create an international competitive advantage. (cf. Porter 1998, p. 91–92)

The presence of related and supporting industries can enhance the competitive advantage too. A high number of competitive supplier industries decreases the costs for supplier goods and enables production at a lower price. With the presence of related industries, companies can share activities such as transportation or research and development. (cf. Porter 1998, p. 107–112)

A nation's culture and history have a strong influence on companies' strategies and structures. A strong domestic rivalry can create an international competitive advantage. When the rivalry within the nation leads to innovation, firms can compete more successfully in the international marketplace. (cf. Porter 1998, p. 115–125) In addition to the four determinants, the government plays an important role in the development of industries. Governments deliver infrastructure, are responsible for education, and grant subventions, which affect the factors of production. Changes in national environments also influence competitiveness. A crisis in one nation can increase the competitiveness of another nation. (cf. Hollensen 2017, p. 112)

3.2.2 Deciding which markets to enter

The next stage is the decision of which markets to enter. This selection process has multiple steps, and the outcome of this process is segments in different countries or across countries. (cf. Hollensen, 2017 p. 282)

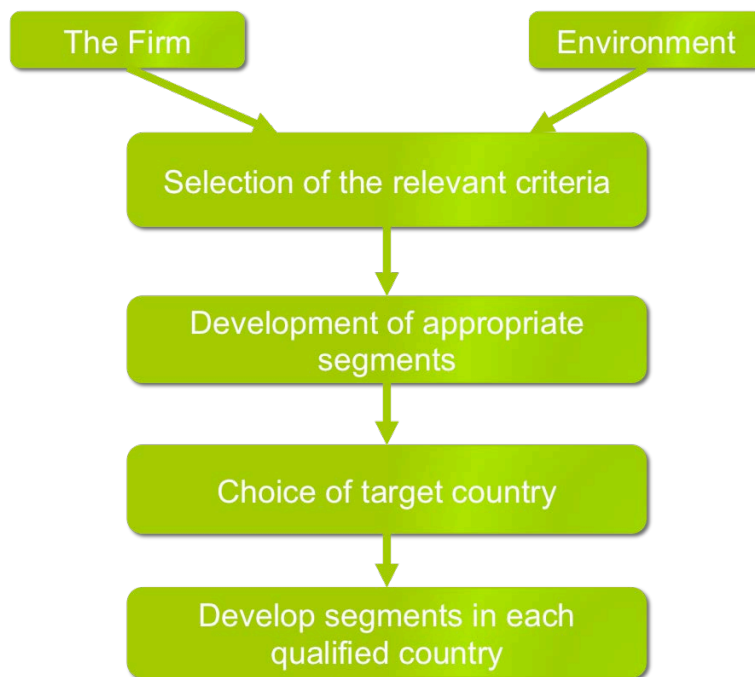


Figure 6: International market segmentation (cf. Hollensen 2017, p. 282)

3.2.2.1 *Defining criteria and developing segments*

The first two steps in this process are defining and grouping the criteria. To determine which market to enter, the PESTEL analysis consists of the six main indicators to analyse a country. (cf. Grünig/Morschett 2017, p. 86–87)

- Political environment
- Economic environment
- Sociocultural environment
- Technological environment
- Ecological environment
- Legal environment

This list of elements should be considered, but each consists of criteria that can be important for the country selection. For example, a criterion for the political environment is political stability. (cf. Grünig/Morschett 2017, p. 86–87) Political instability can lead to a loss of sales and, in some cases, destruction of property (cf. Wall/Minocha/Rees 2015, p. 122–126). To measure the political risk, a company can use the business environment risk intelligence (BERI) index (cf. Grünig/Morschett 2017, p. 89). Components of BERI are operations risk index, the political risk index, and the remittance and repatriation factor (cf. BERI S.A. 2018).

An ecological factor that is important to the horticultural industry is climate, which can be classified according to the Köppen-Geiger climate classification (cf. Kottek et al. 2006, p. 259ff).

3.2.2.2 Screening the segments

The next stage is screening the segments, which consists of two steps. The first step is the preliminary screening, during which knockout criteria can be defined to shorten the set of countries. Afterwards, during the fine-grained screening, the firm can consider its competitive power in the different markets. (cf. Hollensen 2017, p. 286–287)

3.2.2.3 Develop subsegments in each qualified country and across countries

Although the result of the screening is a geographic customer group segmented by country, the last step in the selection process is the subsegmentation. A company must be aware that this step could be difficult at this stage of the market entry process due to a lack of information. Furthermore, an inappropriate segmentation can have a negative influence on the marketing strategy. (cf. Hollensen 2017, p. 290)

The segmentation of customer and business markets does not differ in many ways. Besides geographic and demographic segments, business markets can also be segmented into operating characteristics, purchasing approaches, situational factors, and personal characteristics. Even in business markets, segmentation according to buying behaviour and benefits is possible. (cf. Kotler/Armstrong 2011, p. 198–199)

Underestimating the competition can lead to a failure of the whole market entry (cf. Albaum/Duerr 2011, p. 200). To be successful, a company must provide a greater customer value than its competitors. Therefore, a company must compare its own position with the competitors' positions. (cf. Kotler/Armstrong 2012, p. 68)

Political risks can also have a high impact on the success of a company. Trade barriers can force companies to choose alternative entry modes as joint ventures, which leads to a higher risk. Such barriers can be distinguished as tariff and

nontariff barriers. These are, for example, import quotas, embargos, or preferences for local companies. (cf. Sternad 2013, p. 46)

3.2.3 Market entry strategy

The market entry strategy stage deals with the selection of the entry mode: export entry mode, intermediate entry mode, and hierarchical mode. Furthermore, this stage includes the decision on international sourcing (cf. Hollensen 2017, p. 343ff). The market entry modes and the mode decision are explained in the chapter 4 Market entry strategy.

3.2.4 Designing a global marketing programme

When the company has decided which market to enter with which product and which entry mode to use, the next steps are:

- designing the international basic marketing strategy
- developing the international business area strategy

Both are based on the general strategic direction of a company. The international basic marketing strategy is the global strategy for all countries and deals with the question of standardisation or adaption. The international business unit strategy is the positioning strategy for a certain business unit and contains the dimensions strategy variation, strategy substance, strategy field, and strategy style. (cf. Berndt/Fantapié Altobelli/Sander 2016, p. 203)

When it comes to international marketing strategy, the company must confront the question, “Can we use the same strategy for all countries, or do we have to adapt?” Both standardisation (using the same strategy) and differentiation (adapting) have benefits. Standardisation has one big advantage in economies of scale of production. By using the same products in multiple markets, the company can lower costs. Furthermore, it can strengthen the brand if customers get the same quality all over the world. Nevertheless, when a company differentiates its products, it can react to local preferences or competition. In some cases, a company is forced to adapt due to legal requirements or technical standards. (cf. Grünig/Morschett 2017, p. 185–188)

The extreme positions—100% standardisation or 100% differentiation—will not be found in praxis. It is rather important to find the right degree of standardisation and

differentiation for each country. This is the so-called contingency approach. Factors such as the company, product, and country influence the degree of standardisation and differentiation. (cf. Schwarz-Musch 2013, p. 129–132) The degree of standardisation or adaption can be broken down into areas of the business unit strategy (cf. Berndt/Fantapié Altobelli/Sander 2016, p. 203–204).

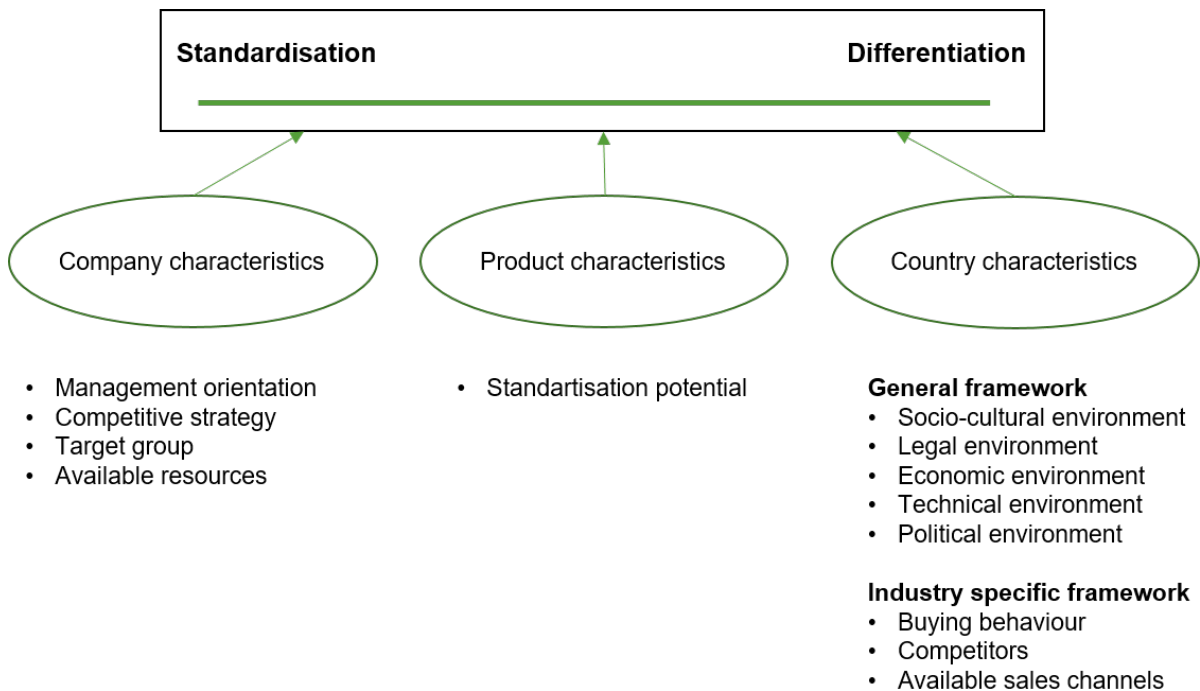


Figure 7: Factors influencing the degree of standardisation (cf. Schwarz-Musch 2013, p. 132)

The international business unit strategy defines the guideline for the development of the marketing mix. The strategy variation deals with the question of whether the existing position of the business unit in a market can be continued or must be changed. When a company changes its positioning too often, the customer cannot perceive the benefits. To determine strategy style, the company decides if it wants to be a market leader, market challenger, market follower, or market niche provider. (cf. Tomczak/Reinecke/Kuss 2018, p. 142–150)

For small companies with limited budgets, the market follower and market niche provider strategies are most suitable. The advantage of the follower strategy is that the follower can copy or improve on the leader's products and can learn from the latter's experience, saving on research and development costs and marketing. (cf. Kotler/Armstrong 2011, p. 542–544)

Serving a niche market means specialisation along products, customers, markets, or marketing mix lines. Therefore, companies can specialise in serving specific customers' needs or providing certain products. These companies can operate in one or more niches, but it is important that each niche selected is big enough to be profitable. (cf. Kotler/Armstrong 2011, p. 542–544)

Strategy substance refers to the benefits to customers and can be seen in the price/performance ratio. The company should have either better quality than its competitors or lower prices. The strategy field refers to the business activity and contains the definition of the market segments, resulting from the division of the market into homogenous buyer groups. (cf. Tomczak/Reinecke/Kuss 2018, p. 152–158) For proper segmentation, there must be a distinction between business-to-customer (B2C) and business-to-business (B2B) markets. In the B2C marketing, the buyers consist of people who consume the goods; in B2B retailing, the goods are bought to be resold. (cf. Kleinaltenkamp 2015, p. 129)

Moreover, the selected entry mode has an influence on segmentation as well. For a company that uses an export entry mode, a foreign-based distributor is a potential customer. (cf. Albaum/Duerr 2011, p. 473) However, if a company uses an intermediate entry mode like franchising, it is selling a business service to the franchisee. (cf. Hollensen 2017, p. 393)

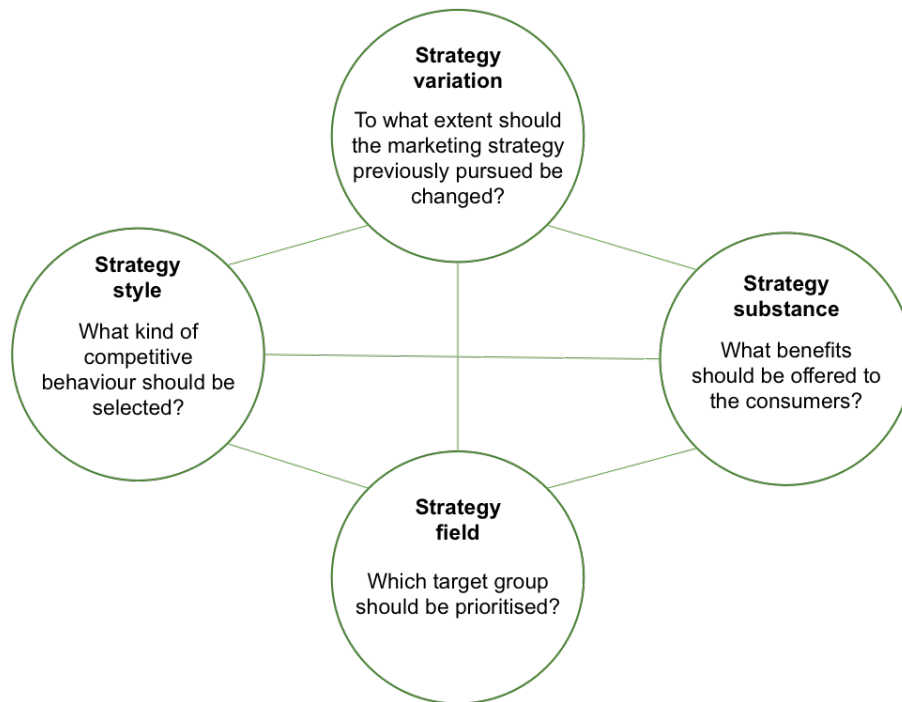


Figure 8: Elements of the positioning strategy on the business unit level (cf. Tomczak/Reinecke/Kuss 2018, p. 143)

Based on the segments, the company defines its marketing targets. It is essential that these targets are compatible with overall company goals. Moreover, the relationships between targets must be analysed, be in a hierarchical order, and be operationalised (cf. Bruhn 2016, p. 45–46), and a company’s definition of its position must be communicated to the customer. To achieve this, the company can use a marketing mix of product, price, place, and promotion, but all channels must reflect the selected position. (cf. Kotler/Armstrong 2012, p. 215)

3.2.4.1 International product policy

The first element on which an international marketing manager must decide is the product. One tool that supports a company in its decision-making is the product life cycle (PLC). A tool which consists of the development stages of a product. Depending on which stage a product is in, different strategies are used. It also must be noted that a specific product can be in different stages of the PLC in different countries. (cf. Hollensen 2017, p. 500–512)

Next, international promotion is closely related to product decision. Due to the product/communication mode, there can be differentiation among straight extension, product adaption, communication adaption, dual adaption, and product

invention. Straight extension, for example, means promoting a standardised product through standardised communication, such as a website. Furthermore, in this stage, the company also decides on positioning and branding. (cf. Hollensen 2017, p. 517–546)

3.2.4.2 International pricing policy

The only element of the marketing mix that directly generates revenue is pricing. Therefore, a company needs to pay special attention to its international pricing strategy, which is more complex than domestic pricing. Obvious factors influence price, such as exchange rates or inflation. But there are also product factors, including the PLC stage in the target country or market factors such as the nature of competition or the consumers' ability to pay, that influence price. (cf. Hollensen 2017, p. 559–563)

Companies can choose among several pricing strategies. A company that introduces a new product in a new market can decide on either a skimming strategy or a penetration strategy. Skimming means that the company launches the product at a high price; after a certain time or quantity of products sold, the company lowers the price. The risk of this strategy is when a company is not able to find enough buyers at the beginning who are willing to pay the higher price. The opposite is the penetration strategy, whereby the company offers the product at a low initial price. High quantity should balance the low margin. This strategy should keep competitors away. In the long run, the company can maintain the price level, raise it, or even lower it. The risk of this strategy is a negative contribution margin. (cf. Hollensen 2017, p. 563–566; Bruns 2003, p.199–202)

If there are already similar products in the target market, the company can set the price close to its competitors'. By using a retrograde calculation, the former can calculate its contribution margin. However, for market pricing, substantial knowledge of the market is needed. (cf. Hollensen 2017, p. 565)

3.2.4.3 International distribution policy

For distribution policy, managers find ways for the product to come to the customer. Therefore, decisions relating to structure and management of distribution, as well as logistics, must be made. As in so many cases, the choice of distribution channel depends on several factors. On one hand are external factors

like the characteristics and behaviour of the consumer, which can vary from country to country. The nature of the product, such as the size, influences transportation costs or the degree of service that a product demands. Additional factors are the nature of demand competition and legal regulations. (cf. Hollensen 2017, p. 598–600; cf. Berndt/Fantapié Altobelli/Sander 2016, p. 428–429)

The channel length is important when it comes to the structure of distribution; it consists of the number of intermediaries in the channel. Besides the length, the company decides whether to do a single-track distribution, having only one distributor, or a multitrack distribution. Another aspect is the amount of market coverage: intensive means covering a large area, while selective coverage results in the selection of intermediaries based on quantitative and qualitative criteria. The final approach is exclusive coverage, choosing only one intermediary in a market. (cf. Hollensen 2017, p. 501; Fuchs/Apfelthaler 2009, p. 400)

Furthermore, the degree of involvement on decisions plays an important role in the structure of the distribution channel. By using an intermediary mode, the company loses control. One possibility to gain more control is vertical integration. Forward integration is used, for example, if a manufacturer controls a business in the retail level of the channel. (cf. Hollensen 2017, p. 503–504)

The last P in the marketing mix is the promotion strategy, which is discussed in detail in the chapter 5 Designing the global marketing programme—promotion (communication) focus.

3.2.5 Implementing and coordinating the global marketing programme

The last stage of Hollensen's decision-oriented approach is implementing and coordinating the global marketing programme. In this stage, a company rethinks its existing structures. In some cases, a change in structure might be useful. Furthermore, a company must manage the knowledge transfer within the subsidiaries and to its partners. (cf. Hollensen 2017, p. 711)

Another important point is organising international budgeting and control (cf. Hollensen 2017, p. 711) because not only is the structure and knowledge transfer important, but the transfer of the goods is essential as well. For sustainable

success in a new market, a well-planned export process is crucial. (cf. Höfferer/Lenger/Sternad 2013, p. 173)

3.2.5.1 International organisational structure

By definition, an organisation is a target-oriented open system which has a formal structure and relationships to its environment (cf. Schulte-Zurhausen 2014, p. 1–2). Considering this, the following organisational structures are available for companies (cf. Hollensen 2017, p. 742–747):

- Functional structure
- International divisional structure
- Product divisional structure
- Geographical structure
- Matrix structure

Furthermore, these structures can be subdivided in differentiated and integrated structures. Differentiated structures separate the domestic and foreign activities. This is the case when a company uses the concept of international holdings or the international division structure. The holding is an independent part of the company, but the company has a significant long-term investment. The holding exclusively performs the activities in the foreign market. The international division structure is an autonomous function in the hierarchy which is responsible for foreign activities. (cf. Macharzina/Wolf 2010, p. 976–977) The international division strategy fits companies where international sales are still insignificant compared to domestic sales (cf. Hollensen 2017, p. 743).

The integrated structure does not divide domestic and foreign areas; the heads of each department are responsible for both. Functional, product divisional, geographical, and matrix structures are integrated structures. (cf. Macharzina/Wolf 2010, p. 976–979) It is called a functional structure when the second level of the hierarchy is divided by functions (e.g. production, marketing, and so on). Companies which have only one product or a homogenous programme frequently use this type of structure. (cf. Schreyögg 2012, p. 29)

The product divisional structure divides the organisation into product divisions. For this structure, a company needs products with the potential for worldwide standardisation, wherein every product division is split into its function. In the

geographical structure, divisions are separated into regions such as Europe, North America, and Latin America. In this structure, the next level is the country subsidiary, which is divided into functions. The advantage of the geographical structure is that a company can respond quickly to changes in the environment and market demand.

A combination of the product division structure and the geographical structure is called the matrix structure. It is two-dimensional, with a product dimension and a regional dimension. The dimensions overlap at the affiliate level, where the local decision-making and planning processes occur. The matrix structure combines the advantages of the geographical structure with those of the product division structure. (cf. Hollensen 2017, p. 742–747)

3.2.5.2 International negotiation

The negotiation process is strongly influenced by culture. During negotiations, two or more parties come together and discuss a topic. This process consists of two parts; the nontask-related interaction and the task-related interaction. The nontask-related interactions are relevant for establishing a relationship. The task-related interactions are important once the relationship is established. Activities in this stage of the process are the exchange of information, persuasion and bargaining strategy, concession making and agreement, and the negotiation outcome. Although the nontask-related interactions are of lower importance in this stage, they can still influence the outcome of the negotiation process. (cf. Hollensen 2017, p. 718–720)

3.2.5.3 International knowledge management

Other important factors in international business are knowledge management and learning across borders. Knowledge management means learning from experiences. (cf. Hollensen 2017, p. 729) Organisational learning is the transfer of knowledge between individuals and the organisation itself. The ability to create knowledge may bring a competitive advantage. One approach to this is through the interaction of tacit and explicit knowledge. An example is when someone learns from observation. (cf. King/Lawley 2013, p. 324–325) Furthermore, the usages of information and communication systems can increase knowledge generation. Systems like e-mail and conference calls enable employees to overcome great distances and facilitate knowledge transfer. Moreover, an

electronic database can bundle knowledge that is spread throughout the company and make it accessible to everyone accessible. (cf. Macharzina/Wolf 2010, p. 893–894)

3.2.5.4 International budgeting and controlling

Controlling consists of planning, controlling, and steering processes and should help the management make better decisions. It involves cooperation between management and the controller. The management makes the decision, whereas the controller is responsible for transparency and a critical view on decisions. (cf. Deimel/Heupel/Wiltinger, 2013, p. 16–17) Besides functional or product-oriented structures, the controlling can have a geographical structure, especially when companies possess foreign subsidiaries. (cf. Macharzina/Wolf 2010, p. 426–427)

Key performing indicators (KPI) support controlling and deliver information for better decision-making. A possible KPI is the contribution margin, which scales the contribution that a product brings to the overall success. The calculation of the contribution margin (C) is the direct allocable revenue (p) minus direct allocable variable costs (v) (cf. Meffert/Burmann/Kirchgeorg 2015, p. 816):

$$\mathbf{C = p - v}$$

Another common KPI is the return on investment (ROI). However, the ROI is a qualified KPI for a company with several business units (cf. Meffert/Burmann/Kirchgeorg 2015, p. 817–818).

$$\mathbf{ROI = (revenue - cost of goods sold)/cost of goods sold}$$

Budgeting is the process of establishing the financial resources. The budget as a monetary dimension does not define the actions which will be taken; this is done via the action plan. (cf. Rieg 2008, p. 14) However, the modern budgeting approach delivers a flexible solution to implementing actions and at what costs. The goal of modern budgeting is to design a planning process that is simple, flexible, and integrated. Furthermore, the budget should be orientated to the overall target, comprehend the supply chain to avoid a supply shortfall, and clearly communicate the aim. This modern budgeting approach enables companies to adopt a faster reaction to changes. (cf. Gleich et. al. 2013, p. 36–37)

3.3 Concept selection for this thesis

In the author's opinion, Hollensen's decision-oriented approach is a good illustration of the market entry process. It is easy to understand which steps must be taken when a company wants to internationalise. Furthermore, the concept starts with the decision about whether to internationalise. This shows that the concept takes a critical look at the company itself and if that company is ready to internationalise.

The first stage reviews the company's international competitiveness. The focus is clearly on the company itself and not on a single product which might be successful in the international competition.

Hollensen's approach responds to the specifics of SMEs. Every stage illuminates these custom elements and gives a course of action for SMEs.

Another way in which Hollensen's concept differs from others is its clustering of entry modes. Here, the connection to the processes within the company can be seen. The cluster relates to the degree of internalisation and externalisation and to the company's supplies chain, which will be explained in the chapter on market entry strategy.

To ensure the feasibility of this concept, the last stages deal with the structure and organisation of the company, taking into consideration that a company must build up new structures to continue internationalisation.

Altogether, the author holds the opinion that Hollensen's decision-oriented approach is very holistic, and, therefore, this concept has been selected for the example in this thesis.

4 Market entry strategy

This chapter takes a closer look at the three groups of market entry modes mentioned by Hollensen. Furthermore, the reader will get to know some approaches to market entry and factors that influence its selection.

It has been found that the general orientation of a company has a strong influence on its choice of entry mode. There are four different types of management orientation. In ethnocentric orientation, the focus is on the transaction of experience in the host country to the home country. The most common entry mode is export. Subsidiaries are coordinated by the headquarters seated in the home country. (cf. Bruns 2003, p. 92–93)

The second management option is polycentric orientation, whereby the management responds to cultural specifics and designs strategies for each target market. When these are grouped into homogeneous regions it is called region-centric orientation. Centralised headquarters make the decisions for the region. A geocentric orientation is the penetration of all target countries with the same standardised product. The company has lower costs due to economies of scale. (cf. Bruns 2003, p. 92–93)

4.1 Market entry mode

Market entry modes are the necessary organisation for the entry of a product, type of technology, and human and financial capital into a foreign market (cf. Albaum/Duerr 2011, p. 401). Entry modes have different degrees of control, risk, and flexibility and can be expressed through export modes, intermediate modes, and hierarchical modes. As shown in the following figure, by using a hierarchical entry mode, a company performs the services within the same company. Therefore, a company has a high level of control but also a high risk factor and low flexibility. In contrast, if a company enters a market with an export mode, it outsources services. In this case, the company possess a lower level of control over the entry mode but is more flexible and has a lower risk. (cf. Hollensen 2017, p. 344)

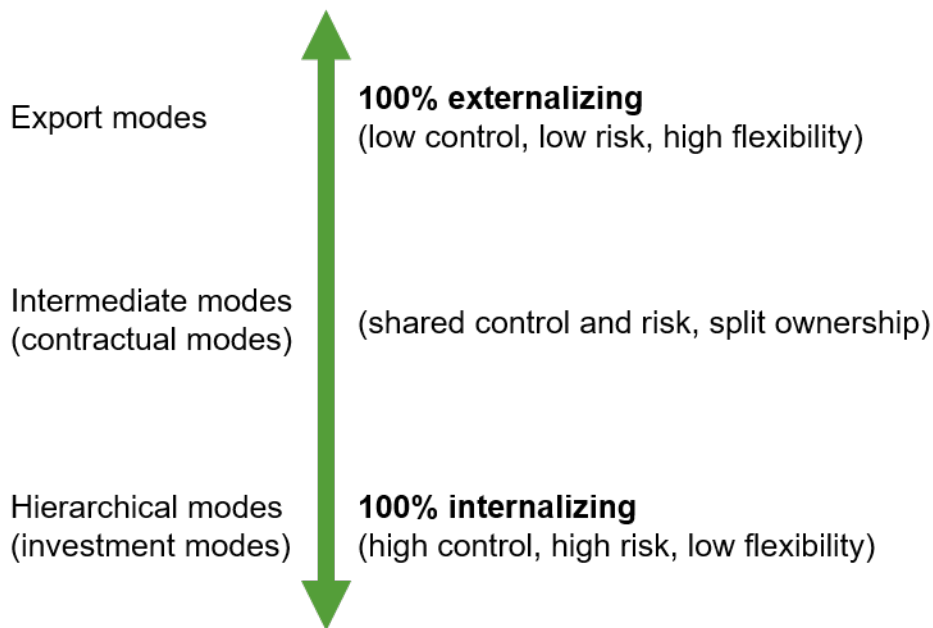


Figure 9: Classification of entry modes (cf. Hollensen 2017, p. 345)

4.1.1 Export entry mode

Exporting means that a product is produced outside of the target country and is subsequently transferred to it. This can be done by a middleman, or a company can transfer its goods directly to the customer. (cf. Root 1994, p. 7) There are two different classifications of export modes: direct and indirect. Indirect export means using an independent export organisation located in the home country. Direct export means that a manufacturer sells directly to a buyer or an importer in the foreign market. (cf. Albaum/Duerr 2011, p. 444–463) The following figure shows a value chain perspective of the export entry modes, including the transfer of responsibility to the intermediary.

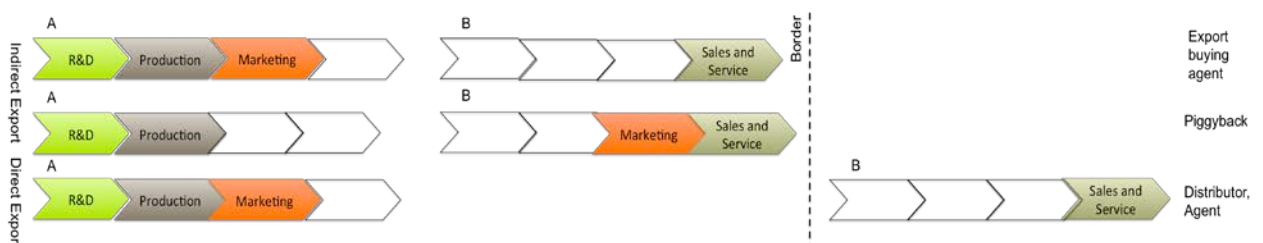


Figure 9: Export entry mode on a value chain perspective (cf. Hollensen 2017, p. 367)

4.1.1.1 Indirect export

Indirect export means selling to a domestic intermediary. Therefore, sales from indirect exports are handled in the same way as domestic sales. The company does not design its own marketing strategy for the target country; it is done by proxy. (cf. Hollensen 2017, p. 372) The first example of an intermediary is the export buying agent (export commission house), a representative of buyers from the host country located in the export company's home country. The export buying agent is hired by a company in the host country which pays a commission for its services. The foreign company directs the conditions under which the export buying agent can offer to purchase. The advantages for the exporting company are the uncomplicated process and the fast payment. In addition, the transportation of goods is done by the export buying agent. The downside of using this indirect export mode is the low level of control over the marketing. (cf. Albaum/Duerr 2011, p.452)

Another possibility for indirect export is an export/import broker that connects buyers with sellers. For his service, the broker receives a fee, which is paid by the buyer. In most cases a broker is a specialist in just a few products or classes of products. (cf. Albaum/Duerr 2011, p. 453–454)

The export management company interacts with the buyer in the name of the manufacturer, so the former can be classified as an external export department of a company. By combining products from different vendors, export costs can be decreased. The advantages for exporting companies are the knowhow of the export management company and its engagement with the market and the know-how. (cf. Sternad 2013, p. 68)

The next possible intermediary to do indirect exporting is the trading company. Trading companies are mainly important in Africa and the Far East. In addition to their import/export activities, they offer other services, including financial. The last type of indirect exporting is piggybacking. The company which wants to start exporting (rider) adheres itself to a company that already operates in the target market (carrier). The carrier acts as an agent and receives a fee. Although indirect exporting can be done with little effort, the sales and the global marketing

knowhow gained are limited. (cf. Albaum/Duerr 2011, p.444–461; cf. Hollensen 2017, p. 366–372)

The main advantages of indirect exporting are related to the limited market and the political risk, and there is no export experience required. Disadvantages include the low level of control over the marketing mix elements, and there can be higher costs due to an additional intermediary. Moreover, the experience and knowledge of selling are limited. (cf. Hollensen 2017, p. 381)

Due to the wide range of intermediaries and their high degree of control over the export mode, companies must select carefully. The following sources help companies find potential intermediaries (Hollensen 2017, p. 378; cf. Fuchs/Apfelthaler 2009, p. 325–326):

- Asking potential customers to suggest a suitable agent
- Obtaining recommendations from institutions such as trade associations, chambers of commerce, and government trade departments
- Using commercial agencies
- Poaching a competitor's agent
- Advertising in suitable trade papers
- Attending international trade fairs

After identifying potential intermediaries, the company starts negotiations and can use a profile of requirements to ensure that the intermediary meets the organisation's needs. (cf. Fuchs/Apfelthaler 2009, p. 326) Afterwards, a contract with all relevant aspects is drawn up. The three most important aspects of the contract are the general provisions, rights and obligations of the manufacturer, and rights of the distributor. When all the formalities are established and the business starts running, the company should monitor the performance of its international distribution partner. A helpful tool for evaluation is the international partner matrix, which monitors country attractiveness and partner performance are monitored. (cf. Hollensen 2017, p. 358–378)

4.1.1.2 Direct export

Direct export means that a manufacturer sells directly to a buyer or an importer in the foreign market. This requires more information and is linked to higher costs than indirect export. In the target country, the company can use either an agent or a distributor to sell its products. (cf. Root 1994, p. 57) When a company uses

intermediaries such as agents or distributors, the length of the marketing channel increases, as can be seen in the following figure. These intermediaries fulfil several functions like spreading persuasive communications about the item, shaping the offer to the buyers' needs, or transporting and storing the goods. The exporting company finds the balance between lower internal marketing costs and higher prices due to more intermediaries. (cf. Kotler/Armstrong 2012, p. 342–344)

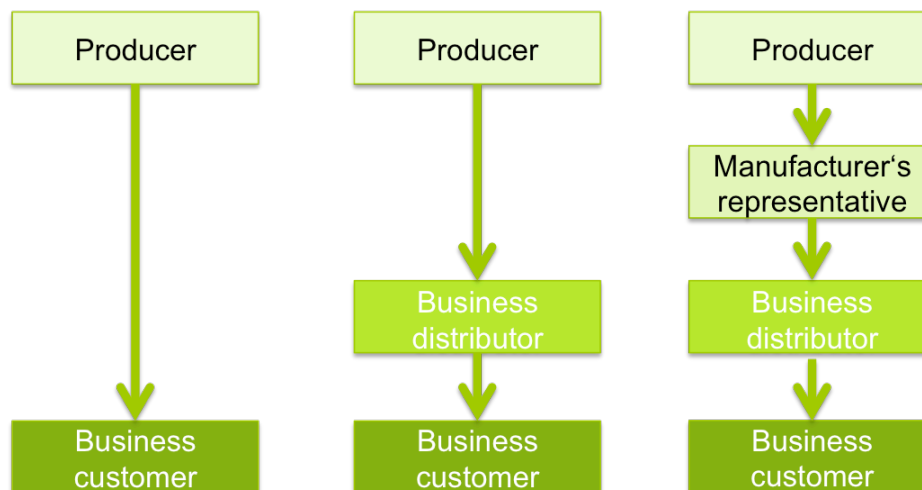


Figure 10: Business marketing channels (cf. Kotler/Armstrong 2012, p. 343)

When taking a closer look at possible intermediaries, differences can be seen. A distributor is an independent company which chooses its own customers and sets its own conditions of sale. The distributor's earnings come from the profit margin. Consequently, the distributor can be defined as a customer. From the distributor's point of view, quality issues with the products can be a big problem and recalls due to poor quality caused by the manufacturer can induce high costs. In contrast, an agent represents the company in the export country and acts on its behalf, receiving a commission based on the service offered. (cf. Albaum/Duerr 2011, p.473–477; cf. Hollensen 2017, p. 372–373)

Advantages of using agents or distributors are that the company has a partner that is closer to the market and therefore has access to local market experience, market knowledge, and potential customers. Although export entry modes provide a low level of control, the manufacturer has a higher level of control over the marketing mix compared to indirect export. Disadvantages in comparison to indirect export are that tariffs and higher costs due to cultural differences and

language barriers can have an influence on the price. When using distributors, the control over distribution is limited. (cf. Hollensen 2017, p. 381)

Besides advantages and disadvantages, there are risks involved in the export business. These include currency risks, political risks, and issues with transportation. To manage these threats, it is important to do a risk analysis upfront so that a company can recognize potential obstacles. The next step is an evaluation in which the risks will be prioritised and ranked. This enables the company to set up measures to reduce potential damage or minimise the probability of damage. (cf. Haber/Ogertschnig 2013, p. 285–290)

As in indirect export, for direct export via an intermediary, it is important to find a good agent or distributor. To select one, a distributor profile should be made listing the attributes that an intermediary should possess, such as trading areas covered, the size of a firm, aftersales, and servicing capability. The next step is to locate the prospective distributors; a first screening can be done via free available data, but the second screening is more detailed. This way, a company can ask the potential intermediary directly about its interests in handling a manufacturer's line and collect all personal contact information. After collecting all data, companies evaluate prospective intermediaries and choose a distributor or an agent. (cf. Root 1994, p. 63–66)

For selling companies using direct or indirect export modes, it is important to know the partner mindshare between the manufacturer and the intermediary. This is linked to the willingness of an intermediary to put one brand in front of another. Consequently, a company's product with a higher partner mindshare can achieve a higher sales performance. The mindshare is split into four drivers (Hollensen 2017, p. 366–367):

- Commitment and trust
- Collaboration
- Mutuality of interest and common purpose
- Attractiveness of the supplier's product

Collaboration is the willingness of a manufacturer to cooperate in sales or marketing, and the attractiveness of a product can be shown in the potential profit

that a company can gain by selling the item. This factor must be at least as attractive as with the competitors' products. (cf. Hollensen 2017, p. 367)

4.1.1.3 Export contract

The export contract is the guideline for all the rights and duties of the manufacturer and distributor. Besides providing this information, the contract is important when something goes wrong. The first part of the contract is the general provision which contains the parties' identification and the duration of the contract. Moreover, the contract clarifies exclusive rights or territories. The second part comprises the rights and obligations of the manufacturer regarding prices, conditions, and delivery of goods. The third section details the rights and obligations of the distributor. Important parts of this section are payment arrangements, the handling of competitors' lines, and the responsibility for aftersales service. (cf. Root 1994, p. 66–69) A contract clearly not only contains terms of manufacturing the product but also of the marketing, sales, service, and payment (cf. Hollensen, 2017, p. 389).

Due to the currency risk which automatically exists when a company exports to a country with a different monetary system, the payment date should be as near as possible to the date of the contract. Another possibility to reduce this risk is to define a fluctuation corridor. (cf. Haber/Ogertschnig 2013, p. 295) It is suggested that a legal advisor checks the contract before it is signed by the company (cf. Root 1994, p. 69).

4.1.1.4 Changing the export mode

From the point when the company decides to export to a country, an ongoing evaluation of the entry mode is needed. This can determine if another mode is more effective or efficient. The company has the option to change from indirect to direct exporting or vice versa. If it decides to do so, related costs must be considered such as compensation payments to the agents. Furthermore, there is the risk of losing customers if they have a strong connection to the agent. The company must also change its internal structure and integrate its employees into the sales processes. (cf. Backhaus/Budt/Lügger 2012, p. 455–456)

The change from direct to indirect exporting demands some modifications in the structure of the organisation to ensure that there is no image damage or

unsatisfied customers. Therefore, a well-planned organisation is crucial. Personal communication can help to avoid a loss of esteem. (cf. Backhaus/Budt/Lügger 2012, p. 457–458)

Another possibility is to keep both channels. This is a so-called hybrid sales strategy, and the challenges are almost the same as with the change of strategies above. (cf. Backhaus/Budt/Lügger 2012, p. 457–458)

4.1.2 Intermediate entry mode

A contractual or intermediate entry mode can be defined as one which transfers knowhow into a foreign country and not the physical product. This leads to a big advantage in that import barriers like tariffs and high transportation costs can be avoided, improving competitiveness. Another upside worth mentioning is that the contractual entry mode requires fewer resources because the production is outside the company. Especially for small companies with limited resources, this is a big advantage. But there are disadvantages too. One such risk is the threat of creating a future competitor in the new market or even the home market by transferring the knowhow to another company. (cf. Hollensen 2017, p. 386–389; cf. Root 1994, p. 85–88) As an introduction, the following figure shows the intermediary modes in a value chain perspective.

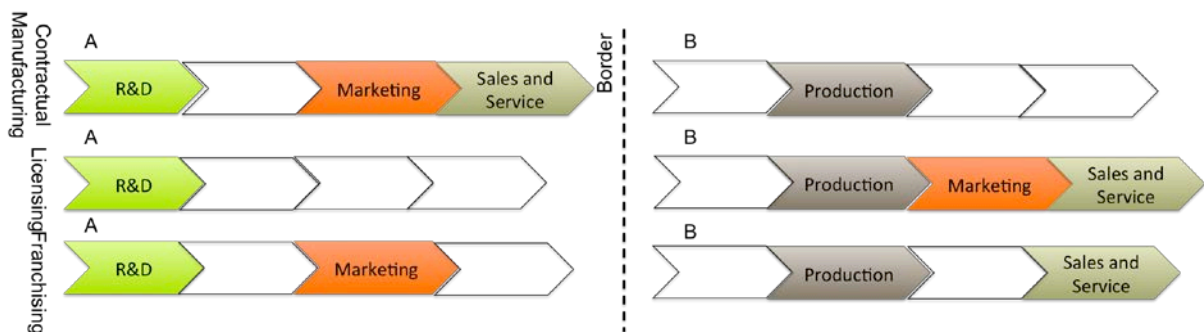


Figure 11: Intermediary entry modes in a value chain perspective (cf. Hollensen 2017, p. 389)

4.1.2.1 Contract manufacturing

In contract manufacturing, an international firm sources a product from an independent manufacturer in a foreign target country and subsequently markets it in the target country or elsewhere (Root 1994, p. 113). A contract regularises the payment—in general, a per unit basis—as well as important quality and specification requirements (cf. Hollensen 2017, p. 388). Contract manufacturing

has many advantages (cf. Albaum/Duerr 2011, p. 544; Hollensen 2017, p. 388–389; Root 1994, p. 113), including:

- Flexibility: Depending on the duration of the contract, the company can change manufacturers if it is unsatisfied with the quality.
- Control over marketing: The manufacturer only assembles the product. Marketing and sales stay in the company, which still has control over marketing and aftersales service. This protects the trademark.
- Minimum investment: It requires only a small amount of resources such as time and money.
- Local products: The products can be sold as local production, which some countries and governments require.
- Price stability: The entering company sets the sales price.

However, there are downsides too. The company loses control over the manufacturing process. Therefore, a manufacturer needs to meet the quality standards of the firm, and companies can struggle to find the right partner in the target country. (cf. Albaum/Duerr 2011, p. 544; Hollensen 2017, p. 388–389; Root 1994, p. 113)

4.1.2.2 Licencing

Licencing means that a licensor gives a licensee the right to use something the former owns. This could be technology, a brand name, a product, and so on. The licensee pays royalties or fees to the licensor. (cf. Albaum/Duerr 2011, p. 539–540) Before a company builds up a full licencing program, there are some things to consider. First of all, licencing revenues are not just additional profits; handling the licencing programme has costs. Therefore, a company should make a revenue forecast to see if licencing will be profitable. Moreover, the company must find the right positioning for its product and protect its licence. Using patents is not enough; the company must monitor the market and serve notice if someone acts illegally. (cf. Brandt 2012, p. 45–57) In the horticultural industry, companies can protect their cultivars with a plant patent. The condition for this is that it is a new cultivar which is different from others. This patent is valid for twenty-five years (cf. Bundesministerium für Digitalisierung und Wirtschaftsstandort, 2018).

Moreover, a company cannot start to acquire licensees until it has formulated a strategy. This determines the business areas, products, or services which fit the brand. The distribution channel should fit the product positioning and reach the target group. (cf. Brandt 2012, p. 57–71)

The number of licensed products is important too. For licensors with a rather short-term orientation, as might be the case for movie distribution, it could be useful to have as many products as possible on the market. The opposite is true if the company has a long-term orientation. In either case, for long-term success, it is necessary to obtain and maintain publicity, and a whole range of communication instruments is available. To ensure that the quality of the products lives up to the hype, certificates and standards can be created. (cf. Brandt 2012, p. 57–71)

Another important aspect is timing. When a licensor first considers extending its product range, one instrument to utilise for finding new licensees is special trade fairs. As for the timing of the product launch, for some brands, occasions like Christmas might be opportune (cf. Brandt 2012, p. 57–71).

Another important factor which must be considered in licensing is the payment. There are several terms of payment that a licensing agreement can contain. One is an initial payment made in the beginning for the transfer of machinery or knowledge. There can also be an annual percentage fee, which is the percentage of the revenue that the licensee pays the licensor. To secure a certain payment, the licensor can install an annual minimum. There are also additional fees for new plans or blueprints needed for licencing and marketing. (cf. Albaum/Duerr 2011, p. 539–540)

A style guide can help with licencing branding to ensure brand recognition and that the licensee will follow guidelines and implement them for consistency and standardisation (cf. Brandt 2012, p. 98–99).

Companies have several reasons for using licencing as a market entry mode. According to Hollensen (cf. Hollensen 2017, p. 391), the most important ones are:

- The licensor firm will remain technologically superior in its product development. It wants to concentrate on its core competences (product

development activities) and then outsource production and downstream activities to other firms.

- The licensor is too small to have financial managerial or marketing experience for overseas investment (own subsidiaries).
- The product is at the end of its PLC in more advanced countries because of obsolescent technology or model changes. A stretching of the total product life cycle is possible through licencing agreements in less developed countries.
- Even if direct royalty income is not high, margins on key components to the licensee (produced by the licensor) can be quite handsome.
- If government regulations restrict FDI or if political risks are high, licencing may be the only realistic entry mode.
- There may be constraints on imports into the licencing country (tariff or nontariff barriers).

4.1.2.3 Franchising

Another form of a contractual entry mode is franchising. Through a franchising contract, a legal independent franchisee gets the rights to use an established company or sales concept by paying a fee. (cf. Sternad 2013, p. 75) Franchising and licencing are often mixed up, but they differ in many ways. Whereas in licencing, the key elements are the product and the rights to it, franchising gives the right to use the total business model. There is also a difference in the experience of the business partners. Franchisees tend to be start-ups, whilst licensees are often well-established businesses. Furthermore, licencing contracts have a longer duration than franchising contracts. In terms of their independence to negotiate with customers, licensees have a high degree of freedom; in franchising, a standard fee structure is prescribed. (cf. Hollensen 2017, p. 395)

Advantages for the franchisor are a homogenous international market appearance and the possibility to use economies of scale through centralised procurement management and a decentralisation of obstacles in human resources. Disadvantages are the costly controlling of the network and the potential threat of reputational damage due to an untrustworthy franchisee. (cf. Sternad 2013, p. 75; cf. Bruns 2003, p. 103)

Benefits for the franchisee are a competitive advantage through business packages and a centralised procurement as well as an ongoing consulting and knowhow transfer. Disadvantages are that the franchisee gives up some autonomy by adhering to standardised practices of the franchisor. (cf. Bruns 2003, p. 103)

A British study that reviewed companies in the hospitality industry stressed the following criteria for partner selection named by the franchisor (Brookes/Altinay 2011, p. 343):

- Ability to retain control through ownership structure
- Perception of mutual value/risk
- Chemistry between individuals
- Similarity of organisation vision/goals/values
- Local expertise
- Reputation/credibility
- Credit worthiness

Additionally, the study researched the partner selection criteria of the franchisee. The following criteria are named by the participants (Brookes/Altinay 2011, p. 343), namely:

- Ability to retain control of portfolio
- Ability to retain identity
- Perception of mutual value/risk
- Chemistry between individuals
- Similarity of organisation values
- Similarity of organisation culture
- Resources to achieve objectives
- Reputation
- Perception of a fair deal

Knowing these criteria enables a better understanding of the decision-making process. The interaction between the two parties is important in establishing a cooperative environment and working in a partnership. To handle the complexities in an environment where the bargaining power of master franchisees is growing, it

is important to know the criteria used in the process of selection decision-making. (cf. Brookes/Altinay 2011, p. 344)

4.1.2.4 Joint venture/strategic alliances

Joint ventures or strategic alliances are collaborations between at least two independent companies. The difference between a joint venture and a strategic alliance is that the partners do not invest in the latter. Advantages in the forms of market knowledge and experience of the partner are strong reasons for participating in joint ventures, which also increase the speed of market entry. Some governments such as China or South Korea demand a local partner as a prerequisite to enter the country. (cf. Hollensen 2017, p. 398; Berndt/Fantapié Altobelli/Sander 2016, p.174–175)

Depending on which part of the value chain is affected, there are clear distinctions among upstream-based collaborations (in which the companies collaborate on research and development or production), downstream-based collaborations (in which the companies collaborate on marketing, distribution, sales, or service), and upstream/downstream-based collaborations (wherein the companies act in complementary parts of the value chain). It is important for companies to identify the value chain activities where they have core competences. (cf. Hollensen 2017, p. 399)

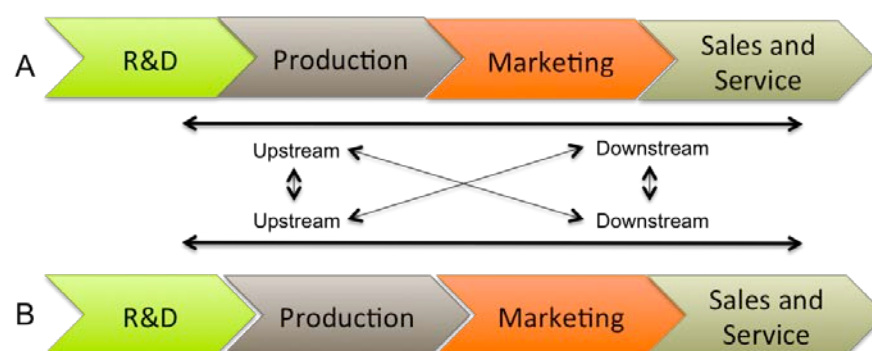


Figure 12: Collaboration possibilities for partners A and B in a value chain (cf. Hollensen 2017, p. 399)

Joint ventures and strategic alliances give companies access to technologies, knowhow, resources, and so on. Furthermore, the company has a lower risk because of the shared threat of failure and a lower political risk due to the existing relationships of its partner. However, cultural differences can lead to

misunderstandings in joint ventures, and there is a threat of loss of control over foreign operations. Therefore, it is important to keep a balance between cooperation and control. (cf. Hollensen 2017, p. 411; cf. Sternad 2013, p. 72–73)

4.1.3 Hierarchical entry mode

The third entry mode is hierarchical, whereby the company owns and controls 100% of the foreign entry mode. The subdivision of the hierarchical mode depends on which parts of the supply chain are transferred to the new market. (cf. Hollensen 2017, p. 421–422)

Using a hierarchical entry mode has many advantages for a company, such as lowering the cost of supply compared to an export entry mode and avoiding or reducing quotas and tariffs. Moreover, through a direct entry mode, the company has a higher influence on production; thus, the quality is more uniform than through licencing. (cf. Root 1994, p. 124)

A downside is that it requires higher investments than other modes (cf. Root 1994, p. 124). To be successful, a company needs to earn back these investments through ROIs (the net return of an investment divided by the costs) (cf. Kotler/Armstrong 2012, p. 57). The higher the costs, the higher the return that is needed.

The following figure shows the hierarchical entry mode in a value chain perspective and which partner is responsible for which step (cf. Hollensen 2017, p. 421):

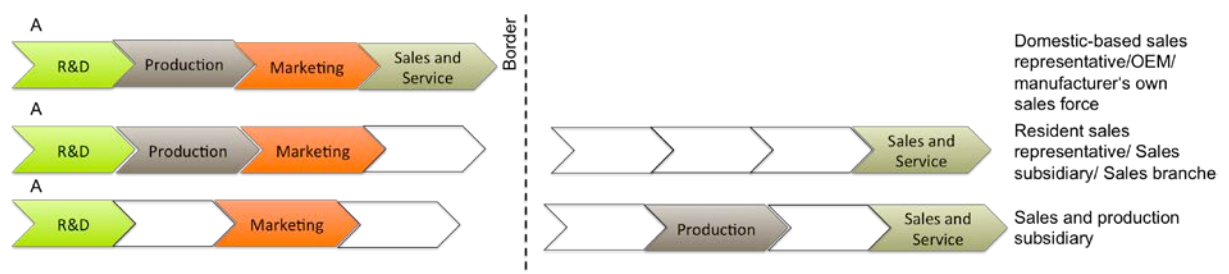


Figure 13: Hierarchical entry modes in a value chain perspective (cf. Hollensen 2017, p. 421)

4.1.3.1 Domestic-based sales representative

The domestic-based sales representative is an employee seated in the home country who travels to the target market to perform the sales function. One reason for this position within the hierarchical entry mode can be the lack of agents or distributors. It is most common in B2B markets with only a few customers. (cf. Hollensen 2017, p. 422)

4.1.3.2 Resident sales representative/foreign sales branch/ foreign sales subsidiary

If the company wants to go one step further than having a domestic-based sales representative, it can establish a resident sales representative, a foreign sales branch, or a foreign sales subsidiary. Especially when the product requires a lot of service, it is more efficient to have a resident sales representative. Another opportunity is the foreign sales branch, where salespeople are hired in the host country, but the taxation is still in the manufacturer's country. The last form is the foreign sales subsidiary to improve customer focus, take higher responsibility of the subunit, or gain tax advantages. (cf. Hollensen 2017, p. 423)

4.1.3.3 Sales and production subsidiary

The next step a company can take is to extend its sales subsidiary with an assembly operation called the sales and production subsidiary. With this, it is not necessary for the whole product to be produced in the host country; it can happen that only the last part of assembly takes place there. (cf. Hollensen 2017, p. 424–425)

There are many reasons for companies to build production plants in the host country. They get easier access to the sales market and can overcome import restrictions and lower labour or transportation costs. (cf. Bruns 2003, p. 116)

When a company wants to enter not only one country but a whole region, it can install a region centre, a local headquarters which coordinates all activities in a defined region. (cf. Hollensen 2017, p. 424–425)

4.1.3.4 Wholly-owned subsidiaries

Wholly-owned subsidiary can be divided into greenfield ventures and acquisitions. When a company acquires an existing company in a new market, there are three advantages. First, it is quick since the company buys the existing infrastructure. Second, via an acquisition, a company can outpace its competitors, which is important in rapidly globalising markets. Third, the company also gets to access information such as revenues or sales streams. But not every acquisition is successful, especially when cultural differences between companies can lead to the failure of the whole acquisition. This is one big advantage of a greenfield venture, whereby a company builds a completely new subsidiary from scratch and can steer the culture in a way that fits to the parents' core values. The decision between an acquisition or a greenfield venture depends on many circumstances and must be examined individually. (cf. Hill 2014, p. 459–465)

4.2 Market entry mode selection

It can be argued that none of the modes explained in the earlier section has a greater potential to be more successful, but the following approaches should help companies find the mode which is most suitable for its market entry. (cf. Fuchs/Apfelthaler 2009, p. 380) The following gives an overview of some of them.

4.2.1 Eclectic paradigm

The eclectic paradigm, also known as the ownership advantage, location advantage, and internationalisation advantage (OLI) paradigm, was developed by John Dunning. The ownership advantage refers to an edge that a company has in its target country. If none exists, the company should not enter the country. The internalisation advantage means that it is more beneficial for a company to act on its own rather than sell or lease parts of its production; if this is not the case, the company should use a contractual entry mode. Finally, a location advantage implies that it is more profitable to produce in the host country than the home country due to lower labour costs or special resources (including knowledge). One example is Silicon Valley, the home of the computer industry, where many big companies are located. Companies located in the Silicon Valley have easier access to resources like high-qualified staff, than companies in other regions. Without a location advantage, a company should choose an export entry mode. The original eclectic paradigm was developed in the 1980s and reworked by

Dunning at the beginning of this century. However, this mode, especially the issue of ownership advantage, has been questioned by critics. (cf. Sternad 2013, p. 76–77; cf. Eden/Dai 2010; Hill 2014, p. 233–234)

4.2.2 Transaction cost approach

Another approach to finding a profitable entry mode is called transaction cost. This compares all costs of a direct investment in the market with those that occur when the company uses its own production. The company chooses the alternative with the lowest transaction costs. (cf. Fuchs/Apfelthaler 2009, p. 380; cf. Berndt/Altobelli/Sander 2016, p. 188–189) These can be separated into ex ante costs, like those incurred through searching and contracting, and ex post costs such as those related to monitoring and enforcement. The equation (cf. Hollensen 2017, p. 91) is:

$$\textbf{Transaction costs = ex ante costs + ex post costs}$$

4.2.3 Market entry decision process by Root

This approach developed by Root has several steps. First, a company eliminates all entry modes which are not possible due to internal and external factors such as import restrictions. Then the company chooses the mode that maximises profit contributions. Therefore, three comparative analyses exist: (1) profit contribution analysis, (2) risk analysis, and (3) analysis of nonprofit objectives. The profit contribution analysis compares all costs and revenues that directly or indirectly result from using an entry mode. It is important to choose the right time horizon for this analysis because some entry modes need a longer timeframe before they are profitable. During risk analysis, the profits will be adjusted due to the political risk of the entry mode. Generally, an investment entry mode suffers higher risks than an export entry mode. The next step is to rank the entry modes according to their contributions to nonprofit objectives. The final stage is the overall assessment of the results and the manager's decision on an entry mode. (cf. Root 1994, p. 162–168)

4.2.4 Factors influencing the market entry decision

According to Fuchs and Apfelthaler, the significance of the models explained in the previous chapters is limited since the factors upon which they are based are

inconsistent in their influence on the mode decision (cf. Fuchs/Apfelthaler 2009, p. 382) Hollensen's model, however, visualises the influence of such factors on the degree of internalisation and externalisation, accounting for internal factors, which are capabilities within the company like firm size and international experience, and external ones, such as environmental factors of the new market, thus transforming the entry mode decision into an individual process for every market a company wants to enter. Keeping in mind that a company cannot directly influence external factors, Hollensen also mentions transaction-specific factors and desired mode characteristics as impacting the model. These factors determine the degree of internationalisation needed for market entry. (cf. Hollensen, 2017, p. 352–353)

Intermediary and export entry modes, where steps of the value chain are performed externally (as seen in the value chain perspective of entry modes), have a lower degree of influence on internalisation than do hierarchical modes, where all steps of the value chain are achieved internally by the company (cf. Hollensen, 2017, p. 352–353).

The following figure is a presentation of Hollensen's model. The individual factors are explained in more detail in the subsequent section.

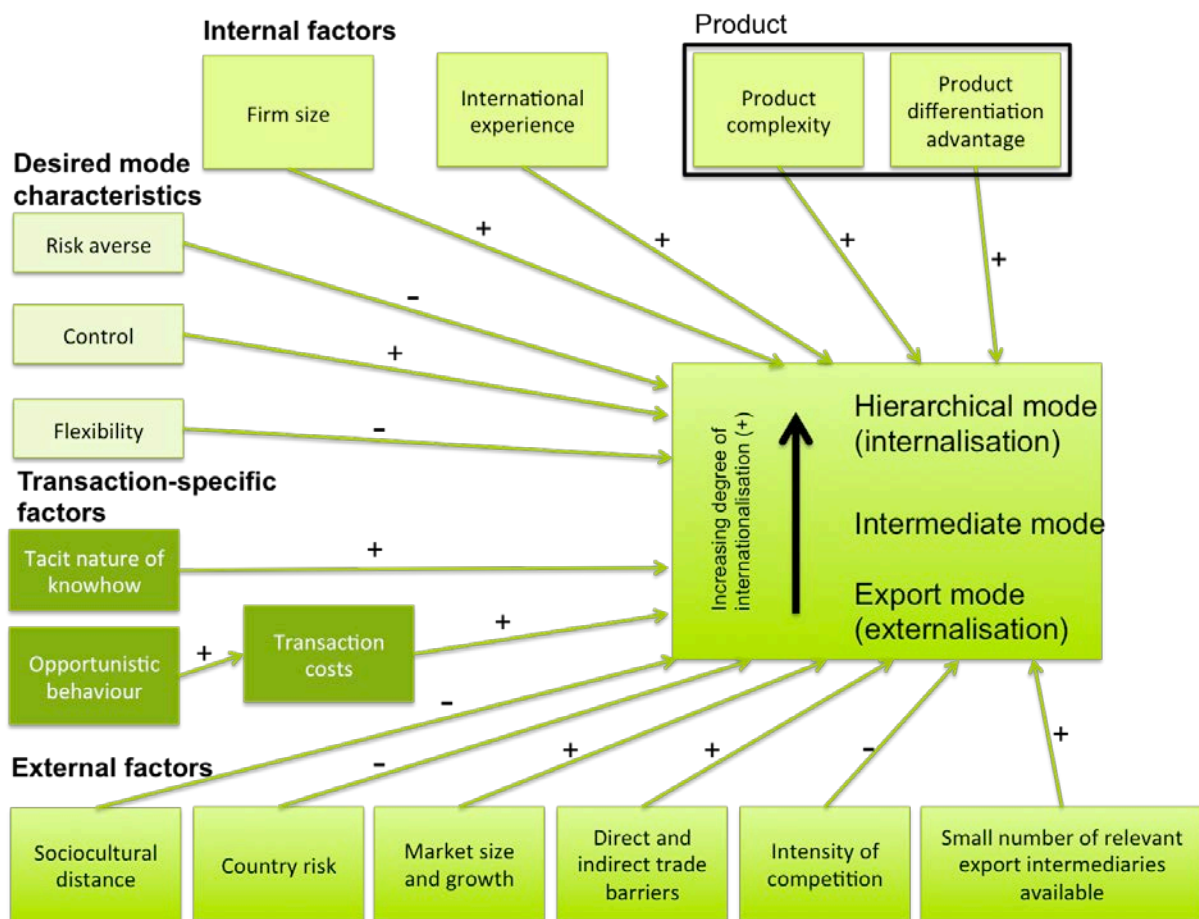


Figure 14: Factors influencing market entry mode decision (cf. Hollensen 2017, p. 352)

4.2.4.1 Firm size

Firm size is an internal factor linked to the resources available. Companies with limited resources are more likely to choose an export entry mode because, for example, a fully-owned subsidiary often demands substantial investments. Furthermore, small companies may lack the management skills to establish a fully-owned subsidiary or international joint venture. (cf. Hollensen 2017, p. 353; Root 1994, p. 14–17; Koch 2001, p.356)

An export entry mode means the production is in the domestic country or a third country and is controlled by the exporting company (cf. Hollensen 2017, p. 366-367). Therefore, the exporting company must make sure that the capacity is high enough to serve the market. If a company is not able to produce this from its home or a third country, it can choose an intermediate entry mode, transferring knowledge into the new market. (cf. Hollensen 2017, p. 388)

The influence of company size on the entry mode is industry specific. Every industry demands different amounts of resources (cf. Koch 2001, p. 356), and

Root mentions that a company's commitment is more important than the resources available, meaning that managers should not limit the range of entry modes due to this factor. Nevertheless, he also suggests that if a company's resources are limited, it should opt for an export entry mode or licencing. (cf. Root 1994, p. 14–17) Therefore, firm size impacts internalisation; the bigger the company, the more likely it should use a hierarchical mode (cf. Hollensen 2017, p. 353).

4.2.4.2 International experience

International experience is also stated as an internal factor. If a company already has knowledge of a certain region, it is more willing to choose an entry mode that demands more resources. The increase of experience reduces the costs and the uncertainty of a market entry. Nevertheless, companies already involved in international business tend to use their previously preferred entry modes. (cf. Hollensen 2017, p. 353; Koch 2001, p. 357; Suárez-Ortega/Alamo-Vera 2005, p. 271)

The personal experience of the decision-makers also has an influence. Managers avoid entry modes with which they have had negative experience in the past. (Koch 2001, p. 357; Suárez-Ortega/Alamo-Vera 2005, p.274)

In summary, if a company is highly experienced in internationalisation, it should perform this process itself rather than with another company. Hence, the more international experience a company has, the more likely it will use a hierarchical entry mode. (cf. Hollensen 2017, p. 353)

4.2.4.3 Product

The last internal factor mentioned by Hollensen is the product. Costs of transportation influence the total product cost and the sales price. In international business, where distances can be rather long, transportation costs are often high. Additionally, the size and the weight of the product and the packaging can influence the transportation cost. Therefore, companies must adapt their supply chain strategy to their costs of transportation. (cf. *Supply Chain Quarterly* 2018) The impact of these costs is not as strong on products with a higher value/weight ratio. In this case, the weight is a representative factor in transportation costs. This leads to the assumption that companies selling products with a high value in

relation to their weight should choose an export entry mode, whereas those with products with a low value/weight ratio should utilise an intermediate or a hierarchical mode due to the lower shipment costs. (cf. Hollensen 2017, p. 353)

The differentiation and uniqueness of a product can lead to higher value. To differentiate a product or service, companies can generate a design or brand image or a type of technology, or they can deliver extraordinary customer service. (cf. Porter 1998, p. 37) This puts a company into the position of a natural monopoly, which must be secured with a hierarchical entry mode. (cf. Hollensen 2017, p. 354) Conversely, if the product is unknown to the market, companies should prefer a wholesaler or an agent rather than selling directly (cf. Albaum/Duerr 2011, p. 408).

While differentiated products can require a high level of service, the same is true for complex products, and external intermediaries may not have the competence to deliver the service needed. Therefore, the higher the product complexity, the higher its degree of influence on internalisation. (cf. Hollensen 2017, p. 354, cf. Root 1994, p. 13–14)

In cases where the product is a type of service, a distinction must be made between hard and soft services. It is called hard service when the production is decoupled from the consumption, as is the case with software services that can be transferred by a medium. With soft services, where the production and consumption happen simultaneously, it is only possible to use an intermediate or hierarchical entry mode. (cf. Hollensen 2017, p. 354; cf. Fuchs/Apfelthaler 2009, p. 382)

4.2.4.4 Sociocultural distance

The sociocultural distance between the home country and the host country is an external factor. Dealing with the effects of culture on international marketing is challenging, but due to its strong influence on customer behaviour, it is crucial. Culture is human made and communicated from one generation to another; to understand culture, it is important to look under the surface, where, according to the iceberg principle, powerful elements lie. (cf. Albaum/Duerr 2011, p. 174–185)

An example of sociocultural factors is seen in Hofstede's cultural six dimensions (cf. Hollensen 2017, p. 354–355; cf. Root 1994, p. 8–11). The six dimensions are: (1) the power distance index, (2) individualism versus collectivism, (3) masculinity versus femininity, (4) uncertainty avoidance, (5) long-term orientation versus short-term normative orientation, and (6) indulgence versus restraint. With this model it is possible to compare two or more countries and evaluates the distance between each factor. (cf. Hofstede Insights 2018) Knowing these differences is essential to intercultural management since misunderstanding a business partner can have major ramifications (cf. Rothlauf 2014, p. 10). When the sociocultural distance is high, companies tend to look for a local partner with more knowledge of the culture and market (cf. Agarwal 1994, p. 63–64).

Language is another important sociocultural factor which influences international management. Especially within the framework of a hierarchical entry mode, language differences between headquarters and a subsidiary must be taken into consideration. (cf. Piekkari/Welch/Welch 2014, p. 69–70)

The factors above, as well as others such as differences in religion, education, or the legal system, are referred to as psychic distance. A long psychic distance leads to externalisation. (cf. Dow/Larimo 2009, p. 86)

4.2.4.5 Country risk/demand uncertainty

Another external factor is country risk, actions by a or government which have negative consequences for foreign investors. As all investment decisions are made with expectations of returns and assessment of risks, country risk has an appreciable influence on entry mode decision. (cf. Vijayakumar/Rasheed/Tondkar 2009, p. 182–183) Indicators that a company can use to assess this risk include (cf. Vijayakumar/Rasheed/Tondkar 2009, p.188):

- Political risk
- Economic performance
- Debt indicators
- Debt in default or rescheduled
- Credit rankings
- Access to bank finance
- Access to short-term finance

- Access to capital markets
- Discount on forfeiting

There is a negative relationship between country risk and the willingness of companies toward FDI. Countries with a lower risk are more attractive in this regard. (cf. Vijayakumar/Rasheed/Tondkar 2009, p. 191; Illiescu/Dinu 2011, p. 377) An unpredictable economy and unstable political climate are also linked to demand uncertainty, which favours externalisation (cf. Hollensen 2017, p. 355; cf. Fuchs/Apfelthaler 2009, p. 385).

4.2.4.6 Market size and growth

Market size and growth are key factors in the entry mode decision. The size of an economy and the gross national product per capita, as well as the importance of the sector, are related to the market size for a company's product in the target country. The bigger the size of a market, the stronger the commitment of the decision maker to invest resources there. Therefore, in larger markets, wholly-owned sales subsidiaries or majority-owned joint ventures are preferred so that a company gains market insides, which leads to increased efficiency. For smaller markets, exporting or licencing is preferable. (cf. Hollensen 2017, p. 355; cf. Root 1994, p. 10) Nevertheless, in recently developed markets, fast-following competitors can lead to shrinking market shares. If the market is growing fast but seems unsustainable, direct or indirect exporting is the most preferable entry mode. (cf. Min/Kim/Zhan 2017; Koch 2001, p. 359)

4.2.4.7 Direct and indirect trade barriers

Other influencers are direct and indirect trade barriers such as tariffs, a tax charged on imports to protect the local market and generate income for the government. This can either be done directly when the good gets imported or in advance, whereby the company buys a licence that allows it to import goods. (cf. Gale Encyclopedia of U.S. Economic History, 2000). Another form of import regulation is dumping, wherein countries support domestic companies and enable them to sell their products at a lower price. Although WTO members agreed to avoid tariffs and dumping, exceptions exist that permit the use of these tactics to protect the home market from foreign trade. (cf. Feenstra 2004, p. 210–211) Custom unions such as the European Union enable companies to move their goods freely within this region. In the special case of the UK, which left this union,

new regulations on taxation have been negotiated. (cf. European Commission 2018) The government as well as competitors can build barriers, blocking channels by setting up exclusive agreements or raising the buyer's switching costs. (cf. Porter 1998, p. 489–490)

Trade barriers, product regulations and standards, and preferences toward local suppliers are indicators to choose an intermediate entry mode. Tariffs, quotas, or standards that demand a significant product change favour a local production or assembly operation and so a hierarchical mode through which information gained can help to overcome entry barriers that increase the degree of internalisation. (cf. Hollensen 2017, p. 355; cf. Fuchs/Apfelthaler 2009, p. 385)

4.2.4.8 Intensity of competition

Competition is one of the most dynamic forces when entering a new market. A company should never underestimate the local competition and should find its unique position in the new market. Therefore, it is important to know the structure and actions of competitors. (cf. Albaum/Duerr 2011, p. 200–203) Although companies should avoid entering highly competitive markets, which tend to be less profitable (cf. Hollensen 2017, p. 356), that those do should be aware of the five competitive forces that drive the profitability of an industry: industry competitors, potential entrants, substitutes, buyers, and suppliers. The intensity of competition depends on the positioning of a company toward cost leadership or differentiation; a third option is focusing on a niche. (cf. Porter 1998, p. 5–11) Furthermore, the company must consider if retaliation might be taken against its entry (cf. Porter 2008, p. 82). If competition is strong, companies tend toward externalisation (cf. Hollensen 2017, p. 356).

4.2.4.9 Small number of intermediaries available

The last external factor mentioned by Hollensen is small number of intermediaries available. If there are only a few buyers available or they purchase in large volumes, they have a high degree of power, which they can use to lower prices. Companies can decrease this power by differentiating their products. Another option is to target the marketing directly to the end user to create preferences. (cf. Porter 2008, p. 83–84) For the choice of an entry mode, this means that if a

market only provides a few intermediaries, the company should favour a hierarchical mode to avoid opportunistic behaviour (cf. Hollensen, 2017, p. 356).

4.2.4.10 Transaction-specific factors/tacit nature of knowhow

Transaction-specific factors include the transaction cost approach. According to this, a company should choose the mode that results in the lowest expenditures by analysing the ex ante and ex post costs. If the transaction costs are higher than those for a hierarchical mode, the company should choose the latter. (cf. Hollensen 2017, p. 90–91; cf. Fuchs/Apfelthaler 2009, p. 380)

Another consideration is the tacit nature of knowhow, or “knowledge that you do not get from being taught or from books, etc. but get from personal experience, for example, when working in a particular organisation” (Cambridge University Press 2018). If this kind of knowledge is important for a company in a certain market, it must choose a hierarchical mode (cf. Hollensen 2017, p. 357–358). Yet it is also possible to transfer tacit knowledge into explicit knowledge by, for example, experts writing manuals and sets of instructions (cf. King/Lawley 2013, p. 325).

Hill differentiates knowhow into technological and management categories. Companies with core competences in technical knowhow should avoid intermediary entry modes such as licencing or joint ventures since they face the risk of losing control over their technology. Companies with management knowhow and, therefore, valuable brands have a lower risk of losing control, and the right protection enables intermediary entry modes. (cf. Hill 2000, p. 443–444)

4.2.4.11 Risk aversion/control/flexibility

The amount of risk a company is willing to take depends on factors such as financial situation, strategic options, and competitiveness. If management is risk averse, it will favour an entry mode that commits few resources like exporting or licencing. (cf. Hollensen 2017, p. 356; Koch 2001, p. 357) Due to lower investment commitment, this risk-averse behaviour can result in a loss of international opportunities. (cf. Hollensen 2017, p. 356)

Conversely, if a company wants a high level of control, it chooses a hierarchical entry mode since indirect export provides little or none. Through licencing, it can

be sure that a partner meets quality requirements. (cf. Hollensen 2017, p. 365–367) Management and a decision-maker determine the amount of control required, but this can change over time. For instance, when experience in a market grows, this can lower the need for control. (cf. Koch 2001, p. 356–357)

Finally, a company must determine a degree of flexibility. Hierarchical entry modes, for example, are oriented toward the long term and require tied-up capital, offering less flexibility than export entry modes. (cf. Hollensen 2017, p. 365–367)

5 Designing the global marketing programme— promotion (communication) focus

After selecting the entry mode, a company designs its global marketing programme for every single market entry. To do this, strategies for product, price, promotion, and place are combined into the marketing mix. For an effective mix, there should be no contradictions among the marketing measures. Furthermore, a company must ensure that it is possible to reach the defined market goals with these measures. (cf. Grünig/Morschett 2017, p. 131–132)

As this thesis has its focus on communication, this section will emphasise promotion. The goal of international communication is the same as that in domestic market in that the product information must persuade the customer to buy the item. To achieve this, a company design its communication strategy and plans the application of communication instruments, which are similar for the domestic and international markets. (cf. Hollensen 2017, p. 633; Fuchs/Apfelthaler 2009, p. 403–404).

5.1 Communication targets

To coordinate the communication process, a company must define its communication targets. Based on these, the company can measure the success of its actions. Because economic results cannot be attributed directly to communication actions, companies should define psychographic rather than economic objectives. (cf. Meffert/Burmann/Kirchgeorg 2015, p. 570–572) Possible psychographic objectives are the creation of awareness or the establishment of a favourable name and reputation in customers' minds (cf. Albaum/Duerr 2011, p. 817). When a company is new to a market, awareness and publicity have especially high relevance (cf. Berndt/Fantapié Altobelli/Sander 2016, p. 366).

5.2 Communication strategy

The strategy consists of four dimensions: who (communication object) says what (communication message), how (communication media and platform), and to whom (communication audience). The communication object can either be a single product, a special brand, or the whole company. It is the basis for the strategy. The message is a result of the company's positioning and should transfer its unique selling position (USP) of the company. (cf. Bruhn 2016, p.210–211) In international marketing communication, the company should be aware that the message could have a different meaning in different cultures. A reason for this is that during the communication process, when a sender transfers a message to the audience, there are influencing factors (shown in the following figure). These factors include linguistic, economic, sociocultural, legal, and competitive differences. (cf. Hollensen 2017, p. 633–635; Fuchs/Apfelthaler 2009, p. 404–405)

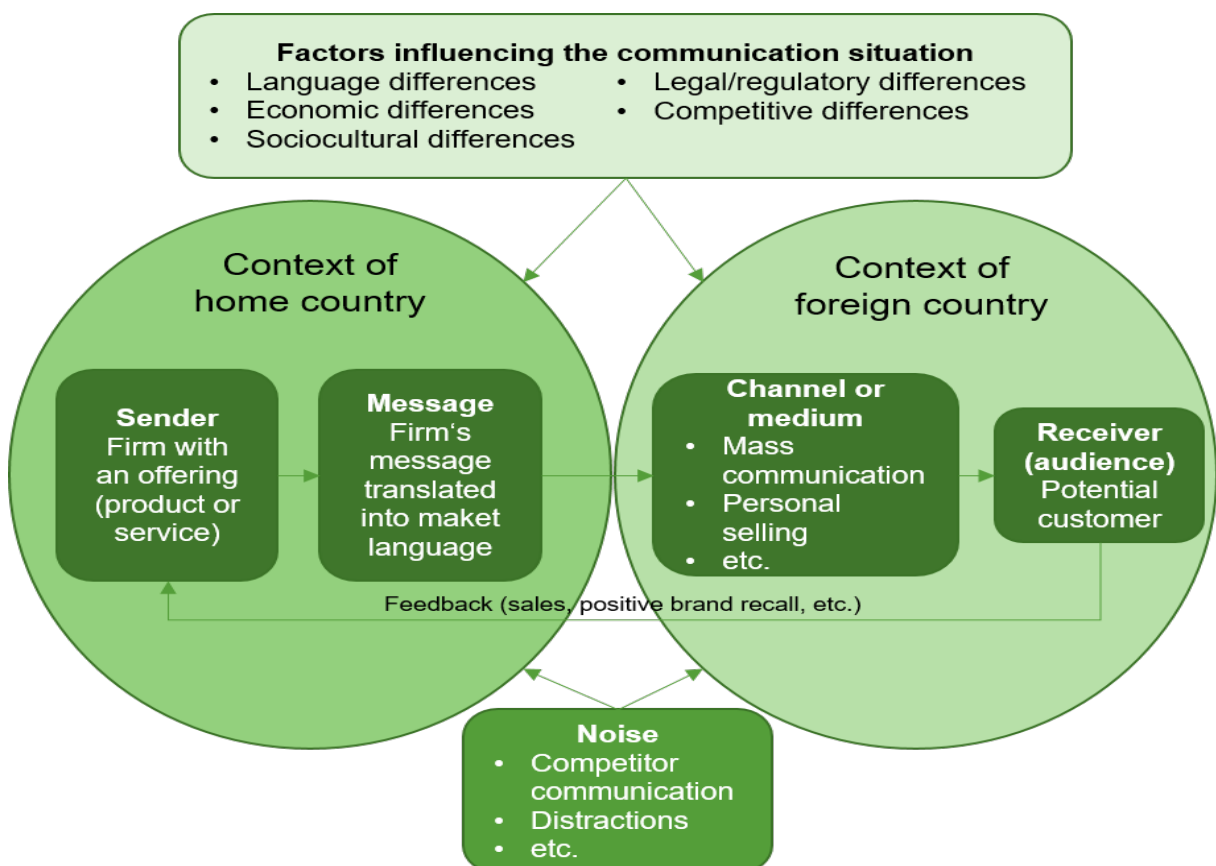


Figure 15: Elements of the international communication process (cf. Hollensen 2017, p. 634)

To transfer the message to the audience, the company can use a communication mix through a variety of communication modes (shown in the following table). (cf. Kotler et al. 2016, p. 631–632)

Communication Mode	Purpose
Advertising	Any paid form of nonpersonal presentation of ideas, goods, or services by an identified sponsor
Sales promotion	A variety of short-term incentives to encourage trial or purchase of a product/service (market offering)
Events and experiences	Company-sponsored activities and programmes designed to create daily or special brand-related interactions
Public relations and publicity	A variety of programmes designed to present or protect a company's image or its individual market offerings
Direct marketing	Use of mail, telephone, fax, e-mail, or the Internet to communicate directly with or solicit response or dialogue from specific customers and prospects
Interactive marketing	Online activities and programmes designed to engage with customers or prospects and directly or indirectly raise awareness, improve image, or elicit sales of market offerings (value packages, i.e., combinations of product and service attributes)
Word-of-mouth marketing	People-to-people oral, written, or electronic communications to relate to the merits or experience of purchasing and consuming market offerings
Personal selling	Face-to-face interaction with one or more prospective purchasers with the purpose of marketing presentation, answering questions, and procuring orders

Table 1: Marketing communication mix—modes and platforms (cf. Kotler et al. 2016, p. 631–632)

Moreover, these modes consist of communication platforms where the message can be placed (cf. Kotler et al. 2016, p. 631–632):

Advertising	Sales promotion	Events and experiences	Public relations and publicity
<ul style="list-style-type: none"> • Print and broadcast advertisement • Packaging—outer • Packaging inserts • Motion pictures • Brochures and booklets • Posters and leaflets • Directories • Reprints of advertisements • Billboards • Display signs • Point-of-purchase displays • Audio/visual material • Symbols and logos • Videotapes 	<ul style="list-style-type: none"> • Contests, games, sweepstakes, lotteries • Premiums and gifts • Sampling • Fairs and trade shows • Exhibits • Demonstrations • Coupons • Rebates • Low-interest financing • Entertainment • Trade-in allowances • Continuity programmes • Tie-ins 	<ul style="list-style-type: none"> • Sports • Entertainment • Festivals • Arts • Causes • Factory tours • Company museums • Street activities 	<ul style="list-style-type: none"> • Press kits • Speeches • Seminars • Annual reports • Charitable donations • Publications • Community relations • Lobbying • Identity media • Company magazines
Direct and interactive marketing	Word-of-mouth marketing	Personal selling	
<ul style="list-style-type: none"> • Catalogues • Mailings • Telemarketing • Electronic shopping • TV shopping • Fax • E-mail • Voicemail • Blogs • Websites 	<ul style="list-style-type: none"> • Person to person • Chatrooms • Blogs 	<ul style="list-style-type: none"> • Sales presentations • Sales meetings • Incentive programmes • Samples • Fairs and tradeshow 	

Table 2: Marketing communication platforms (cf. Kotler et al. 2016, p. 631–632)

Companies select the modes and platforms relevant for their target audiences.

5.2.1 Communication strategy for B2B

If a company targets organisational buyers, it must consider the specifics of the organisational buying behaviour, which differs from the consumer buying behaviour. There are more people involved in the buying process (the so-called buying centre), and the buying process is more complex, has multiple stages, and involves a longer decision-making process and more interaction. (cf. Masciadri/Zupancic 2010, p.23) Depending on the stage of this process, companies favour different sources of information. At the beginning of the buying process, for a general overview, companies prefer the Internet or journals, whereas for the buying decision, personal selling is the most important information source. (cf. Voeth/Tobies 2009, p.1109–1110)

A frequent platform in B2B business is trade shows, which companies use to gain information about the market and related companies. At the beginning of the planning, the company allocates the budget for the fair; this defines the scope of appearance. A key factor at the fair is motivated and qualified staff at the stand who are well trained and possess social competences; this is more important than the actual exhibit. After the trade show, the company contacts interested parties to continue the dialogue and can monitor its own performance for further improvements. Measuring success at a fair is challenging because a direct connection between new contracts and the company's performance is hard to quantify, but a potential indicator is the number of new contacts. (cf. Kirchgeorg/Springer 2009, p. 218–224)

For the online communication companies can use for example websites, search ads, display ads, and e-mail newsletter. The target of creating a website is to provide the information the target group needs and to encourage them to repeat visits. To attract potential customers to visit the website, a company can use search ads. The company defines keywords which are related to the product or company. When someone searches for the keyword, a link to the company's website shows up. The rate is usually paid per click. (cf. Kotler/Keller 2016, p. 639-640)

5.2.2 Communication strategy for market entry

In international marketing, the selected entry mode defines the target audience. As a result, the communication mix must be adopted to the entry mode as well.

Companies which enter the market with licencing must identify effective platforms to find the right licensee for their products. Visiting fairs is one effective platform when looking for a licensee. (cf. Brandt 2012, p. 69) Factors like the number of people in a segment who can be reached and flexibility in time scheduling can help in selecting the right communication platforms within the predetermined budget (cf. Meffert 2015, p. 585–586).

5.3 Communication budget

There are different approaches to defining the communication target. The affordable method, for example, sets the budget at an amount that the company can afford. The method is not linked to any objectives, therefore the amount can be too less or too high. Another approach is the competitive-parity method, in which a company orientates on the measures of its competitors. The objective and task method are often cited as the most logical. Here, a company first defines its objectives and afterwards, determines the tasks to reach these objectives and estimates the costs, which defines the budget. (cf. Kotler/Armstrong 2012, p. 422–423) The media plan determines the allocation of the budget, schedules the measurements, and defines the distribution of the budget across communication modes. Hence, spreading losses can be reduced (cf. Bruhn 2016, p. 2017–2018)

5.4 Communication performance measurement

To see how successful and effective the communication has been, it is important to measure the performance. To measure output, a company can use three effect levels: cognitive, affective, and conative. (cf. Meffert/Burmann/Kirchgeorg 2015, p. 732) Cognitive variables like brand or product awareness can be tested by measuring recall or recognition, aided or unaided (cf. Reinecke/Janz 2009, p. 1004–1005). Indicators such as cost per click, page views, or visits can measure online and direct communication actions (cf. Meffert/Burmann/Kirchgeorg 2015, p. 734–735).

The communication, as described, is only one part of the global marketing programme. To complete the stage of Hollensen's decision-oriented approach, a

closer look at the product, price and distribution policy must be taken. As this is not the main focus of this thesis, the theoretical part ends at this point.

*

6 Summary of the theoretical framework

The first part of the theoretical section describes the characteristics of the internationalisation of SMEs. In the second part, based on this, different market entry concepts are introduced and the most suitable is selected. In the next part of the theoretical section a closer look on the market entry strategy is taken. This contains the classification of the different entry modes, as well as approaches to select an entry mode. In the last part the global marketing programme with the focus on communication (promotion) is introduced. This part has a closer look on the communication targets and strategy, with its communication platforms, as well as on the communication budget.



Figure 16: Graphical summary of the theoretical part (own presentation)

7 Baumschule Steiner GmbH

Baumschule Steiner GmbH is introduced in this section, starting with the company's history, continuing with its most important data, and finally focussing on the company's customer structure.

7.1 History

Four brothers—Hermann, Johann, Josef, and Manfred Steiner—founded Baumschule Steiner in 1989. As their first product, they sold blueberry bushes, an idea originated by Josef Steiner after a journey to the United States. Over the years, the portfolio kept growing, but the company kept its focus on plants of the heath family, such as rhododendron or azalea. They not only focussed on the nursery but also opened three pick-your-own farms for blueberries and raspberries, starting in Hochburg-Ach and continuing to Anif and Hohenzell.

In 2007, the form of the organisation was changed to limited, and three years later, the firm was restructured and split into two parts: Baumschule Steiner GmbH and Heidelbeerland Steiner, which was managed by Manfred Steiner. Both he and Josef withdrew as partners; Hermann and Johann stayed in the company, and the former became the chief executive officer.

7.2 Facts and figures

Baumschule Steiner GmbH had a revenue of 2.3 million euros from 1 July 1, 2016, to 30 June, 2017, doing business internationally. In the 2016/2017 financial year, it generated 18% of its revenues abroad. Its foreign customers are located mainly in central and eastern Europe, and the country with the highest revenue is Germany with about 140,000 euros. These foreign customers can choose from the whole product range.

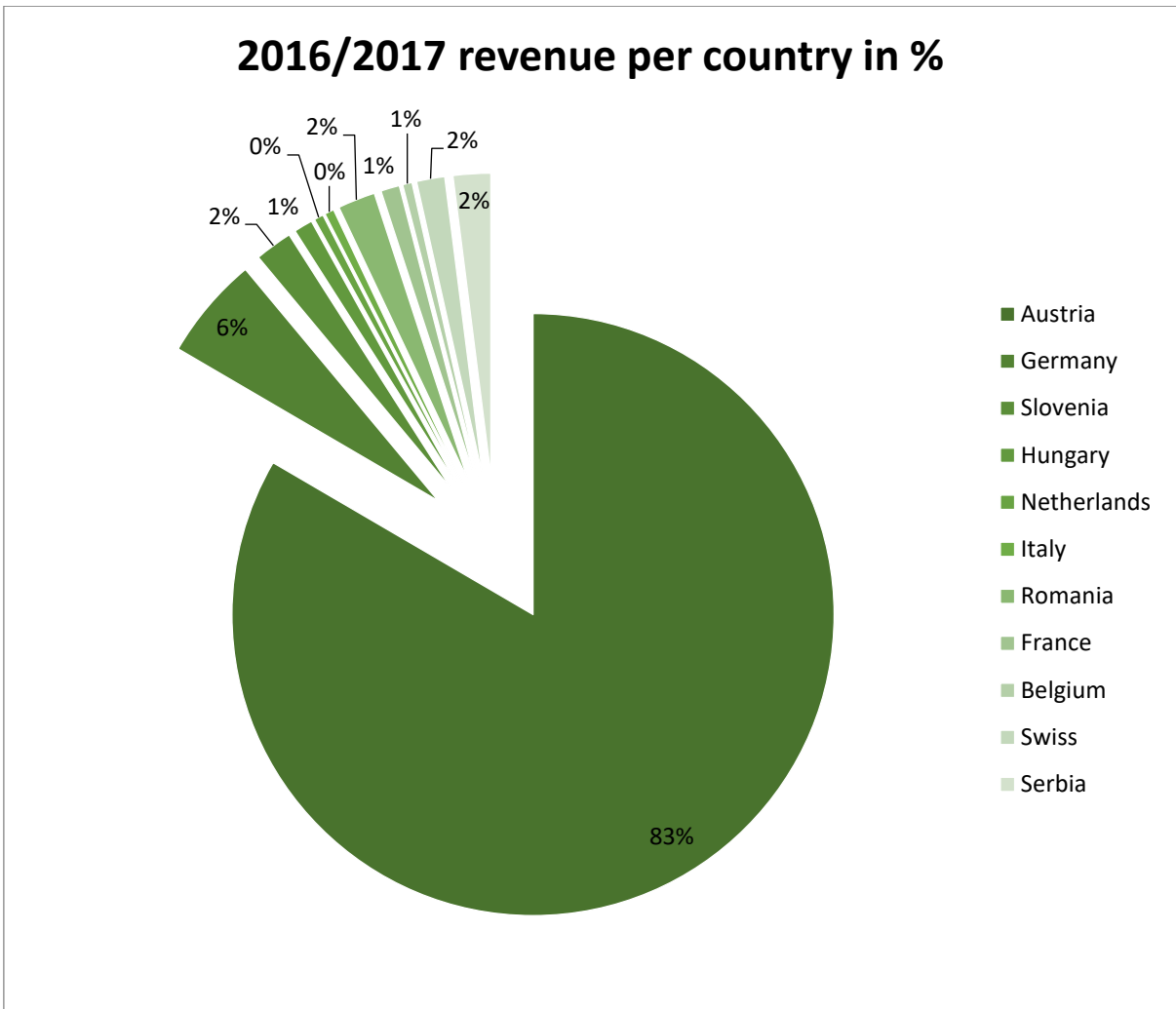


Figure 17: 2016/2017 revenue per country in percentages (own presentation)

In total, the size of the company is about six hectares; it produces plants on about four hectares of open land and in a two-hectare greenhouse. It plans to extend this acreage next year.

The nursery sector is very seasonal with a high seasonal fluctuation in the number of employees. In low season, the company employs about fifteen workers and in high season about thirty. Due to the classification of the European Union the company is classified as an SME. The seasonal workers are mainly from Romania, where the company has a good network of employees.

As mentioned, Baumschule Steiner GmbH started with the production of plants of the heath family and today consists of:

- Plants of the heath family
- Hedge plants

- Berry bushes
- Organic berry bushes

Across these four categories, the company produces about three hundred cultivars in different sizes.

7.3 Customer structure

The focus of the company is mainly on B2B. The first big customer group consists of home improvement stores and garden centres, which deliver the highest revenue. Home improvement stores in general have a centralised purchasing department with delivery contracts on an annual basis. Garden centres can be divided into subcategories such as garden centre chains—which also have a centralised marketing purchasing department and annual contracts—and privately managed garden centres, where the purchasing is mostly done by the owner and contracts are unusual, making the purchasing volume very unpredictable. Both home improvement stores and garden centres are loyal customers if the quality of the product, as well as the service, is constant.

The next group comprises landscape gardeners, whose volume of orders depends on the projects on which they are working. Landscape gardeners do not need a lot of service and are a loyal customer group.

The last group is the pick-your-own farmers, for whom Baumschule Steiner GmbH has a very good reputation all over Europe. Most new customers in this segment are a result of recommendation. Especially in Eastern European countries, there is an ongoing trend of pick-your-own farms, so the company gets a lot of requests from these countries. Moreover, requirements from Austrian pick-your-own farmers have been increasing over the past few years. One reason for this might be the subsidy offered by the Austrian government (cf. Landwirtschaftskammer Österreich 2017), which makes the investment more attractive to farmers. This customer group has a high order volume, but they do not order sequentially.

7.4 International experience of Baumschule Steiner GmbH

Baumschule Steiner started its export activities by selling its plants directly to customers in the foreign market. Over the years, the company started to work with

distributors to reach markets to which they did not have access. Since 2016, the company has been working with a contract manufacturer in Germany and is currently working with one in Austria and three in Germany. Furthermore, the company is setting up licencing contracts and transfers contract manufacturing agreements into licencing agreements.

8 Market research

Market research is defined as the systematic and empiric collection of information that is relevant for the sales and procurement markets of a company to make marketing decisions. A company can choose from several types of market research. (cf. Bruhn 2016, p. 89–90)

For data collection, a company can use primary and secondary research. In general, secondary research is the preparation of existing data material, whereas primary research is the generation of new material. The following section provides more information about primary and secondary research. (cf. Olbrich/Battenfeld/Buhr, 2012, p. 67)

8.1 Research design

This chapter deals with the selection of research design for analysis needed to gain information to develop the international market entry concept.

8.1.1 Research target

The target of the research is to find the most appropriate entry mode for Baumschule Steiner to enter the UK horticultural market and what successful communication would look like. (See subquestions in section 1.3.2 Thesis objectives)

8.1.2 Research method

To achieve this target, primary and secondary research was conducted. The secondary research, which is described in the following chapter, provides information about the market, the competition, sociocultural factors, and the climate. Qualitative interviews delivered further information. The information of the

primary and secondary research is combined in Hollensen's market entry mode decision model of Hollensen and communication.

8.2 Secondary research

The task of secondary research is to provide data from internal and external information sources. Its advantages are that it is faster and cheaper than primary research. (cf. Meffert/Burmann/Kirchgeorg 2015, p. 146) The researcher can use documents on cost and activity accounting or product and customer statistics, sales force reports, or data from former primary research as internal sources. Universities, the chamber of commerce, websites, and publications can be used for sourcing external data. There are many ways to find data for secondary research, but there are also downsides to it: the data is not always up to date, can have a lack of objectivity, or is not as detailed as needed. (cf. Berekoven/Eckert/Ellenrieder 2009, p. 39–42)

8.2.1 UK horticultural market data

There are about 2,300 garden centres and retail nurseries in the United Kingdom (cf. The Horticultural Trade Association 2017). The total size of the horticultural flower and plant wholesaling industry is 1.1 billion pounds sterling (cf. IBISWorld Ltd. 2017).

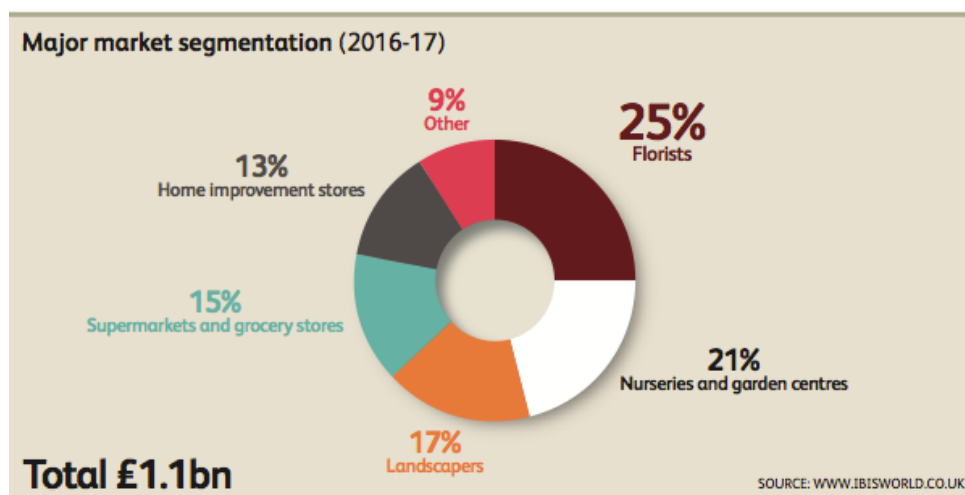


Figure 18: Major market segments 2016–2017 (IBISWorld Ltd. 2017)

The 2016 GDP was 2,629.2 billion USD (about 2,132.28 billion euros) (cf. WKÖ Stabesabteilung Statistik 2017), which shows that the revenue of this industry is less than 0.1% of the GDP. The consumption in the category of bedding plants,

where Baumschule Steiner operates, was 0.6 billion pounds (about 0.68 billion euros). There was a significant decrease from 2011 to 2013, which is explained by bad weather in 2012 and 2013. (cf. The Horticultural Trade Association 2014) In comparison, the overall EU revenue from outdoor plants was 25.4 billion euros (cf. IFH Institut für Handelsforschung 2017). The performance forecast for 2022 is even more positive with the annual growth rate of industry revenues expected to be 1.7% (cf. IBISWorld Ltd. 2017).

8.2.2 Country risk in the UK horticultural market

An indicator to measure country risk is the BERI index, where the United Kingdom scores 7.44 in the business environment ranking. This is spot 22 out of 82. (cf. The Economist Intelligence Unit Limited 2014) Although the country is in the upper half of the index, there is some sense of instability there. In 2016, the UK voted to leave the European Union, which means a change for all companies already doing business with UK and for all that plan to do so. (cf. Aussenwirtschaftscenter London 2018) This uncertainty presents quite a risk.

Another issue is the exchange rate between the pound sterling and the euro and the volatility of the former. Companies have a higher risk due to the currency fluctuation, but trading partners can agree on price thresholds to minimise the risk. (cf. Aussenwirtschaftscenter London 2018)

8.2.3 Brexit

Brexit is an important topic for companies which want to do business with the United Kingdom. The end of its membership in the European Union is 29 March 2019, and the transition period lasts until 30 March 2020). During this period, the United Kingdom will remain part of the European single market, and there will be no tariffs. After this transition, the rules which will be negotiated by the European Union und the United Kingdom come into effect. (cf. Wirtschaftskammer Österreich 2018)

After this period, there is the threat of trade barriers. In the case that negotiations fail, the tariff rates will be adopted to the customs tariff for non-EU countries, which must negotiate with the World Trade Organisation (WTO). Even if the tariffs are nil, all goods must be declared, which can result in higher costs. (cf.

Aussenwirtschaftscenter London 2018) Another consequence is the possibility that UK decides to change its product standards and companies will need certificates. Therefore, it is important for companies to insert Brexit clauses into new contracts to allow the possibility of both parties quitting the contract if Brexit has too strong an influence on the subject matter. Additionally, new contracts should state which party must pay for potential incremental costs. (cf. Aussenwirtschaftscenter London 2018)

8.2.4 Competition in the UK horticultural market

Competition in the UK horticultural industry is high, and the trend is increasing. Retailers aim to buy at a low price, even when they expect high quality. (cf. IBISWorld Ltd. 2017) There is also much international competition since the UK is not a plant-growing nation. Nurseries in the UK are not able to produce the quantity that the market demands; therefore, the country is a net importer of plants and floriculture products. The top five importer countries to the UK are the Netherlands, Columbia, Belgium, Italy, and Kenya. (cf. IBISWorld Ltd. 2017)

A direct competitor of Baumschule Steiner and its Robustico is the *ilex crenata* Dark Green, distributed by Ilex Concepts VOF in Boskoop, Netherlands. The company is an association of multiple Dutch nurseries which produce *ilex* in several sizes. (cf. Ilex Concepts VOF) Another *ilex crenata* that is similar to the box is the *ilex crenata* Maxima. It is produced by the Eurotree Boomkerijen Horst B.V. in Mederslo. (cf. Eurotree Boomkwekerijen Horst B.V.)

Ilex crenata 'Dark Green'

Company	Ilex Concepts VOF
Location	Boskoop (NL)
Company size	Not applicable
Varieties	Not applicable
Export country	Germany, Belgium, France, Denmark, and Italy

Table 3: Company data *Ilex Concepts VOF* (cf. *Ilex Concepts VOF*)

Ilex crenata 'Maxima'

Company	Eurotree Boomkwekerijen Horst B.V.
Location	Melderslo (NL)
Company size	25.000m2 greenhouse, 10.000m2 container field
Varieties	Bushes (pot size P9, C3, C4, C5, C7,5, C20); Ball (diameter 30 cm); Trunk with ball (height 100 cm); Bonsai (height 120-140 cm)
Export country	Not applicable

Table 4: Company data Eurotree Boomkwekerijen (cf. Eurotree Boomkwekerijen Horst B.V.)

8.2.5 Sociocultural factors of the UK market

Hofstede's six-dimension model shows that the dimension power distance in Austria (the home country of Baumschule Steiner), as well as United Kingdom, is rather low. This means that the British want people to be treated equally. The index for individualism for Austrians is somewhere in the middle, whereas the British are highly individualistic and seek their unique purposes in life. Both countries are masculine societies with a high success orientation. In contrast to Austria, the UK has low uncertainty avoidance and a need for innovative products and creativity. Working with a company in that country means that the result is clear, but the planning is not detail oriented. The scores for long-term orientation and indulgence are similar in both countries. (cf. Hofstede Insights 2018)

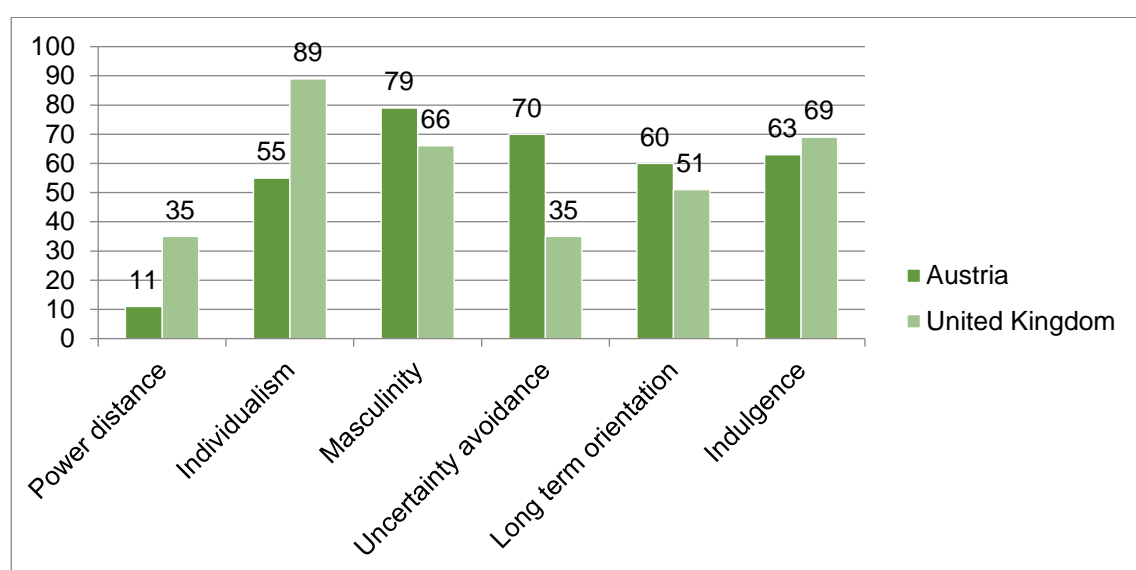


Figure 19: Sociocultural differences Austria versus United Kingdom (cf. Hofstede Insights 2018)

8.2.6 UK climate

The climate is an important factor for the cultivation of plants, and the UK climate is mostly humid with warm summers. According to the Köppen-Geiger climate classification, the UK climate is Cfb, which is the same climate classification as Austria. (cf. Kottek et al. 2006, p. 259ff)

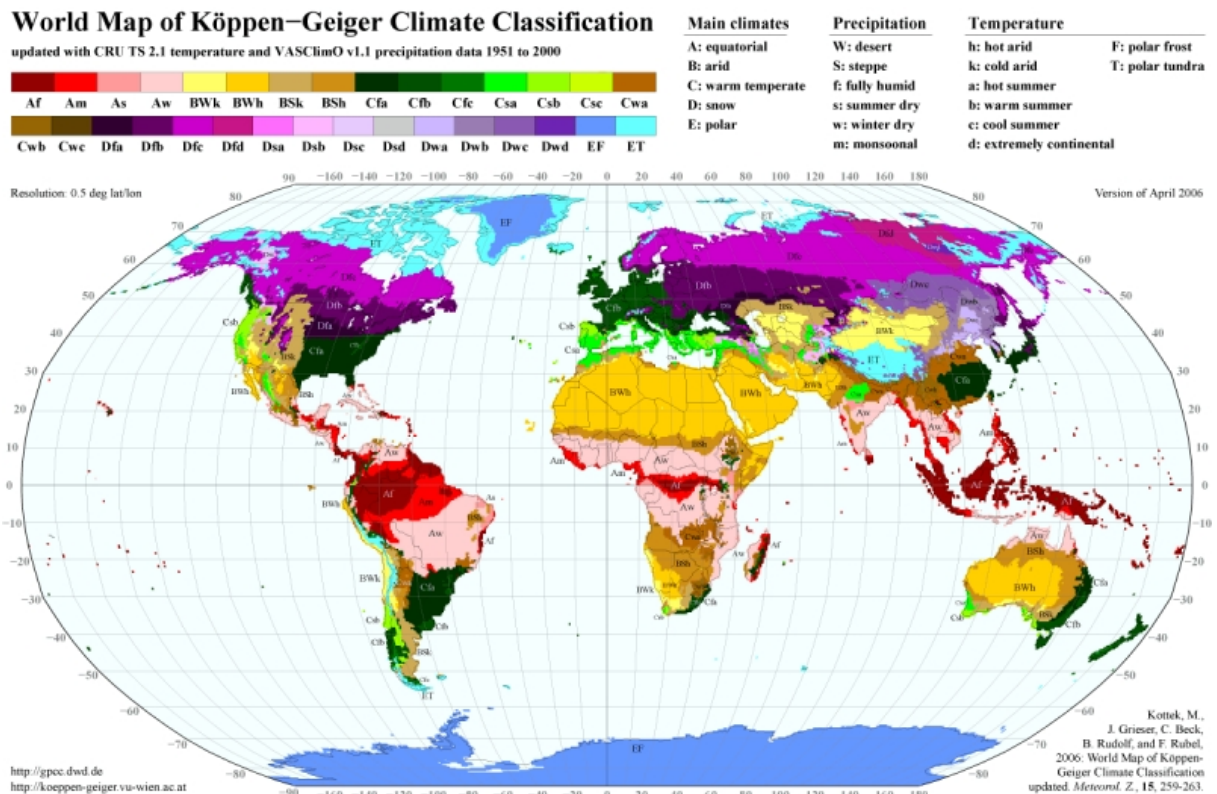


Figure 20: Map of Köppen-Geiger Climate Classification (Kottek et al. 2006, p. 261)

8.3 Primary research

This part of the chapter gives further information on primary research, followed by the results of the research.

A company can use primary research to gain additional information (cf. Olbrich/Battenfeld/Buhr 2012, p. 67) used for qualitative and quantitative analyses (cf. Berekoven/Eckert/Ellenrieder 2009, p. 87). This section focuses only on the qualitative analysis.

For primary research, it is important to define the research design by (1) defining the research target, (2) defining the type of research design, and (3) determining a research method (cf. Kuß 2012, p. 53–54).

8.3.1 Type of design and research method

Three general research types exist—explorative, descriptive, and causal analytic—independent of the research method. Both the qualitative and quantitative methods can be explorative, descriptive, and causal analytic. (cf. Kleining 2011, p. 207) Explorative market research is less precise than a descriptive analysis since it deals with a rough definition of the field of research; a target-oriented selection of data is not possible. Conversely, descriptive market research involves the specific selection of criteria, and there are clear research questions. With causal analytic market research, the researcher wants to identify a connection between variables. (cf. Olbrich/Battenfeld/Buhr 2012, p. 67)

The qualitative market research discusses and delivers insights into motives and behaviour (cf. Magerhans 2016, p. 71) and can be culled from interviews and group discussions. In unstructured interviews, the interviewer has a guideline with the key points and determines the question order and formulation. Another interview type is exploration, used to get insights into the thought pattern of a person (much like an in-depth interview). A psychological researcher only receives the topic, and a discussion in a natural environment explores solutions to the problem statement. (cf. Magerhans 2016, p. 169–170)

Group discussions involve more than one answering participant. There are three different types of group discussions: group survey, where a questionnaire is answered by a group and observed by a researcher; group interview, where participants answer questions on their own in a group situation, and group discussion, where the participants interact (the researcher acts as a moderator and leads the discussion). (cf. Magerhans 2016, p. 174–175)

For this thesis, a descriptive qualitative research was used to answer the research question. Precisely fifteen qualitative expert interviews were held. Therefore, a guideline had been developed which contains all main topics of the research question.

8.3.2 Sampling

Because statistic representation is not central in the qualitative methods, the most important sampling is purposive (cf. Schreier 2011, p. 245). Purposive sampling

can be done through quota sampling, cut-off sampling, and characteristic selection. The basic assumption in quota sampling is that if the dispersion of all relevant criteria of the basic population is given in the sample, then the results are representative. (cf. Berekoven/Eckert/Ellenrieder 2009, p. 49–52)

To answer the central question of this thesis, interviews were held with experts specialised in certain fields. This specialisation can be based on a special function or profession (cf. Kaiser 2014, p. 36) depending on the research target. The following table shows the classification of the experts into subgroups:

	Experts in the field of internationalisation	Experts in the field of UK horticultural market
Definition	<ul style="list-style-type: none"> • Experts in UK internationalisation from public or private institutions 	<ul style="list-style-type: none"> • Experts in the UK Horticultural market from public or private institutions
Expertise	<ul style="list-style-type: none"> • At least three years of expertise through working in an international department • Experience with market entry in the UK 	<ul style="list-style-type: none"> • At least one year working experience in the horticultural market in the UK
Preferable	<ul style="list-style-type: none"> • Experience with market entries in the horticultural industry • SME 	<ul style="list-style-type: none"> • Experience with internationalisation • SME

Table 5: Research sample and criteria (own presentation)

An interview guideline helps to lead the expert interview in a structured way. This guideline is the translation of the research question. One way to structure the guideline is to cluster the questions according to topics. Moreover, there is the option to design one guideline for all interviewees or to design specific ones to make it easier to handle. The guideline should contain notes with question targets to help the interviewer obtain the needed information. (cf. Kaiser 2014, p. 52–54)

For this thesis, two guidelines were prepared. The guideline for the experts in the field of internationalisation was targeted to gain information on communication and

factors which influence market entry into the UK. The guideline for the experts in the field of the UK horticultural market was targeted to gain information on that market and the communication used therein. The guidelines are provided in the appendix. (cf. Appendix p. A-10ff)

8.3.3 Data analysis and interpretation

An important detail for the quality of the analysis is the documentation of the data material. Possibilities for documentation are personal minutes or audio and video recordings. (cf. Naderer 2011, p. 411–412)

A structured way to analyse data is qualitative content analysis (cf. Naderer 2011, p. 418), in which the data will be extracted, formatted, and analysed. Qualitative content analysis starts with the preparation of the extraction; in this stage, categories and the texts which will be analysed are defined. In the case of expert interviews, this is the transcript. The next step is extraction, wherein the relevant parts of the text will be categorised in the predefined categories. During the preparation, the quality of the data will be enhanced; therefore, the following steps are needed: (1) spread information is summarised, (2) Information with the same meaning is summarised, (3) obvious mistakes are corrected, and (4) different information is retained. The last step is the interpretation of the data according to the categories. The main goal of this step is answering the research question. There is no standardised rule for the interpretation because it strongly depends on the research question and design. (cf. Gläser/Laudel 2009, p. 202–247) For this paper, the interpretation and attribution of the data within the categories were done with Excel.

8.3.4 Overview of interview partners

For the primary research, fifteen expert interviews were conducted face to face via smartphone or Skype. The length of the interviews varied between thirty minutes and an hour and were conducted with eight experts in the field of internationalisation. To investigate different points of view, the experts were selected from different branches and with different backgrounds and experience. The seven experts in the field of the UK horticultural market were mainly sales managers in nurseries who have profound business experience in this market.

	Name	Company	Country
Experts in the field of UK horticultural market	Karl Ploberger	Self-employed consultant	AUT
	Carlo Nyten	Damesplants BV	NL
	Luc Pont	FlorArbo bvba	BE
	René Japink	Harry Menkehorst Kwekerijen B.V.	NL
	Eiko Gerstenkorn	Gerstenkorn Baumschulen	GER
	Anonymous		
	Anonymous		
Experts in field of internationalisation UK	Christian Kesberg	Außenwirtschaftcenter London	AUT
	Paul Dobringer	Self-employed consultant	AUT
	Klaus Reiter	Reiter Bioholz GmbH	AUT
	Elvis Kenik	Niceshops GmbH	AUT
	Matthias Wellers	AVL Powertrain UK Ltd.	AUT
	Gernot Purkhart	Berglandmilch eGen	AUT
	Heinz Koderhold	Crossglobo	AUT
	Salfer Verena	Netzsch Pumpen und Systeme GmbH	GER

Table 6: List of experts (own presentation)

8.3.5 *Opinion on possible entry modes*

The opinions of the experts clearly show two possible entry modes: direct export via a distributor (eight) or having someone within the company serve the market (three)—n = 8.

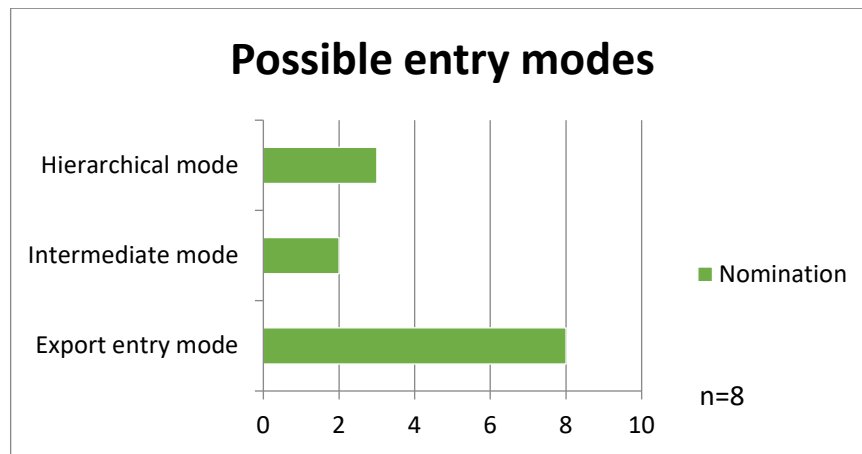


Figure 21: Opinions of experts on entry mode (own presentation)

Some experts stated that in small companies where sales are mostly handled by the owner. The dynamic of the owner while selling its own product has a positive influence on the buyer. However, using an export entry mode enables an SME to stay flexible which is also mentioned by the interviewees as an important success factor of an SME.

Furthermore, some of the experts believe that licencing or contract manufacturing can only be done as a second step. For the first step, it is important to get experience in the market and possess of a degree of customer awareness.

Moreover, it was mentioned that there can be risks when using an agent. Since customers have a strong connection to their contact person, when work with him or her ends, the relationship with the customer might end as well. Also, contracts with agents include down payments when the company decides to end the arrangement. Finally, agents can be very difficult to find since no list exists where a company can find agents who represent plants.

Nevertheless, all entry modes have advantages and disadvantages. But all experts in the field of internationalisation named an export entry mode as possible entry mode for the company. The following figure shows some statements of the interviewees.

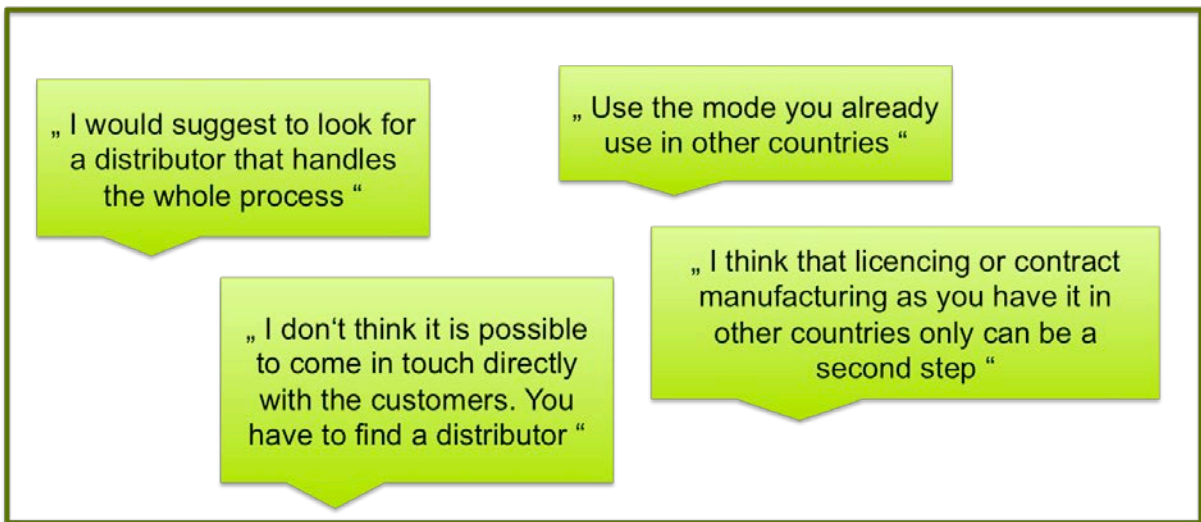


Figure 22: Opinions on the market entry mode (own presentation)

8.3.6 Opinions on the factors influencing the entry mode decision

During the interview, the experts on internationalisation named internal and external factors which have an influence on the entry mode decision.

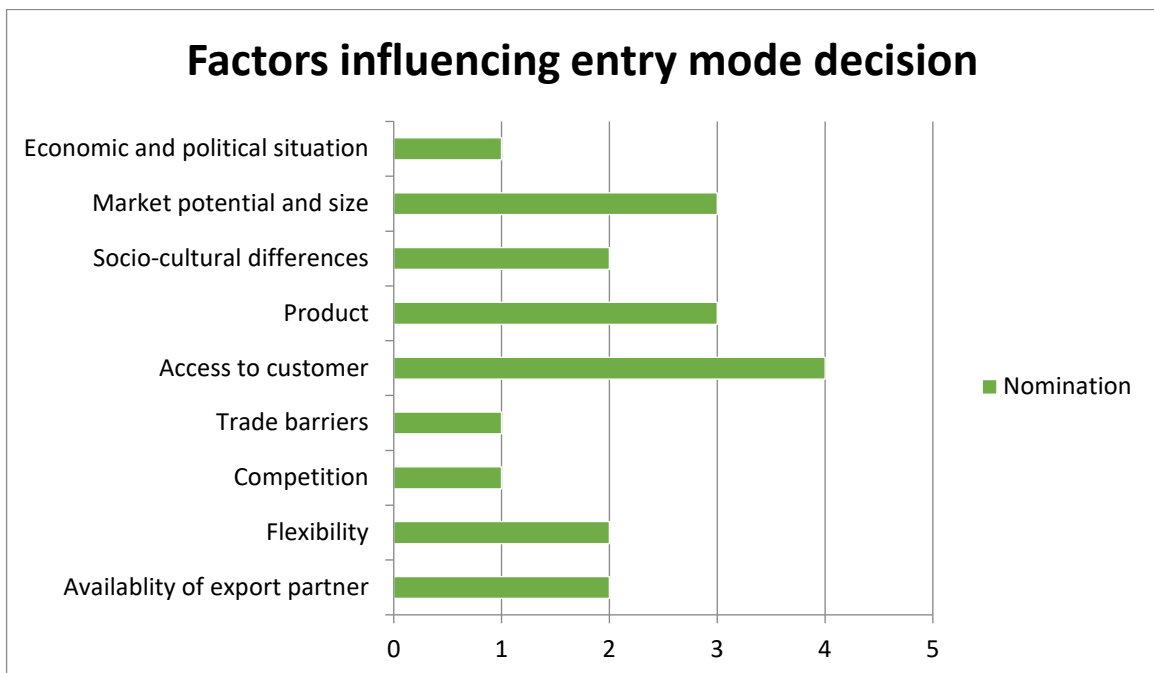


Figure 23: Opinions on the factors influencing the entry mode decision (own presentation)

Here, experts confirmed most of the criteria discussed in related texts and research.

Opinions on firm size

Five experts in the field of internationalisation named the connection between the firm size and resources. This means that smaller companies have fewer resources and therefore cannot invest. It was stated that there is the risk that smaller companies might overextend themselves. Therefore, a detailed calculation upfront is necessary. Two interviewees had the opinion that the size of a company can never be a limiting factor. However, the majority had the opinion that smaller companies should choose a mode which demands fewer resources.

Another argument was that a small company needs help from outside to perform the market entry. Therefore, the company can either use a consultant or do it with a partner.

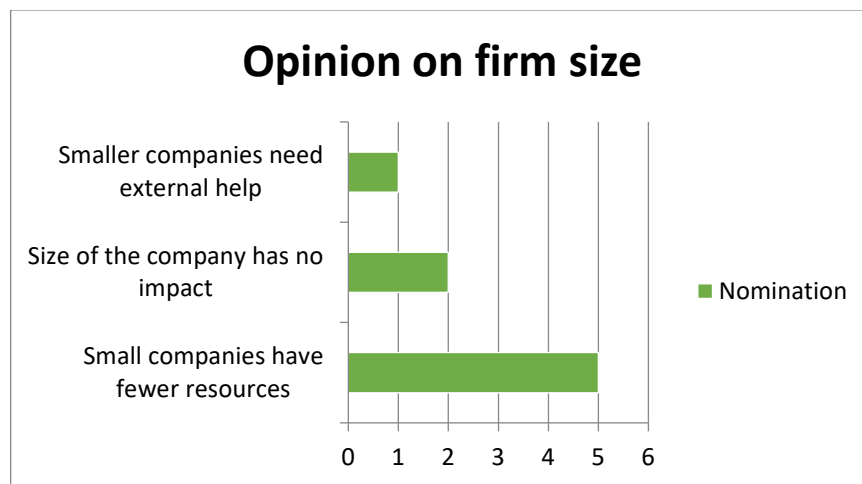


Figure 24: Opinions on firm size (own presentation)

Opinions on international experience

One approach was to link international experience with the risk of making mistakes. It was stated that companies with more international experience know the dos and don'ts of internationalisation within their branches. Furthermore, it was mentioned that experience supports a company in strategic decision-making.

Opinions on product

Two experts mentioned the cost of transportation. If these costs are too high, it is not possible to sell the product in the target market. Another stated factor was that products with low storage stability cannot be transported for as long as products

with high storage stability, and, therefore, it may be necessary to have a subsidiary in the target country.

Experts mentioned that if the product is good and differentiated, it will sell easily. While experts in the field of internationalisation had the opinion that it is possible to sell a quality product at a higher price if there is a clear USP, experts in the UK horticultural industry stated that local companies are very price sensitive and accept lower quality for a lower price.

Opinions on sociocultural differences

The statements about sociocultural differences were reduced to the actual differences that the experts have noticed during their business partnerships. Their common opinion is that the UK market is completely different than markets in the rest of Europe. Six experts in the UK horticultural industry underlined that the mentality in purchasing is completely different. Companies in the United Kingdom were described as less loyal; if a competitor offers a lower price, the company changes the supplier, sometimes even if the quality is worse. Although the United Kingdom is known as “the gardening nation,” quality requirements are lower than in other countries. Moreover, business relationships need time to develop there, and there are long-term negotiations before contracts are drawn. Companies need to be aware that even if negotiations seem promising due to the polite manners, it can still take years to reach a settlement.

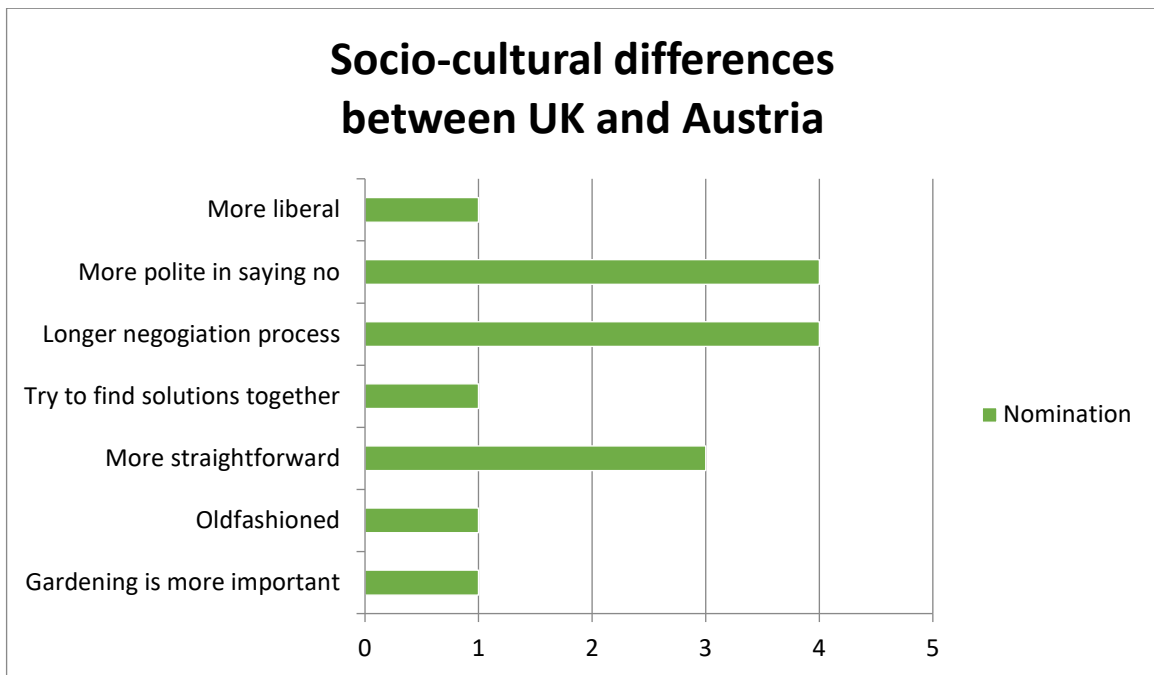


Figure 25: Sociocultural differences between the United Kingdom and Austria (own presentation)

Opinions on country risk

The interviewees stated overall that in their opinions, the country risk in the United Kingdom is low (ten). Nevertheless, the currency risk with the pound sterling was pronounced as high by five experts since currency fluctuation has a strong impact on success and the pound is unstable. One expert stated that the public atmosphere is heated due to Brexit, which could lead to a boycott of foreign products.

Opinions on market size and growth

The question about the size of the UK horticultural market could not be answered with any actual numbers, but all the experts had the opinion that this market is huge; three called it the biggest market in Europe. Regarding the development of this market, two interviewees said it would shrink due to Brexit, and the others believe it will be stable or even have a slight growth.

Opinions on direct and indirect trade barriers

All experts mentioned Brexit and the trade barriers that might occur. Even if the UK government does not establish tariffs, there will be higher costs due to more bureaucracy. The horticultural industry experts shared the opinion that the UK

government might use Brexit to install standards and regulations on the import of plants as is the case in Norway.

The theoretical part of this thesis states that local preference can be an indirect trade barrier. On this topic, the opinion of the interviewees is clear: people in the United Kingdom have no preference to buy local products. In some categories, there are products that differentiate themselves by local production, but most consumers are not willing to spend more money on them.

Opinions on intensity of competition

Although the UK market is large, the density of competitors is high, according to the experts. Moreover, the UK horticultural market experts mentioned that companies are easily replaced since the market is strongly driven by price.

Opinions on small numbers of relevant export intermediaries available

There was no clear consensus on the possibility of finding licencing partners or contract manufacturers since obtaining intermediaries strongly depends on the specifications of the contract. Furthermore, the threats of contract manufacturing and licencing were pointed out.

The answer was negative about the existence of indirect export intermediaries, although it was stated that there are many agents and distributors available. Four experts also mentioned that the number of relevant intermediaries for Baumschule Steiner is low and that it is hard to start doing business with them, making the process of accessing this channel very long.

Opinions on transaction costs

The percentage rate that agents charge in the horticultural industry has a broad range, starting at 1 to 2% if a company can find a young, motivated agent who really wants to sell its product. The highest rate named was 7 to 8%.

8.3.7 Opinions on the global marketing programme with a focus on promotion

This section delivers the results of the interviews on promotion strategy. The first part deals with standardisation and differentiation, followed by recommendations on the communication platform.

Opinions on standardisation and differentiation

With standardisation and differentiation, most interviewees mentioned that it is important for entering companies to have a name which English-speaking people can pronounce. One expert underscored the importance of a professional campaign since expectations are that it should be 100% perfect. It is not enough to translate existing materials into English, so working with a UK agency is recommended.

Opinions on the communication platform

When asking which communication medium could be used to find partners for each entry mode, one clear answer was that networking is very important and highly effective. Every interviewee underlined the importance of direct contact. For example, an ambassador of the company must take part in important events for the horticultural industry. Moreover, a common opinion was that mailings are ineffectual and will not work.

Another suggested platform was trade shows. According to the interviewees there are two major trade shows for the B2B market in the United Kingdom: the Four Oak Trade Show in September, which was mentioned as a must since everyone in the market visits it, and the Glee, which focuses on gardening hardware and is therefore less important for Baumschule Steiner.

Three experts cited sampling as a measure to reach home improvement stores and garden centres. Company representatives would visit garden centres and leave samples as an efficient way to reach new customers.

Others mentioned that the company should create awareness in the horticultural branch by publishing articles in journals or contacting opinion leaders, which can be associations like the Royal Horticultural Society (RHS) or persons like Fergus Garrett. One way to get in touch with them is to send them plants which they can feature in their show gardens.

For a better overview, the communication platforms are combined with the entry modes in the following table:

Communication platform	Export mode	Intermediate mode	Hierarchical mode
Trade shows	X	X	X
Sampling			X
Networking	X	X	X
Personal selling	X		X
Public relation	X	X	X
Opinion leader	X	X	X

Table 7: Communication platforms named by interviewees (own presentation)

Opinions on the communication budget

The question of which method the company should use for communication brought no clear result. A common opinion was that the spending on communication should not be disproportionately high compared to the revenue. It was stated that a market entry is more expensive, but in the long run, the company must earn this money back (six). Moreover, marketing expenses are higher in a high tense market like the UK one.

8.4 Implication—market entry mode decision model by Hollensen

The implication combines the results of the secondary research with those of the primary research and the company data. These results are interpreted according to Hollensen’s market entry mode selection model. Therefore, each factor indicates either internalisation or externalisation. At the end of this section, the results are summarised in a checklist.

For a validation of the model, the experts on internationalisation named factors which, in their opinions, influence the market entry mode decision. Most of the factors defined by Hollensen were also cited by the experts, who named one additional factor: the mode must enable access to potential customers. Although this factor has not been added to the model, after the selection, the company must review if the chosen mode allows access to potential customers.

Firm size

The firm size, as an internal factor, influences the choice of entry mode. As stated, Baumschule Steiner GmbH is an SME, and the size of the firm, as an indicator of limited resources, indicates externalisation and an export or intermediate entry mode. The experts in internationalisation confirmed these theoretical findings, with the majority stating that smaller companies have fewer resources. However, a strategic alliance helps to overcome these weaknesses in SMEs.

International experience

Baumschule Steiner is already highly experienced in international business and uses a broad range of modes: exporting via distributors, cooperating with two contract manufacturers in Germany, and possessing a domestic sales force. According to the entry mode decision model, this established international experience indicates internalisation.

Product complexity and differentiation of Robustico

Robustico is positioned as the substitute for box trees which is resistant to box pests and diseases; this should differentiate it from other structural plants. Although the level of awareness in Europe is increasing, the product is unknown in the United Kingdom. This is a sign for an export entry mode.

Furthermore, the product has a low complexity because the treatment of the plant does not differ from that of other structural plants, which also indicates an export mode.

The last component of the product which influences market entry is the cost of transportation. The value-weight ratio, when compared to products like watches, is rather low. To keep the cost of transportation and the subsequent sales price low, home country production is recommended. This indicates an intermediate or a hierarchical mode.

To summarise, the complexity and differentiation indicate an export mode, whereas the costs of transportation indicate a production in the target market. The only mode which fulfils this requirement is intermediate entry. Hence, the factor product indicates an export and intermediate mode.

Sociocultural differences between Austria and the United Kingdom

The result of the primary research is that the behaviour in a UK business relationship strongly differs from other European countries. Therefore, it is wise to find a partner who is already used to this business behaviour and has experience with negotiations. This indicates externalisation, which means an export or intermediate mode where the sales force is outsourced like it is for licencing.

UK country risk

The statements about the country risk factor were very diverse. Even if most experts had the opinion that the United Kingdom is low risk, its currency is a big issue. Furthermore, a company should not underestimate the uncertainty due to Brexit. Hence, there is no clear result on the factor of country risk, and no mode is indicated.

Market size and growth of the UK horticultural market

This forecast on market growth from the secondary and primary research is conservative. Although the UK horticultural market is big compared to other markets in Europe, its size when compared to the economic size of the country is not outstanding. There are many industries in the United Kingdom with more financial power. The expected market growth of the horticultural industry is moderate, so the size and growth of this market leads to the conclusion that the company should choose an export entry mode.

Direct and indirect trade barriers in the United Kingdom

Until 2020, there will be no additional trade barriers in the United Kingdom, but after this transition date, the chances are high. Furthermore, there is a threat of new standards and import regulations for plants. The recommended mode is externalisation.

Intensity of competition in the UK horticultural industry

The findings of the secondary and primary research show that the UK horticultural market is highly competitive, which indicates externalisation.

Number of export intermediaries in the United Kingdom

The outcome of the primary research shows that the number of relevant intermediaries for Baumschule Steiner GmbH is low. No matter what entry mode the company selects (as described in the theoretical part), a small number of available intermediaries leads to opportunistic behaviour, which leads to higher costs. Therefore, this factor indicates internationalisation.

Baumschule Steiner's readiness to assume risk

The owners of Baumschule Steiner have shown throughout their history that they are open to new ways and willing to invest money in projects they believe in. This leads to the conclusion that the company is willing to take risks. This behaviour is connected to internalisation, and therefore a hierarchical entry mode should be selected.

Baumschule Steiner's need for control

In 2016, Baumschule Steiner started to work with a contract manufacturer which produces plants and seedlings for the company. This nursery is its long-term business partner and is therefore well trusted. In this case, the company only takes a few measures to ensure the quality of the product, but the need for control is rather low. If the company is dealing with new business partner, this need would be much higher. Currently, the company has no long-term, trusted business partner in the UK market. Therefore, the need for control is high, which indicates a hierarchical entry mode.

Baumschule Steiner's need for flexibility

The management has the opinion that flexibility is a key success factor for SMEs. Therefore, the company wants to stay flexible when it starts new projects. This need for flexibility is connected to externalisation and an export mode.

Baumschule Steiner's structure of knowhow

The knowhow needed to produce plants is mostly explicit. The knowledge needed to produce plants—for example, the right way to cut them or the amount of fertilizer used—can be summarised in manuals. The fact that the knowledge is easy to transfer favours internalisation. Nevertheless, the company must be careful when it comes to an intermediate entry mode. The production data that a company hands over to its licencing partners or contract manufacturers gives them

the knowhow to produce plants with the same quality as Baumschule Steiner. Therefore, the risk arises that the contract manufacturer or licencing partner will become a competitor. The recommended entry mode for this factor is hierarchical.

Transaction costs of internationalisation

At this point, the question is whether it is cheaper to handle sales and customer support within the company or outside of it. Therefore, the costs of a company's own sales representative must be compared with the costs of an agent or distributor.

In Austria, a sales manager earns between EUR 2,550 and 4,550 per month (cf. karriere.at 2018). The basis for the calculation is EUR 3,000, which causes hourly costs of EUR 30.53 (cf. Aura Treuhand GmbH). Based on experience with other countries, the company estimates 500 working hours a year. This excludes the time it would spend on finding an agent.

The range of costs for an agent is broad, according to the experts. The estimation for the fee is 5% of the revenue, excluding cost of transportation. The revenue estimation starts at EUR 300,000 and increases by 100,000 every year.

		Year 1	Year 2	Year 3
		EUR 300,000.00	EUR 400,000.00	EUR 500,000.00
Own Representative	500 x 30.53	EUR 15,265.00	EUR 15,265.00	EUR 15,265.00
Agent	5%	EUR 15,000.00	EUR 20,000.00	EUR 25,000.00

Table 8: Costs for export and hierarchical modes (own presentation)

This factor strongly depends on the basis for the calculation. The table shows that there is no clear result about which mode is more suitable. Therefore, this factor is left with no answer.

In summary, seven factors indicate an export entry mode, followed by five factors which indicate a hierarchical mode, and four factors which indicate an intermediary mode.

	Export	Intermediary	Hierarchical
	Externalise		Internalise
Firm size	X	X	
International experience			X
Product	X	X	
Socio-cultural distance	X	X	
Country risk			
Market size and growth	X		
Direct and indirect trade barriers	X		
Intensity of competition	X	X	
Small number of relevant export intermediaries available			X
Risk averse			X
Control			X
Flexibility	X		
Tacit nature of know-how			X
Transaction costs			
Result	7	4	5

Table 9: Entry mode selection (own presentation)

The outcome of the market entry mode selection model, and therefore the answer to the research question, is that the most suitable entry mode for Baumschule Steiner is export. This result also confirms the opinion of the experts since, during the primary research, the export entry mode had the highest number of nominations.

9 Market entry concept for Baumschule Steiner

As introduced in the theoretical part of this thesis, Hollensen's decision-oriented approach has been selected as the market entry concept. The development of this concept is based on the results of the research. The first two steps of the market entry concept, which have already been undertaken, are provided in the appendix.

9.1 Market entry strategy for Baumschule Steiner

In an earlier section, three different types of entry modes are described. These were evaluated during the research, and the outcome was that Baumschule Steiner should select an export entry mode. Hence, the company can choose either direct or indirect export. Indirect export means to find an export partner within the home country, and the sales are processed as domestic sales. Possible intermediaries for indirect export are:

- Brokers
- Export management companies
- Trading companies
- Piggybacking

Currently, the company is not aware of any of these intermediaries available in the Austrian market. Furthermore, none of the experts could name an indirect export intermediary. Therefore, the more relevant export mode for the company is direct. The possible intermediaries for direct export are either agents or distributors.

For the Baumschule Steiner, the right partner during the market entry is essential. Possible ways to find and get in touch with potential distributors and agents are provided in the section 9.2.3.2 Recommendation on the communication platform. Therefore, the company must do a detailed selection upfront. For this selection, the following criteria are recommended:

- Distributor or agent acts in the relevant sales area.
- Distributor or agent has access to the relevant customer.
- There are no direct competitive products in the programme.
- Qualified staff with the needed knowhow to sell plants.
- Expertise in marketing and sales activities.
- Mutuality of interests and common purpose.

This information must be collected through a preliminary screening of available data. Potential sources for this data are the company website and brochures.

In a second step, Baumschule Steiner GmbH should negotiate directly with the most potential partner and get more insights. In the last step, the company must combine the findings, compare the results, and decide which partner to select.

Subsequently, an export contract must be established. The contract clarifies rights and duties of the Baumschule Steiner and the export intermediary. Due to the uncertainty caused by Brexit, the contract should contain this scenario as well as which party must pay for higher costs and possible customs. As for currency risk, the company should either try to split the risk by defining a fluctuation corridor in the contract or find suitable insurance. Moreover, Baumschule Steiner should consult a legal advisor to check the contract.

After its first introduction to the market, the company can start looking for potential contract manufacturer and licencing partners. As already mentioned, it has experience in working with both and is primarily looking for partners with the knowhow and machinery to produce plants not experience with producing ilex, the genus of Robustico. Baumschule Steiner GmbH delivers supplies like pots, labels, and substratum as well as the knowhow for production. In a second step, when the company has generated market knowledge, it can transfer the contract manufacturing and licencing process to the United Kingdom.

One main advantage of an intermediate entry mode, and therefore a production in the country, is lower costs of transportation. Moreover, the company avoid import regulations which might occur due because of Brexit.

For the selection of the contract manufacturer or licencing partner, the company must also define criteria that this intermediary must fulfil, including experience and knowledge in plant production, which has an influence on the quality of the products. Furthermore, it is important that the potential intermediary does not produce competitive goods. Other crucial factors are the financial situation, the location, and the production capacity. To gain such information needed for selection, the company should directly contact potential intermediaries.

The recommendation of the author is rather to find a contract manufacturer than a licencing partner. This has several reasons. First, the company build up distribution channels and selects distributors and agents, by using a licencing mode these channels get redundant, because the licensee uses its own channels. Moreover, costs may arise, as for example compensation payments to agents.

Another risk that occurs is the loss of customers, if the licencing partner is not able to serve the market or has no access to the existing channels.



Figure 26: Export process of Baumschule Steiner GmbH (own presentation)

9.2 Designing the global marketing programme for Baumschule Steiner

Now that the entry mode has been selected, the marketing mix must be developed. This section provides recommendations for Baumschule Steiner GmbH’s communication.

9.2.1 *Standardisation and differentiation of the marketing programme for Baumschule Steiner*

When Baumschule Steiner was creating the name for its new product Robustico, it chose one that can be adapted to the most common European languages and has no different meaning in other countries. For the promotion, the experts recommend adapting all communications to British English for entry into the UK market.

9.2.2 *Positioning strategy of Robustico*

The positioning strategy is the guideline for the marketing mix. The strategy style is the competitive behaviour selected by Baumschule Steiner, which is a niche provider, and the plants is a niche product of the horticultural industry. The benefits of Robustico on offer include that the plant has a high quality as a result of the production process. Special cuttings and high-quality parent material deliver the basis for high-quality plants. Due to a special treatment and knowhow in fertilisation, Baumschule Steiner can grow plants that are strong and robust. The cultivar that the company has selected for its Robustico has a good hardiness and healthy-looking foliage. While the leaves and growth are similar to those of the box, the Robustico is resistant to established pests and diseases.

The target group prioritised by Baumschule Steiner is already explained in the section on deciding which markets to enter. Due to the outcome of the market entry mode selection, its target group in the UK horticultural market consists of agents and distributors who have access to home improvement stores and garden centres.

9.2.3 Communication strategy for Baumschule Steiner

Because of the selection of the export entry mode, communication is oriented towards the distributors and agents. Nevertheless, these represent an intermediate stage to the customer. Therefore, it is important to design the communication not only for the intermediaries but also for the consumer. Furthermore, the communication should support the distributors and agents in selling the products to customers.

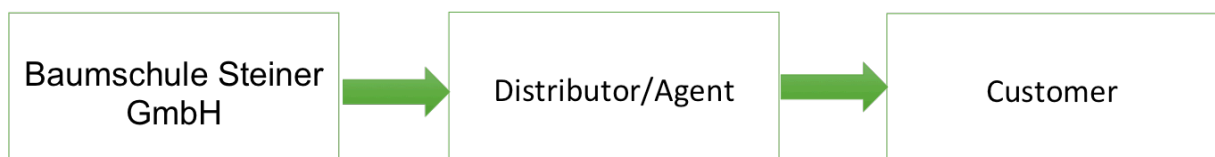


Figure 27: Communication flow for direct export (own presentation)

The recommendations for communication are a combination of the findings in the literature research and the secondary and primary analyses.

9.2.3.1 Recommendation on the communication message

As described earlier, the communication message should be transferred into a foreign country context. During the interviews, the experts mentioned that it is crucial in the UK market that the marketing appearance and language are perfect. Therefore, the company should work with a local marketing agency which is experienced in the horticultural market.

Moreover, the company must pay attention to its own message too. As the experts in the horticultural market stated, the quality is not as important as in other countries and might not lead to a buying decision. An insight from the interviews was that UK customers do not like plants that need a lot of care. Hence, Baumschule Steiner can transfer this knowledge and communicate the low-

maintenance care and nurture for its plants because customers do not need much fertiliser or pesticides.

The second benefit communicated by the company is the resistance to box diseases and pests, which should be closely monitored. If occurrence is low or nonexistent, that should be the focus of communication.

9.2.3.2 Recommendation on the communication platform

This section provides recommendations for communication platforms that the company can use to get in touch with agents and distributors, support the intermediaries, and enhance awareness of Baumschule Steiner in the market. Moreover, these recommendations contain expert advice from the primary research.

Direct contact with distributor or agent

The selection of a good agent or distributor is crucial for market entry. In this phase, the agent or distributor has a high influence on the failure or success of the market entry. The first step for Baumschule Steiner is to request a list of distributors from Außenwirtschaftscenter London. In a second step, the company must contact distributors with access to home improvement stores and garden centres. As a source of information, the company can use brochures and the website of the distributors. The first contact can be a phone call during which the responsible person briefly describes the company and the product. Moreover, the company can reference its presence in other European countries to outline the success of the product. If the distributor is interested in representing the Robustico, further information will be sent.

To get a list of potential agents is unfortunately not as easy as it is for distributors since UK agents do not have a central organisation which provides contact information. The company can try to use search engines or attend trade shows to find potential agents. The next steps are the same as for distributors: direct contact via phone, and if interest is shown, send further information.

After the first contact and preselecting, Baumschule Steiner GmbH should organise face-to-face meetings in either its home country or the United Kingdom,

which can be connected with a trade show. The final selection should follow as described in section 9.1 Market entry strategy for Baumschule Steiner.

Trade shows

Trade show should be used to get in touch with agents and distributors, meet potential customers, and get direct feedback on the product. The company should book a medium-sized stand with enough space to represent all variations of Robustico that the company offers. For the presentation, the company can use the equipment that comes with the existing stand.

To gain attention upfront, the company should announce the exhibition in *HorticultureWeek*. The Four Oaks Trade Show is sponsored by this journal, and so articles about the show will be published. The company announcement should contain its communication message for the United Kingdom and the number of the stand at the exhibition.

As an outcome of this fair, the company should have at least five contacts for potential distributors and agents with whom it should stay in touch to continue negotiations and networking.

Networking

According to the experts, networking is essential in the United Kingdom. To build up a network, the company should work with organisations like the Horticultural Trade Association (HTA) and the Royal Horticultural Society (RHS). The former offers memberships, provides market analyses for its members, and hosts a conference in November, which could be a great opportunity for the company to network.

Sampling

In the United Kingdom, opinion leaders maintain show gardens to test new plants. These gardens are open to visitors. According to an interviewee, Fergus Garrett is one of the most popular opinion leaders in the UK horticultural market. Therefore, the company should get in touch with him and provide samples for his show garden.

Moreover, the RHS runs a show garden too, so Baumschule Steiner should provide samples for it. This could be a great opportunity to get in touch with opinion leaders and create awareness in the end customer. Furthermore, the company can use the feedback to improve the product.

Website

Nowadays, a web appearance is indispensable. As mentioned, a professional appearance in perfect British English is crucial. Therefore, the company should create a new website for the UK market with a .co.uk domain. The content and layout should be created in cooperation with a UK marketing agency that has experience in the horticultural market. The content should attract distributors and agents as well as potential customers such as garden centres and provide information about the product for the end customer. To generate the necessary traffic, the page should be optimised for search engines.

Brochures

Besides the website, the company should recreate the existing brochure with help from a UK marketing agency. The content of the brochure should complement that of the website.

9.2.3.3 Communication budget of Baumschule Steiner

An important point in market entry is its costs. For the marketing mix during entry, the company released a budget of EUR 100,000. In theory, there are several methods to allocate the marketing budget. During the primary research, the experts were also asked about the best method for allocation, and the response was to connect the budget to the revenue. The total costs of the recommended communication measures are EUR 37,600, without personnel costs. The following section provides an action-and-cost plan for communication measures.

9.2.4 Action and budgeting plans

Recommended Action	Information	Estimated costs	Implemented by	Time
Recreation of communication message	Done by a local marketing agency	EUR 5,000	Sabrina Steiner	Start now
Get list of distributors	From the Außenwirtschaftscenter in London	-	Sabrina Steiner	Start now
Contact selected distributors	Call distributors which might fit according to their prospects and send them further information	Personnel costs	Sabrina Steiner	July 2018
Exhibit at Four Oaks Trade Show	Rent for stand, including supplies = about EUR 1,000; transport of exhibition goods to the show and back = EUR 700; flight for two people = EUR 400; Airbnb near trade show for five nights = EUR 400; announcement in <i>HorticulturalWeek</i> = EUR 2,000	Personnel costs plus EUR 4,500 without transport and food	Sabrina Steiner, Hermann Steiner	September 2018
Join the HTA	Annual membership = EUR 500	EUR 500	Sabrina Steiner	June 2018
Visit conference of the HTA	Rate for conference = EUR 300, flight = EUR 200	Personnel costs plus EUR 500 without transport and food	Sabrina Steiner	November 2018
Get in touch with RHS	Contact the RHS and send samples for the show gardens; try to get an article in their magazine	EUR 50	Sabrina Steiner	Start now
Get in touch with Fergus Garrett	Send samples for the show garden	EUR 50	Sabrina Steiner	Start now
Set up UK Robustico website	Done by a local marketing agency	EUR 15,000	Sabrina Steiner	Start now
Recreate Robustico brochures	Done by a local marketing agency, including print	EUR 7,000	Sabrina Steiner	Start now

Contact and personally meet possible agents and distributors	Visit them directly at their offices or invite them to the nursery. The costs depend on the number of potential distributors and agents.	EUR 5,000	Sabrina Steiner, Hermann Steiner	September 2018
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Table 10: Action and budgeting plan (own presentation)

9.3 Recommendation for further action

The product, price, and place are not part of this master's thesis. Hence, the following section provides recommendations for further action based on the theoretical part and results of the analyses.

In the existing markets, the plant Robustico is available in different cuttings and pot sizes. For the market entry, the company must analyse the range of sizes of Robustico that they offer to the UK market and evaluate which are the most promising sizes for this market. Furthermore, the company must adapt the labelling to the UK market. Besides these product decisions, the company needs to find a pricing strategy for the market entry. Experience from potential agents and distributors can help in selecting a strategy. Moreover, the company must find the right logistical partner for the UK market since well-planned logistics are crucial in this industry.

The last phase of Hollensen's decision-oriented approach is the implementation and coordination of the global marketing programme, which includes the organisational structure of internationalisation. Over the past few years, the company has been continuously growing and has started to increase its internationalisation. Therefore, it is recommended to evaluate its organisational structure to determine if it still fits the processes. This last phase also deals with controlling the internationalisation. To make the right decisions during this process, the company should use KPIs. The author's recommendation is to use ROI to monitor the development of the market entry. The costs of the market entry have to be in relation to the earnings. The determined 300.000 euros revenue has to be increased in the following years.

10 Conclusion

The conclusion is the reflection of this master's thesis. It outlines the lessons and obstacles which the author encountered.

To support the company and structure its entry into the UK horticultural market, an entry concept was developed based on literature review and market research. The concept has a strong focus on the selection of the entry mode and the communication.

First, the question of the most suitable entry mode was answered, with the outcome being export, which is discussed in more detail. Recommendations on the selection of a partner for the market entry were provided. Furthermore, recommendations on communication were given and summarised in an action plan, with estimated costs and a timeframe.

One of the main findings is that the UK horticultural market is highly competitive. Therefore, it is important that the market entry is well planned. Another finding which was supported by the experts is that this target market differs from those in the rest of Europe, reinforcing how important it is to have an excellent partner for market entry. Nevertheless, as an SME, the company should keep one of its biggest strengths: its flexibility to adapt to the ongoing changes within the UK horticultural market.

Finally, the author of this thesis hopes that the concept and recommendations support the company during its market entry and contribute to the future success of Baumschule Steiner GmbH.

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1 Market entry concepts

The theoretical part of this paper describes different market entry concepts, and this section delivers more information about them.

1.1 Five-stage model

This model, developed by Fuchs and Apfelthaler, consists of five stages that a company undergoes during the internationalisation process: (1) corporate readiness, (2) portfolio analysis, (3) target market selection, (4) entry mode decision, (5) planning and implementation of the marketing mix. The process in this five-stage model is iterative, meaning a stage is never totally completed. New information must be integrated into the process; consequently, decisions which have already been made can become invalid. Thus, the company must return to the appropriate stage and make new decisions, now with better information. (cf. Fuchs/Apfelthaler 2009, p. 270–275)

The first step in this concept is corporate readiness, an aspect of which is to have the right motives for internationalisation. Furthermore, the strategic orientation is important. Such international strategies can be, for example, ethnocentric, polycentric, or geocentric. Moreover, a company must consider if it can handle the increased complexity with its existing resources. Additional factors which influence corporate readiness are experience in internationalisation, characteristics of the management, company size, and the age of the organisation. (cf. Fuchs/Apfelthaler 2009, p. 277–285)

After checking for corporate readiness, the company analyses if there are products in its portfolio which have the potential to be internationally successful. In this phase, a company defines its optimum between standardisation and product adaptation. (cf. Fuchs/Apfelthaler 2009, p. 287–298)

To avoid wasting resources and to oversee high potential markets, a target market selection must be undertaken. This selection can be a multilevel process. By defining criteria and assessing risks, the company receives its target markets. Subsequently, new customer groups are identified, and the market must be segmented. It is assumed that a product which is successful in the home country

will be successful in the target country when the customer groups have a strong similarity. (cf. Fuchs/ Apfelthaler 2009, p. 300–316)

The next step is the entry mode decision. Therefore, this model differentiates functional entry strategies as export, licencing and franchising, and institutional strategies such as alliances, joint ventures, mergers, and foreign direct investment. There are several approaches to choosing the entry mode. (cf. Fuchs/Apfelthaler 2009, p. 318–390)

The last step is the planning and implementation of the marketing mix. The company must define its targets for the new market and make decisions about the four Ps of the marketing mix. (cf. Fuchs/Apfelthaler 2009, p. 391–410)

1.2 International market entry strategy by Root

A different approach was developed in 1990 by Franklin R. Root. His strategy consists of (1) choice of the target product/market, (2) the objectives and goals in the target market, (3) the choice of the entry mode, (4) the marketing plan, and (5) the control system. Root strongly differentiates between his strategic approach and a sales approach, which is used by many companies. (cf. Root 1994, p. 2–5)

The two key questions at the beginning of the planning process are about which product to market and to which countries. An instrument which can assist managers in their choice of the right product is the global product life cycle. Furthermore, the managers must decide on the degree of standardisation or adaption. As in the five-stage model, the selection of the target country is a multilevel process (cf. Root 1994, p. 25–46). The three rules of the market entry decision and Root's strategy are explained in the section on market entry mode selection.

To design an international marketing plan, Root suggests using an international marketing concept that can guide managers to decisions according to product, pricing, channels, promotion, and logistic policies. Market segmentation must also be taken into consideration. (cf. Root 1994, 172–200)

1.3 International market entry concept by Bruns

Another famous market entry concept was developed by Bruns, a German economist, and consists of the following steps:

- Market analysis
- Country selection
- International marketing strategies
- Product policy
- Price policy
- Distribution policy
- Communication policy
- Implementation of the international marketing management

The task of the analysis is to collect information about opportunities and threats in the international market. Bruns suggest combining them with internal strengths and weaknesses in a SWOT analysis. The necessary information can be separated into two groups: one that a company can influence with the success of existing strategies or the effect of marketing instruments and another consisting of the factors over which a company has no influence or that exist in a long-term perspective such as cultural influences, competitor analysis, and market data. (cf. Bruns 2003, p. 35–38)

The country selection starts with a general overview of the potential markets and includes factors such as natural environmental influences, cultural influences, and political, legal, and socioeconomic differences. (cf. Bruns 2003, p. 69)

The fact that a company selected the right country is no guarantee of success. Therefore, a company must develop an international marketing strategy. Bruns clusters the market entry strategies in market development that do not deal with the market. This category includes indirect export, licencing, and franchising. The second category is market development with handling of the market and includes direct export, foreign direct investment, and contract manufacturing. The last group is cooperative market development and handling, including strategic alliances. Additionally, the international marketing strategy deals with the timing of the market entry. Therefore, Bruns suggests three timing strategies: waterfall, sprinkler, and bridge-head. The next step after deciding on the entry mode and

choosing a timing strategy is market segmentation, where a company splits the market into target groups for a more effective penetration. (cf. Bruns 2003, p. 92–134)

After developing the international marketing mix, the company must implement it. This means creating the general framework for international business. Therefore, a company must adapt its structure, leadership system, and internal communication. Moreover, it should consider implementing an international finance management to exploit all potentials in the international markets. To secure the target orientation within an international company, it is important to install international controlling. (cf. Bruns, p. 393–351)

2 Hollensen's market entry concept steps

This section provides information on the first steps of the market entry concept, which have already been taken by the company.

2.1 The decision whether to internationalize

The first step of Hollensen's concept is the decision about whether to internationalize, which involves motivators, triggers, and a close look at international competitiveness.

2.1.1 Internationalisation motivation of Baumschule Steiner

The motive for Baumschule Steiner to internationalise was to sell more since the Austrian horticultural market is limited. One trigger for the company to initiate internationalisation and sell to other countries was its location close to the German border. In an early stage, Baumschule Steiner already started exporting to Germany. Another trigger for the company to expand internationalisation was the box tree moth in Europe (cf. Centre of Agriculture and Bioscience International). It used this occurrence as a chance to launch its new product, Ilex creanta Robustico, as a substitute for box since it is resistant to box diseases and pests.

2.1.2 International competitiveness of Baumschule Steiner GmbH

International competitiveness can be shown by Porter's diamond. Taking a closer look at factors like human resources, it shows that Austria's labour costs are in the upper third, compared to other EU member states. (cf. Wirtschaftskammer

Österreich), yet several schools in Austria offer education programmes for the horticultural industry, providing the knowledge needed to work in this field. (cf. Landwirtschaftskammer Österreich 2017)

As for demand conditions which can initiate innovation, Austria boasts a high garden centre density. For example, Bellaflora has twenty-seven (cf. Bellaflora), Lagerhaus has more than five hundred subsidiaries (cf. Raiffeisen Ware Austria 2018), and OBI houses eighty-two subsidiaries (cf. OBI 2016).

The horticultural industry is part of the agricultural sector. Therefore, fruit and vegetable production, viticulture, and the animal feedstuff industry are related fields, sharing activities in fertilisation and substratum.

According to the last determinant of Porter's diamond—the firm, strategy, structure, and rivalry—competitors in Austria's horticultural industry are more supportive than rivalling. Associations like Bund Österreichischer Baumschul und Staudengärtner support the companies and bundle marketing activities. (cf. Bund Österreichischer Baumschul- und Staudengärtner)

The government, as an additional component in Porter's diamond, supports the industry with subsidies (cf. Landwirtschaftskammer Österreich 2017), which enhances the competitive standing of Austrian companies.

2.2 Deciding which markets to enter

The next step in Hollensen's concept is deciding which market to enter based on the relevant criteria. For Baumschule Steiner, this includes:

- Business environment risk
- Climate
- Geography
- Economic size

To measure the business environment risk, the BER index is taken into consideration. The minimum score for a country with which Baumschule Steiner wants to do business is 7.0. Yet it is not only the country risk which is important; in the horticultural industry, the climate is essential too. The company's plants are acclimated to the Austrian climate; therefore, the target market should have a

similar one. To measure this criterion, the company uses the Köppen-Geiger climate classification. The classification for the target country should be Cfa or Cfb, which means warm temperatures, fully humid and hot or warm summers. (cf. Kottek et al. 2006, p. 259 ff) The geographical criterion is that the target market should be in Europe. The size of the economy is a factor that Baumschule Steiner uses to indicate sales potential, and the indicator for this is the GDP. The company requires a GDP of at least 350 billion euros, which is the approximate GDP of Austria. (cf. Wirtschaftskammer Österreich 2017) All these criteria are fulfilled by the United Kingdom.

The first segmentation done by Baumschule Steiner is geographical. Due to the enormous size of the UK market, the company concentrates only on select regions. The country is clustered into eleven areas with different economic strengths. The largest number of business establishments is found in London with 17.3% and the South East with 16.7% of the total horticultural business establishments. (cf. IBISWorld Ltd. 2017) In addition to the number of establishments in these areas, another advantage they have is location. Trucks from Austria usually enter the country in Dover in the South East (cf. Natschläger 2018). For these reasons, Baumschule Steiner has selected London and the South East.

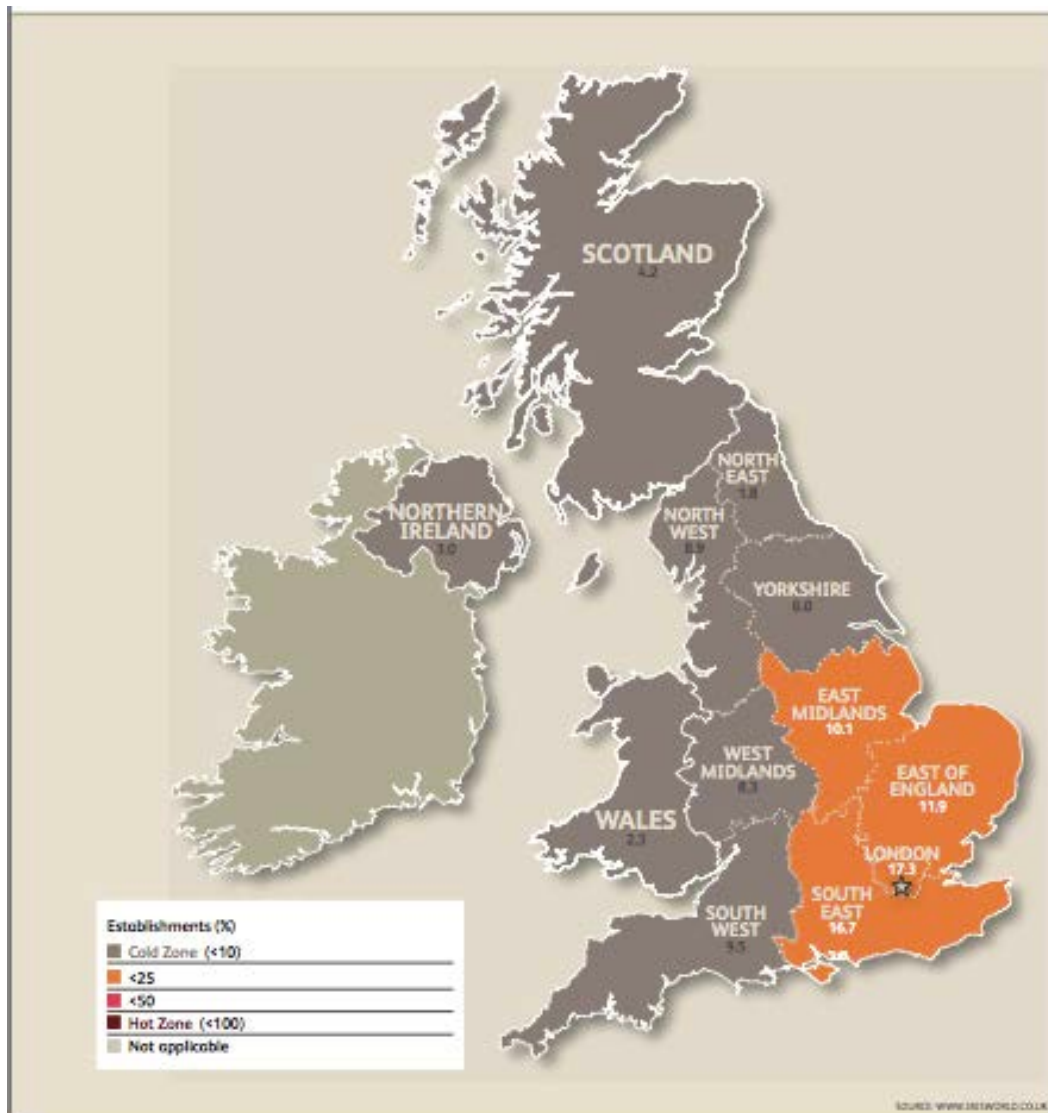


Figure 28: Horticultural business locations 2016–2017 (IBISWorld Ltd. 2017)

Through this process, the company has its focus on two customer groups: nurseries/garden centres and home improvement stores, both of which it already has business dealings with in other countries and therefore has experience with the structure and delivery process in general. Among the reasons the company chose these two targets is the size of the companies within the customer segment and the purchasing quantity they might have.

The costs for transportation from Austria to UK can be estimated at about 2,500 euros per truck (cf. Natschläger 2018). The usual range of transportation costs calculated by the company is between 8% and 10%, so to be able stay in this range, the company must find customers with high order volumes. As a guidance value, the company sets the order volume at 25,000 euros—the value of a truck filled with plants.

3 Interview Guidelines

3.1 Guideline for the experts in the field of internationalisation

<p><u>Introduction:</u></p> <p>Thank you for taking the time for this interview. I am currently working on my master's thesis as part of the master's degree programme International Marketing at the Campus 02 in Graz. The aim of the thesis is to develop a market entry concept for the UK horticultural market with a focus on the market entry mode decision and the promotion. The findings of the interview should help to select the right entry mode for Baumschule Steiner and give recommendations on the right communication.</p> <p>I hope it is fine that I record the interview for a better interpretation of the results. Are there any further questions?</p>	
1) In which parts of your work life did you already come in touch with internationalisation?	Narrative entrance
2) An Austrian SME (with limited resources and production capacity) which already has international experience wants to enter the British market. The product is new to the market and has a rather low value/weight ratio. What are possible entry modes for the company?	Evaluate the entry mode alternatives
3) Which internal and external factors have an influence on the selection of the entry mode?	Opening question for the entry mode criteria
4) What influence does the size of the company have on the market entry?	Firm size
5) What influence do the attributes of the product plants have on the market entry?	Product
6) How far do you think the existing	International experience

international experience influences the entry mode selection?	
7) Please think of United Kingdom in general. Are there sociocultural differences that influence business partnerships in United Kingdom?	Ask for sociocultural differences
8) A big topic at the moment is Brexit. How great is the influence of Brexit on the market entry?	Ask for country risk
9) Are there any problems that occur with (new) contracts due to Brexit?	Ask for country risk
10) Are there country risks which a company must consider when entering the UK market? And which impacts do they have?	Ask for country risk
11) Which parts of the marketing concept must be adopted, and which parts can be standardised?	Standardisation versus differentiation
12) Which communication platforms (instruments) would you suggest to find B2B customers?	Communication media
13) Which communication platforms (instruments) would you suggest to reach distributors and agents?	Communication media
14) Which communication platforms (instruments) would you suggest to reach contract manufacturer or licencing partners?	Communication media
15) Are there any communication platforms which were more effective than others in the B2B market entry?	Communication media and platforms
16) Which method would you recommend to allocate the communication budget?	Communication budget

Table 11: Guideline for the experts in the field of internationalisation (own presentation)

3.2 Guideline for the experts in the field of UK horticultural market

<p><u>Introduction:</u></p> <p>Thank you for taking the time for this interview. I am currently working on my master's thesis as part of the master's degree programme International Marketing at the Campus 02 in Graz. The aim of the thesis is to develop a market entry concept for the UK horticultural market with a focus on the market entry mode decision and the promotion. The findings of the interview should help to select the right entry mode for Baumschule Steiner and give recommendations on the right communication.</p> <p>I hope it is fine that I record the interview for a better interpretation of the results. Are there any further questions?</p>	
1) Please explain the UK horticultural market in general. Are there any unwritten rules which only can be known by a market insider?	Narrative entrance
2) In your opinion, what is the most appropriate entry mode for an Austrian SME which produces horticultural plants with a low value/weight ratio to enter the UK horticultural market?	Evaluate the entry mode alternatives
3) How would you describe the intensity of the competition in the horticultural industry and especially in the field of nursery plants?	Intensity of competition
4) Do you think it is possible to find a potential licencing partner or contract manufacturer which meets the quality expectations of Baumschule Steiner?	Small number of intermediaries available
5) From an actual point of view, there exist no export buying agents or brokers in the field of plants in Austria. Do you	Small number of intermediaries available

agree? If not, are there any partners you can recommend?	
6) Do you think the number of distributors and agents in the UK horticultural field is rather high or rather small?	Small number of intermediaries available
7) A big topic at the moment is Brexit. How large is the influence of Brexit on the horticultural market?	Country risk
8) Are there any problems that occur with (new) contracts due to Brexit?	Ask for country risk
9) What is the size of the UK horticultural market?	Market size
10) How will the horticultural market develop over the next few years?	Market growth
11) Are there any sociocultural differences between the UK and Austria which influence the market entry?	Sociocultural difference
12) Do trade barriers between the UK and Austria exist?	Direct and indirect trade barriers
13) Is there a trend to buy local? Is there a preference for British suppliers?	Direct and indirect trade barriers
14) Are there any standards or regulations foreign suppliers should to consider? If yes, which?	Direct and indirect trade barriers
15) What percentage does an agent that operates in the UK generally charge?	Transaction cost
16) Which parts of a marketing strategy should be adapted, and which parts can be standardised?	Standardisation versus differentiation
17) Which communication platforms (instruments) would you suggest to find B2B customers?	Communication media

18) Which communication platforms (instruments) would you suggest to reach distributors and agents?	Communication media
19) Which communication platforms (instruments) would you suggest to reach contract manufacturer or licencing partners?	Communication media

Table 12: Guideline for the experts in the field of internationalisation (own presentation)