MASTER THESIS

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International Marketing

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ELABORATION OF A B2B MARKET

SELECTION CONCEPT

on the example of LOGICDATA entering APAC

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Sajach, 24 June 2019

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 the sources of both 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.

Sajach, 24 June 2019

Bettina Lamprecht

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

Länder in der asiatisch-pazifischen Region, besonders China, sind für Unternehmen zunehmend attraktiv, um dort zu operieren. Allerdings nur weil Organisationen spezifische Märkte betreten, muss das nicht zwingend bedeuten, dass diese Länder auch für andere Firmen attraktiv sind. Der asiatisch-pazifische Raum besteht aus vielen Märkten, um den richtigen Markt mit dem höchsten Potential auszuwählen, ist ein strukturierter Marktselektionsprozess erforderlich.

LOGICDATA steht genau an dieser Stelle. Das Unternehmen hat bereits drei potentielle Märkte vorselektiert, Japan, China und Australien. Wegen der Verfügbarkeit von Ressourcen kann das Unternehmen jedoch nur eines dieser Länder betreten. Des Weiteren verfügt LOGICDATA nicht über das nötige Markt-Knowhow, um den richtigen Markt auszuwählen. Daher ist das Ziel dieser Masterarbeit, ein B2B Marktselektionskonzept für das Unternehmen LOGICDATA hinsichtlich seines Zieles den APAC Raum zu betreten, zu erstellen.

Das Marktselektionskonzept basiert auf einer einstufigen Marktselektionsmethode. Das bedeutet, dass alle drei Länder auf Grundlage der gleichen Kriterien und im gleichen Ausmaß analysiert werden. Diese Methode ist dann besonders passend, wenn die Anzahl der potentiellen Länder klein ist. Im Gegensatz, wenn ein Unternehmen mehr als fünf Länder in die engere Auswahl nimmt, ist eine mehrstufige Methode für eine Marktselektion besser geeignet. Um die unterschiedlichen Märkte zu vergleichen, ist es notwendig, relevante Marktselektionskriterien zu definieren, welche Marktattraktivität, Markteintrittsbarrieren und Marktrisiko umfassen.

Im Zuge dieser Arbeit wurde eine Sekundärmarktforschung durchgeführt, um benötigte Marktdaten zu erlangen, welche als Grundlage für die Bewertung von Ländern dient. Zusätzlich wurden Interviews mit Experten gemacht, um weitere Informationen zu erlangen und die Erkenntnisse der Sekundärmarktforschung zu überprüfen. Der Vergleich der drei vorselektierten Länder lieferte ein zweifelhaftes Ergebnis. Japan und Australien erreichten einen ähnlichen Punktestand, was bedeutet, dass eine eindeutige Länderauswahl nicht möglich ist. Nichtsdestotrotz beinhaltet die Arbeit Empfehlungen für LOGICDATA, welche weiteren Maßnahmen notwendig sind, um den Markt mit dem höchsten Potential auszuwählen.

Abstract

Countries in the Asian Pacific region are increasingly attractive for companies to do business with, especially China. However, just because companies enter specific markets does not necessarily mean that these countries are also potential markets for other companies. The Asian Pacific market consists of various countries that could be potential markets. In order to select the market with the highest potential among these countries, a structured market selection process is essential.

LOGICDATA finds itself at this point. It has already preselected three potential markets, Japan, China, and Australia. However, the organization can only enter one of these markets due to the availability of resources. Additionally, LOGICDATA does not have enough market intelligence in these countries to choose the most promising market independently. Therefore, the objective of this Master's Thesis is the elaboration of a B2B market selection concept for the company LOGICDATA, in relation to its aims of entering the APAC region.

The market selection concept is based on a one-stage market selection method. This means that all three countries are screened based on the same criteria and to the same extent. This method is especially appropriate when the number of potential countries is small. In contrast, if a company considers more than five countries, a multistage method is better-suited to market selection. In order to compare the different markets, it is necessary to define relevant market selection criteria related to market attractiveness, market barriers to entry, and market risk.

Throughout this thesis, secondary market research is performed for collecting the required market data, which serves as a basis for the evaluation of each country. Furthermore, expert interviews are conducted to gain additional information and verify the findings of the secondary research. The comparison of the three preselected countries resulted an outcome that was not beyond doubt. Japan and Australia achieved a similar score, which meant that a clear recommendation on which market to enter was not possible. Nevertheless, the thesis includes derived recommendations for LOGICDATA, including which further actions are necessary in order to select the market with the highest potential.

Table of contents

List of figures

List of tables

List of abbreviations

APAC	Asia-Pacific
B2B	Business-to-Business
BERI	Business Environment Risk Intelligence
BU	Business Unit
CLT	Cross Laminated Timber
CPI	Consumer Price Index
FDI	Foreign Direct Investment
IMS	International Market Selection
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
KPI	Key Performance Indicator
MNE	Multinational Enterprise
M&RC	Manufacturers-Retailers
OBOR	One Belt, One Road
ORI	Operations Risk Index
POR	Profit Opportunity Recommendation
PRI	Political Risk Index
R&D	Research & Development
R-factor	Remittance and Repatriation Factor
SME	Small and Medium-sized Enterprises
WTO	World Trade Organization

1 Introduction

1.1 Initial situation

The world economy has experienced continuous growth over the last decades. According to the World Trade Organization, the world economy doubled in size between 1990 to 2017 (cf. World Trade Organization 2017, p. 14). Increased wealth and reinvented living standards are the byproducts of this improved economy. These factors have also encouraged companies to internationalize their businesses (cf. Czinkota/Ronkainen/Moffett/Marinova/Marinov 2009, p. 191).

LOGICDATA is an Austrian-based company that has engaged in internationalization. Continued growth in international markets is a part of the company's strategy.

The company had been a component supplier for well-known companies within the bedding industry for many years. LOGICDATA's revenue within this business unit was generated by long-term contracts with customers. However, the business was not as lucrative as expected by the owners of the company, and it did not support the overall growth strategy. Therefore, LOGICDATA allowed the existing contracts with customers to expire and the revenue from these companies has evaporated. The company subsequently changed its product portfolio and started to develop its first independent bed system. In 2018, it launched its first complete adjustable base, the "SILVERstandard", at Las Vegas Market, the largest furniture, home décor & gift wholesale market in the Western United States. So far, LOGICDATA's customers for the new product have been furniture retailers.

The bedding industry is price sensitive. Competitors from the Asian region can offer their adjustable bed frames at a much cheaper price than LOGICDATA or its US competitors. Chinese competitors do not operate merely in the Asian region. They also do business in the North American region. Aggressive price competition forces companies to offer products that feature a high level of advanced technology. However, due to steady economic growth in parts of the Asian-Pacific region, the next step within the internationalization strategy of LOGICDATA is the assessment of sales opportunities within this region itself. First and foremost, the company focuses on the markets of China, Japan, and Australia. Mandatory criteria for pre-selection were defined as a) a promising product fit to a particular market and b) the general experience within the region (cf. Höfler 2018).

1.2 Challenge

Target markets should not be selected randomly. A market selection concept enables a structured and conceptual selection of the most promising target markets. LOGICDATA does not, as yet, have a country selection concept in place, which means it needs to start from scratch in order to select the target markets appropriately, through means of a conceptual approach.

The APAC region is very complex and differs from European and US markets enormously. So far, LOGICDATA does not have the necessary market knowledge about the APAC region to be able to find the right market and enter it successfully. Although LOGICDATA established a subsidiary in China in 2015, the main responsibility of which is the sourcing of components and raw materials, it does not have the required knowledge when it comes to identifying potential customers. Representatives from LOGICDATA were present at the CIFF in March 2018, the largest furniture trade show in the Pacific region, in order to get a better understanding about the market. Nevertheless, detailed market research is essential for the deeper understanding of potential markets, competitors, and customer needs, which are required in order to be able to select the appropriate market (cf. Höfler 2018).

1.3 Objectives

The company's objectives, as well as the objectives of this Master's thesis, focus on finding solutions to the initial situation and the described challenge.

1.3.1 Company aims

Some countries in the APAC region have displayed continuously strong economic growth over the last decades. LOGICDATA sees a high potential for the success of their products in this region. By entering the APAC region, LOGICDATA targets two key aims: achieving increased growth while simultaneously spreading risk.

Because of the aforementioned contract terminations with existing customers and due to the challenges of entering a new market segment, the total sales revenue of the LOGIC HOME business unit was only € 11,58 Million in 2017. LOGICDATA aims, through the introduction of a new product portfolio, to increase this figure to € 90 Million (a 7.7 fold increase) by the end of 2023. To meet this goal, at least 27. 7% of total sales (> € 25 Million) should be achieved in Japan, China, or Australia

within this period of time. To keep track with its goals, LOGICDATA aims to enter at least one of these new markets (Japan, China, or Australia) before 2020.

1.3.2 Thesis aim

The main objective of this Master's thesis is to elaborate a B2B country selection concept, using the example of LOGICDATA's choice of entering Japan, China, or Australia.

1.3.3 Non-objectives

- Acquisition of potential customers
- Development of a market entry concept
- Planning of the operational market entry
- Deep market analysis of the pre-selected countries
- Development of a market selection concept for other regions
- Development of a market selection concept for LOGICDATA's LOGIC OF-FICE business unit

1.4 Frame of reference
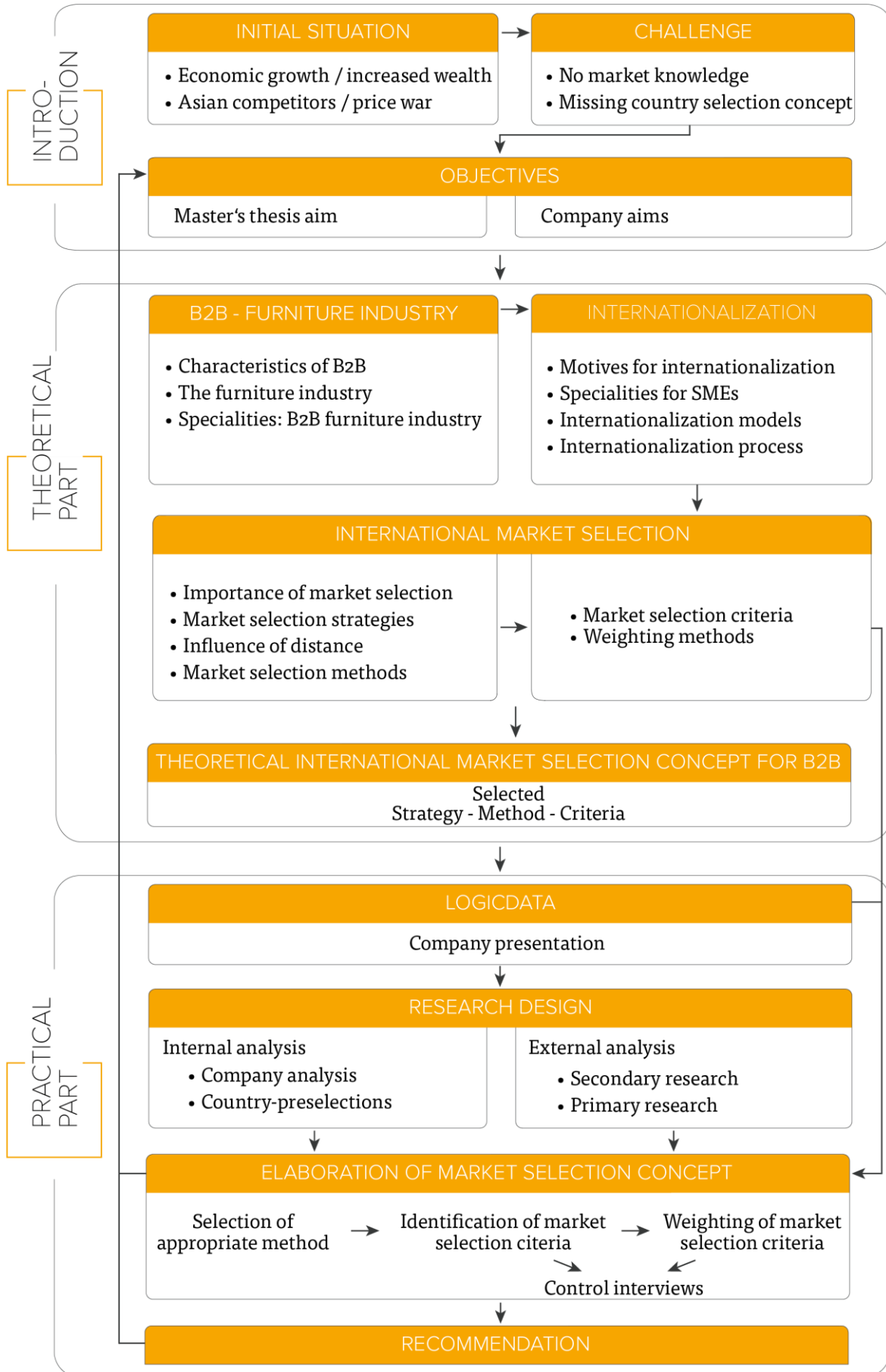
Figure 1: Frame of Reference (own presentation)

2 B2B in the furniture industry

2.1 Characteristics of Business-to-Business

Business-to-Business (B2B), is characterized by operational activities whereby two companies are involved. Companies buy goods and services from other firms for the purpose of producing their own goods and services, which they in turn sell to others. B2B also includes resale activities from organizations to retailers as well as sourcing services from others for operational reasons. In the field of B2B, organizations generally have fewer customers than firms in the business-to-consumer (B2C) sector. Buyer and seller in the B2B market have a shared mindset. They pursue a joint success mentality, because their own success depends on the other organization. Therefore, suppliers work closely together with their customers in order to offer good packages and to support them as best as they can. This attitude and style of working may form the basis of a long-term relationship between the organizations involved. Business markets also differ from consumer markets in regard to decision-making processes. These processes are more complex than those in the consumer market. In most cases, more than one person is involved in the buying decision. Consequently, the decision-making process takes longer and is more formal than in the consumer market (cf. Kotler/Armstrong 2018, p. 186-190).

Increases in the demand for consumer goods have an impact on the demand for industrial goods. This means that the demand for business products derives from the demand for consumer goods (cf. Hutt/Speh 2010, p. 13). This prompts some organizations to address their marketing activities directly to end consumers in order to increase business demand, thus boosting their B2B activities (cf. Kotler/Armstrong 2018, p. 189).

2.2 The furniture industry

The furniture industry plays an important role in the European economy, as well as in countries such as the United States, Mexico, Canada, China and Vietnam (cf. European Commission 2018; Worldatlas 2017). In the last years, the industry has achieved enormous growth. The total global revenue from exported furniture goods in 2014 was about $244,6 billion USD, of which China had a share of 38% (cf. Worldatlas 2017). The trade within the furniture industry is more inter-industry than

intra-industry (cf. Song/Gazo 2013, p. 53). Inter-industry trade means that two countries exchange distinct commodities. An example for inter-industry trade is the exchange of furniture and textiles. In contrast, intra-industry trade describes the exchange of similar goods, e.g. if one country exports domestically produced cars and imports foreign car brands (cf. Thies/Peterson 2016, p. 4).

The furniture industry's product range includes institutional, office and home furniture. This comprises products such as upholstered and non-upholstered wooden furniture as well as furniture manufactured from metal or glass. The furniture product range also includes mattresses, elements for room partitions, blinds, and shades (cf. Walcott 2013, p. 15).

The industry is characterized by a constantly changing environment. Consequently, the flexibility of firms and their competitiveness - not merely in their domestic market but also globally - are essential factors for success in the market. Additionally, distribution efficiency in the furniture sector is a crucial factor that requires a well-functioning supply chain (cf. Song/Gazo 2013, p. 54).

2.2.1 Supply Chain

The supply chain within the furniture industry is fairly complex and wide-ranging and includes a multifaceted selection of global variations (Walcott 2013, p. 29). Factors that influence a firm's supply chain management, and thus its manufacturing and sourcing strategy, can range from changing consumer attitudes, economic and trade policies, and an increasing number of sales channels (cf. Terry 2013).

Other factors are the huge variety of raw materials and semi-finished goods that are used in production in addition to global sourcing possibilities and their respective price structures (Walcott 2013, p. 19).

Wood

Wood is supplied in different varieties. These differ according to quality, type, and applied technologies. The type of wood and from which country it is sourced depends on political and geographical factors. Wood suppliers from the U.S. export their goods to China, where it is used for the production of finished or semi-finished

goods. Afterwards, many of these goods are re-exported to the U.S. for sale (Walcott 2013, p. 19).

Metal

Metal can be used in different ways in furniture design. Either the metal part is a mood piece that characterizes a design piece of furniture, or it is used for utilitarian elements. This raw material is more frequently used in the office furniture industry, mainly by companies located in Michigan. Because of its automobile factories, Michigan is the U.S.'s main producer and purchaser of steel (Walcott 2013, p. 19 - 20).

Textile Fabrics

Textile fabrics are mainly used for upholstered furniture. Manufacturers often use broad-oven fabric or synthetic products for furniture covering. The material that is used depends on utilization and which special qualities it requires, like liquid resistance. In order to keep the costs of goods sold down, furniture manufacturers use "cut and sew kits" as an alternative material to high quality textile. This material has a limited range of variants, which means limited color and quality. However, it can be easily supplied in higher quantities. Chinese companies are the main supplier of "cut and sew kits". Textile producers in the United States produce textile fabrics of a higher quality and offer customization options in either small or large quantities. Nevertheless, the number of fabric manufacturers in the U.S. has decreased over the last years because of acquisitions and mergers (Walcott 2013, p. 20).

Glass

Glass is a material that, in the industry, is mainly used for tables and in combination with other materials. Due to the limited customization possibilities of glass and its fragility, it is mostly a domestic product and is rarely exported (Walcott 2013, p. 20).

2.2.2 Leading furniture markets

The competitive landscape has changed rapidly the last decades. Two of the leading furniture markets are the United States and China (cf. Song/Gazo 2013, p. 54).

This section gives a rough overview of the two markets and how they perform.

U.S.' furniture market

The furniture industry is very important for the American economy. The industry includes goods from home furniture to cookware and gardening equipment. The industry was influenced negatively by the economic crisis. However, the furniture industry has since recovered. In 2015, retailers generated a total revenue of about 106,78 billion U.S. dollars, whereas the average annual expenditure per consumer was over 500 U.S. dollars. Consumers in the U.S. demand high-end products. Therefore, many companies specialize in this area (cf. Statista n.d.). Additionally, the Sleep Association forecasts a growth in sales of mattresses in 2019 (cf. Bed Times 2018, p. 27). However, the Trump administration published plans to introduce tariffs on Chinese products from the bedding industry, in order to protect the domestic industry, in 2018. This has had a huge impact on the U.S. mattress industry, as many imports are made by retailers (cf. Perry 2018, p. 42).

Statistics show that the furniture industry in the United States imports much more than it exports (cf. Statista n.d.). In 2018, the total import value was approximately $ 67.23 billion, while the export value was just $ 10.80 billion (cf. Statista 2018a). The discrepancy is due to the fact that Americans design and sell the goods, which are then produced in Asia (c.f. Dugan 2009, p. 3). In particular, imports of wood furniture have grown by 15 percent within the last five years. In contrast, imports of upholstered furniture increased by seven percent within the same period (cf. Slaughter 2018, p. 14).

In order to compete in the market, the U.S. furniture industry needs to focus more on innovativeness, technology and marketing. Cost-cutting and sales price-cutting strategies will not lead to the desired result (cf. Song/Gazo 2013, p. 54). Although price is a decisive determinant for customers to make a buying decision, companies also need to pay attention to product performance and attributes as they are also relevant key factors when it comes to decision making (cf. Yang/Sun/Lalwani/Janakiraman 2019, p. 145).

China's furniture market

China's furniture industry consists of more than 50.000 companies, which are mainly small- and medium-sized firms. Only three percent of companies within the furniture industry are large-size companies. Nevertheless, there is high competition within the market. The core furniture market in China is primarily restricted to four regions (cf. Giunta 2016, p. 82).

A study by the National Bureau of Statistics in 2017 showed that the total sales by furniture manufacturers had increased to approximately $ 130 billion (annual growth rate: 10.1%). China's export rates also increased by 8.8% each year from 2011 to 2015, with a total value of $ 54,3 billion in 2015 (cf. HKTDC Research 2018).

Living standards in China are improving steadily and the Chinese are willing to spend much more on home decoration goods. Increased purchasing power has resulted in a boom for the Chinese furniture industry. Chinese customers can be grouped into three types:

- Avid customers:
  This customer group belongs to the richer class. They are willing to spend a lot on expensive furniture goods, especially in western styles and classic Chinese styles.
- Luxury/branded goods customers:
  These customers attach importance to goods that reflect their taste and style. They follow trends in terms of aesthetics and lifestyle.
- Average wage-earning consumers:
  This group of customers is mainly influenced by the price and quality of products. Usually, they compare goods before making a purchase (cf. HKTDC Research 2018).

2.2.3 Competitive Strategies within the furniture industry

Newcomers, especially those from China, are changing the competitive landscape of the furniture industry. Therefore, it is even more important that existing companies differentiate from their competitors in order to compete in the market. Market participants have several possibilities to differentiate from their competitors.

Niche Products and Customization

One way of differentiation is to focus on niche products by offering customized solutions to clients. This strategy serves the high-end market due to its premium price structure. Although the niche market has a smaller customer base this strategy is effective and lucrative, because customers are willing to pay more for customized products. Consequently, revenue is high although the number of goods sold is small.

Branding

Another possibility to effectively compete in the market is to build a strong brand. A brand is an intangible resource that identifies the company or the company's products and provides information to customers, which in turn supports them in the decision-making process. Usually, a brand is connected to a specific style and gives customers an idea about the price level. Additionally, customers associate brands with a certain level of quality, longevity and reliability. If image is more important to customers than price, then the brand awareness achieved by companies is the key factor success.

Offshore Manufacturing

The term *offshore manufacturing* describes production activities outside the country in which the company is based. Generally, companies use offshore manufacturing to lower their production costs, but companies may also outsource production if another country has more expertise in manufacturing. Furniture manufacturers have followed a cost-cutting strategy since the 1990s that has seen manufacturing moved to foreign countries (cf. Song/Gazo 2013, p. 58 - 59).

2.2.4 Specialties of B2B in the furniture industry

The furniture industry faces heavy competition and is characterized by limited brand preference and weak supplier loyalty. Consequently, producers have little bargaining power against their customers but more over their suppliers (cf. Dugan 2009, p. 28).

Over the last decades, the structure of the furniture industry has changed. Many manufacturers have performed forward integration and turned into retailers, thus changing the shape of the global furniture industry. The new actors in the industry are called Manufacturer-Retailers (M&RC). The Global Commodity Chain Theory differs between producer-driven commodity chains and buyer-driven commodity chains. High-technology industries like the automobile industry belong to the producer-driven commodity chains. In contrast, buyer-driven commodity chains are labor intensive industries like the toy industry. Most authors assign the furniture industry to the buyer-driven commodity chain. This means that large retailers, well known merchandisers, and trading companies pull the strings in terms of value-added activities, such as design, marketing, and distribution within the supply chain. M&RCs challenge the Global Commodity Chain Theory in that M&RCs in the furniture industry act like companies in the product-driven commodity chain. They put effort into R&D activities, make use of economies of scale, and invest into foreign countries, but also control the whole value chain (cf. Murillo 2007, p. 746).

In order to choose an appropriate target market, different aspects need to be considered. An essential step within the market selection process is the evaluation of potential countries. Countries are assessed on the basis of the following criteria: market attractiveness, market barriers to entry, and market risk (cf. Ranchhod/Gurău 2007, p. 280). Chapter 5 explains the different market selection criteria in more detail. Furthermore, Japan, China and Australia were analyzed according to these categories.

3   Internationalization

Globalization encourages companies to expand their operations to other countries in order to grow their business and strengthen competitiveness. However, the term globalization describes companies' operational activities on a global stage. In contrast, while internationalization also entails cross-border business border, this takes place mainly within certain regions like Europe. The consequence of globalization is a rise in global competition, which companies need to deal with by becoming more flexible and reacting quickly to markets (cf. Hollensen 2011, p. 6; Ruzzier/Hisrich/Antoncic 2006, p. 477).

This chapter describes companies' motives for internationalization and highlights the differences for SMEs. Furthermore, this chapter covers the internationalization process itself.

3.1   Motivation for internationalization

Internationalization is always connected to investment. However, how big the investment is, depends on the effort a company puts into the preparation phase: which countries they are entering, which entry mode they are choosing, and to which degree they follow a localization approach. Therefore, companies need to have a reason to internationalize. This reason serves as the basis for the strategic decisions made by management. There are different drivers that encourage companies to pursue internationalization. The motivation does not necessary belong to one driver, and there can also be a combination of more than one driver (cf. Grünig/Morschett 2012, p. 28). Motives can be categorized as followed:

- Profit-oriented
- Growth-oriented
- Resource-oriented
- Production-oriented
- Risk-oriented (cf. Fuchs/Apfelthaler 2009, p. 278; Berndt/Altobelli/Sander 2016, p. 10 - 11)

In total, there are seven different drivers for companies to go international. The most common driver for companies to internationalize their business is to find new customers. Decisive factors can be a saturated home market, increasing customer concentration, or a strong competitive environment in their existing market. The second driver is the achievement of economies of scale: higher output leads to lower costs and consequently a decrease in the costs of goods sold. These costs become lower because, on the one side, fixed costs are spread over a higher number of products, and on the other side because companies become more efficient in their daily business through a learning process. Another option for decreasing costs is to enter markets where raw materials and/or labor are cheaper than in the home market. This is the third driver. Companies that follow this approach may achieve cost advantages over their competitors. The balancing of risk is the fourth driver. A bad performance in one country can be compensated by good performance in other countries. The more countries a company serves, the further the risk is spread. The next driver is the search for new competencies. Each country has its own competencies. By entering new countries, companies are able to gain knowledge of these countries and apply it to their business. The sixth driver is to target customers that operate internationally. In business-to-business markets, customer proximity is an important factor when dealing with clients. By following the customer abroad, companies are able to increase their customer base. The final driver of internationalization is strategic power. Strategic power can be used to put pressure on other market participants and the government. However, this driver is rarely the only reason for internationalization and usually goes hand in hand with other drivers (cf. Grünig/Morschett 2012, p. 28 - 32).

3.2   Success Potentials

After the drivers for internationalization are found, the company needs to analyze its success potentials. Competitive advantages by a company are necessary to compete in the market. The ROM model, developed by Grünig and Kühn, highlights three levels of success potentials. The success factors according to the ROM model are **R**esources, **O**ffer, and **M**arket position (cf. Grünig/Kühn 2011, p.10). Figure 2 demonstrates the ROM model and shows the correlation between the individual levels.

Market position: Strong positions in attractive markets

The attractiveness of a market is defined by market size, market growth and the competitive situation with in the market. The more market share a company has, the stronger its market position (cf. Grünig/Kühn 2011, p. 9).

Offer: Long-term competitive advantages in offers

The company's market position is significantly dependent on the market offer. A company can either offer its products at a lower price level than its competitors or offer better product quality. Another way to reach long-term competitive advantages in offers is to strengthen the company's reputation through marketing communication (cf. Grünig/Kühn 2012, p. 49).

Resources: Long-term competitive advantages in resources

The term "Resources" covers not only "hard" resources such as technological, human, and financial resources. This long-term competitive advantage also covers soft factors. These factors include corporate culture, brand image, change management, and organizational capabilities (cf. Grünig/Kühn 2011, p. 10).
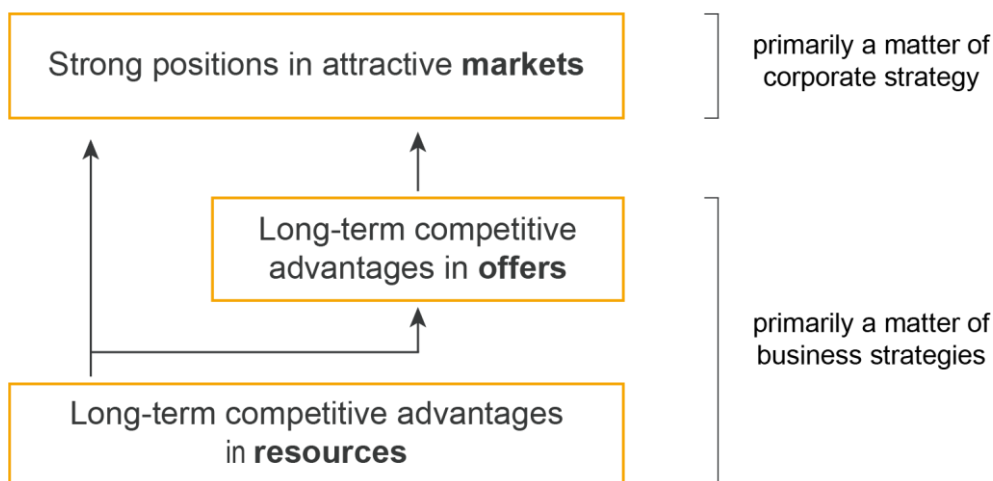
Figure 2: ROM model of success potentials (based on Grünig/Kühn 2011, p. 11)

3.3 Specialties for SMEs

Over the period of the last decade, SMEs and large enterprises have faced similar challenges in international markets. Before the change of the competitive landscape, there was no reason for SMEs to observe global competition. However, for

today's SMEs, especially manufacturing companies and high-tech firms, it is necessary to analyze the foreign marketplace and examine the risks and opportunities related to foreign competition (cf. Ruzzier/Hisrich/Antoncic 2006, p. 476). There are two different types of internationalization. Either firms internationalize after they have successfully established themselves in their home market, or they internationalize from the outset, as so-called "born global" companies (cf. Armario/Ruiz/Armario 2008, p. 485). However, the effort SMEs must put into the internationalization process is much higher than for MNEs (cf. Ruzzier/Hisrich/Antoncic 2006, p. 476).

3.3.1 Pre-conditions for internationalization

Going international is resource-intensive: in terms of financial effort, knowledge, and time. In contrast to large enterprises, SMEs have limited access to these resources (cf. Becker/Ulrich 2011, p. 64). SMEs need to deal with tasks like advertising, collecting marketing information, and gaining market intelligence, both in terms of trade restrictions and the competitive landscape. In comparison to MNEs, many SMEs are still in the phase of international market entry, while many MNEs have already expanded their operations to several countries they are familiar with, often due to similarities with other countries they already do business in. For SMEs, internationalization entails the acquirement of knowledge and the development and use of new resources (cf. Czinkota 2015, p. 11). Internal factors are invariably the reason why internationalization is not successful. These may include:

- Scarce financial resources
- Lack of knowledge
- Market connections are unavailable
- Low levels of export commitment
- Insufficient production capacity to serve foreign clients
- Non-existing distribution channels
- Company strategies to stay in the domestic market
- High costs (cf. Hollensen 2011, p. 61)

3.3.2 Risk-taking and flexibility of SMEs

Usually, SMEs that are beginning the internationalization process prefer stability and risk avoidance. Nevertheless, this decision may also influence the internationalization process in a negative way (cf. Marchi/Vignola/Facchinetti/Mastroleo 2014, p. 2198). In order to minimize their risk, SMEs mainly opt for export strategies, while larger companies take direct investment into consideration when it comes to decisions on market entry mode. An overview of the different market entry modes is given in chapter 3.4. The advantages of export strategies are high flexibility, low risk and the relatively low financial investment (cf. Becker/Ulrich 2011, p. 64; Miocevic/Morgan 2018, p. 320). Building a production plant in the target country in the early stages of internationalization is very unusual for SMEs: usually they will transfer their production to foreign countries at a later stage. Previous studies have shown that many SMEs have greater production capacity in foreign countries than in their home country when they establish a production plant abroad (cf. Grünig/Morschett 2017, 21).

3.4   Internationalization process

Entering new markets requires much more than a market-ready product and customer-oriented services. The decision to internationalize is complex. The effort a company needs to put into the preparation phase can be equally intensive than the execution phase. Only by systematically planning a firm's internationalization success in foreign countries can be ensured (cf. Fuchs/Apfelthaler 2009, p. 268).

Over the years, several models have been developed. Figure 3 gives an overview of four different phase models. Yip, Gomez Biscarri, and Monti developed the way-station model in the year 2000, which is based on previous models created by Johanson & Vahlne, Root and Miller (cf. Fuchs/Apfelthaler 2009, p. 273).

Uppsala model Johanson & Vahlne (1977)	Way-station model Yip, Gomez Biscarri & Monti (2000)	Decision-oriented model Root (1994)	Ten-stage model Miller (1993)
Market intelligence	Motivation and strategic planning Market research	Product and market assessment	Corporate readiness Assessment of home market's business plan Company valuation Assessment of global markets and competition
Decision to internationalize	Market selection Selection of entry mode Planning for contingencies and problems	Set targets Market entry strategy	Planning of market entry Identify and select foreign network partners Compliance with legal regulations Selection of suppliers
Market engagement	Post-entry strategic commitment	Marketing plan Procedure when entering target market	Product launch Establishment of physical presence
Success of internationalization			

Figure 3: Phase models of internationalization (based on Gelbrich 2011, p. 358)

Fuchs and Apfelthaler combined the outputs of all four phase models and developed a new model, called the five-stage model. The different stages are visualized in figure 4.

- Stage one, "Corporate Readiness", is about the decision to internationalize. The decision for internationalization is based on the results of an internal analysis and the planning phase. If the corporate readiness for internationalization is achieved, entering foreign markets is considered economically viable.

- In stage two, "Product Readiness", companies identify suitable products for the foreign market and answer the question as to which extent product adaptation is necessary to fulfill local needs.

- The result of stage three, "Target Market Selection", is a list of identified markets that contribute to the business strategy as well as to the corporate strategy. Pre-defined criteria and thorough analysis are the basis for the target market selection.
- At stage four, "Entry Mode Choice", companies need to decide how they wish to enter the market. The results of the internal and external analysis provide important information on the appropriate entry mode.
- Finally, at stage five, "Planning of Marketing Mix and Implementation", the strategy is defined, and targets are set. Additionally, operational planning starts.

The internationalization process is an iterative and circular process, which means that stages can be processed simultaneously. Changes, not just within the company, but also in the environment can influence this process. For this reason, the process needs to be as flexible as possible (cf. Fuchs/Apfelthaler 2009, p. 273f.).
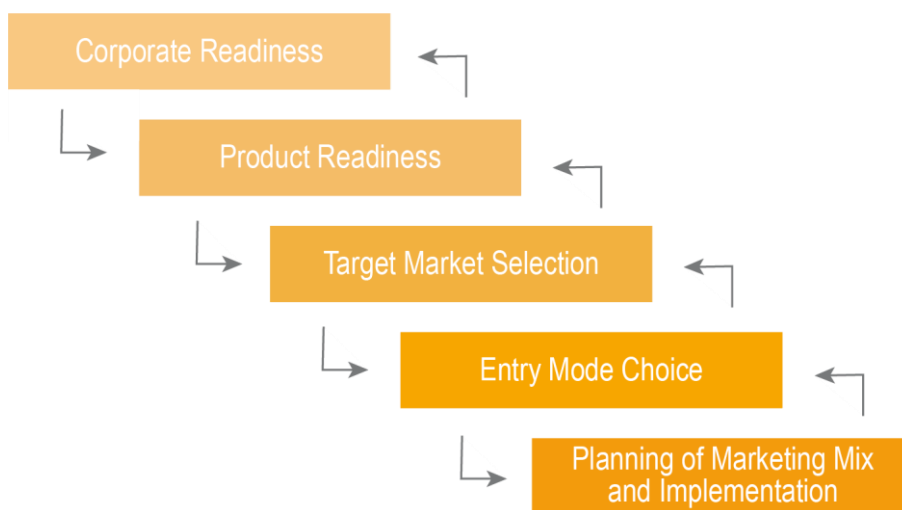
Figure 4: Systematic approach of international market entry (based on Fuchs/Apfelthaler 2009, p. 270)

Each market entry mode has a significant influence on the target market decision. Hence, the mode of entry should be chosen after the target market was selected (cf. Fuchs/Apfelthaler 2009, p. 269). There are various strategies on how to enter a market, from direct export to wholly-owned subsidiaries in the target market.

The criteria that can be used to evaluate the market entry mode are as follows:

- Amount of investment

- Level of risk
- Level of control
- Transaction costs in cases of alternative forms of market exploitation
- Degree of cooperation with other companies (Berndt/Altobelli/Sanders 2016, p. 165)

Market entry modes can be clustered as followed:

- Export modes
- Contractual modes
- Investment equity entry modes (cf. Morschett/Schramm-Klein/Zentes 2015, p. 324)

Figure 5 provides an overview of the different market entry modes.
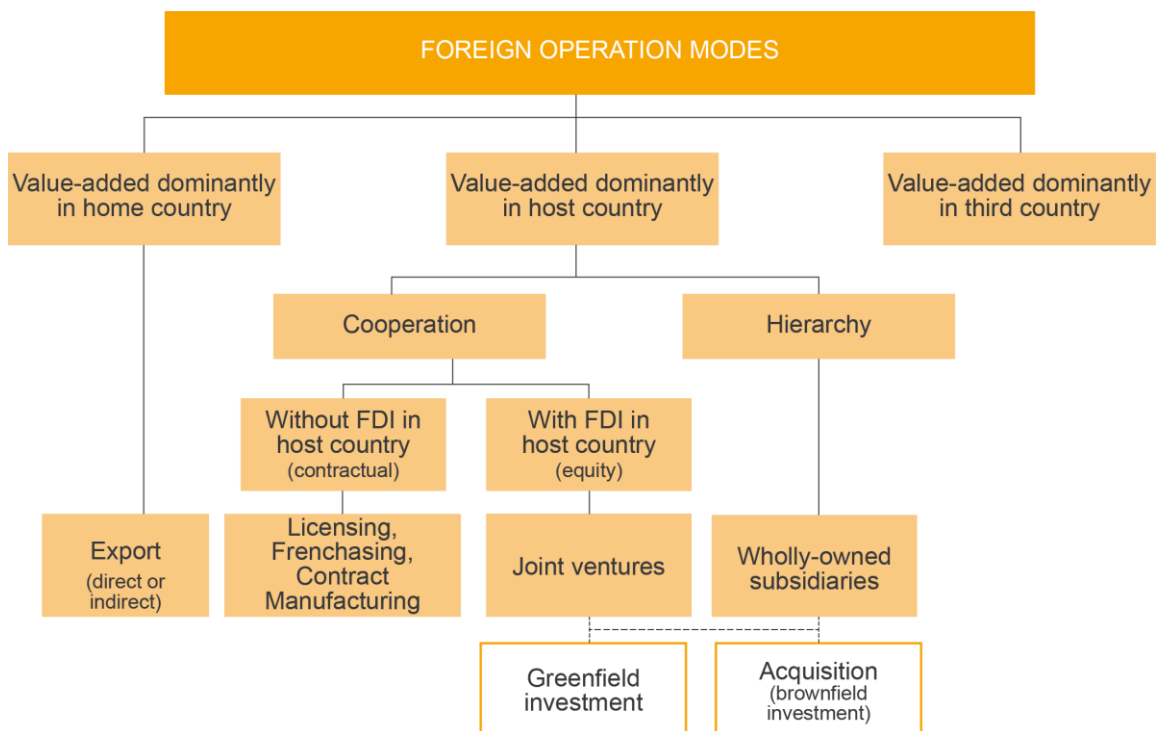
Figure 5: Foreign market entry modes (based on Morschett/Schramm-Klein/Zentes 2015, p. 324)

As the market entry mode is beyond the scope of this thesis, the different modes are not further described. The next two chapters focus on stage three, "Target Market Selection", of the five-stage model.

4 International market selection

International market selection requires an in-depth market intelligence and is crucial for strategic planning. Gaining market intelligence is a challenge for all companies. The process is time consuming and linked to high costs. However, managers are aware of the importance of it (cf. Gebhardt/Farrelly/Conduit 2019, p. 72 f.).

Companies must consider several factors, like market potential, competitors, and the legal/political environment, when carrying out a country selection (cf. Griffin/Pustay 2015, p. 356; Schlegelmilch 2016, p. 23). Unfortunately, no uniform formula exists that can be applied by all firms in order to select appropriate markets. In addition to external factors, internal factors must be included in the decision-making process. Therefore, each company has to reflect on the situation individually (cf. Schmid 2013, p. 19).

This chapter outlines the importance of the market selection process and answers the question: why is it so crucial for a company's success? Furthermore, different market selection strategies are presented. The influence of distance on market selection is also investigated. Finally, this chapter investigates different market selection methods and delineates the differences between them.

4.1 Importance of market selection

The main goals of profit-oriented companies are increasing market share, revenues and profits. In order to be able to achieve these objectives, companies are forced to internationalize their business. Therefore, it is essential to select the right markets (cf. Griffin/Pustay 2015, p. 356). Market intelligence gathered through market research is a key foundation when assessing markets (cf. Czinkota/Ronkainen/Moffett/Marinova/Marinov 2009, p. 213).

The market selection process within organizations is often more irrational than rational. Companies use a non-systematic approach to select target markets. This process is characterized by subjective assessment and is driven by personal beliefs and experiences (cf. Alexander/Rhodes/Myers 2007, p. 424).

The criteria which are mainly used for selecting the target market are not always appropriate and influence the market selection process negatively. Companies often use criteria such as language, geographical distance and potential sales as basis of

decision-making. Consequently, not the most promising target markets are selected, or in the worst case, an inappropriate target market is selected (cf. Fuchs/Apfelthaler 2009, p. 270).

4.2 Market selection strategies

Different market selection strategies have been published worldwide. Market selection strategies are decisive for the market selection process and have an influence on the decision regarding the target market (cf. Schmid 2013, p. 19). Therefore, it is necessary that companies are aware of the various market selection strategies available. Deploying the right strategy enables companies to exploit opportunities in foreign markets and facilitate the successful internationalization of their business (cf. Neubert 2013, p. 28).

The following subchapters describe the different strategies in more detail.

4.2.1 Reactive vs. proactive market selection

In general, companies can either follow a reactive or proactive market selection strategy. The reactive market selection approach is typical for the B2B sector, whereas the proactive market selection strategy is more prevalent in the B2C market. Companies that follow the reactive approach act more passively. Their operations are triggered by existing clients, importers, or agents (cf. Albaum/Duerr/Josiassen 2016, p. 207; Madsen/Rosenbaum 2018, p. 83; Swoboda 2012, p. 41).

The reactive approach is more commonly used among suppliers and companies that offer services. Going international to acquire new customers is not their primary intention. The driver for companies that use this approach is the cultivation of existing customer relationships (cf. Neubert 2013, p. 28f.). The reactive approach is described as informal, unsystematic, and purchase oriented, which leads to a more irregular export business. However, the advantages of this approach are the preservation of the supply chain and costs savings during the internationalization process. As with each option, this approach has disadvantages to counter its advantage. If customers turn into non-customers, the company bears the risk of acting in an unattractive market without prospects of success (cf. Neubert 2011, p. 91; Neubert 2013, p. 29).

In contrast, the proactive approach is formal and market oriented. It is characterized by systematic market research. This type of market selection is not influenced by existing customers. The company conducts market research in order to identify profitable markets (cf. Albaum/Duerr/Josiassen 2016, p. 207; Madsen/Rosenbaum 2018, p. 83; Swoboda 2012, p. 41).

In his study, Neubert describes three additional selection approaches that belong to the proactive market selection strategy:

- Experience-based market selection
- Option-based market selection
- Market research-based selection (cf. Neubert 2011, p. 92 – 96)

4.2.2 Experience-based market selection

Experience-based market selection focuses on foreign countries that are similar to the home market in terms of culture, language, and structure. An additional criterion is the geographical closeness to the home market. Countries that show a homogeneous market structure, hardly distinguished by culture and legislation, are clustered. Internationalization into these countries takes place gradually and by using the same methodology. Usually, this approach is chosen for internationalization in areas like the EU or NAFTA, as well as in regions such as Scandinavia (cf. Neubert 2013, p. 30).

On the one hand, companies follow this approach in order to reduce risk, but may also choose this approach because it requires less effort and has a positive impact on costs. Companies mainly enter neighbor countries due to the small geographical distance between them. This strategy enables organizations to transfer competitive advantages to these countries due to their similarities. Nevertheless, this approach requires extended experience in the home country in order to be successful in similar markets. The experience-based approach is rarely used by born-global firms that operate in the field of technology or distribute raw materials. Instead, this strategy is beneficial when the target market requires a high level of local responsiveness. The experience in the home market helps to overcome this challenge and leads to competitive advantages (cf. Neubert 2013, p. 30).

This approach helps companies gain experience and confidence in the internationalization process. Consequently, companies are encouraged to enter markets in future that are physically located at a greater distance (cf. Neubert 2011, p. 92f.).

However, the main disadvantage of this strategy is that other foreign markets, which are more attractive but show few or no similarities to the home country, are not considered. Therefore, is it recommended to use the experience-based selection always in connection with the market-research based selection approach (cf. Neubert 2013, p. 30f.).

4.2.3 Option-based market selection

Option-based market selection is based on the idea that market entry opportunities occur because of certain events. Such events can be:

- the acquisition of a competitor
- the access to internal competencies
- the extension and emergence of a free trade area, or;
- the request from existing partners to follow them to foreign markets.

This approach entices companies to conduct market analysis subjectively and in little depth. Nevertheless, opportunities in attractive markets should be exploited, as they represent success potentials for companies (cf. Neubert 2011, p. 94f.).

Companies need to make fast decisions when an opportunity arises, because these occasions last only for a short period of time and are mainly unique events. Therefore, it is necessary that organizations have the right resources in place and are able to use them immediately. However, it is recommended that the option-based market selection strategy is used in addition to the market-research based selection strategy in order to determine the attractiveness of a foreign market (cf. Neubert 2013, p. 30).

4.2.4 Market research-based selection

On the basis of structural and systematic market research, the most attractive markets are identified. The result of the market research-based selection helps managements to make strategic decisions.

The process is a three-stage process. Pre-defined countries are screened based on several criteria. The more attractive a market seems to be, the more precisely it will be analyzed. At the first stage, the process considers strategic concerns. Countries that do not fit to these considerations will be excluded from further screening. At stage two, countries are selected based on the financial and personnel capacities of the company. The result is a market attractiveness portfolio that usually consists of approximately five countries. Finally, the remaining countries will be analyzed according to company-specific criteria. The final outcome of the research is a list of the two or three most promising markets ranked by attractiveness. Within this approach, a large number of countries can be analyzed easily (cf. Neubert 2011, p. 96f.).

Although this strategy requires more effort than the other strategies, the results of this approach are objective due to the use of independent criteria and the systematic analysis applied to each country. Generally speaking, the market research-based selection strategy is suitable for most companies, its use advisable (cf. Neubert 2013, p. 31f.).

The selection of target markets is not merely influenced by external factors. It is also affected by the company's strategic orientation. There are four different types of strategic orientation (cf. Lymbersky 2008, p. 57).

Ethnocentric
This type of strategy is performed by companies that are strongly home oriented. Companies that follow this strategy apply their home strategy in all other countries in the world. Their main focus is the home market, and the only reason why they internationalize is to stay competitive among other firms.

Subsidiaries are managed from the home country. Usually, top management consists of employees from the home country in order to keep control at the headquarters. Furthermore, the company shows a low local responsiveness. This strategy works quite well for companies that make use of the country-of-origin effect, for example manufacturers of Champagne (cf. Lymbersky 2008, p. 57).

Polycentric

Polycentric oriented companies adapt their products to local needs. They see the necessity of high local responsiveness due to different consumer preferences. Each subsidiary is responsible for their marketing activities. However, this strategy runs the risk that subsidiaries will strive for independence and stop supporting the headquarters (cf. Lymbersky 2008, p. 57).

Geocentric

Companies with a geocentric orientation serve the whole world with their products and services. Each subsidiary represents a node in the global network. Some subsidiaries take in a specific role within the network, for example research and development or the procurement of material, while others are more broadly oriented.

Recruitment takes place on a global level. In this context, employees are hired due to their skills, independent of their nationality. The strategy of the geocentric approach aims to increase the competitiveness among global competition. Usually, strategy planning takes place in the home country, although the interpretation and application of the strategic decisions is the responsibility of the single divisions (cf. Lymbersky 2008, p. 57f.).

Regiocentric

The regiocentric approach clusters countries that show similarities, for example in terms of language, culture, or consumer behavior. Usually, regiocentric oriented companies establish independent headquarters in each region. The advantage of this approach is that strategy can be adapted to regional markets (cf. Lymbersky 2008, p. 58).

4.2.5 Impact of strategic approaches and orientations on IMS

The market selection strategy chosen by the company has a significant influence on the selection of target markets. The number of countries that are considered varies between the different strategic approaches. For example, the market research-based approach takes more countries into account than the experience-based strategy. The extent to which a company considers target markets is different in each strategy. Either a company's strategy is to enter neighbor markets or markets with a small psychic distance, or a company researches for countries with the highest potential. Therefore, the strategy a company decides on needs to be clear defined before starting the internationalization process (cf. Neubert 2011, p. 91).

Generally speaking, the market research-based approach is the most promising of the selection, as it considers all possible target markets and does not omit any arbitrarily. Using the experience-based and option-based strategy as an add-on strategy to the market research-based approach is valid. However, the company's philosophy, vision and its products are the basis of the strategic decision (cf. Neubert 2013, p. 38).

As with the market selection strategy, the company must decide on its strategic orientation before it starts the internationalization process, as not every approach can be successfully implemented in a country. Some countries demand more local responsiveness than others do. Therefore, the company needs to have a plan how it wants to act in foreign countries. The strategic orientation may have an impact on the defined market selection criteria (cf. Aswathappa 2010, p. 332).

4.3   Influence of psychic distance on IMS

The greatest difficulties in international markets are the country-specific circumstances, the so-called "psychic distance". Psychic distance differs from country to country regardless of the sector in which a company operates. It has a strong impact on the entrepreneurial scope in international markets. Furthermore, it influences decision-making when it comes to which markets to enter (cf. Berndt/Altobelli/Sander 2016, p. 27 - 29).

Psychic distance is divided into four different aspects:

- Geographical distance
- Cultural distance

- Administrative distance
- Economic distance (cf. Berndt/Altobelli/Sander 2016, p. 28)

Table 1 displays some examples of each aspect.

Factor	Examples
Geographical distance	- Climate - Infrastructure - Resources - Topography
Cultural distance	- Language - Religion - Values - Traditions - Educational level - Social behavior
Administrative distance	- National legislation - International legislation - Political stability - Labor disputes - Trade agreements - Tariffs and non-tariff barriers
Economic distance	- Market size - GDP - Per capita income - Buying power - Interest rate - Exchange rate - Labor costs

Table 1: Examples for psychic distances (based on Berndt/Altobelli/Sander 2016, p. 28; Sure 2017, p. 42)

4.4   Market selection methods

The decision about target markets is one of the most important steps within the internationalization process. Companies do not always follow a systematic approach, which sometimes has an adverse effect on the success of the company's internationalization (cf. Sternad 2013, p. 41f.).

Market selection is not necessary if a company follows a global market strategy, but otherwise companies always need to conduct a market selection procedure (cf. Kutschker/Schmid 2011, p. 955).

The market selection process should be applied to all countries in order not to ignore countries with high potential. Preliminary screening aims to reduce the number of markets so that companies do not spend too much effort assessing countries with poor prospects (cf. Root 1994, p. 33; Charles/Anderson 2016, p. 93). Afterwards, the systematic market selection process starts (cf. Johansson 2009, p. 106).

There are different methods a company can use to assess and select markets. These range from simple and less time-consuming methods to more complex and protracted methods. The method that is chosen to select the target markets is up to each company. In general, two different types of methods are available: one-step methods and multistage methods (cf. Faix/Kisgen/Lau/Schulten/Zywietz 2006, p. 54).

Figure 6 demonstrates an overview of different possible market selection approaches given by Fuchs and Apfelthaler. The first approach (1) is the simplest one. However, it is not recommended to apply this within the systematic market selection process, as the results are subjective. The approaches (2), (3), and (4) are one-step methods. Method (2) differs from (3) and (4) in the number of used criteria. Approach (4) additionally applies weighting of the criteria. Within approach (5), an elimination method is used to reduce the number of countries. Approach (6) is built on (5). In contrast to approach (5), it increases the number of weightings. Approach (7) combines all of the previous mentioned methods. It uses multiple criteria, a weighting method and a scoring system combined with elimination, making it the most complex (cf. Fuchs/Apfelthaler 2009, p. 301f.).

The next sections describe one-step and multistage methods in more detail and highlight possible instruments for these methods.
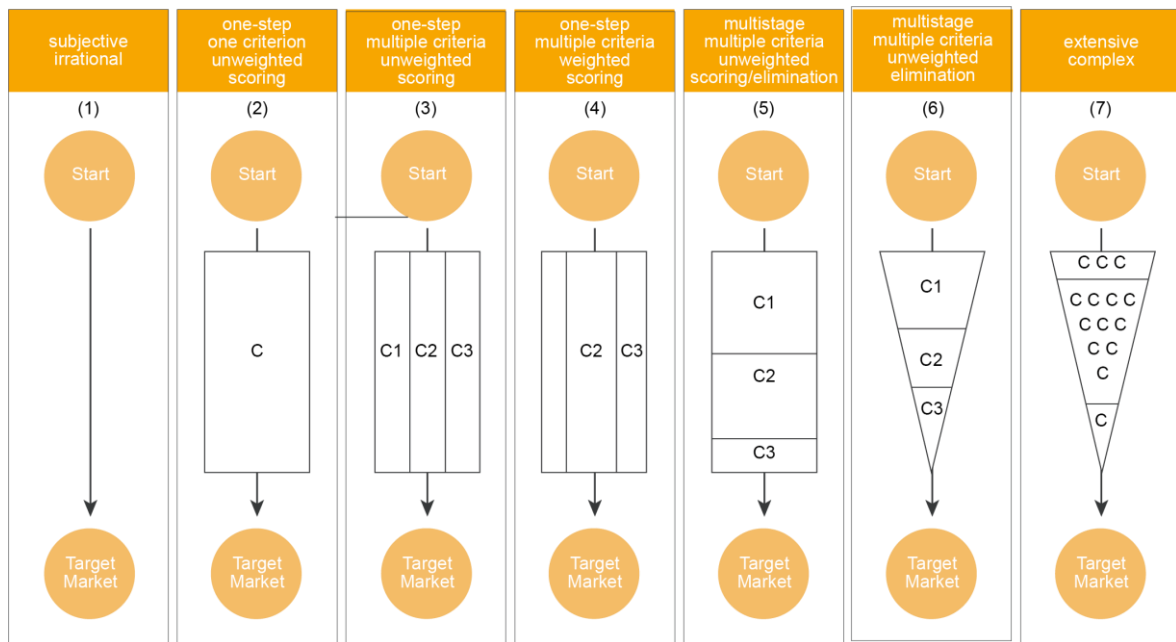
Figure 6: Market selection methods (based on Fuchs/Apfelthaler 2009, p. 301)

4.4.1 One-step methods

One-step methods are based on formal concepts and corresponding methods in order to assess and select target markets (cf. Swoboda/Schwarz 2004, p. 262).

Within the one-step methods, countries are screened in one step by using the following methods:

- Checklist methods
- Elimination methods
- Scoring methods
- Investment methods
- Portfolio methods (cf. Kutschker/Schmid 2011, p. 964)

Checklist methods

The checklist is a simple tool that identifies markets that are inappropriate for a company. The first step is to create a checklist with criteria related to the macro and micro environment (cf. Faix/Kisgen/Lau/Schulten/Zywietz 2006, p. 61f.; Kutschker/Schmid 2011, p. 964f.). These criteria are considered as minimum requirements for the markets. Therefore, the defined criteria need to be relevant for the company (cf. Berndt/Altobelli/Sander 2016, p. 134). Such macro and micro environment criteria are:

Macro environment

- Political factors
  - Domestic political stability
  - Foreign political stability
- Legal factors
  - Legal security of cross-border contracts
  - Regulations on alternatives for market entry
- Economic factors
  - BIP
  - Inflation rate
- Socio-cultural factors
  - Attitude towards work
  - Attitude towards change

Micro environment

- Market size
- Market growth
- Market structure
- Competitive situation
- Cost structure (cf. Kutschker/Schmid 2011, p. 964f.)

After the completion of the checklist, countries are evaluated by each criterion. Evaluation signs are used for the assessment of countries. The signs provide information as to which degree a country meets a criterion, from great opportunity (++) to high risk (--) (cf. Kutschker/Schmid 2011, p. 965).

If countries do not perform well in meeting the requirements, they are removed from the selection. This procedure reduces the number of screened countries quickly. The advantage of this approach is the identification of appropriate markets for the company that will be further analyzed in more detail. This saves time and money. Nevertheless, usage of this method is recommended only for a rough pre-selection of countries, because the defined criteria are often subjective (cf. Berndt/Altobelli/Sander 2016, p. 134).

Elimination methods

The elimination method is similar to the checklist method. Macro and micro environmental criteria are used to assess markets. However, in contrast to the checklist method, the criteria are ranked according to their importance. Additionally, for each criterion, a critical minimum and maximum value is defined. In the next step it will be checked which countries meet the first criterion. Each country that does not meet the first requirement drops out from the list. Afterwards, the remaining countries are assessed using the second criterion. Again, some countries drop out. This procedure is performed until all criteria are applied or only one country remains, even if it does not meet all requirements. If a country does not meet an earlier requirement, but performs very well among later criteria, it still drops out (cf. Kutschker/Schmid 2011, p. 966).

Scoring methods

The scoring method is an often-used tool to assess different options. It can be seen as a further development of the checklist method, as it comprises several criteria that can be assessed on a scale. The company's relevant opportunities and risks are also included (cf. Domschke/Scholl 2005, p. 61; Roemer 2014, p. 186).

In the first step, relevant criteria are defined. Then, criteria are weighted according to their importance. Afterwards, each country is evaluated with regard to its compliance of criteria by using a uniform scale (cf. Berndt/Altobelli/Sander 2016, p.135; Striegel/Luppold 2017, p. 15).

The score of each country is calculated by multiplying the scale value with the weighting and summing up all the related values of the country (cf. Roemer 2014, p. 186).

The advantages of the scoring method are easy usage and the ranking of the results. Moreover, the assessment criteria are revealed. However, the decision about the criteria and the weighting is often subjective due to a lack of information. Another disadvantage is the balancing between good and bad evaluations (cf. Berndt/Altobelli/Sander 2016, p. 135).

Investment method

The investment method has a completely different approach compared to the previously mentioned methods. Entering a foreign market brings advantages and disadvantages. The investment method transforms these pros and cons into payment flows. In doing so, cash flows are forecasted and then set against an adequate target rate. The result is a capital value of the investment into a certain country. By calculating the capital value of different countries and through subsequent comparison of the different values, the country that promises the highest capital value is identified. Investment methods can also be connected with a break-even analysis (cf. Kutschker/Schmid 2011, p. 968).

Portfolio methods

The portfolio analysis visualizes the output of the checklist, which means, strictly speaking, that they are not methods used for market selection. They merely present the results of other methods visually (cf. Kutschker/Schmid 2011, p. 968).

Within the portfolio, countries are compared based on two or more dimensions, for example market risk and market attractiveness. Each dimension consists of different criteria. These criteria are determined by weighting. The portfolio consists of nine fields. All pre-selected countries are assigned to the appropriate field. The result is a portfolio that demonstrates the assessment visually. Further criteria can be expressed in the size of the "bubbles" for each country, for example the GDP per capita. The portfolio helps with next steps: countries with a middle to high risk and a middle to low market attractiveness should be eliminated. It is recommended to proof the countries that are located along the diagonals again by using further criteria. Countries with middle to high market attractiveness and middle to low risk need to go into further consideration. The advantage out of this method is its simple visualization. Additionally, it is easy to understand for others. The challenge of the portfolio method is to combine multiple criteria that are presented on the diagonals (cf. Roemer 2014, p. 1887f.; Faix/Kisgen/Lau/Schulten/Zywietz 2006, p. 62f.).

Kutschker and Schmid differentiate between three different types of portfolio methods:

- Portfolios with external considerations
- Portfolios that combine internal and external considerations
- Three-dimensional portfolios (cf. Kutschker/Schmid 2011, p. 968)

Portfolios with external considerations

The portfolio with external considerations uses mainly criteria that are related to the company's external environment; such as market attractiveness, market risk or market barriers to entry. These consist of different subcategories, which are weighted. As previously stated, the size of the "bubbles" can give further information about other criteria, like the GDP of a country (cf. Kutschker/Schmid 2011, p. 968f.).

Portfolios that combine internal and external considerations

In this variant, one dimension shows a primarily external situation, like market attractiveness, and the other dimension a primarily internal situation, such as the relative market position. While neither can be assigned only to one dimension, there are always overlaps, which is why dimensions need to be defined as primarily internal and primarily external. The size of the "bubbles" can also give further information about another criterion (cf. Kutschker/Schmid 2011, p. 969f.).

Three-dimensional portfolios

Portfolios can also be visualized in a three-dimensional way. By doing so, the portfolio provides more information to the user. For example, one dimension can show market attractiveness, another market risk, and the last one the relative market position. As a result, the portfolio combines two external considerations with one internal consideration. Three-dimensional portfolios are rarely used by companies due to the challenges in visualization and understanding (cf. Kutschker/Schmid 2011, p. 971).

4.4.2 Multistage methods

The selection of target markets is mostly done in a multistage process. It needs to be considered that a company cannot analyze all countries of the world to find the

most promising ones. Therefore, multistage methods can be used to reduce the number of countries step by step. It is recommended that the pre-selected countries fit the company's internationalization strategy. The selection depends on the strategic orientation of the company. The different strategic orientation possibilities are described in chapter 4.2.4 (Backhaus/Voeth 2010, p. 66f.).

Multistage methods can either consist of two stages, three stages or four stages. Generally speaking, the different stages comprise of one or more of the one-stage methods, such as the checklist method, scoring method, or investment method.

In contrast to one-stage methods, multistage methods are complex and time consuming. The procedure within each method results in the reduction of possible target markets by using defined criteria for each stage. At the end of each stage, the number of potential target markets is reduced. The final result of these methods is at least one remaining target market that shows the highest potential. If there are more countries remaining, the output is a list of potential target countries ranked by importance, which helps the company choose the most promising one (cf. Kutschker/Schmid 2011, p. 972).

Multistage methods can be either assigned to outside-inside perspectives or inside-outside perspectives. Models that belong to inside-outside perspectives focus first on objectives, strategies, and resources, then subsequently on market analysis. Models that are assigned to outside-inside perspectives focus on market analysis from the start (cf. Swoboda/Schwarz 2004, p. 268).

The following sections describe the procedures of the 2-step, 3-step and 4-step methods.

Two-step method I: Berekoven

Berekoven developed a two-step method that allows companies to select appropriate markets easily, with low effort and cost involvement. The method was developed in 1978. Nevertheless, this two-stage method is still valid and applicable. At the first step, a rough selection is performed that eliminates countries that are not worth considering for further analysis. In order to limit the number of countries, basic requirements need to be defined. Such mandatory criteria can be related to the company's philosophy, but also to the company's goals. The second group of criteria should include all factors that are necessary to operate smoothly in the country.

These factors are the pre-conditions for sales, delivery, and the usage of the products and services, like import barriers, sales limitations and climate conditions. A third bundle of criteria, quantitative dimensions, can also be used (e.g. minimum number of inhabitants, or minimum income per capita). By using relevant mandatory criteria, the number of countries can be greatly reduced. Consequently, the number of countries that make it into the next round is kept manageable for detailed analysis. A tool that can be used for this rough selection is cluster-analysis. Homogeneous countries are clustered into groups, maintaining overview (cf. Berekoven 1978, p. 130f.).

The remaining countries are assessed within a detailed analysis. Market relevant criteria like product- and industry-specific factors are consolidated in a catalogue. A weighting of the criteria is necessary to rank the criteria according to their influence on sales numbers (cf. Berekoven 1978, p. 134f.).

Three-step method: Backhaus and Voeth

Backhaus and Voeth developed a three-stage method in order to select an appropriate target market. These stages are:

1. Strategic pre-selection

At this stage, a wide range of countries is considered and a pre-selection of countries is necessary. The goal of this stage is to minimize the number of potential countries. Based on the company's internationalization strategy and its strategic orientation, inappropriate markets are eliminated (cf. Backhaus/Voeth 2010, p. 66f.).

2. Rough selection

The performance of an in-depth analysis eliminates superfluous markets. The main criteria for the assessment are market attractiveness and market risk. In this stage, the one-step methods which were presented in Chapter 4.4.1 are also applicable (cf. Backhaus/Voeth 2010, p. 70).

3. Detailed analysis:

In the final selection phase, the remaining countries are assessed in more detail. Instruments applicable within this stage of the analysis phase include investment theory methods and statistical methods. A business plan that consists of a detailed

analysis of all remaining target markets, including an analysis of the competition and the creation of a financial plan, helps the company to assess markets (cf. Backhaus/Voeth 2010, p. 90).

Four-step method: Apfelthaler

Companies that can afford a time and cost-intensive market selection process can apply a four-step method. Apfelthaler developed such a method, consisting of the following steps:

1. Broad selection:

As in the other methods, broad selection in this model is also applied to all countries across the world. In order to filter out markets that are not relevant for the company in terms of restrictions, mandatory criteria are defined. At this stage, the elimination method or a combination of the elimination and scoring methods can be applied. Countries that "survive" the filter are noted as possible markets.

2. Meso selection:

At the next stage, meso selection, all inappropriate countries are filtered out through a series of selection criteria. Indicators for these criteria are still performed on a national level. However, they are adapted to the factors of a potential analysis. The remaining countries are marked as potential markets for a company.

3. Fine selection:

During the fine selection, refined criteria are used to further reduce the number of potential countries. These criteria are product- and industry-specific. The outcome of this phase is a list with all the markets considered relevant for the company.

4. Final screening:

In the final screening, company-specific factors are considered. If there are still many countries remaining, the selection can be subjective. The countries that are left are classed as target markets (cf. Apfelthaler 2009, p. 309 – 311).

After the appropriate method was chosen, it is necessary to select accurate criteria. The next chapter deals with the different categories of selection criteria and highlights the requirements criteria need to fulfil.

4.5   Selection of market selection methods for IMS

The selection of the right method is essential in order to be successful internationally. Therefore, this subchapter deals with the selection of appropriate methodology when it comes to international market selection for B2B companies.

Not every approach fits to every company. Hence, it is recommended to evaluate multiple methods to identify the most appropriate. The evaluation of the different methods requires a selection of criteria. Three main criteria can be used to assess the different methods.

The **suitability** of methods shows to which degree each method addresses the present issue.

By determining the **acceptability** of a method, its return and risk are considered. Additionally, the firm inspects the outcome and aligns it with stakeholder expectations.

Feasibility examines the implementation possibility of a method. The company's resources and capabilities to implement the method are evaluated in order to determine its feasibility (cf. Johnson/Scholes/Whittington 2008, p. 365f.).

In the first step, the most relevant criteria are selected. These criteria are derived from the three main criteria mentioned before. It is necessary that companies consider, alongside company-specific criteria, industry-related criteria. After these criteria are selected, the company must apply an evaluation tool. The simplest tool for evaluation is the ranking method (cf. Johnson/Scholes/Whittington 2008, p. 368). The ranking method is explained in chapter 5.8.1.

5   Market selection criteria

The range of available market selection criteria is huge. However, firms do not usually have the time and resources to apply all of them. Therefore, it is necessary to identify the most relevant criteria. There is no golden rule as to how many criteria are necessary for the market selection process. This number differs from industry to industry and even from company to company. What can be said, is that the number of criteria should be between 10 and 15. Companies need to choose the criteria carefully, as poor criteria can lead to the selection of inappropriate target markets (cf. Ranchhod/Gurău 2007, p. 280).

The following factors influence the company-specific selection of criteria:

- Industry and product
- Company-specific factors
- Company orientation system (e.g. ethnocentric)
- Mode of market entry (cf. Berndt/Altobelli/Sander 2016, p. 124f.)

The defined set of market selection criteria should be applied to all countries. Therefore, the criteria need to be consistent in order to be able to evaluate and compare effectively (cf. Friedman 2002, p. 95).

A market has two dimensions: a geographical dimension, e.g. Germany, and an industry dimension, such as furniture manufacturing. The criteria need to address both dimensions, which means there need to be two types of criteria:

- Criteria related to each national market
- Criteria related to a specific industry within the country (cf. Grünig/Morschett 2012, p. 100)

In general, market selection criteria can be grouped into three main categories:

- Market attractiveness
- Market barriers to entry
- Market risk (cf. Berndt/Altobelli/Sander 2016, p. 125)

Market selection criteria must be derived from these three main categories. The next chapters describe the categories and give market selection criteria examples for each.

5.1 Requirements on criteria

Market selection criteria should not be chosen arbitrarily, as the selection of the criteria influence the result of the market evaluation. Therefore, criteria need to meet the following requirements:

- Relevance

It is necessary that the defined criteria are relevant for the organization. Often criteria are selected because of the easy access to data (e.g. GDP or inflation rate). However, these criteria provide little information about the market situation.

- Selectivity

The criteria should form a basis to delineate between markets. By using fewer criteria, the number of markets should be reduced quickly. It is necessary to omit criteria that do not reduce the number of markets, because the more criteria are used, the more complex and the more time intensive the process becomes.

- Measurability

Another requirement that criteria have to meet is measurability. Only when criteria are measurable is the result objective. Not all criteria can be measurable, which means representative indicators must be used.

- Availability

The criteria that are selected are applied to all countries. Therefore, the data need to be available in the same form for all markets (cf. Fuchs/Apfelthaler 2009, p. 308f.).

5.2 Market attractiveness

The attractiveness of a market is the first criteria companies look at when analyzing a market (cf. Porter 1985, p. 256), because it gives information about a market's potential and thus the company's opportunities (cf. Berndt/Altobelli/Sander 2016, p. 125). For analyzing the micro environment and evaluating the market attractiveness of a country, Porter's five forces can be used as an instrument. This instrument is described further in chapter 5.6.

When evaluating the attractiveness of a market, two central issues must be considered. First, if the country is attractive on its own (direct attractiveness). Secondly, if the market is attractive in combination with other countries (indirect attractiveness). A country with low market attractiveness can be a strategic bridgehead to other

countries. Therefore, it is important not to evaluate countries in isolation (cf. Backhaus/Voeth 2010, p. 85).

In general, market attractiveness relies on four factors:

- Market and customer factors
- Economic and technological factors
- Competitive factors
- Environmental factors (cf. Cant/Strydom/Jooste/Plessis 2006, p. 130)

The attractiveness of a market is influenced by many factors, such as market size, market growth, profitability, competitive landscape, buying power, achievable prices and so on (cf. Kotler 2002, p. 155; Mathur 2008, p. 242). These factors are often conflicting. A market gets more attractive the larger it is. Conversely, the more it is growing, the higher the contribution margins are, the lower the competitive intensity is and the higher the barriers to entry are (cf. Hooley/Piercy/Nicoulaud/Rudd 2017, p. 43).

However, not just external factors affect the attractiveness of a market. Company-specific factors also influence it, such as company goals, company philosophy, and the availability of resources (cf. Lymbersky 2008, p. 53).

5.3 Market barriers to entry

Market barriers to entry are circumstances that hinder companies from entering a market. This leads to advantages for companies that already operate in the market. There are three different types of market barriers to entry:

- Economic barriers to entry
- Protective barriers to entry
- Behavioral barriers to entry (cf. Backhaus/Voeth 2010, p. 73)

To identify market barriers to entry, the macro environment needs to be analyzed. The most common tool for this is the PESTLE analysis. This instrument is described in more detail in chapter 5.5.

The different market barriers to entry are described in the following sections.

5.3.1 Economic barriers to entry

Economic barriers to entry include:

- **Economies of scale**

Economies of scale are a central factor in production industries. Well-established companies are able to produce goods at a lower price level because they produce more products and are able to spread fixed costs across all products. Additionally, they are more experienced in terms of processes. Therefore, outside companies considering market entry have a size disadvantage.

- **Preferential advantages**

Local companies have consumer preference. Consequently, it is difficult for new-comers in the market to build a customer base. Higher marketing efforts or a lowering of prices are often measures that companies need to take in order to successfully enter a new market.

- **Capital requirements**

Market entry is linked to high investment, such as investments in R&D and customer acquisition. Additionally, the mode of entry has a direct impact on capital requirements. Moreover, the amount of investment also depends on technology and scale. For example, the establishment of an online company requires less investment than the founding of a production plant.

- **Access to distribution channels**

Usually, distribution channels are occupied by domestic suppliers. To get listed by intermediaries, high acquisition efforts are necessary. Some B2B companies address end consumers directly. Good examples are Amazon and Dell. They have no need to sell their products through wholesalers anymore. This direct relationship with end consumers presents also a market barrier to entry for new companies due to the creation of consumer preferences.

- **Legislation**

Legal restrictions can also be a market barrier for companies, as the government usually tries to regulate markets to some degree. An example is the protection of consumers from harmful products.

- **Customer or supplier loyalty**

Customer loyalty to an existing brand or high switching costs make it difficult for foreign companies to enter the market. In order to change the awareness and perception of customers, high marketing efforts are necessary. Another challenge is the identification of suppliers, if they are influenced by their main customers. This customer may be a direct competitor of the company and try to impede the market entry.

- **Experience**

The earlier a company enters a market before its competitors, the faster it gains experience compared to them. This advantage is reflected by cost reduction or customer or supplier loyalty. A shortening in the product life cycle or the occurrence of major discontinuity may reduce this advantage.

- **Differentiation**

The differentiation strategy is also a market barrier to entry for others. It creates consumer preferences and increases customer loyalty. A best practice example is the company Swatch, which started to design watches in different designs in the 1990s. With their products, they established their own market. Differentiation does not necessarily mean a physical differentiation of a product. A higher perceived value can also lead to differentiation (cf. Berndt/Altobelli/Sander 2016, p. 126f.; Lymbersky 2008, p. 54 - 56).

5.3.2 Protective barriers to entry

Protective barriers to entry are strategic barriers due to their targeted use by the government. These barriers are introduced by the government in order to protect the domestic economy or specific industries within the country against foreign competitors (cf. Backhaus/Voeth 2010, p. 74f.; Morschett/Schramm-Klein/Zentes 2015, p. 151). Furthermore, by introducing protective barriers to entry, the government aims to reduce the unemployment rate, increase national security, and balance the cost and price structure. Within protective barriers to entry, two different types are distinguished: tariff and non-tariff barriers (cf. Onkvisit/Shaw 2007, p. 55).

Tariff barriers

Tariff barriers include customs, taxes, or other fees that are charged when importing to a foreign target market. There are two reasons why these barriers exist. On the one hand to protect the domestic economy by raising import prices and on the other to increase government revenue. Such barriers can affect either certain products or all imports, but can also be restricted to certain countries of origin (cf. Sternad 2013, p. 46; Morschett/Schramm-Klein/Zentes 2015, p. 151).

International trade liberalization is progressing rapidly, and tariff barriers are reducing significantly. However, countries still use trade barriers to protect their industries (cf. Mühlbacher/Leihs/Dahringer 2006, p. 147).

Non-tariff barriers

Due to widespread trade liberalization, governments introduce non-tariff barriers in the form of laws, regulations, or policies in order to protect industries that are not able to compete in free trade competition (cf. Mühlbacher/Leihs/Dahringer 2006, p. 147). In contrast to tariff barriers, non-tariff barriers are more intangible and non-transparent. While tariff barriers are recorded in quantitative databases that provides necessary information to organizations, non-tariff barriers are more difficult to handle. The identification of these barriers, the quantification of their effects, and the upkeep of the data is quite difficult. There are databases that deal with non-tariff barriers, but their data is incomplete for many countries and products (cf. Fliess 2005, p. 20). Non-tariff barriers include:

- **Import quota**

The import of goods is restricted to a defined quantity. However, there are also voluntary export quotas. The aim of these export quotas is to prevent imports from foreign countries.

- **Embargo**

Under embargo, exports or imports are either totally forbidden, or forbidden for specific product groups from a certain country or to a certain country.

- **Preferential treatment of local companies**

Governments use different actions to support local companies. This support can be achieved through subsidies, state monopolies, or tax breaks.

- **Administrative obstacles**

Obstacles along the import process are implemented. Such barriers can include long product inspections or prolonged customs procedures.

- **Potentially discrimination provisions**

The government introduce actions such as local content requirements, anti-dumping, local standards, and labelling obligations in order to protect the local economy (cf. Sternad 2013, p. 46).

5.3.3 Behavioral barriers to entry

Market barriers can also be caused by customer behavior. Customer preferences for local products lead to market barriers to entry for foreign companies. Furthermore, managers' aversions to certain countries can influence the decision-making process for target markets and consequently constitute an obstacle (cf. Backhaus/Voeth 2010, p. 75).

5.4 Market risk

Market risk is caused by the uncertainty of current or future situations, often because the given information about a situation's outcome is either insufficient or incorrect (cf. Bochet/Fishkin/Goguel 2018, p. 21). As with market barriers to entry, market risk is also identified by analyzing the macro environment. The PESTLE analysis is an appropriate tool for this. The tool is further described in chapter 5.5.

Market risks are market barriers and have a significant influence on market attractiveness. There are two different types of market risks that need to be distinguished: political risks and economic risks (cf. Berndt/Altobelli/Sander 2016, p. 127).

5.4.1 Political risks

Political risks occur due to unforeseeable changes to a country's political structures or legislation. The following political risks are possible:

- **Expropriation risk**

Expropriation is a measure taken by government. Privately owned companies are partially or fully expropriated. In this case, the company's owner gets little or no compensation.

- **Transfer risk**

This risk occurs when countries are not able or willing to honor payments (e.g. interest or redemption).

- **Disposition risk**

The entrepreneurial scope is restricted due to governmental requirements, social upheavals, wars, etc.

- **Substitution risk**

The host country replaces imports with local production activities.

- **Fiscal risk**

Fiscal risk is the result of the fiscal and monetary policy of a country.

- **Security risk**

This risk is related to danger of life, health and freedom of employees and their relatives.

- **Legal risk**

Usually, foreign countries have different legal standards. It is necessary that export companies pay attention to the legal system. Difficulties with prosecution and law enforcement can occur (cf. Berndt/Altobelli/Sander 2016, p. 127f.).

- **Corruption risk**

This risk refers to companies or institutions that gain tangible or intangible advantages whereby they do not have the right for it (cf. Roemer 2014, p. 180).

5.4.2 Economic risks

Economic risks arise due to unforeseeable changes in the economic environment (cf. Berndt/Altobelli/Sander 2016, p. 128). Political mismanagement can also lead to economic risks. The country-specific economic risk can be divided into macro risk and micro risk. Macro risk affects all foreign companies while micro risk is related to specific sectors or selected organizations (cf. Bouchet/Clark/Groslambert 2003, p. 22).

Possible economic risks are:

- **Non-payment risk**

Foreign companies also face the risk of non-paying customers. Foreign clients are not able to settle open accounts if they go bankrupt.

- **Currency risk**

The country's exchange rate may fluctuate. This risk leads to a loss in profits for foreign companies that deal in another currency.

- **Transportation risk**

Organizations that export to foreign countries bear a transportation risk. This risk is linked to delivery problems, such as the non-delivery or damage of goods (cf. Berndt/Altobelli/Sander 2016, p. 128).

5.4.3 Market risk assessment

Country risk can occur in each country, also where companies do not expect it. During the evaluation process of countries, it is necessary to pay full attention to the market risk assessment. This should include the financial situation of a country, the socioeconomic, and the political environment (cf. Kosmidou/Doumpos/Zopounidis 2008, p. 29).

In general, a market risk assessment can be made on the basis of a qualitative method or a quantitative method. Quality methods are not based on a predefined criteria catalogue, rather, they describe the relevant risk components and derive recommendations. Checklists and risk profiles are used to present the outcomes. Quantitative methods are based on statistical key figures or score models (cf. Berndt/Altobelli/Sander 2016, p. 128).

Table 2 provides some examples for each method.

Qualitative methods	Quantitative methods objective		Quantitative methods subjective		
	Statistical key figures	**Micro-economic models**	**Country ratings**	**One-dimensional scoring models**	**Multi-dimensional scoring models**
• Country reports by Germany Trade & Invest • PRL • AGEFI-Country Index	• Dept ratio • Debt service ratio • Net demand for credit • Import coverage • Euromoney index	• Two-Gap model from the world bank • US-EXIM-Bank model	• Standard & Poor's • Moody's • Fitch	• Institutional investor country rating • ESI	• BERI-index • Hermes risk classes • BI-country-ratings • FORELEND • International Country Risk Guide

Table 2: Qualitative and quantitative risk assessment concepts (based on Backhaus/Voeth 2010, p. 78)

5.4.1 BERI-index

The Business Environment Risk Intelligence index (short BERI) is one of the most commonly used concepts to assess market risks. It was developed in 1973 and is carried out three times a year for 50 countries, by interviewing 100 experts from the industry as well as experts with a diplomatic or political science background. The index is based on a two-step scoring model that provides, in addition to a risk assessment, recommendations for an appropriate market entry strategy. The index includes a one-year and five-year forecast (cf. Berndt/Altobelli/Sander 2016, p. 130; Bouchet/Clark/Groslambert 2003, p. 80).

The BERI index includes four types of ratings, namely:

- Political Risk Index (PRI)
- Operations Risk Index (ORI)
- Remittance and Repatriation Factor (R-factor)
- Composite Score (combined score of all three)

The PRI and ORI result from a Delphi-method. The PRI evaluates the long-term social and political situation in a country, by assessing 10 socio-political variables on a scale from zero (highest risk) to seven (lowest risk). In this approach the criteria are not weighted. Additionally, each export has 30 bonus points that can be added to the criteria that are the most important on a subjective level. Afterwards, the results are categorized. Less than 40 points means prohibitive risk, over 70 points is low risk. The ORI provides information about the general business climate. Again,

100 experts are asked to award points from zero (unacceptable conditions) to four (superior conditions) to each criterion. Overall the ORI comprises 15 criteria that are weighted. The sum of the weighting is 25, making the total ORI for each country 100 (cf. Bouchet/Clark/Groslambert 2003, p. 80f.).

The R-factor aims to assess the financial solvency of a country as well as the possibility to transfer money to the home country. The results of the R-factor are calculated through quantitative data, divided into four groups: legal framework, foreign exchange generation, accumulated international reserves and foreign debt assessment. A scoring model is applied to consolidate the data. A maximum of 100 points can be achieved by each country. A country with less than 55 points displays a high risk, while countries with more than 70 points represents a low risk. For all three indices, the same risk categories are used. The combined score shows the average of PRI, ORI and R-factor. The outcome of the combined score is the Profit Opportunity Recommendation, short POR. It gives information about the overall risk of each country and is the basis for the recommendation of the market entry strategy. The countries are assigned to four categories:

1. Stage: Investment Quality (55-100 points)
2. Stage: Non-dividend Cash flow (45-54 points)
3. Stage: Trade only (35-44 points)
4. Stage: No business transaction (0-34 points) (cf. Berndt/Altobelli/Sander 2016, p. 131; Bouchet/Clark/Groslambert 2003, p. 81).

As previously mentioned, BERI is the most widely used concept for the market risk assessment. However, there is also some criticism of this concept. The concept is characterized by subjectivity of the assessment by experts as well as the selection and the weighting of the selected criteria. Moreover, standardized criteria catalogues for all countries lead to ignorance of country-specific risk determinants. Usually, the structures and content of scoring models are static. Consequently, criteria are not adapting to the changes of framework conditions. Furthermore, the contagion-effect between countries is not considered because countries are assessed in isolation. Finally, the one-year and five-year forecasts do not consider short-term risks. Consequently, radical changes are not considered (cf. Backhaus/Voeth 2010, p. 82f.).

5.5   PESTLE: macro environment analysis

As part of the market analysis it is also necessary to examine the environmental influencing factors on the business activities of a country. These factors differ from country to country, which makes it more complex. An instrument that can be used for analyzing the macro environmental factors, is the PESTLE analysis. Within the PESTLE political, economic, social-cultural, technological, legal and ecological factors are investigated to analyze the current and future environment of a country that are most strategically relevant for an organization. Furthermore, the gained data about a country's environmental situation can provide the basis for deriving relevant market selection criteria (cf. Worthington/Britton 2015, p. 7; Wheelen/Hunger/Hoffman/Bamford 2018, p. 129).

5.5.1   Political environment

Some aspects have a significant impact on business activities. In particular, government activities influence a company's business operations (cf. Worthington/Britton 2015, p. 7). Such aspects are:

- Political conflicts
- Government reforms
- Political interventions
- Subventions
- Free-trade areas
- Corruption
- Role of the military (cf. Roemer 2014, p. 32)

5.5.2   Economic environment

The economic factors of the macro environment relate to the business environment of a country. In this context, market volume and market potential are the most important variables. These comprise of the following factors:

- Economic growth
- Inflation rate
- Average income per capita
- Employment rate

- Buying power
- Distribution of income (cf. Roemer 2014, p. 33)

5.5.3 Social-cultural environment

Social, cultural and demographic factors have a high impact on the demand and supply of goods, thus also on business activities. These factors influence for example the type of products, the price of the products and communication about the products (cf. Worthington/Britton 2015, p. 8).

The following factors are related to the social-cultural environment:

- Birth rate
- Age distribution
- Average household size
- Language
- Religion
- Habits, morals and traditions
- Educational level (cf. Roemer 2014, p. 33)

5.5.4 Technological environment

For companies, technology acts as an input and output factor. Furthermore, it is one additional environmental influence factor on the business activities. Having the technological lead is seen very often as a competitive advantage for countries (cf. Worthington/Britton 2015, p. 8). Important factors that needs to be analyzed in regard to the technological environment are:

- Basic technologies
- Substitution technologies
- Product life cycle
- Infrastructure (cf. Roemer 2014, p. 34)

5.5.5 Legal environment

Companies must act within a predefined frame of law. Consequently, their business activities are restricted. Therefore, it is essential for companies to know the legal

environment of the countries they are entering. Examples for legal environment factors are:

- Legal system
- Legislative initiatives
- Regulations and standards
- Employment law (cf. Worthington/Britton 2015, p. 9)

5.5.6 Ethical and ecological environment

Companies need to know the influence their business has on people and their environment, in order to decide if they act within the country's specific ethical principles. Examples include:

- Environmental regulations
- Sustainability efforts
- Pollution laws
- Climate (cf. Worthington/Britton 2015, p. 9)

5.6 Porter's five forces: micro environment analysis

Alongside the macro environment, the micro environment must also be analyzed. The factors of the micro environment have an impact on market attractiveness and the profitability of an industry. The most used tool to investigate the micro environment is Porter's five forces model. The following five forces were identified by Porter:

1. Threat of new entrants
2. Bargaining power of buyers
3. Threat of substitute products
4. Bargaining power of suppliers
5. Intensity of rivalry among existing competitors (cf. Roemer 2014, p. 34f.; Kluyver/Pearce II 2015, p. 73 - 75)

Figure 7 illustrates the model Porter's five forces.

Threat of new entrants

The aim of new entrants is to gain market share. Entrenched companies threaten new competition because the risk of low profitability increases due to substantial

51

price pressure. Measures that prevent companies from entering a market can range from market barriers to entry to the reaction of existing companies to new market entrants. The higher the barriers are, or the sharper the reactions of existing market participants are, the lower the threat of new entrants becomes (cf. Porter 1980, p. 7).

Bargaining power of buyers

Buyers aim to get the best package – low price, high quality, or superior service – by playing one supplier against others. The consequence is lower profitability for the industry. A buyer group shows a high bargaining power, if:

- it is concentrated,
- its purchasing volume is relative to total sales,
- the products it buys are standardized and not customized,
- it does not face high switching costs,
- it is able to undergo backward integration,
- it has full information (cf. Porter 1980, p. 24 - 26).

Threat of substitute products

Substitute products are products that have the same purpose and functions as other products (e.g. fructose corn syrup as a substitute for sugar). The better the price-performance ratio of the substitute product, the higher the possibility that customers switch. Consequently, companies face limited potential returns (cf. Porter 1980, p. 23).

Bargaining power of suppliers

Suppliers with a high bargaining power can put pressure on their customers by increasing prices or lowering product quality. These suppliers can decrease the profitability of customers who cannot meet higher prices to keep their margins at the same level. A supplier group shows a high bargaining power, if

- it is concentrated,
- it faces less competition,
- the industry is less important for the supplier,

- the buyer depends on the supplier's products,
- switching costs are high
- it is able to undergo forward integration (cf. Porter 1980, p. 27 - 28).

Intensity of rivalry among existing competitors

The intensity of rivalry is characterized by offensive strategies. Companies use different tactics to gain market share and increase their profitability. They do so, because they either feel pressure from other competitors or they take advantage of the opportunity to improve their position in the market. Possible options are lowering prices, increasing marketing efforts, introducing new products or improving after-sales service (cf. Porter 1980, p. 17). However, not all of the named tactics are successful measures. Price competition, for example, can have a negative influence on the profitability of all market participants. Competition will catch up quickly with the price reduction. Consequently, all companies will face lower margins. In contrast, advertising battles increase the demand, thus also the profitability of all companies (cf. Porter 1980, p. 17).
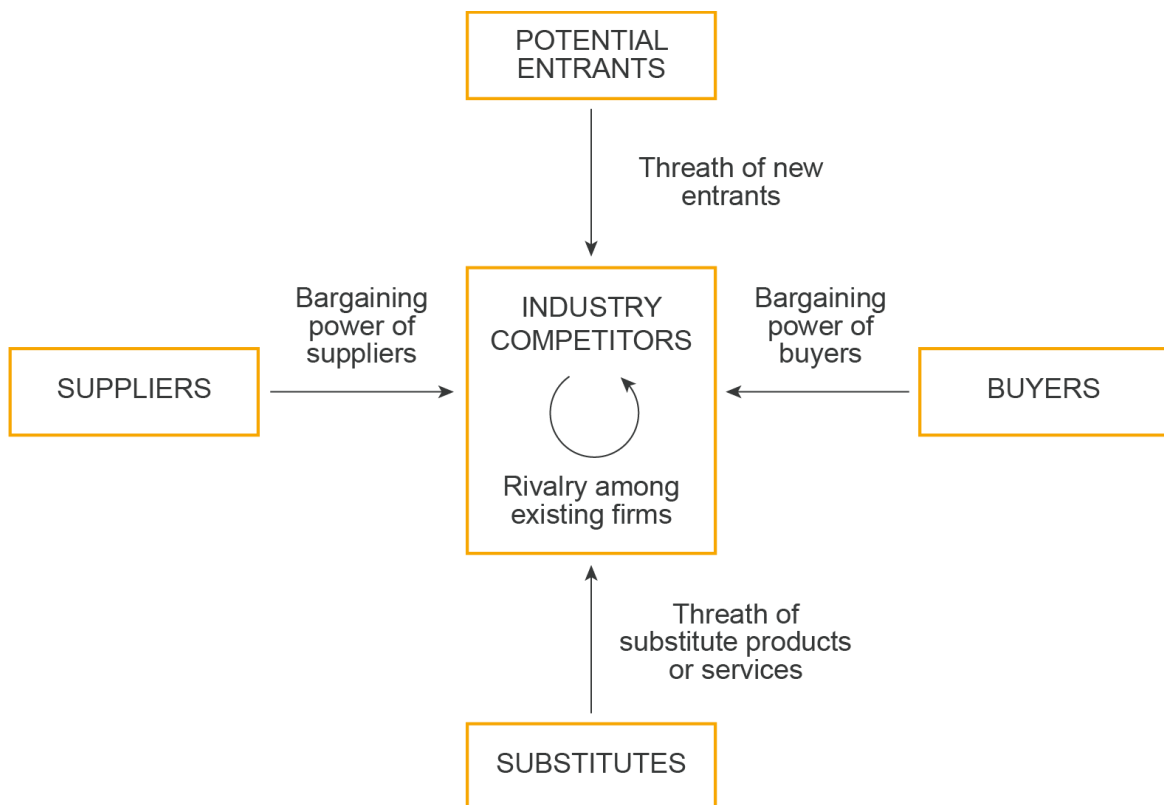
Figure 7: Driving forces for industry competition (based on Porter 1980, p. 4)

5.7   Company analysis

While the analysis of the macro and micro environment provides information about the opportunities and risks for a company, the internal analysis aims to identify the firm's strengths and weaknesses. By evaluating internal resources and competencies, potential strengths and weaknesses are detected (cf. Roemer 2014, p. 38; Berndt/Altobelli/Sander 2016, p. 53). Resources are divided into tangible and intangible resources. For the internal analysis it is necessary to pay attention to both types of resources, as they can provide competitive advantage. Tangible resources are for example financial resources, machines, facilities or toolings, whereas intangible resources are more often mental resources, such as reputation or intellectual properties. Competencies are the company's human resources (cf. Roemer 2014, p. 38f.). Instruments for a company analysis are for example benchmarking, strength and weakness analysis, or portfolio analysis (cf. Neubert 2011, p. 100 – 110).

In order to conduct a company analysis, the following factors can be analyzed:

Corporate goals and corporate culture

The scope of international marketing decisions is determined by the global company aims and the targets for the specific markets. The motives for internationalization (chapter 3.1) play in important role in this analysis. Corporate culture is a further aspect that needs to be analyzed, as it is strongly connected to corporate targets. Both company targets and corporate culture have an impact on the engagement of internationalization and entrepreneurial risk-taking, and an influence on the standing of specific countries. Furthermore, they determine the company's strategic orientation: whether it follows an ethnocentric, polycentric or geocentric approach. The different strategic approaches are described in chapter 4.2.4. In connection to the different strategic orientations, the decision about a standardized or differentiated marketing strategy is made (cf. Berndt/Altobelli/Sander 2016, p. 53f.).

Financial capacity

Entering new markets is linked to investment. The height of the investment depends on the market entry mode. A foreign direct investment requires higher investment than export activities. Therefore, the analysis of the financial power is crucial. A company's financial capacity is determined by the following factors:

- Equity ratio
- Cashflow
- Possibilities for equity and debt financing
- Inventory, receivables, and liabilities
- Relationships to banks (cf. Berndt/Altobelli/Sander 2016, p. 54)

Product features

Product features have a strong impact on the marketing-mix. Price, communication, and distribution gear towards product characteristics. One of the first factors to be analyzed is product quality. In this context, the sales prospects of the product need to be examined. The result is the basis of the decision as whether to offer a high quality product or a lower quality product, depending on the buying power of customers. Moreover, it is necessary to investigate the need for product standardization. The necessity depends on the customer needs but also on the legal standards of the foreign country. Apart from this, additional services play an important role for customers in many countries. In order to gain ground on competitors, companies need to offer a superior service (cf. Berndt/Altobelli/Sander 2016, p. 54f.).

Human resources

Due to the importance of the internationalization know-how, human resource policy is an essential factor for international companies. The policy includes the recruiting and training of employees. Employees' qualification and their experiences with foreign countries are crucial resources for internationally-operating companies. Knowledge of internationalization can include the following factors:

- Knowledge of international settlement techniques (e.g. international contract arrangement, customs clearance)
- Knowledge of specific foreign markets (e.g. potential business partners, distribution channels)
- Hands-on experience with foreign business activities (cf. Berndt/Altobelli/Sander 2016, p. 55)

Production capacity

The extent of international operations is restricted to the company's production capacity. However, underutilized capacities in the home country can be the first impulse for doing export business. Positive side effects are the reduction of costs of goods sold and the increase of market share. As a result, a firm's competitiveness can rise. Companies have various possibilities to increase their production capacity. Either by licence agreements with foreign companies, the extension of production in the home country, or the establishment of a production plant abroad (cf. Berndt/Altobelli/Sander 2016, p. 55f.).

5.8   Weighting methods

After the relevant criteria are selected, they need to be weighted on their importance. Criteria weights are used for multi-criteria decision making. The weighting of criteria helps to define preferences of alternatives. Due to different aggregation rules, multi-criteria decision-making methods use weightings in different ways. As a result, different weighting methods exist. In order to attain a valid result, the operator needs to know the exact meaning of the weights (cf. Zardari/Ahmed/Shirazi/Yusop 2015, p. 14). The next subchapters present some possible weighting methods.

5.8.1 Ranking method

By putting the criteria in order, from the most important to the least important criterion, this method is the simplest. Afterwards, weightings are calculated by one of the three following methods:

- **Rank sum**

Firstly, the rank position (r_j) is weighted. Afterwards, the weightings are normalized by the sum of all weightings.

- **Rank reciprocal**

These weightings result from the normalized reciprocal of the criterion's rank.

- **The rank exponent method**

The rank exponent method includes additional information. The weighting of the most important criterion is ranked on a scale from zero to one. Its value is the indicator for further calculation.

Table 3 shows examples for all three calculating methods. These methods are limited by the number of criteria. Hence, they are unsuitable if many criteria need to be ranked (cf. Zardari/Ahmed/Shirazi/Yusop 2015, p. 26f.).

Criterion	Rank position	Rank sum		Rank reciprocal		Rank exponent	
		Weight	Normalized	Weight	Normalized	Weight	Normalized
		$(n-r_j+1)$		$(1/r_j)$		$(n-r_j+1)^P=2$	
Agriculture	4	2	0.133	0.250	0.109	4	0.073
Forests	2	4	0.267	0.500	0.219	16	0.291
Urban	5	1	0.067	0.200	0.088	1	0.018
Wetlands	1	5	0.333	1.000	0.438	25	0.454
Water	3	3	0.200	0.333	0.146	9	0.164
		15	1.000	2.283	1.000	55	1.000

Table 3: Ranking methods (based on Zardari/Ahmed/Shirazi/Yusop 2015, p. 27)

5.8.2 Pairwise comparison method

In the pairwise comparison method each criterion is compared with another in pairs. Thereby, each criterion is inspected. The weighting process of this method consists of three main steps. These three steps are exemplified in table 4.

1. Comparison of each criterion with all others in pairs by entering the intensity values
2. Calculation of the criteria weights by normalization
3. Calculation of the consistency ratio (less than 0.10 is a reasonable level of consistency)

This method is easy to apply. However, the more criteria involved, the more complex the process becomes. The criticism of this method is the subjective comparison of the criteria, which does not use scales (cf. Zardari/Ahmed/Shirazi/Yusop 2015, p. 28f.).

	Step 1			Step 2			Weights
	Price	Slope	View	Price	Slope	View	
Price	1	4	7	0.718	0.769	0.538	(0.718+0.769+0,538)/3=0.675
Slope	1/4	1	5	0.179	0.192	0.385	(0.179+0,192+0,385)/3=0.252
View	1/7	1/5	1	0.102	0.039	0.077	(0.102+0.039+0.077)/3=0.073
	1.393	5.200	13.0	1.000	1.000	1.00	1.000

Table 4: Pairwise comparison method (based on Zardari/Ahmed/Shirazi/Yusop 2015, p. 28)

5.8.3 Rating methods

The importance of the criteria is shown on a scale from either 1-5, 1-7 or 1-10. The single weighting of a criterion is not dependent on the weightings of the other criteria. If the rank of one criterion needs to be changed, this has no impact on the weightings of the other criteria. This is the main difference with the other weighting methods (cf. Zardari/Ahmed/Shirazi/Yusop 2015, p. 26).

5.8.4 Constant sum scales methods

The criteria are weighted by distributing a given number of points, usually 100, among all criteria. The more points a criterion gets, the higher its importance. This method becomes more complex, the more attributes are added. However, this method does not merely provide information about the order of importance of each criterion, it also provides information about importance relative to other criteria (cf. Sreejesh/Mohapatra/Anusree 2014, p. 132).

5.8.5 Magnitude scales methods

Magnitude scales methods are rarely used. They are alternatives to rating scales. They are based on the presumption that a person is able to specify an intense perception immediately in a numerical form for example (cf. Schnell/Hill/Esser 2018, p.181).

An anchor stimulus is defined, upon which all criteria are ranked. The value of the criteria is either a multiple or fraction of the given anchor (cf. Dülmer 2014, p. 725).

The application of magnitude scales methods takes longer than the use of rating scales (cf. Schnell/Hill/Esser 2018, p.182).

5.8.6 Requirements on the criteria weighting process

The previously mentioned weighting methods are just a few examples of weighting methods. The weighting of criteria has significant influence on the final result. Therefore, it is essential to weight the criteria rationally and truthfully in order to make the right decision about the target market. Thus, the most suitable method needs to be chosen. In regard to the estimation of criteria weighting, either a direct or indirect estimation approach can be applied. The direct estimation aims to define the relative importance of criteria through a questionnaire. By asking questions, the respondents express their priority statements in numbers. The indirect estimation runs a different procedure. The actual previous behavior of the respondents is analyzed in order to derive weights. In this process, ranking alternatives are used as the basis. Analysts can use hypothetical weights that are gathered from a specific group. The respondents comment on these weights accordingly. Both, the direct and indirect approach have advantages and disadvantages. Which approach is used for criteria weighting depends on the resources a company has and the attitude of the respondents. In both cases, the weighting of the criteria should be done by at least three experts. These respondents can be for example customers, competitors, suppliers, or employees from foreign trade departments. This procedure ensures the objectivity of the weighting process (cf. Zardari/Ahmed/Shirazi/Yusop 2015, p. 52f.).

6 Theoretical market selection concept for B2B

The theoretical market selection concept contains the appropriate strategies, methods, instruments, and criteria for a B2B company within the furniture industry in order to select the most promising markets.

6.1 Definition of a concept

A concept sets a clear structure. It is used to describe, understand and analyze a research object (cf. Cardoso/Lopes/Poels 2014, p. 15). It is characterized by the following features:

- The starting point for a concept is either an intention, a goal or a problem statement.
- Each concept is based on assumptions or prerequisites that are taken for granted.
- A concept sets the structure for the development of a coherent unit.

This means that a concept provides a particular framework. However, it gives the user flexibility to put the content in concrete terms. Furthermore, a concept makes only general statements about the circumstances (cf. Westhaus 2007, p. 208).

Usually, a concept may consist of the following phases:

- Analysis
- Targets
- Strategies
- Instruments and methods
- Budget
- Controlling (cf. Pifko 2011, p. 32f.)

These phases are described in more detail in the following subchapters.

6.2 Analysis

The analysis phase is the first stage within the internationalization process. It is necessary to conduct a global marketing research during the decision-making process as this is the informative basis for further actions (cf. Hollensen 2011, p. 175). In this

stage the initial situation is analyzed. By doing so, the macro and micro environment are examined, and the strengths and weaknesses of the company are identified. The purpose of the analysis phase is the detection of opportunities and risks as well as the strengths and weaknesses of the company. The opportunities and risks are then confronted with the strengths and weaknesses of a company through the use of a SWOT-catalogue. The result of the SWOT is the derived international marketing strategy (cf. Roemer 2014, p. 31). In addition to the analysis of the current situation, this phase also includes an outlook of future events that could influence the business activities of companies. The internal analysis aims to examine the corporate and product readiness for internationalization (cf. Berndt/Altobelli/Sanders 2016, p. 19 - 21).

A detailed company analysis is not part of this thesis. Therefore, the appropriate tools for conducting an internal analysis are not discussed here.

Tools that can be used to analyze the external environment are PESTLE, for the macro environment, and Porter's five forces for the analysis of the micro environment. These two tools are described in the chapters 5.5 and 5.6.

6.3   Targets

The output of the analysis phase is the basis for the target setting. Targets describe the condition a company strives for precisely. Company goals comprise of general objectives and their derived strategic and operational goals (cf. Boos/Völker/Schuh 2011, p. 7f.). Targets enhance the purposive and effective resource planning. However, it is essential that goals are not contradicted. The S.M.A.R.T. method can be used to formulate the goals in the appropriate way. S.M.A.R.T stands for:

Specific: Targets need to be described clearly.

Measurable: Targets need to be quantifiable.

Achievable: Targets need to be feasible with the resources and capabilities available within the project scope.

Realistic: Targets need to be realistic. This argument correlates strongly with the characteristic "achievable".

Time-based: Each target description should include a deadline. If there are multiple targets set, prioritization is necessary (cf. Bär/Fiege/Weiß 2017, p. 43f.).

6.4   Strategies

Strategies build on the results of the current situation analysis, the company's vision and mission as well as the defined targets (cf. Pifko 2011, p. 87; Schuh/Boos/Kampker/Gartzen 2011, p. 66). Strategies are defined by the management. Managers have a strong influence on the internationalization strategy (cf. Dasí/Iborra/Safón 2015, p. 77). Strategies consist of plans and rules of conduct in order to achieve the set goals (cf. Plinke 2002, p. 4).

It is necessary that strategies match the company's capabilities and consider the external environment (cf. Johnson/Scholes/Whittington 2008, p. 294). Each company has different strengths and weaknesses. Once the strategy considers these factors, a unique strategy is developed, which can be as successful as strategies from other companies that operates in the same market (cf. Pifko 2011, p. 89). The international strategy has influence on market selection and market entry mode (cf. Johnson/Scholes/Whittington 2008, p. 294). Therefore, it is important to select the right strategy.

Chapter 4.2 describes the different strategies a company can select. First, they can choose between a reactive or proactive market selection strategy. As the proactive approach is not influenced by the existing customer base and do not exclude profitable markets in advance, this approach is more appropriate when searching for the most promising markets. Furthermore, the company can either follow an experienced-based, option-based or market research-based strategy. In this case, the experience-based and option-based approaches restrict the number of countries in advance. The market research-based approach allows companies to take all countries into account. Therefore, a proactive market research-approach is the appropriate strategy for B2B companies within the furniture industry.

6.5   Instruments and methods

The chosen instruments and methods are directly linked to the achievement of the targets. Different instruments and methods can be combined in order to increase effectiveness (cf. Pifko 2011, p. 102f.).

6.5.1 Market selection methods

Different market selection methods were presented in chapter 4.4, reaching from simple to more complex approaches. In general, there are two different market selection methods: one-step methods and multi-stage methods (cf. Faix/Kisgen/Lau/Schulten/Zywietz 2006, p. 54). Multi-stage methods have the advantage that inappropriate countries are identified through knock-out criteria in the pre-screening phase (cf. Kutschker/Schmid 2011, p. 972). Since the number of countries is low and pre-screening is not necessary, the application of a one-step method is recommended. Consequently, the three countries undergo an in-depth analysis where the country with the highest potential is identified. In this context a scoring method is most suitable due to its simplicity and the possibility for ranking.

6.5.2 Market selection criteria

Companies can choose between a variety of criteria when evaluating potential target markets. In order to keep the efforts and costs linked to the market evaluation within acceptable bounds, companies have to choose criteria that are relevant and helpful (cf. Ranchhod/Gurău 2007, p. 280). Table 5 demonstrates possible criteria that can be used for market assessment by B2B companies that operate in the furniture industry.

Dimensions	Criteria
Economic	• GDP growth • GDP per capita • Buying power
Political	• Political stability • Degree of political intervention
Legal	• Requirements • Standards • Legal system • Enforceability of contracts

Cultural	● Language
	● Business relationships
	● Health awareness
	● Number of people measuring sleep performance
	● Time people spend in bed
	● Average size of bedrooms
	● Affinity for technology
	● Use of social platforms
	● Buying behavior
Market attractiveness	● Market size
	● Level of competition
	● Achievable prices
	● Ease of doing business
Market barriers to entry	● Import tariffs
	● Import quotas
	● Customer preferences
	● Product requirements
	● Access to distribution partners
Market risk	● Exchange rate risk
	● Expropriation risk
	● Transport risk
	● Payment risk
	● Security risk
	● Acts of God

Table 5: Possible selection criteria for B2B companies within the furniture industry (based on Neubert 2011, p. 114 – 129)

6.5.3 Weighting

After the criteria are defined a weighting is necessary. For this task, different methods are available, described in chapter 5.8. However, the constant sum scale method is recommended, because it is easy to use and, next to the ranking of the

criteria according to their importance, it determines their importance relative to the other criteria.

6.6 Budget

Budget is an instrument for planning and controlling. Budgets rely on the strategic plan of a company. Therefore, it is important to have a clear strategy in place to derive appropriate tactics. Furthermore, it approves the feasibility of the developed concept. If the planned measures require too high budget, the concept needs to be adapted. Moreover, the budget phase is directly linked with the controlling phase (cf. Mowen/Hansen/Heitger 2014, p. 382).

Internationalization can be very costly for companies. However, the costs depend on the effort a company puts into the analysis, the strategy it chooses, as well as on the type of entry mode. Costs occur not merely in the execution phase. The analysis upfront requires a lot of internal effort and in most cases also expenses when purchasing secondary research data. Nevertheless, the main part of the budget is needed for the market entry phase (cf. Lymbersky 2008, p. 51).

6.7 Controlling

Within the controlling phase, the international performance of the company is measured in terms of target achievement (cf. Olejnik 2014, p. 84).
Typical key performance indicators, KPIs, are for example revenue, market share, and image. Controlling is conducted via a target-relevant comparison. Therefore, it is important that targets are quantifiable in order to be able to compare the actual situation with the planned situation. In case of deviations, a cause analysis needs to be performed, after which appropriate adaptations must be defined (Berndt/Altobelli/Sanders 2016, p. 474).

6.8 Conclusion

Internationalization requires a lot of effort by companies. Just the presence of a market-ready product or a customer-oriented service does not make companies ready for foreign markets. Companies need to invest a lot of time and money when going international. This includes efforts during the planning phase, for example by

conducting analysis and costs that occur when entering a foreign market. Systematic planning ensures the success of companies when entering foreign markets (cf. Fuchs/Apfelthaler 2009, p. 268).

In order to select the right target market in a systematic way, it is recommended to have a concept in place which guides a company in its market selection procedure. The concept demonstrates the essential steps within the market selection process in order to select the most promising market. Figure 8 visualizes the international market selection concept.

LIST OF POTENTIAL
TARGET MARKETS

International
Target Market
Selection Process

1. Assessment of readiness for internationalization
2. Choice of market selection method
3. Definition of relevant market selection criteria
4. Weighting of criteria
5. Screening of countries
6. Evaluation of collected data
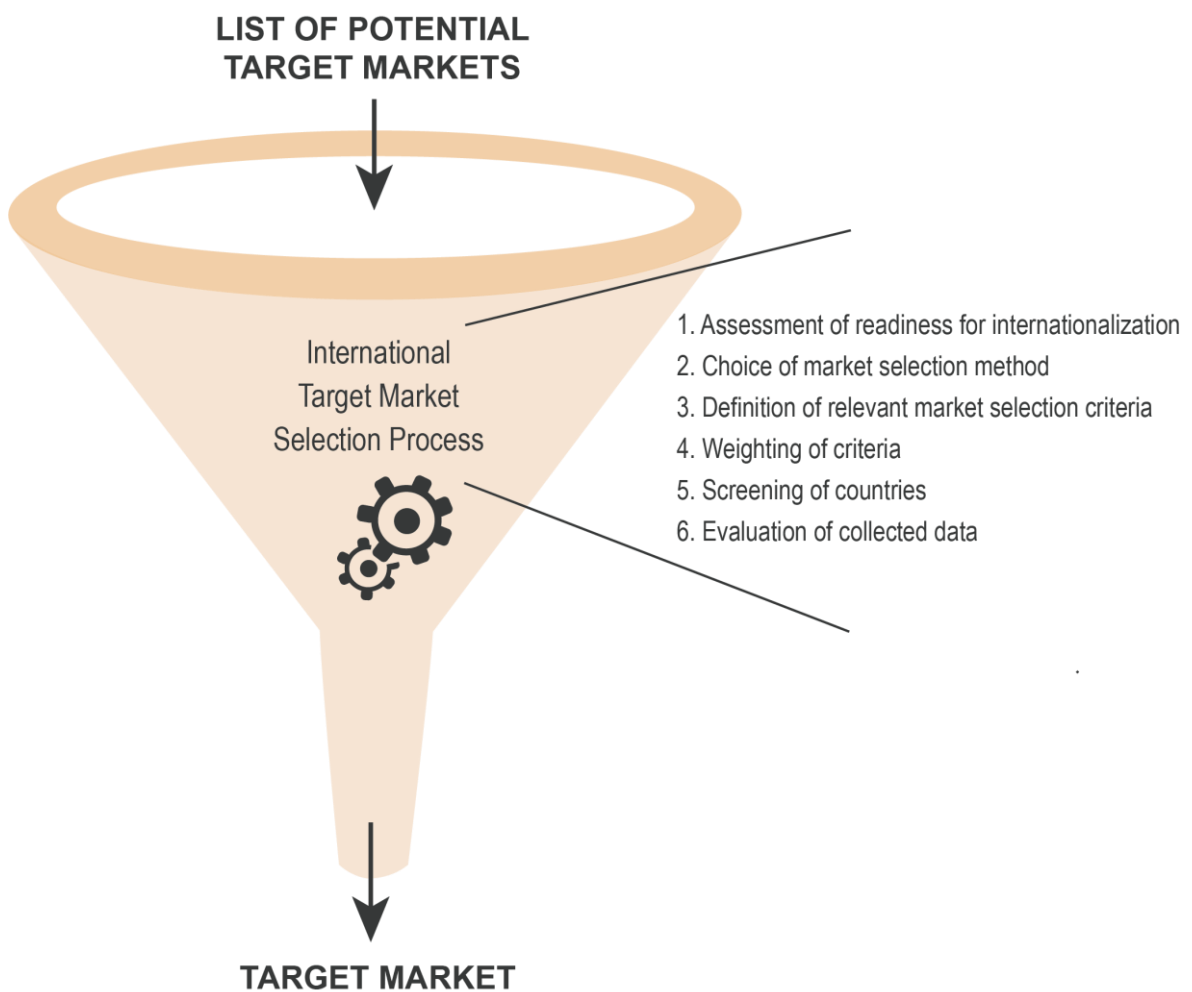
TARGET MARKET

Figure 8: International target market selection concept (own presentation)

Table 6 summarizes the theoretical B2B market selection concept for companies in the furniture industry.

THEORETICAL B2B MARKET SELECTION CONCEPT	
Phase	**Definition**
Analysis	Firstly, the **internal readiness for internationalization** has to be proofed. Corporate and product readiness is analyzed. Secondly, the **external environment** has to be investigated. The macro environment is analyzed in order to identify possible market risks and market barriers to entry. By using **PESTLE,** the market opportunities and risks are analyzed. The micro environment is analyzed by the use of **Porter's five forces**. This tool provides information about the market attractiveness of a country.
Target	Define **strategic** and **operational goals**.
Strategies	In order to consider all potential markets without excluding countries in advance, conducting a structured procedure, the **proactive market research strategy** is recommended before starting the internationalization process.

Instruments Methods	**Methods** Since a pre-selection of three countries was already made by the company, a **one-step method** is selected in order to assess these countries in more detail. **Instrument** The **scoring method** is the appropriate instrument due to the possibility for ranking. **Criteria** The main criteria categories are **market attractiveness**, **market barriers to entry** and **market risks**. The criteria selected need to be comparable with each other. However, a graduation of criteria of each country is necessary. It is essential that the criteria are relevant for the company and consider the product, the market entry mode, and the industry. **Weighting** For criteria weighting, the **constant sum scale method** is recommended. Firstly because of its easy usage and secondly, because it ranks the criteria according to their importance while providing information about their importance relative to other criteria.
Budget	Costs occur in different stages of the internationalization process. Companies need to consider costs during the analysis phase when conducting **market research**. However, companies need to be aware of the costs during the **market entry.** These phase causes significant costs.
Controlling	The controlling of the performance is performed through a **target-actual comparison** one year after market entry. Therefore, **KPIs** need to be derived from the company targets. In case of deviation, **adaptation of the measures** needs to be made.

Table 6: Theoretical B2B market selection concept (own presentation)

7   LOGICDATA

7.1   Company Facts

LOGICDATA is an Austrian-based company with its headquarters in Deutschlandsberg, in the southwest of Styria. The company was founded in 1994 by Walter Koch (cf. LOGICDATA 2017b). Its core business is the development of mechatronic system solutions for adjustable home and office furniture. LOGICDATA operates in the field of B2B. Its customers are mainly OEMs and retailers. It differentiates itself from its competitors by offering customers not only standard products but also customized solutions.

LOGICDATA is listed as one of Austrians "hidden champions" (cf. Karl-Franzens-Universität Graz, n.d.). In order to be listed as a hidden champion it needs to meet three requirements. Firstly, it needs to be either number one, two or three on the global market or market leader on its continent. LOGICDATA is market leader with the business unit LOGIC OFFICE in Europe. However, it also strives for global market leadership. Secondly, the revenue needs to be less than $4 billion. In 2017, LOGICDATA generated a total revenue of 89 million Euro. Thirdly, public awareness of the company needs to be at a low level. LOGICDATA and its business are still unknown to most people (cf. Simon 2009, p. 15; LOGICDATA 2017c).

7.2   Business Units

LOGICDATA is divided into two business units: LOGIC OFFICE and LOGIC HOME. Within the business unit LOGIC OFFICE, LOGICDATA develops components for height-adjustable furniture, such as actuators, control boxes, and hand controls, for office furniture. Its main markets are Germany, Scandinavia, and North America.

The business unit LOGIC HOME has evolved from a component producer to a system supplier. Until the beginning of 2018, LOGICDATA offered OEMs and retailers components for adjustable beds and upholstered furniture, such as control boxes, massage motors and remote controls. In 2018, LOGICDATA presented its first adjustable bed base at the Las Vegas Market, the largest furniture market in the Western United States. The main market for this business unit is the United States.

As its customers are spread all over the world, the company has a 100% export rate (cf. LOGICDATA 2018). In order to serve the market in the best way, LOGICDATA founded several international offices, each with its own core competencies.

The first subsidiary was founded in Grand Rapids (North America) in 2011. The core activities of this subsidiary are sales and customer service, as well as logistics. In 2012, LOGICDATA founded a second subsidiary in Maribor (Slovenia), which focuses on the development of new products. The office in Zhuhai (China) was established in 2015 (cf. LOGICDATA 2017a). The core business of this subsidiary is supplier and quality management. In 2018, LOGICDATA also established a further subsidiary in Europe, which is responsible for research and development. This office was founded in Zagreb (Croatia). Taken all together, LOGICDATA employs more than 300 people worldwide.

7.3   Corporate Culture

The whole organization shows a strong corporate culture. The owners of the company published a so called "LOGIC Charter", which functions as the basis for the company philosophy. It consists of ten principles of how the employees should act within the team and how the company should interact with its environment. Continuous learning is an essential behavior within the organization. The company created an environment that fosters creativity and personal development: We are minds in motion.

LOGICDATA's mission is to (r)evolutionize adjustable furniture.

8 Research design

The research design defines the sample and method of data collection. It helps to structure the whole market research process (cf. Berekoven/Eckert/Ellenrieder 2009, p. 31f.).

The research design is based on a problem that needs to be solved. The research design and research problem are strongly linked. Depending on which research design is applied, the appropriate analysis technique needs to be used (cf. Sarstedt/Mooi 2019, p. 13f.).

Problem statement

LOGICDATA aims to enter the Asian-Pacific market, primarily through Japan, China or Australia. The company does not have the necessary market knowledge that is required to choose the right target market among the selected countries. Additionally, LOGICDATA has no market selection concept in place to ensure a structured selection process. The detailed problem statement is described in chapter 1.2.

Objective of the market research

The objective of the practical part is the elaboration of a market selection concept for LOGICDATA for the countries Japan, China and Australia.

The purposes of the market research are as follows:

- Determination of LOGICDATA's readiness to enter the APAC market
- Selection of the correct market selection method
- Identification of market selection criteria together with the company and experts
- Weighting of the criteria according to their importance by experts

8.1 Company analysis

First, a company analysis is conducted in order to determine the level of corporate and product readiness. It is necessary that the assessment is objective. An incorrect evaluation of the readiness for internationalization can threaten the existence of

companies, as going international is linked with financial investment (cf. Fuchs/Apfelthaler 2009, p. 273).

Central issues

- What is the company's driver for internationalization?
- Does the company have the necessary resources (tangible and intangible) to enter a foreign market in the APAC area?
- Does the company have experience with the markets in the APAC area?
- Has the company already built up business relationships in the target markets?
- Does the existing product meet requirements and customer needs?
- Are product adaptations necessary?
- Does the company have the necessary skills and knowledge in place to enter the market?
- Is the company competitive among local and international competitors?
- Does the company have enough production capacity to serve the market (cf. Hollensen 2011, p. 175; Roemer 2014, p. 16)?

Method

As stated in chapter 6.2 a detailed company analysis is not part of this thesis. The corporate and product readiness of the company will be evaluated by conducting face-to-face meetings with employees of LOGICDATA and analyzing available company data.

8.2 Methods of market data collection

The collection of market data can be done either by secondary research or primary research, or a combination of both (cf. Roemer 2014, p. 114). As secondary data was gathered for another purpose by another person, it may not solve the existing problem statement. However, secondary data can serve as the basis for further research (cf. Sarstedt/Mooi 2019, p. 30). Therefore, this research design consists of a secondary market research and a primary market research.

8.2.1 Secondary market research

Secondary market research is applied to gain as much information as possible about Japan, China and Australia. This information provides deep insights about all three countries and is used to assess these markets. The researched information consists of market data and industry data and bases on the chosen selection criteria.

Research Targets

- Deep market analysis of Japan, China and Australia
- Gather market data about each country
- Evaluate countries based on secondary research data

Method

A quantitative market research is used to gather relevant information. The information sources are the internet, available reports about the countries and industry, as well as company internal databases.

8.2.2 Primary market research

Primary data is collected to get specific information not available through secondary data. By asking specific questions related to the problem statement, the researcher is able to gather the needed information. However, primary research is often linked with high costs and effort (cf. Sarstedt/Mooi 2019, p. 30).

As the goal of this thesis is primarily the elaboration of a market selection concept, which is used to select target markets among the APAC area, primary research is conducted in order to verify the findings of the secondary market research and to find the right market selection method, relevant criteria, and weighting.

Research Targets

- Selection of relevant market selection criteria
- Weighting of the criteria according to their importance
- Verification of the findings of secondary research

- Gathering additional information about the pre-selected target markets

Method

In order to achieve the research targets, interviews are performed with experts. These interviews are qualitative conversations with people that have a certain knowledge on a specific topic. Experts can be, for example customers, competitors, suppliers, employees of the organization, or employees from foreign trade departments (cf. Sarstedt/Mooi 2019, p. 78).

The participants interviewed have expertise in different fields, in order to gather the information needed. Therefore, the respondents are clustered into the following groups:

- Generalists, that have knowledge about foreign market selection
- Persons with extensive knowledge about the industry, in particular the bedding industry. In this case, these are employees, customers, and suppliers of LOGICDATA
- Persons with extensive knowledge about the target countries, in particular, employees from foreign trade departments

Sampling

Sampling is performed by a non-probability sampling approach through the use of a quota plan. By using this method, pre-specified characteristics are defined that individuals need to fulfil in order to be chosen as a respondent (cf. Sarstedt/Mooi 2019, p. 42).

In total, five interviews are made. The following interview partners are selected:

- One LOGICDATA employee

The respondent is the business development manager from the business unit LOGIC OFFICE, who has already started to gather market intelligence about the APAC area.

- One expert from the furniture industry

LOGICDATA works with customers and suppliers who operate in the Asian market. They have knowledge about the industry and the Asian market. These partners provide essential information.

- Three experts with extensive knowledge about the target countries

Employees from foreign trade departments are interviewed as they have advanced knowledge about the target markets.

Tool

An interview guide is used to provide a framework and to semi-structure the interviews. However, the interview guide allows the researcher to go deeper into specific topics.

8.3   Schedule of the market research

Step 1: Company analysis

Evaluation of corporate and product readiness   28.01. – 10.02.2019

Step 2: Elaboration of the market selection concept

Description of the market selection method   15.02. – 18.02.2019

Definition of market selection criteria   30.02. – 02.03.2019

Weighting of the criteria   02.03. – 15.03.2019

Step 3: Secondary Research

Deep market analysis   02.02. – 25.03.2019

Assessment of pre-selected markets   25.03. – 05. 04.2019

Step 4: Primary Research

Acquisition of interview partners   29.01. – 10.02.2019

Creation of the interview guide   15.02. – 05.03.2019

Pretesting   06.03. – 06.03.2019

Execution phase   10.03. – 25.03.2019

Transcription of interviews   26.03. – 30.03.2019

Interpretation, discussion, and presentation of the findings 31.03. – 03.04.2019

9 Company analysis of LOGICDATA

The first decision a company needs to take is whether to internationalize or not. The answer on this question depends mainly on the organization's resources and its products. The assessment of corporate and product readiness was carried out by the author. A point rating system is used to evaluate the performance of the company. First, relevant criteria are defined in order to analyze LOGICDATA's performance. As a second step, these criteria were proved and supplemented by the Business Unit Director of LOGICDATA. The criteria are then grouped into the following categories:

- Employee competencies
- Management
- Marketing
- Network
- Resources
- Product readiness

The information for analyzing the corporate and product readiness of LOGICDATA is gained from face-to-face meetings with LOGICDATA employees and through available company data. The point rating system uses a scale reaching from 0 – 4 (0 = very bad, 4 = excellent). The description of the scale is displayed in the appendix in chapter 1. As with the BERI index, the result of this tool is a total score. A point-level system is defined in order to evaluate the final score. The point-levels are derived from the BERI index with minor adjustments.

Level	Description
100 – 80	Corporate and product readiness of the company is confirmed
79 – 60	In general, the company is ready for internationalization, though improvements are necessary to be successful.
59 – 40	Corporate and product readiness of the company are not confirmed at the moment. In order to be ready for the APAC area, several improvements are necessary.
39 – 0	Corporate and product readiness of the company are not confirmed

Table 7: Evaluation scale for company analysis (own presentation)

LOGICDATA reached a total score of 75 points. According to this result, LOGICDATA is ready to go international, though minor improvements are necessary. Especially in the area of Marketing, the company needs to develop. This includes deep knowledge of market research and the building of strong brand awareness in the target market. The detailed analysis can be found in table 8.

With its business unit LOGIC OFFICE, LOGICDATA serves clients in different countries around the world, whereas the customer base of the business unit LOGIC HOME is quite small. Since the strategy and the product portfolio of the business unit has changed completely, LOGICDATA is looking for a new customer segment primary in the U.S. market. Nevertheless, some countries in the Asian Pacific area show also a high market potential. Therefore, the company decided to enter countries in the APAC area.

Experiences in the APAC region are present. LOGICDATA's business unit LOGIC OFFICE operates in the Australian market by export business. The business unit LOGIC HOME can benefit from their insights. Furthermore, the company has a subsidiary in China that is responsible for resourcing. These circumstances enable the company to gain access to market information more easily. The company is currently gaining market intelligence in some APAC countries, especially the pre-selected potential target markets.

LOGICDATA offers customized products to customers, with a superior quality compared to competitors' products. As a result, LOGICDATA's products are sold at a higher price level.

The company has no in-house production. Production is contracted to manufacturers in Eastern Europe and China. The capacity is sufficient to serve additional markets.

Overall, it can be said that the company and its products are ready for the internationalization in the Asian Pacific area. The company and its employees have the necessary commitment to enter the Asian Pacific market. Additionally, the company is able to increase the production volume to the necessary level. However, its market knowledge is low, which is problematic for market selection and market entry.

Dimensions	very bad 0 points	poor 1 point	average 2 points	good 3 points	excellent 4 points
Employee competencies	Max. points	16		Achieved	12
International business experience					●
Knowledge of target markets			●		
Knowledge of foreign languages				●	
Adaptability in regard to foreign culture				●	
Management	Max. points	24		Achieved	22
Clear strategy					●
Motivation and defined targets					●
Business plan in place					●
Organizational flexibility					●
Management commitment					●
Willingness to take risks			●		
Marketing	Max. points	12		Achieved	5
Ability to conduct market research		●			
Preparation of an international marketing plan			●		
Branding awareness			●		
Network	Max. points	12		Achieved	10
Foreign subsidiaries					●
Business relationships				●	
International well-known references				●	
Resources	Max. points	20		Achieved	15
Production capacity					●
Financial resources			●		
Access to financing				●	
Planned budget for market entry				●	
Human resources				●	
Product readiness	Max. points	16		Achieved	11
Product that is potentially viable in foreign markets				●	
Customer needs in foreign target market				●	
Product price-competitiveness			●		
Local responsiveness to better suit foreign markets				●	
Maximum possible points per column	0	25	50	75	100
Achieved points per column	0	1	12	30	32
				Total sum:	**75**

Table 8: Company analysis (own presentation)

10 Elaboration of the market selection concept

The aim of the practical part is the assessment of the three countries Japan, China and Australia in order to find the most promising market for LOGICDATA to enter. The elaboration of the market selection concept for LOGICDATA bases on the findings in the theoretical part. The following chapters focus on the selection of the right method, the relevant market selection criteria and their weighting.

10.1 Selection of method

The company already pre-selected three countries in the Asian Pacific area, namely Japan, China, and Australia. It considers all three markets as potential target markets. Nevertheless, not all three countries can be entered at the same time. Therefore, a ranking of the three countries according to their potential is necessary in order to select the most promising market among these three. Consequently, it is necessary to analyze each market in detail. Hence, in this case an in-depth one-step method is the appropriate instrument to find the most promising market. The scoring method provides the possibility of a ranking. Therefore, this method is used to assess and rank the given countries according to their potential.

10.2 Selection of criteria and indicators

After defining the market selection method, relevant criteria need to be determined. The criteria are related to the furniture industry, in particular the bedding industry, since LOGICDATA aims to enter an Asian market with its products of their business unit LOGIC HOME. For the evaluation of the countries, two different types of criteria are selected. On the one hand criteria for secondary research is used and on the other hand criteria for primary research. The criteria were proved and supplemented by three experts. The next chapters give an overview of the selected criteria and its indicators as well as a more detailed explanation of each.

10.2.1 Experts involved

Three experts were asked to check the list of criteria for completeness and conducted the weighting of the criteria. It is recommended that experts show expertise

in various areas. As such, the result becomes more valid. It is necessary that the company perspective, industry perspective, and country perspective are covered by the experts' knowledge. In this case, the following experts were asked:

Name	Company	Field of expertise
Höfler, Georg, MSc	LOGICDATA Electronic & Software Entwicklungs GmbH	Long-term experience as the Business Development Manager for the business unit LOGIC HOME. Deep knowledge about the company, its business unit, and the company's strategy.
Michael Woedd	Actiforce	Managing Director in the furniture industry with focus on the Asian Pacific market.
Johannes Sauer	Yaasa Studios Inc.	Chief Executive Officer at Yaasa Studios Inc. He has long-term experience and in-depth knowledge of the bedding industry.

Table 9: Experts for selecting and weighting criteria (own presentation)

10.2.2 Criteria for secondary research

Criteria that are used for secondary research need to be quantifiable. Therefore, indicators were derived from the criteria in order to evaluate the countries' attractiveness, barriers, and risks. Because an in-depth one-stage market selection method is used to assess the three countries and the aim is to evaluate them on the same indicators, knockout criteria are not necessary.

The following table demonstrates the list of selected criteria used to assess the pre-selected countries. For the experts involved in the weighting process it is necessary that they understand each criterion in the same way. Therefore, a detailed description about each criterion and its indicators is forwarded to them. The descriptions are given in chapter 2 of the appendix.

Category	Criteria	Indicators
Market attractiveness	Economic factors	GDP per capita ppp (USD)
		GDP growth rate
		Inflation rate in % (yearly average)
		Average disposable income
		Ease of doing business (country rank)
	Market characteristics	Growth of furniture industry
		Size of biggest potential customer (turnover)
		Import/consumption
	Competitive landscape	Number of international direct competitors (>50 million turnover)
		Number of local competitors (>50 million turnover)
	Customer structure	Number of retail companies (>100 million turnover)
		Number of e-commerce companies
Market barriers to entry	Economic barriers	Trading across borders rank
		Infrastructure (transport and electricity)
		Judicial independence
	Protective barriers	Customs regulations on furniture products (in %) incl. other taxes
	Behavioral barriers	Average time people spend in bed
		Wearable market – health consciousness
Market risks	Political risks	Corruption perception index
		Political Risk Index (PRI)
	Economical risks	Operation Risk Index (ORI)
		Remittance and Repatriation Factor (R-Factor)

Table 10: Market selection criteria for secondary research (own presentation)

10.2.3 Criteria for primary research

Primary research is necessary to validate the findings of the secondary market research and to gather additional information concerning the defined criteria and indicators. Some criteria are either not quantifiable, accessible, or available. Therefore, these criteria are not applicable for the secondary research. However, some of these unquantifiable criteria are important for the target market selection. Hence, the qualitative primary market research is essential to gather this information by experts from the industry and the country.

The following table shows the defined criteria for the primary market research.

Category	Criteria
Market attractiveness	Development of the furniture industry
	Achievable prices
	Ease of doing business
	Importance of innovation
Market barriers to entry	Legal barriers
	Government restrictions
	Existence of industry standards
	Customs regulations
	Likelihood of doing business with European companies
	Influence of cultural differences on business
	Buying behavior
	Access to distribution channels
	Capital requirement
	Living conditions
Market risks	Risk of non-payment
	Political stability

Table 11: Market selection criteria for primary research (own presentation)

10.3   Weighting of criteria

The next step, after relevant criteria and their indicators are selected, is weighting. The result of the market evaluation is significantly dependent on the used criteria and their weighting. Therefore, three experts are involved in this process in order to reach a valid result. The three experts are named in table 9, chapter 10.2.1. Their task is to weight the criteria and indicators of the secondary research in order to determine their importance for the market assessment. It is necessary to state that each criterion has different importance when it comes to the company, the country, or the industry perspective. Hence, the different perspectives need to be covered by the experts' knowledge.

10.3.1 Weighting process

For the weighting process a constant sum scale method is applied. How this method works is explained in chapter 5.8.4. The experts were contacted per email and were asked to distribute 100 points over the three main categories of market attractiveness, market barriers to entry, and market risk. The higher the importance of a criterion, the more points it gets. Afterwards, the experts allocated the weights from the category to the defined criteria. Finally, the weighting of the criteria was distributed to the related indicators by the experts. To be sure that the experts understood each indicator in the right way, a description of each criterion was forwarded in order to eliminate uncertainties. Together with the descriptions of the criteria an Excel sheet, where the weighting was performed, was provided to the specialists. The weighting document was designed to be simple and user-friendly. By entering the points into the right cells, the weighting is done automatically. Since the number of indicators is high, the experts may find it difficult to count the remaining points. Therefore, the tool counts the already allocated points and shows how many are remaining. This is also supported by a color code. Red means there are points missing or too many points given. The color green indicates that all points are given.

After all experts conducted the weighting, the average weight of each determinant could be calculated. All expert opinions are treated equally. The final weightings are shown in chapter 10.3.2.

10.3.2 Weighting of the criteria

Category	Weight	Criteria	Weight	Indicators	Weight
Market attractive-ness	64,7%	Economic factors	23,0%	GDP per capita ppp (USD)	5,3%
				GDP growth rate	4,7%
				Inflation rate in % (yearly average)	2,7%
				Average disposable income	6,3%
				Ease of doing business (country rank)	4,0%
		Market characteristics	23,0%	Growth of furniture industry	7,3%
				Size of biggest potential customer (turnover on furniture in million)	10,7%
				Imports/consumption	5,0%
		Competitive landscape	7,7%	Number of international direct competitors (>50 million turnover)	4,0%
				Number of local competitors (>50 million turnover)	3,7%
		Customer struc-ture	11,0%	Number of retail companies (>100 million turnover)	5,3%
				Number of e-commerce companies	5,7%
Market barriers to entry	19,3%	Economic barriers	7,7%	Trading across borders rank	2,3%
				Infrastructure (transport and electricity)	3,7%

				Judicial independence	1,7%
		Protective barriers	6,7%	Customs regulations on furniture products (in %) incl. other taxes	6,7%
		Behavioral barriers	5,0%	Average time people spend in bed	2,3%
				Wearable market (relative users in %)	2,7%
Market risks	16,0%	Political risks	7,0%	Corruption perception index	3,0%
				Political Risk Index (PRI)	4,0%
		Economical risks	9,0%	Operation Risk Index (ORI)	5,0%
				Remittance and Repatriation Factor (R-Factor)	4,0%

Table 12: Final weighting of market selection criteria (own presentation)

11   Conducting of market research

This chapter implements the previously created concept by screening the countries through secondary research, evaluation, and ranking of the countries, with expert interviews to substantiate the findings.

11.1   Secondary market research – Screening of countries

Secondary market research is based on the predefined market selection criteria. Each country is screened by these criteria in order to be able to compare them.

Firstly, this chapter gives an overview of each country: area, population, language and memberships in international organizations. These facts are presented in the respective tables at the beginning of each subchapter.

Then, the countries are screened based on the market selection criteria. The results are demonstrated in a table. When conducting a screening of countries, it is recommended that the used data is from the same source and the same year in order to be able to compare data.

Table 19 gives an overview of the screened data for each of the three countries.

11.1.1 Screening of Japan

This chapter aims to give an overview of Japan by using a table that contains key facts about the country. Furthermore, Japan's performance according to the defined market selection criteria is investigated. A more detailed country description about Japan can be found in the appendix in chapter 3.1.

Overview Japan	
Capital City	Tokyo
Area (in sq km)	377,960
Population (in million)	126.4
Currency	Yen
Language(s)	Japanese

Form of government	Constitutional monarchy with a bicameral parliament
International organization participation	APEC (Asia-Pacific Economic Cooperation), ASEAN (Association of Southeast Asian Nations), BIS (Bureau of Industry and Security), FATF (Financial Action Task Force), G-5, G-7, G-8, G-10, G-20, ICC (International Chamber of Commerce), OECD, TPP (Trans-Pacific Partnership), UN, UNCTAD (United Nations Conference on Trade and Development), UNESCO, WCO (World Customs Organization), WHO, WIPO (World Intellectual Property Organization), WTO
Main industries	Motor vehicles, electronic equipment, machine tools, steel, ships, chemicals, textiles

Table 13: Key facts about Japan (based on Central Intelligence Agency 2019; Aussenwirtschaft Austria 2019a, p. 4)

The following table demonstrates the result of the country screening according to the selected market selection criteria.

Category	Criteria	Indicators	Japan
Market attractiveness	Economic factors	GDP per capita ppp (USD) 2017	38,428.10[1]
		GDP growth rate 2017	1.71%[2]
		Inflation rate in % (yearly average 2017)	0.47%[3]
		Average disposable income in USD	28,641[4]
		Ease of doing business (country rank 2018)	39[5]
	Market characteristics	Growth of furniture industry	0.5%[6]
		Size of biggest potential customer (turnover on furniture in million)	3.500[7]
		Import/consumption (%)	47[8]
	Competitive landscape	Number of international direct competitors (>50 million turnover)	3
		Number of local competitors (>50 million turnover)	1

[1] (The World Bank 2017a)
[2] (The World Bank 2017b)
[3] (The World Bank 2017c)
[4] (OECD n.d.b)
[5] (Trading Economics 2018a)
[6] (Statista 2019)
[7] (EU Business in Japan 2018, p. 10)
[8] (Centre For Industrial Studies 2018, p. 232)

	Customer structure	Number of retail companies (>100 million turnover)	6
		Number of e-commerce companies	5
Market barriers to entry	Economic barriers	Trading across borders rank	56[9]
		Infrastructure (transport and electricity)	6.1[10]
		Judicial independence	6.0[11]
	Protective barriers	Customs regulations on furniture products (in %) incl. other taxes	10[12]
	Behavioral barriers	Average time people spend in bed	5:52[13]
		Wearable market (% relative to population)	3.6[14]
Market risks	Political risks	Corruption perception index 2018	73[15]
		Political Risk Index (PRI)	62[16]
	Economical risks	Operation Risk Index (ORI)	43[17]
		Remittance and Repatriation Factor	81[18]

Table 14: Secondary market research data about Japan (own presentation)

11.1.2 Screening of China

This chapter presents the country data about China. First, a rough overview about the country is given in the table. This chapter also includes the screening of China based on the defined market selection criteria.

A more detailed country description about China can be found in the appendix in chapter 3.2.

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[9] (The World Bank 2018a)
[10] (World Economic Forum 2018a)
[11] (World Economic Forum 2018b)
[12] (Lochschmidt 13.04.2019)
[13] (MailOnline 2015)
[14] (Statista 2018b)
[15] (Transparency International 2018)
[16] (BERI 2018a)
[17] (BERI 2018a)
[18] (BERI 2018a)

Overview China	
Capital City	Peking
Area (in sq km)	9.6 million
Population (in billion)	1.370
Currency	Renminbi
Language(s)	Standard Chinese or Mandarin, Yue (Cantonese), Wu (Shanghainese), Min-bei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects
Form of government	People's Republic
International organization participation	APEC (Asia-Pacific Economic Cooperation), ASEAN (Association of Southeast Asian Nations), BIS (Bureau of Industry and Security), FATF (Financial Action Task Force), G-20, G-24, G-5, G-77, G-33, ICC (International Chamber of Commerce), IFC (International Finance Corporation), UN (United nations), UNCTAD (United Nations Conference on Trade and Development), UNESCO, UN Security Council, WCO (World Customs Organization), WHO, WIPO (World Intellectual Property Organization), WTO
Main industries	Industrial output, mining and ore processing, iron, steel, aluminum, coal, machine building, textiles, petroleum, chemicals, consumer products, food processing, automobiles, ships, aircraft, telecommunications equipment, satellites

Table 15: Key facts about China (based on Central Intelligence Agency 2019; Aussenwirtschaft Austria 2019b, p. 4)

The following table illustrates the result of the country screening according to the defined market selection criteria.

Category	Criteria	Indicators	China
Market attractiveness	Economic factors	GDP per capita ppp (USD) 2017	8,826.99[19]
		GDP growth rate 2017	6.90%[20]
		Inflation rate in % (yearly average 2017)	1.59%[21]
		Average disposable income in USD	5844.87[22]

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[19] (The World Bank 2017a)
[20] (The World Bank 2017b)
[21] (The World Bank 2017c)
[22] (Trading Economics 2018d)

	Market characteristics	Ease of doing business (country rank 2018)	46[23]
		Growth of furniture industry	10.1%[24]
		Size of biggest potential customer (turnover in million)	1.631[25]
		Import/consumption (%)	1[26]
	Competitive landscape	Number of international direct competitors (>50 million turnover)	9
		Number of local competitors (>50 million turnover)	>11
	Customer structure	Number of retail companies (>100 million turnover)	7
		Number of e-commerce companies	7
Market barriers to entry	Economic barriers	Trading across borders rank	65[27]
		Infrastructure (transport and electricity)	5.1[28]
		Judicial independence	4.5[29]
	Protective barriers	Customs regulations on furniture products (in %)	0
	Behavioral barriers	Average time people spend in bed	6:43[30]
		Wearable market (% relative to population)	9.4[31]
Market risks	Political risks	Corruption perception index 2018	39[32]
		Political Risk Index (PRI)	59[33]
	Economical risks	Operation Risk Index (ORI)	44[34]
		Remittance and Repatriation Factor	55[35]

Table 16: Secondary market research data about China (own presentation)

[23] (Trading Economics 2018b)
[24] (IBISworld 2019b)
[25] (IBISworld 2019b)
[26] (Centre of Industrial Studies 2018, p. 111)
[27] (The World Bank 2018a)
[28] (World Economic Forum 2018a)
[29] (World Economic Forum 2018b)
[30] (MailOnline 2015)
[31] (Statista 2018c)
[32] (Transparency International 2018)
[33] (BERI 2018b)
[34] (BERI 2018b)
[35] (BERI 2018b)

11.1.3 Screening of Australia

This chapter copes with the screening of Australia. Table 17 provides an overview of the country by presenting its key facts. Moreover, the second table shows the result of the country screening according to the defined market selection criteria.

A more detailed country description about Australia can be found in the appendix in chapter 3.3.

Overview Australia	
Capital City	Canberra
Area (in sq km)	7.7 million
Population (in million)	25.3
Currency	Australian dollar
Language(s)	English 72.7%, Mandarin 2.5%, Arabic 1.4%, Cantonese 1.2%, Vietnamese 1.2%, Italian 1.2%, Greek 1%, other 14.8%, unspecified 6.5%
Form of government	Democratic Union of States, (official name: "The Commonwealth of Australia"), parliamentary monarchy
International organization participation	APEC (Asia-Pacific Economic Cooperation), ASEAN (Association of Southeast Asian Nations), BIS (Bureau of Industry and Security), EITI (Extractive Industries Transparency Initiative), FATF (Financial Action Task Force), G-20, IFC (International Finance Corporation), OECD, Sparteca (South Pacific Regional Trade and Economic Co-operation Agreement), TPP (Trans-Pacific Partnership), UN (United Nations), UNCTAD (United Nations Conference on Trade and Development), UNESCO, WCO (World Customs Organization), WFTU (NGOs), WHO, WIPO (World Intellectual Property Organization), WTO (World Trade organization)
Main industries	Mining, industrial and transportation equipment, food processing, chemicals, steel

Table 17: Key facts about Australia (based on Central Intelligence Agency 2019; Aussenwirtschaft Austria 2019c, p. 4)

The following table illustrates the result of the country screening according to the defined market selection criteria.

Category	Criteria	Indicators	Australia
Market attractiveness	Economic factors	GDP per capita ppp (USD) 2017	53,799.94[36]
		GDP growth rate 2017	1.96%[37]
		Inflation rate in % (yearly average 2017)	1.95%[38]
		Average disposable income in USD	33,417[39]
		Ease of doing business (country rank 2018)	18[40]
	Market characteristics	Growth of furniture industry	3.0%[41]
		Size of biggest potential customer (turnover in million)	800[42]
		Import/consumption (%)	25[43]
	Competitive landscape	Number of international direct competitors (>50 million turnover)	3
		Number of local competitors (>50 million turnover)	4
	Customer structure	Number of retail companies (>100 million turnover)	8
		Number of e-commerce companies	9
Market barriers to entry	Economic barriers	Trading across borders rank	103[44]
		Infrastructure (transport and electricity)	5.1[45]
		Judicial independence	6.3[46]
	Protective barriers	Customs regulations on furniture products (in %) incl. other taxes	10[47]
	Behavioral barriers	Average time people spend in bed	7:20[48]
		Wearable market (% relative to population)	9,1[49]

[36] (The World Bank 2017a)
[37] (The World Bank 2017b)
[38] (The World Bank 2017c)
[39] OECD n.d.a)
[40] (Trading Economics 2018c)
[41] (Ken Research 2018)
[42] (IBISworld 2019a, p. 21)
[43] (Centre For Industrial Studies 2018, p .52)
[44] (The World Bank 2018a)
[45] (World Economic Forum 2018a)
[46] (World Economic Forum 2018b)
[47] (Wagner 13.04.2019)
[48] (MailOnline 2015)
[49] (Statista 2018d)

Market risks	Political risks	Corruption perception index 2018	77[50]
		Political Risk Index (PRI)	55[51]
	Economical risks	Operation Risk Index (ORI)	67[52]
		Remittance and Repatriation Factor	47[53]

Table 18: Secondary market research data about Australia (own presentation)

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[50] Transparency International 2018)
[51] (BERI 2018c)
[52] (BERI 2018c)
[53] (BERI 2018c)

11.1.4 Overview of collected secondary market research data

Category	Criteria	Indicators	Japan	China	Australia
Market attractiveness	Economic factors	GDP per capita ppp (USD)	38,428.10	8,826.99	53,799.94
		GDP growth rate	1.71%	6.90%	1.96%
		Inflation rate in % (yearly average)	0.47%	1.59%	1.95%
		Average disposable income	28,641	5844.87	33,417
		Ease of doing business (country rank)	39	46	18
	Market characteristics	Growth of furniture industry	0.5%	10.1%	3.0%
		Size of biggest potential customer (turnover of furniture sales in million)	3.500	1.631	800
		Import/consumption (%)	47	1	25
	Competitive landscape	Number of international direct competitors (>50 million turnover)	3	9	3
		Number of local competitors (>50 million turnover)	1	>11	4
	Customer structure	Number of retail companies (>100 million turnover)	6	7	8
		Number of e-commerce companies	5	7	9
Market barriers to entry	Economic barriers	Trading across borders rank	56	65	103
		Infrastructure (transport and electricity)	6.1	5.1	5.1

		Judicial independence	6.0	4.5	6.3
	Protective barriers	Customs regulations on furniture products (in %) incl. other taxes	10	0	10
	Behavioral barriers	Average time people spend in bed	5:52	6:43	7:20
		Wearable market – health consciousness (% relative to population)	3.6%	9.4%	9,1%
Market risks	Political risks	Corruption perception index	73	39	77
		Political Risk Index (PRI)	62	59	55
	Economical risks	Operation Risk Index (ORI)	43	44	67
		Remittance and Repatriation Factor (R-Factor)	81	55	47

Table 19: Collected country data through secondary research (own presentation)

11.2 Evaluation of countries

11.2.1 Scale for evaluation

In order to get a score from the researched numbers and to be able to compare the numbers of the three pre-selected countries, a scale for evaluation was created together with the Business Development Manager LOGIC HOME of LOGICDATA.

Indicators	very high (5)	high (4)	satisfying (3)	sufficient (2)	insufficient (1)
GDP per capita ppp (USD)	>55,000	55,000 - 42,000	41,000 - 26,000	25,000 - 10,000	<10,000
GDP growth rate	>5.0%	5.0% - 3.5%	3.4% - 2.5%	2.5% - 1.0%	<1.0%
Inflation rate in % (yearly average)	<1.5%	1.5% - 2.59%	2.6% - 3.59%	3.6% - 5.0%	>5.0%
Average disposable income	>35,000	34,000 - 27,000	26,000 – 19,000	18,000 – 10,000	<10,000
Ease of doing business (country rank)	1 - 35	36 - 70	71 - 114	115 - 154	155 - 190
Growth of furniture industry	>10.0%	10.0% - 8.0%	7.9% - 5.0%	4.9% - 2.0%	<2.0%
Size of biggest potential customer (turnover in million)	>1.000	1.000 – 500	499 – 100	100 - 50	<50
Import/consumption (%)	>75	75 - 55	54 - 30	29 - 10	<10
Number of international competitors (>$50 million turnover)	0	1 - 3	4 - 7	8 - 10	>10
Number of local competitors (>$50 million turnover)	0	1 - 2	3 - 5	6 - 8	>8
Number of retail companies (>$100 million turnover)	>10	9 – 6	5 - 3	2 - 1	0

Number of e-commerce companies	>10	9 - 6	5 - 3	2 - 1	0
Trading across borders rank	1 - 40	41 - 77	78 - 115	116 - 152	153 - 189
Infrastructure (transport and electricity)	7.0 – 6.1	6.0 – 4.8	4.7 – 3.3	3.2 – 1.8	1.7 - 1
Judicial independence	7.0 – 6.1	6.0 – 4.8	4.7 – 3.3	3.2 – 1.8	1.7 - 1
Customs regulations on furniture (in %) incl. other taxes	0%	0.1 – 3.9%	4.0% - 8.9%	9.0% - 15.0%	>15.0%
Average time people spend in bed	<8h	8h – 7.5h	7.0h – 6.5h	6.0h – 5.5h	<5.5h
Wearable market (% relative to population)	>10.0%	10.0% - 6.1%	6.0% - 3.1%	3.0% - 1.0%	<1.0%
Corruption perception index	>85	84 - 70	69 - 55	54 - 40	<40
Political Risk Index (PRI)	>85	84 - 70	69 - 55	54 - 40	<40
Operation Risk Index (ORI)	>85	84 - 70	69 - 55	54 - 40	<40
Remittance and Repatriation Factor (R-Factor)	>90	90 - 80	79 - 65	64 - 55	<55

Table 20: Defined scale for the evaluation of potential markets (own presentation)

11.2.2 Evaluation of potential markets

Category	W	Criteria	W	Indicators	W	JP		CN		AUS	
						E	E*W	E	E*W	E	E*W
Market attractive-ness	64,7%	Economic factors	23,0%	GDP per capita ppp (USD)	5,3%	3	15,9	1	5,3	4	21,2
				GDP growth rate	4,7%	2	9,4	5	23,5	2	9,4
				Inflation rate in % (yearly average)	2,7%	5	13,5	5	13,5	4	10,8
				Average disposable income	6,3%	4	25,2	1	5,3	4	25,2
				Ease of doing business (country rank)	4,0%	4	16	4	16	5	20
		Market characteristics	23,0%	Growth of furniture industry	7,3%	1	7,3	5	36,5	2	14,6
				Size of biggest potential customer (turnover on furniture in million)	10,7%	5	53,5	5	53,5	4	42,8
				Import/consumption	5,0%	3	15	1	5	2	10
		Competitive landscape	7,7%	Number of international Competitors (>50 million turnover)	4,0%	4	16	2	8	4	16
				Number of local competitors (>50 million turnover)	3,7%	4	14,8	1	3,7	3	11,1
		Customer struc-ture	11,0%	Number of retail companies (>100 million turnover)	5,3%	4	21,2	4	21,2	4	21,2
				Number of e-commerce companies	5,7%	3	17,1	4	22,8	4	22,8
Result Market Attractiveness							224,9		214,3		225,1

Market entry barriers	19,3%	Economic barriers	7,7%	Trading across borders rank	2,3%	2	4,6	2	4,6	3	6,9
				Infrastructure (transport and electricity)	3,7%	5	18,5	4	14,8	5	18,5
				Judicial independence	1,7%	5	8,5	3	5,1	5	8,5
		Protective barriers	6,7%	Customs regulations on furniture products (in %)	6,7%	2	13,4	5	33,5	2	13,4
		Behavioral barriers	5,0%	Average time people spend in bed	2,3%	2	4,6	3	6,9	3	6,9
				Wearable market – health consciousness	2,7%	3	8,1	4	10,8	4	10,8
Result Market Barriers To Entry							57,7		75,7		65,0
Market risks	16%	Political risks	7,0%	Corruption perception index	3,0%	4	12	2	6	4	12
				Political Risk Index (PRI)	4,0%	3	12	3	12	3	12
		Economical risks	9,0%	Operation Risk Index (ORI)	5,0%	2	10	2	10	3	15
				Remittance and Repatriation Factor	4,0%	4	16	2	8	1	4
Result Market Risks							50		36		43
Total country score							**332,6**		**326,0**		**333,1**

Table 21: Evaluation of pre-defined target markets (own presentation)

11.3 Primary market research – Control interviews

Expert interviews were conducted in order to verify the findings of the secondary research and to gain further information about the pre-defined countries. This information is the basis for the target market decision. In total, five experts were interviewed, each of them with a different field of expertise. It is necessary that the following perspectives are covered: country, industry and company. The list of interview partners can be found in the appendix in chapter 5. An interview guide was created to ensure structured interviews. This interview guide is mentioned in the appendix in chapter 4. The questions are grouped into the defined criteria: market attractiveness, market barriers to entry and market risk. The relevant findings are summarized in this chapter.

Development of the furniture industry

Within the past 6 to 7 years, China recorded a growth of almost 20% of its furniture industry. However, the growth rate has declined over the last few years (cf. Respondent 5). Nevertheless, China still shows the highest growth within the furniture industry among all countries (cf. Respondent 1; Respondent 3; Respondent 5). Japan in turn, displays stagnation in the furniture industry. Its industry growth is rather small (cf. Respondent 1; Respondent 2; Respondent 5). The reason the experts see, is a shrinking population due to an aging population. Marriages and relocations are becoming less common. However, experts see a change in consumer preferences of the Japanese when it comes to futons and traditional beds. The generation change will lead to an increased demand for beds (cf. Respondent 1; Respondent 2). The number of beds sold has already caught up with the number of futons, and this trend will develop further (cf. Respondent 1). In the furniture industry, Japan is a very locally dominated market (cf. Respondent 1; Respondent 2; Respondent 5). Research was conducted about the furniture industry in Australia. It showed a decrease in profit for furniture retailers within the last few years due to the increase of the e-commerce business. However, experts predict a growth within the next years, because of the ongoing construction boom (cf. Respondent 3).

Achievable prices

Due to the high income level in Australia, the prices for adjustable bed bases can be offered at a higher level than in Japan or China (cf. Respondent 3; Respondent 5). The possibility to offer the product for such a high price has a positive impact on margins. Recliners, for example, are sold at a very high price level, whereas the costs of goods sold are low (cf. Respondent 5). Japanese people prefer saving their money to spending it on goods they do not really need. The living space of many Japanese is limited. Consequently, the spending on furniture is small. In China, buying power is increasing and the middle class is growing. Due to the fact that China has 1.3 billion inhabitants and a small percentage thereof are rich people, the absolute number of people living in prosperity is high.

It needs to be added, that it is recommended to team up with a local partner in China and Japan. Partnering with locals is not inexpensive. This strategy has an impact on sales price and margins (cf. Respondent 2; Respondent 5).

Ease of doing business

Each country presents challenges for foreign companies to enter the market. These challenges can be reduced by using the right strategy. It needs to be considered that the speed to market in Japan takes longer than in China and Australia, due to excessively long decision making processes. Furthermore, factors that make it difficult to do business in Japan are language and culture (cf. Respondent 1; Respondent 2; Respondent 5). The same is true in China. However, in China it is much easier and faster to enter the market with the help of locals (cf. Respondent 4; Respondent 5). For Americans and Europeans, doing business with Australians is simple, due to their mixed cultures. Their attitude, their way of working and their processes are similar to the west's (cf. Respondent 3; Respondent 5). However, also Australians have their own unique characteristics in terms of culture (cf. Respondent 3).

Importance of innovation

Innovation is important in each country. Nevertheless, China seems to be the country where innovation and technology is most important (cf. Respondent 4; Respondent 5). Japanese people are also used to technology. However, in some industries

they still use old technology, for example when it comes to mobile phones or telefax. Nevertheless, the Japanese show a high affinity to machines. They operate with machines more than other countries do (cf. Respondent 1).

Compared with China, Australia is more moderate in terms of technology. They are not attracted by every piece of technology. If they do not need it, they do not buy it (cf. Respondent 4; Respondent 5).

Legal barriers

Besides the need for certification for the product, the experts do not see any legal barriers that can hinder or complicate the market entry of LOGICDATA into one of the pre-defined markets (cf. Respondent 1; Respondent 2; Respondent 3; Respondent 4; Respondent 5).

Government restrictions

The strongest influence on business is the Chinese government. Many companies are state-owned, so the government can exert its influence. However, over the last decade, the number of privately owned companies has increased (cf. Respondent 4).

In Japan and Australia, governmental influence is low (cf. Respondent 1; Respondent 2; Respondent 3; Respondent 5).

Existence of industry standards

None of the three countries has specific industry standards in the furniture industry. As LOGICDATA products are electronic devices, certificates are still necessary in each country. These certificates are comparable with the CE-Certificate in Europe (cf. Respondent 1; Respondent 2; Respondent 3; Respondent 4; Respondent 5). However, the sizes of beds need to be considered. Australians have the same bed sizes as Americans have. In Japan, half of the population still sleeps on futons, whereby the other half is used to traditional beds. Nevertheless, these beds differ in size compared to westernized beds (cf. Respondent 1; Respondent 2; Respondent 3; Respondent 5).

<u>Customs regulations</u>

LOGICDATA produces products in China. Therefore, importing to China is not necessary. Consequently, there are no costs for customs regulations, duty taxes, or consumption taxes.

Due to the Free Trade Agreements between China and Japan and China and Australia, no tariffs are charged for importing. However, the Japanese government charges a 8% consumption tax on shipments. These consumption taxes will be increased to 10% in October 2019 (cf. Respondent 1). In Australia, the consumption tax is 10% (cf. Respondent 3).

<u>Likelihood of doing business with European companies</u>

All three countries are in favor of doing business with European companies. However, cultural differences play an important role in that regard. Europeans need to adapt, especially when doing business with Japanese or Chinese (cf. Respondent 1; Respondent 2; Respondent 3; Respondent 4; Respondent 5).

The Japanese only do business with others, if they trust them. However, to build trust takes time in Japanese culture. Starting to do business with a Japanese company takes longer than with a Chinese or Australian company. When the Japanese finally trust someone and decide to do business with this company, they are loyal customers. They prefer doing business with perfectionists and those who pay attention to details, because they behave in the same way (cf. Respondent 1; Respondent 2; Respondent 5). In contrast, starting business with Chinese companies does not take long. Chinese focus more on the business itself than the mutual trust (Respondent 1; Respondent 4; Respondent 5).

Australians love European culture. Thus, they are in favor of doing business with Europeans, though the establishment of new contacts is quite a challenge in Australia. It is necessary to be persistent when trying to get in contact with someone else and use each possible touchpoint, like telephone, social media, and trade shows (cf. Respondent 3).

<u>Influence of cultural differences on business</u>

Compared to the other countries, the cultural differences between Japan and Austria have the highest influence on business. In Japan, it is allowed to make mistakes. However, the one who made a mistake needs to apologize by bowing in the right way, otherwise the business relationship ends immediately. Therefore, it is important to know how to deal with the Japanese (cf. Respondent 1; Respondent 2; Respondent 5). According to one expert, it is almost impossible to do business with a Japanese without the help of another Japanese (cf. Respondent 5). The fact that the Japanese take longer in taking decisions and checking everything in detail has a huge impact on the speed to market for a company (cf. Respondent 1; Respondent 5). Furthermore, they do not put as much value on sleep as other countries do. Therefore, doing business in this sector is a challenge (cf. Respondent 2).

China has a very different culture to Europe, but according to previous studies, companies find that it is becoming easier to do business with Chinese (cf. Respondent 4; Respondent 5).

Australians are very relaxed in private life and in business life. It needs a lot of effort to get in touch with them. They rarely business with someone they do not know, which means that personal relationships are important (cf. Respondent 3).

<u>Buying behavior</u>

Japan shows a very high level of hierarchy, which is why the decision making process takes long. Furthermore, Japanese prove every little detail before deciding (cf. Respondent 1; Respondent 2; Respondent 5). In the B2B segment, packages are not that important than in the field of B2C. However, Japanese place particular emphasis on the packaging of a product. This can be traced back to the fact that Japan is very well known for its craftsmanship (cf. Respondent 1).

China is also a hierarchical country. The decision process can take a while, but when the decision is made the further process is fast (cf. Respondent 4; Respondent 5). In Australia a decision is mostly made in groups (cf. Respondent 5).

<u>Access to distribution channels</u>

Market entry to China is time consuming. The competitive intensity increases from year to year. Major players like Ikea are already established in the market. Therefore, a partner is needed to enter the market (cf. Respondent 4; Respondent 5).

The same applies to Japan. The market is locally dominated. Without the help of a local partner, entry will be impossible (cf. Respondent 1; Respondent 2; Respondent 5).

In Australia, department stores are the major B2B channel. Showrooms are also often used by companies to present their product portfolio. However, trends lean towards e-commerce (cf. Respondent 3; Respondent 5).

<u>Capital requirement</u>

The required capital depends on the mode of entry. Since it is still unclear how LOGICDATA plans to enter the market, questions about the required capital cannot be answered easily. Experts say that the life in Japan and Australia is expensive (cf. Respondent 1; Respondent 3). However, in Australia it is possible to establish a company with little investment (cf. Respondent 3). When considering doing business in Japan, many business trips are necessary until trust to the Japanese customer or partner is built (cf. Respondent 1).

<u>Living conditions</u>

It is very well known that the living environments of the Japanese are rather small. As previously stated, many Japanese sleep on futons, because they do not take up much space and they are easy to remove. Everything in a Japanese household needs to be functional. The design is stricter than in China (cf. Respondent 1). In China, the motto: the more, the better seems to apply, especially with kitsch products and trinkets, when furnishing apartments and houses (cf. Respondent 4). People in Australia have more space for living, depending on where they are living – in cities or the countryside (cf. Respondent 3). The advantage in the Australian market is that the beds have the same standard sizes as in the U.S. (cf. Respondent 5).

<u>Risk of non-payment</u>

According to the experts, Japan and Australia show a small risk of non-paying customers (cf. Respondent 1; Respondent 2; Respondent 3; Respondent 5). Nonetheless, there is a possibility to hedge receivables by taking out insurance against default (cf. Respondent 5). In China, this is not as simple. For companies it is easier to disappear without paying without legal consequences (cf. Respondent 5).

<u>Political stability</u>

With regard to the political stability of each country, the experts do not see any danger (cf. Respondent 1; Respondent 3; Respondent 4). However, China bears the risk of rapid changing legislations. A good example is the punitive tariff duty. Nevertheless, the government cannot push boundaries too far, otherwise the economic balance will fail (cf. Respondent 5).

12   Results of the market research

This chapter aims to combine the results of the secondary market research and the primary research in order to select the country with the highest potential and the greatest prospect of success for LOGICDATA.

12.1.1 Ranking of countries

The countries were assessed by each market selection criteria and its indicators. After the usage of an evaluation scale, the score of each market was determined. According to the result, Australia performed best with a score of 333.1, followed by Japan with a score of 332.6, just a 0.5 point difference. China is further from both countries with a score of 326.

The following chart visualizes the score of each country.
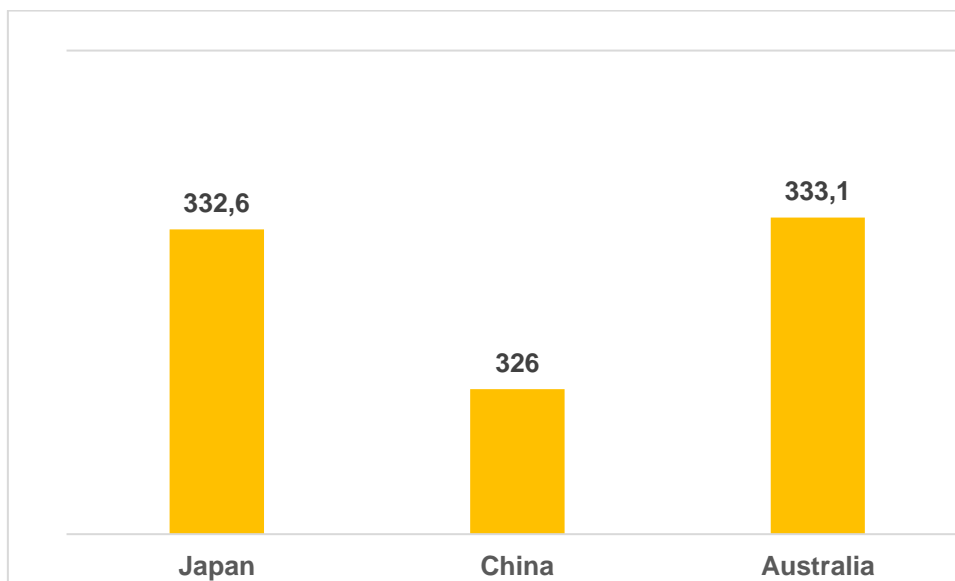

Figure 9: Country ranking based on the result of secondary research (own presentation)

For a country evaluation it is also necessary to understand in which area the countries perform well and poorly. Internal strengths and available resources are used to overcome risks and obstacles. Therefore, the next chart shows the results based on each market selection category. The higher the score of each category, the better the country performs.
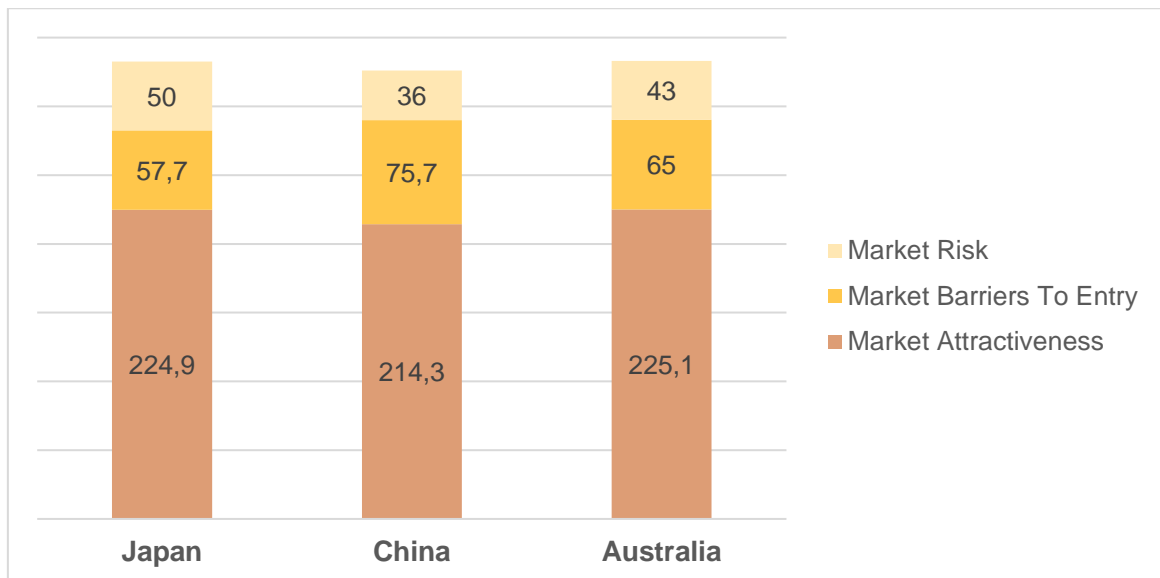
Figure 10: Assessment based on the market selection criteria categories (own presentation)

12.1.2 Comparison with primary research

In order to proof the findings of the secondary research, primary research is conducted. The results are mainly validated by the primary research.

According to the research, the market attractiveness of all three countries is more or less similar. In particular, Japan and Australia perform quite similarly when it comes to market attractiveness. The market for adjustable bed bases in Japan is not established yet. There is only one local competitor in Japan, FBH Japan. They produce high adjustable beds for the health sector by addressing elderly people and people with health problems. International competition in Japan is also not that intensive. International direct competitors operating in Japan are Reverie and Ergomotion. Japan is a very locally dominated market. There are hardly any other companies serving the market from abroad. Reasons for that are the higher market barriers to entry when it comes to the complex and time consuming process of importing goods to Japan, the sleeping habits of Japanese, and the big differences in culture.

In Australia, the market for adjustable beds is more developed. There are more competitors in that field, but also more retailers that already sell these products to end consumers. Tempur distributes its product range to a lot of retailers, like Snooze, Bedshed and Harvey Norman, which is the biggest furniture retail company in Australia. It is forecasted that the industry will grow in the next years due to the

construction boom and the growing e-commerce business, which increases the potential for bed-in-a-box products. Companies like Koala and Freedom Furniture, which serve the low end of the market, operate in the e-commerce business. Companies in that field already noticed high potential in the Chinese market for adjustable bed bases. Therefore, the competitive landscape in China is strongly characterized by local and international competitors.

Australia has fewer market barriers to entry than Japan and China do. The reasons for this are the small cultural and language barriers compared to the other countries. Entry to the Japanese market takes time until trust is built between supplier and customer. With regard to Australia and China that is not the case. Additionally, the need for adapting the product in Australia, when it comes to bed sizes, is also not necessary due to the same bed sizes as in the U.S.

Japan shows less market risk according to the indicators by which it was evaluated. However, market risk always depends on the industry. Therefore, experts do not see high risks in the Australian market. In turn, companies that operate in China face challenges in corruption and non-payment. Overall it can be stated that the business climate in China is not ideal and high in risk. However, the big advantage of China is that LOGICDATA is producing its product in the country and also has a subsidiary there, responsible for sourcing and quality management.

Nevertheless, since LOGICDATA's product is not a product for the mass market, almost every expert suggests entering the Australian market first, and while operating there, it should prepare for one of the other countries.

12.1.1 Comparison with company analysis

It is necessary that the results of the secondary and primary market research are aligned with internal analysis. Strengths and weaknesses have a great impact on the company's success considering the current market conditions. According to the internal company analysis, which is conducted in chapter 9, LOGICDATA is ready for internationalization, though improvements are necessary to be successful. This result is compared to the result of the external market research.

<u>Employees' competences (12 out of 16)</u>

When dealing with Australia as a target market, knowledge about culture, language and the target market itself is higher than average. Due to similarities to Europeans and Americans, which is the main market for LOGICDATA in the bedding industry, this is rated as a strength. Moreover, LOGICDATA's second business unit LOGIC OFFICE already serves the Australian market.

LOGICDATA has a subsidiary in China, which is mainly responsible for sourcing and quality management. Therefore, employees already have basic knowledge about the culture and market.

For Japan so far, no market intelligence exists within the company. This would be a completely new market environment.

<u>Management (22 out of 24)</u>

Since LOGICDATA reached a score of 22 out of 24, the Management are prepared for entry into a foreign Asian market. However, LOGICDATA's willingness to take risk is at an average level. Therefore, it aims to enter a market with low risk.

<u>Marketing (5 out of 12)</u>

Market research within the company was made by the sales department so far. The focus is more related to the sales side. Since the APAC market is an absolutely new market for LOGICDATA within the bedding industry, more knowledge about the target country is necessary in order to define the right international marketing strategy.

<u>Network (10 out of 12)</u>

LOGICDATA's overall international network to stakeholders is good. It knows the major players in the industry. When LOGICDATA was still a component supplier within the industry, it established valuable contacts and connected with international well-known references. However, similar relationships to Japanese companies are not available yet.

<u>Resources (15 out of 20)</u>

The financial situation of company is good. Currently, LOGICDATA is investing in new projects, but the budget for new market entry is restricted. That is the reason why financial resources are assessed as "average". However, LOGICDATA has access to financing if necessary.

<u>Product readiness (11 out of 16)</u>

LOGICDATA's product is not suitable for the mass market. To differentiate from its competitors, it offers customization possibilities to its customers. The bedding industry market is price-sensitive. Especially in China, price wars are recognizable. Therefore, the product is produced in China in order to be able to reduce the sales price. Regarding product adaptations, for the Australian market it is not necessary to change the product in size, as they have the same standard as in the U.S. For Japan and China adaptations are needed.

12.1.2 Selection of target market

According to the result of the secondary research and the findings of the primary research the countries are ranked as followed:

1. Australia
2. Japan
3. China

However, the result of the secondary market research is not significant due to the slight gap of the score between Australia and Japan. Although the primary research revealed that the market entry into the Japanese market takes much longer and needs more effort than in Australia, the potential of both countries seems to be high.

Therefore, based on the result, a final country ranking is not possible in order to guarantee the achievement of the following business unit goals:

LOGICDATA aims, through the introduction of a new product portfolio, to increase this figure to € 90 Million (a 7.7 fold increase) by the end of 2023. To meet this goal, at least 27. 7% of total sales (> € 25 Million) should be achieved in the APAC region

within this period of time. To keep track with its goals, LOGICDATA aims to enter at least one new market in the APAC region before 2020.

13   Recommendation

This master thesis' objective is the elaboration of a tailor-made market selection concept for the company and its business unit, in order to select the most promising market from the shortlist of Japan, China, and Australia. Japan and Australia achieved a similar score. Thus, the result is not significant, and the selection of a target market based on it is not possible. In order to be able to select the most promising market, it is recommended that LOGICDATA starts another assessment loop of Japan and Australia. By doing so, new market selection criteria are necessary to evaluate both countries. It is suggested that these criteria are product- and industry-specific. This procedure will enable LOGICDATA to select the right market from the choice of Japan and Australia. After selecting the new market selection criteria, the process is the same as described in the elaborated concept - weighting of the criteria, collecting data, evaluating country performance, and calculating final scores. It is also recommended to add additional experts to the weighting process if the distance between individual results is too big. This approach ensures a meaningful result. The experts interviewed within the primary market research should be experts in the furniture industry. The participants will deliver insights about each country and its furniture industry. This information is essential in order to make the right decision.

As soon as a target market is selected, it is recommended that LOGICDATA considers the following actions:

- Creation of a long-term business plan, business unit objectives related to the target country, and a market entry strategy.

- The average income level in Japan and Australia is high, which means people can afford higher-priced products. In order to offer the right price-performance ratio, LOGICDATA needs to be sure that it differentiates itself from its competitors. To this end, a detailed competitor research is necessary in order to understand successful portfolio and pricing strategies.

- It is recommended to establish contact with a local lawyer in order to make sure that the activities regarding contract designs are made performed correctly.

- With e-commerce growing, and LOGICDATA's product suitable for that sales channel, it is necessary that the company builds strong relationships with e-commerce companies.

- Getting in touch with potential partners takes time and effort. Stay persistent in order to get in contact with the right people and build up personal relationships.

- The health topic is very present in Japan and Australia. With regard to its product, it is recommended that LOGICDATA communicates B2C benefits directly to end consumers. By doing so, consumer demand increases and a front-of-mind awareness within the country is created.

- Due to the need for product certification, it is necessary that the company requests the necessary documents promptly in order to avoid any delay in market entry.

- In Japan and Australia, the risk of non-payment is low. Nevertheless, this risk can materialize. To protect against this, it is recommended that the company takes out insurance against default.

14 Conclusion and critical appraisal

The goal of this master thesis was the elaboration of a market selection concept, which can be used for companies in the furniture industry to analyze and evaluate potential target markets in a structured way. This concept needs to be seen as a conceptual framework that serves as a guideline. The methods, criteria and weighting within this concept were exclusively chosen for the pre-defined target markets of Japan, China, and Australia for the company LOGICDATA.

In order to use the concept for assessing other countries' potential, the concept serves as a guideline, but the instruments applied need to be adapted.

Firstly, it is recommended to use a multistage method when evaluating more than five countries. In this case, knockout criteria are necessary in order to reduce the number of potential countries before conducting a detailed secondary research. This procedure saves time and costs.

Secondly, the market selection criteria must always be adapted when applying it for another business unit or different countries. Furthermore, it is important that the data a company works with is always up-to-date, because data's validity is restricted to a specific time period due to the fast-changing environment.

Thirdly, the evaluation scale developed for this market selection procedure needs to be modified in order to fit the countries performance.

The information gathered within this evaluation process can be used as a part of the basis for the market entry planning. By part of the basis, it is meant that the decision should not merely be made based on this information. Further research and evaluation are needed. Moreover, personal contact with local people is recommended in order to gather the necessary information and to make the right decision about the market entry strategy.

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16   Appendix

Appendix: Table of contents

Appendix: List of figures

Appendix: List of tables

1 Category description of corporate readiness

Dimensions	very bad 0 points	poor 1 point	average 2 points	good 3 points	excellent 4 points
Employee competencies					
International business experience	No international business experience	International business experience with neighbor countries	International experience with countries on the same continent	Establishment of max three foreign subsidiaries	Establishment of more than three foreign subsidiaries
Knowledge of target markets	No knowledge about target market	Basic knowledge about country (location, population, language, etc.)	Knowledge about market participants	Knowledge about customers' needs	Contact with locals
Knowledge of foreign languages	Not able to speak English	English level <B2	English level >C2	English is native language	Multilingual company incl. Chinese and Japanese
Adaptability in regard to foreign culture	Refusal to adapt to foreign culture	Willingness to adapt but know knowledge about foreign culture	Adapt in terms of sales methods	Adapt in terms of sales methods, communications and messages	Fully adaption to foreign culture
Management					
Clear strategy	No strategy in place	Strategy is changing regularly	Strategy of BU set	Strategy of BU set and approved	Strategy of BU set, approved, and communicated
Motivation and defined targets	No motivation visible and no targets defined	Motivation visible, but no targets defined	Motivation visible, but targets are not yet approved and communicated	Motivation visible, targets are approved, but not yet communicated	Motivation visible and long-term targets set, approved and communicated
Business plan in place	No business plan in place	Business plan in progress	Business plan in place but not yet approved	Business plan in place and approved	Business plan in place, approved and communicated
Organizational flexibility	Prevent changes by having strict company policy in place	Organization is willing to adapt to changes but necessary recourses are not available	Organization is willing to adapt to changes and necessary recourses are available	Organization's flexibility is mainly triggered by the top management	Management fosters employees to adapt to changes
Management commitment	No commitment from management	Commitment from management in terms of strategy	Commitment from management in terms of strategy and necessary resources	Commitment from management in terms of strategy, necessary resources and measures	Full commitment from management
Willingness to take risks	Not willing to take risk	Willingness to take risk <5%	Willingness to take risk 5%-25%	Willingness to take risk 26%-50%	Willingness to take risk >50%
Marketing					
Ability to conduct market research	Does not see the need for conducting a market research	No knowledge about how to conduct market research	Knowledge available, but limited resources to conduct market research	Knowledge and resources are available, but no interface to sales department	Sales and Marketing department conduct market research together
Preparation of an international marketing plan	Does not see the need for an international marketing plan	No preparations for international marketing plan in place	Started to setup an international marketing plan	International marketing plan finalized	International marketing plan approved

Branding awareness	Does not see the need for brand aware-ness	Brand awareness not given	Brand aware-ness of other business unit	Brand aware-ness of business unit LOGIC HOME in the US	Brand aware-ness of business unit LOGIC HOME in APAC region
Network					
Foreign subsidiaries	No foreign subsidiaries	Establishment of one foreign sub-sidiary	Establishment of two foreign sub-sidiaries	Establishment of three foreign subsidiaries	Establishment of more than three foreign subsidi-aries
Business relationships	No foreign Business relationships	Foreign busi-ness relation-ship with one company	Foreign busi-ness relation-ship with two company	Foreign busi-ness relation-ship with three company	Foreign busi-ness relation-ship with more than three com-pany
International well-known references	No international references	One interna-tional well-known reference	Two interna-tional well-known refer-ences	Three interna-tional well-known refer-ences	>3 current inter-national customers
Resources					
Production capacity	Not enough pro-duction capacity to serve current markets	Enough produc-tion capacity to serve current markets	Enough produc-tion capacity	Enough produc-tion capacity to serve current markets and new target market	Ability to extent production capacity
Financial resources	Loss of profit	No loss and no profit (=0)	Financial re-sources availa-ble to enter the market without direct invest-ment	Financial resources avail-able to establish a wholly owned subsidiary (brownfield)	Financial resources avail-able to establish a wholly owned subsidiary (greenfield)
Access to financing	No access to financing	Possibility to get a loan from a bank (interest rate >4%)	Possibility to get a loan from a bank (interest rate <4%)	Investors on board that fi-nance activities	Equity big enough to fi-nance market entry by its own
Planned budget for market entry	No budget planned for mar-ket entry	<50.000 USD	50.000 – 124.000 USD	125.000 – 200.000 USD	>200.000 USD
Human resources	Understaffed to serve the cur-rent markets	Understaffed to serve new target market	One sales per-son available that focuses only on the tar-get market	One sales per-son and one marketing per-son available that focus only on the target market	Internal and ex-ternal (local) people available that focus on the target market
Product readiness					
Product that is potentially viable in foreign mar-kets	Product is not vi-able in foreign markets	Product is viable in markets which are similar to home market	Product is viable in the European area	Product is viable in some foreign countries	Product is viable in the global market
Customer needs in foreign target market	No customer needs detected so far in foreign target market	Product does not fulfill cus-tomer needs	Product fulfills customer needs in terms of func-tionality	Product fulfills customer needs in terms of func-tionality and de-sign	Customer needs correspond with product 100%
Product price-competitiveness	Product is not price-competi-tive in foreign market	Product is price-competitive in home market	Product is price-competitive in home market and US market	Product is price-competitive in some foreign countries	Product is price-competitive in global market
Local respon-siveness to bet-ter suit foreign markets	Refusal of local responsiveness	Adaptations of product	Adaptations of product and communication	Adaptation of product, com-munication and pricing strategy	Full local re-sponsiveness

Table A- 1: Category description of corporate readiness (own presentation)

2   Description of defined market selection criteria

Market attractiveness

The attractiveness of a market depends on various factors that belong to the macro environment as well as to the micro environment. The extent of the attractiveness of a market differs for each company due to strategies, internal resources, defined target groups and positioning.

GDP per capita

The Gross Domestic Product (GDP) indicates a country's whole economy. It sums up the monetary value of all goods and services produced in a country within a specific timeframe, usually one year. The key performance indicator includes every single product, from small investments like a candy to bigger investments such as cars. The GDP includes B2B and B2C businesses. Furthermore, exports made by organizations and government spending influence the GDP. Therefore, this indicator provides a glimpse of the country's economic situation (cf. Brezina 2012, p. 4).

GDP growth rate

The GDP growth rate shows the growth, expressed in percentage, of an economy. The annual rate is always the comparison of the previous year to the current period (cf. Brezina 2012, p. 4). The GDP growth rate is as important as the GDP per capita. The growth rate demonstrates the development of an economy. Therefore, this indicator is an important key figure to assess the market attractiveness of a country.

Inflation rate in % (yearly average)

Inflation depends on the increase in the Consumer Price Index (CPI). The Consumer Price Index is calculated by the average prices of various goods (cf. FocusEconomics n.d.). The inflation is caused by the growth of the money supply and has a significant impact on interest rates. This means, during periods of inflation, money loses its value. Consequently, investors earn less on their savings, which affects people's buying power (cf. Nelson 1987, p. 39; Gillman 2009, p. 10).

Average disposable income per capita

Disposable income is that money people have available after taxes are paid. People use this income for consumption or savings. Knowing how much the average disposable income is, gives a company insight into how much money people have available to spend on goods and services. The higher the disposable income of a person is, the more he or she can afford (cf. Arnold 2014, p. 157).

Ease of doing business (country rank)

The index about how easy it is to do business in each country screens the regulatory environment of each country. These business regulations cover the following areas:

- Starting a business
- Acquiring premises
- Accessing finance
- Dealing with day-to-day operations
- Operating in a secure business environment

The higher the rank of a country, the easier it is for companies to do business there (cf. World Bank Group 2019, p. 2).

Growth of the furniture industry

The growth rate of the bedding industry is calculated by the comparison of the number of sold goods in 2017 to the number of sold goods in the year 2018. The higher the growth rate is, the higher the future potential of the market. If the growth rate is low or a reduction is visible, the market is less attractive for companies to enter.

Size of biggest potential customer (turnover)

In B2B business, the number of potential customers is not as important as the size of the customer. A small number of bigger customers can bring more value than a higher number of small clients, whereby small companies have less bargaining power than bigger ones. Nevertheless, it is important to know how potential customers are performing on the consumer market. To determine the size of a company, annual turnover is used.

Import/consumption

The Centre for Industrial Studies publishes annual reports about the furniture industry. These reports also include research about the world's mattress industry. This number shows to which degree a market is locally dominated.

Number of international competitors

Although the number of competitors indicates the attractiveness of a market, the intensity of competition has a significant impact on the success of a company. The higher the number of competitors, the smaller the profit a company is able to achieve. In this case, local and international competitors need to be considered. Foreign competitors that export their goods and services to the target market are more difficult to identify. However, these companies can hold a considerable market share.

Number of local competitors

Usually, local competitors are more experienced in the market. In this case, local competitors have an advantage over foreign companies. The higher the competitive intensity is, the more likely it is that barriers for international companies are created.

Number of retail companies

The customers of LOGICDATA are mainly retail companies. This indicator shows how many retail companies operate in the target market. The higher the number, the more likely it is to acquire a customer.

Number of e-commerce companies

The turnover generated with e-commerce business is steadily growing. This trend or development is also shown in the bedding industry. Bed-in-a-box products are increasingly in demand. It is necessary that a company is ready for the e-commerce business when it comes to its marketing tools, especially product and distribution.

<u>Market barriers to entry</u>

Market barriers to entry can make a market entry more difficult for foreign companies, or even make it impossible. Therefore, it is essential that companies identify and assess these barriers in order to enter the market successfully.

Trading across borders rank

The indicator "trading across borders" deals with the time and costs connected to the logistical process of goods in terms of exporting and importing. However, tariffs are excluded from consideration due to different regulations on each good. The assessment is made by screening three sets of procedures: documentary compliance, border compliance, and domestic transport (cf. The World Bank 2018a).

Infrastructure

The World Economic Forum publishes rankings on different topics as part of the Global Competitiveness Index. One topic among the index is the ranking of the infrastructure of each country. The ranking is made by investigating transport, electricity, and telephone infrastructure. The countries are evaluated on a scale from 1 (extremely underdeveloped) to 7 (extensive and efficient) (cf. World Economic Forum 2018a).

Judicial independence

The Global Competitiveness Index also assesses the independency of the judicial system from third parties like government, companies, and individuals. The performance is also evaluated on a scale from 1 (not independent at all) to 7 (entirely independent) (cf. World Economic Forum 2018b).

Customs regulations on furniture products (in %)

Countries protect their economy by introducing customs regulations. These regulations often hinder companies from doing business. Therefore, customs regulations are market barriers to entry for foreign companies. Import duties on goods are often

charged by the government. These charges also include other taxes such as consumption taxes or goods service taxes. Consequently, the price of the imported goods increases, and competitive disadvantages compared to local competitors arise. LOGICDATA aims to enter a market where customs fees are bearable. The Harmonization Code for LOGICDATA's product is 94032020.

Average time people spend in bed

The more time people spend in bed, whether sleeping, watching television or reading a book, the more beneficial add-on features of the bed e.g. massage, are considered.

Wearable market – health consciousness

The platform of the bed base has integrated sleeping sensors that measures the sleep performance of individuals. The size of the wearable market in each country gives a hint how important such measurements are for the people. Furthermore, companies gain insight into the health consciousness of a population. This information is important because the adjustable bed base enables the adjustment of the platform. As a result, the system has a positive effect on the spine. Due to differences in population, this indicator measures the relative number of users.

Market risks

The occurrence of market risk in a country can have a significant influence on the success of a company. Companies are not able to control market risk. In the case market risk materializes, the company may experience losses.

Corruption perception index

Corruption is a pressing topic around the world, especially in countries where the legal system is underdeveloped. The corruption perception index is published yearly by Transparency International. Its aim is to increase the awareness of corruption all over the world. Countries are ranked by a score. The maximum score a country can

get is 100, which means corruption is low. The lower the score, the higher the level of corruption (cf. Transparency International 2018).

Political Risk Index (PRI)

The Political Risk Index is evaluated within the BERI Index. This index is explained in more detail in chapter 5.4.1. The PRI examines the social and political situation of a country. The assessment is done by evaluating 10 socio-political variables on a scale from 0 to 7. Seven means the lowest risk (cf. Bouchet/Clark/Groslambert 2003, p. 80).

Operation Risk Index (ORI)

As with the Political Risk Index, the Operation Risk Index is included in the BERI Index. The ORI puts countries into a ranking in terms of their business climate. By looking at 15 criteria that describe the business climate of a country, experts rank each criterion on a scale from 0 (unacceptable conditions) to four (superior conditions) (cf. Bouchet/Clark/Groslambert 2003, p. 80f.).

Remittance and Repatriation Factor (R-Factor)

The R-factor is also part of the BERI Index. This indicator evaluates a country's financial solvency and the ease of transferring money to the home country. By evaluating data about the legal framework, foreign exchange, accumulated international reserves and foreign debt assessment, the country's rank is calculated (cf. Bouchet/Clark/Groslambert 2003, p. 81).

3　Country descriptions

3.1.　Japan

Japan is the third biggest market in the world in economic performance. Its major industries are the automobile and electronic industries, the chemical industry as well as mechanical engineering and heavy industry. Japan is still a world market leader in the fields of industrial robots and copy machines, with an overall market share of 60 percent.

Tourism has also become an important sector in Japan within the last years and is expected to grow further. Japan simplified its entry requirements in 2010. Consequently, the number of tourists per year increased from 8 million to 10 million. Due to the Summer Olympic Games in 2020, which take place in Japan, a further growth in the number of tourists is expected (cf. Aussenwirtschaft Austria 2019a, p. 6).

The partnership with its Ministry of International Trade and Industry (short MITI) has resulted in economic success since 1950. However, annual economic growth is 1,7% percent. In contrast, the average world economy's growth rate is 3,15 percent (cf. The World Bank).

At the beginning of 2019, the Economic Partnership Agreement between the European Union and Japan came into force. Through this agreement, a free trade zone was created (cf. Aussenwirtschaft Austria 2019a, p. 6).

Japan faces a growing demographic crisis. The average age of the population is almost 49 years (cf. Griffin/Pustay 2015, p. 61; World Population Review 2018). This crisis leads to chronic economic stagnation due to decreases in income and higher costs in social security (cf. Hidekazu 2018, p. 5). Japan offers a social welfare system, which includes health care and pensions (cf. Vogt 2018, p. 2). Consequently, the government has more expenses, leading to a budget deficit. The current public debt to GDP ratio is around 200 percent (cf. Hidekazu 2018, p. 5). As a measure against the high public debt, the government plans to increase consumption tax from eight percent to ten percent (cf. Aussenwirtschaft Austria 2019a, p. 6).

Culture can be best described as a culture built on competition, because Japanese are averse to working closely with other countries (cf. Munro 2018, p. 111). Considering the Hofstede model, Japan has a different culture than Austria, especially in

the area of power distance (cf. Hofstede). Doing business in Japan, without relationships and friendships to business partners, is impossible (cf. Martin/Chaney 2006, p. 47).

3.2. China

Over the last decades, China developed into a great trading nation due to its capitalist economy. It is the second largest economy in the world, with ten percent trading share. One of its biggest strengths is its global trading network. China is the strongest trading nation within the ASEAN region. Their main trading goods are electrical and electronic equipment (cf. Crosby 2016, p. 66f.). China is the world's number one manufacturing base (cf. Chung 2011, p. 2). Since 2001, China is member of the WTO (cf. WTO). China's GDP growth rate in 2018 was 6,9 percent (cf. The World Bank).

China is losing its competitiveness in the contract manufacturing branch. However, the consumer market in China gains more and more importance (cf. Aussenwirtschaft Austria 2019b, p. 5).

China has the biggest population in the world, with around 1.3 billion inhabitants, thereof, approximately 30 million people belong to the middle class. Due to its dynamic and fast-growing economy, it attracts international companies to enter the market (cf. Griffin/Pustay 2015, p. 65f.; Giunta 2016, p. 82). China invests a lot in overseas industries, especially in natural resources, technology, and the financial sector. These fields are strategically relevant for the country. Furthermore, China funds its "one belt, one road" program, short OBOR. The program's aim is the improvement of Asian infrastructure. By improving infrastructure within Asia, China's strategic goal is to increase its influence and reinvigorate trade (cf. Crosby 2016, p. 68).

As mentioned, China is one of the leading furniture markets in the world (cf. HKTDC Research 2018). Growth has occurred for various reasons. Firstly, the healthy economy contributed to its expansion. Secondly, the increasing income per capita resulted in growth of the market. Thirdly, the real estate market is flourishing. Consequently, the sales of furniture rose (cf. Giunta 2016, p. 82).

The furniture market in China is growing, consequently also the number of competitors. Due to low labor costs, the increasing buying power of consumers and the declining import tariff rates, many foreign companies consider market entry to China. However, the strong competition poses a barrier for these companies. Additionally, China is characterized by complex government regulations and high import taxation, which makes it hard for foreign companies to enter this market. Moreover, China has a company law in place that states that foreign companies need to invest in different legal forms than domestic companies. As a result, foreign companies face more stringent conditions (cf. European Commission 2017a).

In order to be able to do business with Chinese business partners, relationships need to be built. The longer a relationship lasts, the easier and smoother the cooperation is (cf. Martin/Chaney 2006, p. 46). In this context, the cultural differences between Austria and China need to be mentioned. In particular, the power distance in China is much higher than in Austria. Furthermore, the Chinese are more willing to take risk in comparison to Austrians (cf. Hofstede).

The relationship between China and ASEAN is littered with maritime and border disputes, especially in the South China Sea. A declaration was signed in 2002 by multiple governments (China and ASEAN), which governs the cooperation between those areas (cf. Crosby 2016, p. 70).

3.3.   Australia

Australia has recorded continuous economic growth for 27 years. This growth is the result of its wealth of natural resources, the agriculture and food industry, as well as the service sector: including the sectors health, education, tourism, and finance. In 2018, Australia's GDP was around 1.5 billion USD, which counts for 1.8 percent of the world's economy. Hence, Australia is the thirteenth largest economy in the world (cf. Aussenwirtschaft Austria 2019c, p. 6f.).

Average income in Australia is very high. The population in Australia is highly concentrated. The two megacities, Sydney and Melbourne, contain more than 40 percent of its inhabitants (cf. O'Loughlin/Kendig/Browning p. 4).

The success of Australia's economy depends on exports. Globalization has made foreign trade even more important for the country (cf. Dowding/Martin 2017, p. 93).

Australia has entered into many bilateral free trade agreements with other nations, for example AUSFTA with the United States (cf. Australian Border Force). The European Union and Australia have a political Framework Agreement in place. The aim of this agreement is to govern the economic and trade cooperation between the involved nations (cf. European Union External Action 2018).

Due to immigration, Australia is a multicultural country. This development makes it difficult for foreign companies to address their target group (cf. Dowding/Martin 2017, p. 69). Australia has a higher power distance and higher level of individualism than Austria. Additionally, Australians show more short-term orientation in comparison to Austrians (cf. Hofstede).

4 Conversation guide

CAMPUS 02 GRAZ
FACHHOCHSCHULE DER WIRTSCHAFT

CONVERSATION GUIDE FOR EXPERT INTERVIEWS

Type of interview
- Conversation with experts either personal or via Webex
- Participants show different expertise: industry-related, country-related and company-related
- Open questions are used to get as many information as possible about the following topics:
  - Market Attractiveness
  - Market barriers to entry
  - Market Risks

Objectives
- Verification of the findings of the secondary research
- Gathering additional information about the pre-selected target markets and the bedding industry

Getting expert opinion about the target market and the company's planned market entry

Interviewee: …………………………………………

Interviewer: …………………………………………

Date: …………………………………………

Introduction

- Welcoming of the interviewee
- Introduction of interviewer
- Explanation of the Master Thesis (title, output, expectations of the primary research)
- Presentation of LOGICDATA, its product portfolio of the business unit LOGIC HOME and target group
- Overview of the interview's content
- Informing about procedure of the interview: recording, confidentially, anonymity
- Brief introduction of the interviewee

Icebreaker question	Remark
Do you remember what your first impression was when you first went to Japan / China / Australia?	Open question

Market attractiveness	Remark
1. How would you describe the country's **economic development** within the last years? In your opinion, what is the **current situation**? Can you give a **forecast** how it will develop in future?	Open question
2. Look at the country's furniture industry. How would you describe the **development of the furniture industry / bedding industry**?	Open question
3. How do Japanese / Chinese / Australians **spend their income**?	Open question
4. In your opinion, **how much do they spend on furniture** each month?	Open question
5. Focusing on bedroom furniture, how much are people **willing to spend for a bed**?	Open question
6. How would you **evaluate the ease of doing business** in the specific countries? Are there	Open question

	any **aspects** that need to be taken into account?	
7.	How would you describe the **importance of innovation** among the population?	Open question
8.	In your opinion, where do people **allow technology in their life and where do they refuse it**? Do you think they accept **electronic devices in their bedroom**?	Open question
Market barriers to entry		**Remark**
9.	Which **legal barriers are in place that can hinder or complicate market entry** for LOGICDATA?	Open question
10.	How much **influence does the government have on the business** of companies? Did the government implement any **restrictions** that makes business in the country more difficult?	Open question
11.	Considering the **localization of products** and the **way of doing business** within the furniture industry, are you aware of **any industry standards** that need to be considered? If yes, which?	Open question
12.	How does the **customs procedure** work in the specific country? Are there **customs regulations linked to furniture products**?	Open question
13.	How would you describe the **likelihood of local companies of doing business with European companies**?	Open question
14.	In your opinion, how can **cultural differences influence business** either positively or negatively in the target country? Is it possible that these **cultural differences hinder a market entry**?	Open question

15.	In comparison to Austrian companies, how do local companies **make their buying decision**? **Based on which criteria** do local companies make buying decisions?	Open question
16.	In your opinion, how easy is it to **access the right distribution channels**? Are there any known **difficulties**?	Open question
17.	A market entry always requires initial investment. May I ask you to rank all three countries (JP, CN, AUS) according to the **level of necessary initial investment** when opening a branch office? Explain your answer.	Ranking: 1= Highest initial investment 2= Medium initial investment 3= Lowest initial investment
18.	What does an **average bedroom** in the country look like? Which **preferences** do people have when it comes to the design of beds?	Open question
Market risks		**Remark**
19.	How high do you think the **risk of non-payment** is?	Open question
20.	Focusing on the political environment of the country, what is your **impression about the political stability** of the target market?	Open question
Concluding Questions		**Remark**
21.	Imagine: If you need to make the decision about the target country for LOGICDATA, **which country would you choose and why**?	Open question

Table A- 2: Conversation guide for primary research (own presentation)

5   Interview partners

Company perspective	
Name	Robert Koller
Company	LOGICDATA Electronic & Software Entwicklungs GmbH
Position	Business Development Manager BU LOGIC OFFICE
Email Address	robert.koller@logicdata.net
Telephone	+43 3462 5198 1233
Field of expertise	Experience in the APAC region through extensive researches about the markets in regard to the furniture industry. Additionally, Mr. Koller has deep knowledge about the company's strategy and its processes.
Industry perspective	
Name	Johannes Sauer, MBA
Company	Yaasa Studios Inc.
Position	Chief Executive Officer
Email Address	johannes.sauer@yaasastudios.com
Telephone	+1 855·622·3711
Field of expertise	Mr. Sauer has long-term experience in the bedding industry. His field of action is the mattress industry. He has been a customer of LOGICDATA for several years.
Country perspective: Japan	
Name	Ingomar Lochschmidt
Company	Österreichisches AußenwirtschaftsCenter Tokyo
Position	Head of ADVANTAGE AUSTRIA in Tokyo
Email Address	tokyo@advantageaustria.org
Telephone	+81 80 4403 3133

Field of expertise	Mr. Lochschmidt has been in this field for more than 30 years. He has experience with several countries. His main focus is the Japanese market.
Country perspective: China	
Name	Andrea Kubista
Company	Österreichisches AußenwirtschaftsCenter Peking
Position	Die österreichische Wirtschaftsdelegierte Stv. in Peking
Email Address	peking@advantageaustria.org
Telephone	+8 610 85 27 50 50
Field of expertise	Her experience with China is not extensive. However, she has been working for the AußenwirtschaftsCenter for several years. Before China, she worked in Lagos and Milan for three years. At the Österreichisches AußenwirtschaftsCenter Peking, she is the responsible person for the industry LOGICDATA is operating.
Country perspective: Australia	
Name	Nina Wagner, MSc
Company	Österreichisches AußenwirtschaftsCenter Sydney
Position	Marketing, Research & International Trade Officer
Email Address	sydney@advantageaustria.org
Telephone	+61 2 92 47 85 81
Field of expertise	Ms. Wagner has worked in the business since September 2018. She is the responsible person for the furniture industry in Australia. Therefore, she was the right person from whom to get the necessary information. Additionally, she aligned the information upfront with Mr. Hartleb, österreichischer Wirtschaftsdelegierter in Sydney.

Table A- 3: Interview partners for primary research (own presentation)

6 Project Management

6.1. Milestone plan

No	Milestone	Deadline
1	Master Thesis application submitted	20.04.2018
2	Revised Master Thesis and LOI submitted	01.06.2018
3	Master Thesis application approved	13.06.2018
4	Initial Coach Meeting held	03.10.2018
5	Kick-Off Meeting held	12.10.2018
6	MS 1 held	25.10.2018
7	Theoretical Part written	18.01.2019
8	MS 2 held	26.01.2019
9	Country selection concept developed	30.03.2019
10	MS 3 held	25.04.2019
11	Assessment of Master Thesis occurred	16.06.2019
12	Hardcover Master Thesis submitted	28.06.2019
13	Final company presentation	12.07.2019

Table A-4: Milestone plan (own presentation)

6.2. Project plan

	Vorgangsname	Dauer	Anfang	Ende
0	Master Thesis Creation	359 Tage	Fre 16.03.18	Fre 12.07.19
1	Planning Phase	64 Tage	Fre 16.03.18	Mit 13.06.18
2	Introduction MT	1 Tag	Fre 16.03.18	Fre 16.03.18
3	Search for topic	11 Tage	Sam 17.03.18	Fre 30.03.18
4	Briefing by company	1 Tag	Don 05.04.18	Don 05.04.18
5	Fill out MT application form	11 Tage	Fre 06.04.18	Fre 20.04.18
6	MT countercheck by the company	3 Tage	Die 17.04.18	Don 19.04.18
7	Submit MT application	0 Tage	Fre 20.04.18	Fre 20.04.18
8	Feedback MT application	14 Tage	Fre 20.04.18	Mit 09.05.18
9	Revise MT application	16 Tage	Don 10.05.18	Don 31.05.18
10	Create LOI	3 Tage	Die 29.05.18	Don 31.05.18
11	Submit new revision of MT application and upload LOI	0 Tage	Fre 01.06.18	Fre 01.06.18
12	MT application approval	0 Tage	Fre 01.06.18	Fre 01.06.18
13	Preparation Phase	89 Tage	Son 29.07.18	Fre 23.11.18
14	Initial literature research	65 Tage	Son 29.07.18	Don 25.10.18
15	Study Guidlines and Deadlines	3 Tage	Fre 14.09.18	Die 18.09.18
16	Prepare documents for first Mentor Meeting	14 Tage	Mit 12.09.18	Son 30.09.18
17	Announcement of MT Mentor	0 Tage	Mon 17.09.18	Mon 17.09.18
18	Contacting Mentor	9 Tage	Mon 17.09.18	Don 27.09.18
19	Forward documents to Mentor	0 Tage	Mon 01.10.18	Mon 01.10.18
20	Coaching Meeting with Mentor	0 Tage	Mon 01.10.18	Mon 01.10.18
21	Rework master thesis concept	3 Tage	Mon 01.10.18	Mit 03.10.18
22	Company Kick-off Meeting with Mentor	0 Tage	Fre 12.10.18	Fre 12.10.18
23	Revise concept and company targets	2 Tage	Fre 12.10.18	Son 14.10.18
24	Create project plan	7 Tage	Mit 10.10.18	Don 18.10.18

	Vorgangsname	Dauer	Anfang	Ende
25	Create Powerpoint presentation	4 Tage	Mon 15.10.18	Don 18.10.18
26	Submission of documents for MS1	0 Tage	Fre 19.10.18	Fre 19.10.18
27	MS1	0 Tage	Don 25.10.18	Don 25.10.18
28	Implementation of MS feedback	4 Tage	Don 25.10.18	Mon 29.10.18
29	Prepare MT Agreement	9 Tage	Mon 12.11.18	Mit 21.11.18
30	Upload MT Agreement	0 Tage	Fre 23.11.18	Fre 23.11.18
31	◢ Theoretical Part	65 Tage?	Fre 09.11.18	Mon 28.01.19
32	◢ Chapter 2: B2B in the furniture industry	34 Tage	Fre 09.11.18	Fre 21.12.18
33	Characteristics of B2B	2 Tage	Fre 09.11.18	Sam 10.11.18
34	The furniture industry	17 Tage	Sam 10.11.18	Don 29.11.18
35	Specialities of B2B in the furniture industry	17 Tage	Don 29.11.18	Fre 21.12.18
36	◢ Chapter 3: Internationalization	11 Tage	Son 09.12.18	Fre 21.12.18
37	Motives for internationalization	1 Tag	Son 09.12.18	Son 09.12.18
38	Specialities for SMEs	1 Tag	Mon 10.12.18	Mon 10.12.18
39	Internationalization models	4 Tage	Mit 12.12.18	Mon 17.12.18
40	Internationalization process	4 Tage	Die 18.12.18	Fre 21.12.18
41	◢ Chapter 4: International market selection	6 Tage	Fre 21.12.18	Fre 28.12.18
42	Importance of market selction	1 Tag	Fre 21.12.18	Fre 21.12.18
43	Market selection strategies	2 Tage	Fre 21.12.18	Son 23.12.18
44	Christmas holiday	3 Tage	Mon 24.12.18	Mit 26.12.18
45	Influence of distance	1 Tag	Don 27.12.18	Don 27.12.18
46	Market selection methods	2 Tage	Don 27.12.18	Fre 28.12.18
47	◢ Chapter 5: Market selection criteria	10 Tage?	Fre 28.12.18	Mon 07.01.19
48	Requirements on criteria	1 Tag	Fre 28.12.18	Fre 28.12.18
49	Market attractiveness	2 Tage	Sam 29.12.18	Son 30.12.18
50	Holiday	1 Tag?	Die 01.01.19	Die 01.01.19

	Vorgangsname	Dauer	Anfang	Ende
51	Market entry barriers	2 Tage	Mit 02.01.19	Don 03.01.19
52	Country risk	2 Tage	Fre 04.01.19	Son 06.01.19
53	Wiehgting methods	2 Tage	Son 06.01.19	Mon 07.01.19
54	◢ Chapter 6: Theoretical market selection concept	3 Tage	Die 08.01.19	Don 10.01.19
55	Definition of a concept	1 Tag	Die 08.01.19	Die 08.01.19
56	Objective of the concept	1 Tag	Die 08.01.19	Die 08.01.19
57	Market selection concept	3 Tage	Die 08.01.19	Don 10.01.19
58	Proof Reading	4 Tage	Don 10.01.19	Mon 14.01.19
59	Rework theoretical part	4 Tage	Mon 14.01.19	Don 17.01.19
60	Submission of documents for MS2	0 Tage	Fre 18.01.19	Fre 18.01.19
61	MS2	0 Tage	Sam 26.01.19	Sam 26.01.19
62	Implementation of MS feedback	2 Tage	Sam 26.01.19	Son 27.01.19
63	◢ Practical Part	85 Tage	Don 10.01.19	Die 30.04.19
64	Second Company Meeting regarding Research Design	1 Tag	Mon 28.01.19	Mon 28.01.19
65	◢ Chapter 7: Company presentation	4 Tage	Son 27.01.19	Mit 30.01.19
66	General information	1 Tag	Son 27.01.19	Son 27.01.19
67	Market information	3 Tage	Mon 28.01.19	Mit 30.01.19
68	◢ Chapter 8: Research design	85 Tage	Don 10.01.19	Die 30.04.19
69	Describe research design	2 Tage	Don 10.01.19	Fre 11.01.19
70	Research schedule	1 Tag	Sam 12.01.19	Sam 12.01.19
71	Company analysis	7 Tage	Mon 28.01.19	Mon 04.02.19
72	Secondary market research	50 Tage	Son 27.01.19	Fre 29.03.19
73	Primary market research	70 Tage	Die 29.01.19	Die 30.04.19
74	◢ Chapter 9: Elaboration of the market selection concept	32 Tage	Mon 25.02.19	Son 07.04.19
75	Selection of method	17 Tage	Mon 25.02.19	Mon 18.03.19
76	Market selection criteria	3 Tage	Mon 01.04.19	Mit 03.04.19

A-24

Figure A-1: Project plan (own presentation)

6.3. Work packages

No	Task	Start	Deadline	Responsible person
Planning Phase				
WP 1	**Find MT topic** • Search topic • Describe initial situation and challenge • Find appropriate title • Submit MT topic	16.03.2018	01.06.2018	Author
Preparation Phase				
WP2	**Literature research** • Find appropriate literature • Collect key statements	29.07.2018	25.10.2018	Author
WP3	**Creation of a MT concept and framework** • Create a company description • Describe initial situation and challenge • Define company goals • Derive MT goals • Create rough MT framework	12.09.2018	19.10.2018	Author

Theoretical Part				
WP4	**Build theoretical basis** • Description of methods, models, etc.	09.11.2018	07.01.2019	Author
WP5	**Creation of theoretical concept** • Define the content of the concept • Structure the concept • Visualize the concept	08.01.2019	18.01.2019	Author
Practical Part				
WP6	**Create tailor-made market selection concept for LOGICDATA** • Select market selection method • Choose market selection criteria • Perform weighting process	25.02.2019	07.04.2019	Author
WP7	**Conduct secondary market research** • Screen countries based on criteria	28.01.2019	31.03.2019	Author
WP8	**Conduct primary market research** • Find experts • Create interview guide • Conduct expert interviews	29.01.2019	30.03.2019	Author

WP9	**Evaluate countries and analyze results** • Evaluate country data • Create country ranking • Find key statements of primary re-search • Compare findings and results • Derive recommendations for LOGICDATA	31.03.2019	03.04.2019	Author
Completion Phase				
WP10	Proofread of MT	20.04.2019	07.05.2019	Author
WP11	Finalize and submit MT	07.05.2019	13.05.2019	Author

Table A- 5: Work packages (own presentation)