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Strategic proposal for internationalization of Adrialab d.o.o., a small pharmaceutical company from Croatia

A Master's Thesis submitted for the degree of
"Master of Business Administration"

supervised by
Prof. Dr. Jonas Puck

Dino Ćoza Saršon

H1527629

Vienna, June 2017

Affidavit

I, **Dino Ćoza Saršon**, hereby declare

1. that I am the sole author of the present Master's Thesis, "A strategic proposal for internationalization of Adrialab d.o.o., a small pharmaceutical company from Croatia", 89 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and
2. that I have not prior to this date submitted this Master's Thesis as an examination paper in any form in Austria or abroad.

Vienna, 27.06.2017

Signature

Preface

This master thesis presents the culmination of my education for a Master of Business Administration degree through a joint program by WU Executive Academy and TU Vienna specialized in a very dynamic area of Entrepreneurship & Innovation. The past two years were filled with regular monthly trips to Vienna were I attended engaging lectures and seminars filled with constructive discussions in a motivating and collaborative environment. Insights gained from lecturers as well as fellow MBA students have helped me not only improve my understanding of the business environment today, but also provided me with impressions about various other topics not necessarily directly connected with the program itself. Therefore I am grateful to my fellow colleagues, lecturers and the Program Management for a truly remarkable experience.

Since my main motivation behind enrollment into the Entrepreneurship & Innovation Program was to acquire knowledge and expertise which could be relevant and possibly implemented in the small company I work for, Adrialab d.o.o., this thesis, which focuses on the promising next step into the company's future is in itself a testament to a choice well made.

I am grateful to all those that were involved with this master thesis in any capacity. I would like to thank prof. Jonas Puck for supervising the thesis. Big thanks to my dear business colleagues Vice Buljanović and Vedrana Kuzmić Vrbanović for valuable advice in time of need. I thank my professional mentors and sponsors Ivo Usmiani and Zdravko Saršon for making it all possible. Finally, a special thanks goes to my dear Mirta Meštrović, family and friends for their understanding and support over the entire MBA period.

Abstract

The main objective of this thesis is to develop a comprehensive proposal for internationalization of a small spin-off pharmaceutical company Adrialab, d.o.o. As such this thesis focuses on three key areas of the internationalization processes for a small and medium sized company (SME): the motivation behind the decision to internationalize, the international market selection and the mode of entry into selected markets. The author has decided on an international literature review approach to establish key concepts in each area, to discuss such concepts in the context of an SME and to identify and implement some of usually descriptive models developed by international management (IM) scholars in order to make recommendations for Adrialab d.o.o.

By mimicking the internationalization motives classification used in IM literature, this thesis establishes Adrialab's profitability issues with product lines and distribution channels in the domestic market, the spare manufacturing capacity, the company's vision which includes Southeast European (SEE) countries and spin-off nature of the company as reactive and proactive efficiency seeking motives. Subsequently, the author defines the scope of countries to be assessed in the IMS process and develops and foreign market opportunity index ranking those countries on a combination of economic, population and industry macro indicators as well as selected aggregate measures deemed relevant for consumer expenditure categories targeted by the company portfolio. Company policies, resources and capabilities are evaluated in order to determine feasible equity and non-equity based entry modes while an analysis of competitive and distribution dynamics in each country serves to establish most promising consumer segments and desirable types of intermediaries.

Thesis concludes with a proposal of 7 country market/entry mode combinations which should be pursued and entered by the end of 2018.

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1 Introduction

In this chapter a brief presentation of the company Adrialab d.o.o. is provided with a description of the context in which it currently operates. The chapter continues with an explanation of the motives and objectives for an internationalization proposal of the company and concludes with an elaboration of the thesis structure.

1.1 Company profile

Adrialab d.o.o. is a privately held company based in Rijeka, Croatia. Its sole owner is the pharmaceutical company JGL d.d., also based in Rijeka. Adrialab was legally incorporated in the second half of 2013 while the manufacturing facilities started operating in January 2015. Adrialab manufactures and markets a range of medicinal products, cosmetic products, food supplements and biocides under different brands names:

Dječja mast – a line of baby cosmetic products for baby skin protection and nourishment

Dr.Bezz – an insect repellent product line

Dermoplast – a line of hypoallergenic adhesive bandages

Dermospray – a line of skin antiseptic products

Galenia – a line of active cosmetic products for treating skin conditions like itching, skin burns, wound treatment, etc.

Holyplant – a traditional natural cosmetic and food supplement line

Nasine – a line of sprays, drops and ointments for nasal cavity hygiene

Sunce moje malo (SMM) – a line cosmetic products formulated for children with atopic skin

Panthenol Forte – line of topical products for skin regeneration and nourishment

Vitalia – a modern line of food supplement products focused on delivering new innovative active ingredients to consumers

Most of the product lines listed above were introduced by JGL d.d. in to the Croatian market over the course of 25 years. Manufacturing and market licenses were sold to Adrialab in the beginning of 2015. Apart from manufacturing its line of branded products Adrialab engages in

private label manufacture for third parties. The company posted annual revenue figures of around 1, 8 million euros in 2016 and currently employs 24 people.

1.2 Context of the company

Initially, all JGL products including the current Adrialab portfolio were distributed into pharmacies through wholesalers and exhibited stabile figures in terms of quantities sold. They also exhibited fair brand awareness with some of the brands like Dječja mast, Holyplant and Dermospray becoming common household items in Croatia. However, a period of decreasing profit margins previously to Adrialab's establishment began in the late 2000s. Declining profit margins process intensified after a decision to start distributing some of the products through retail chains like Drogerie markt, Muller, Billa, Spar, etc. Although this new distribution channels initially resulted in a turnover increase they came with a hefty prices of harsh commercial terms. As a consequence and a reactive measure Adrialab started to put more emphasis on developing new products solely for the pharmacy channel which enables healthier margins. Still, as of beginning of 2017 most of the revenue is based on sales to retail outlets while the profit margin generation is based on the pharmacy distribution channel. Meanwhile, competition in both channels continues to intensify which puts increasing pressure on pricing policies and declining profit margins. In January 2017, Adrialab started direct exporting into Macedonia and Kosovo through exclusive distribution contracts with same host country partners as its parent company JGL. Product lines concerned with these contracts are sold to the end consumer through pharmacies in the host country.

1.3 Aim and objectives

Today many companies decide to extend their reach beyond domestic market for any number of motives. Although in today's globalized world many companies establish some of the value adding activities abroad right from the company inception like sourcing raw material or finished goods most of the companies start conducting their business inside the boarders of one country. This is especially true for small and medium sized companies which usually lack financial resources and international experience in comparison with larger firms (Hansson and Hedin, 2007, p.1). However if a company is sufficiently motivated to pursue foreign opportunities it should be able to explain its basic motives for doing because a proper motive examination should enable the company to be able to discriminate between host country assessment indicators. In turn, a rational assessment of potential host countries should make

it easier to develop new market entry strategies which highest success probabilities. This thesis aims to discuss theoretical considerations of internationalizations motive, market selection and entry mode selection on an example of a small pharmaceutical company Adrialab which operates in a saturated and relatively small domestic market with declining profit margins. The final objective of this thesis is to filter potential host countries for business internationalization coupled with entry mode proposals on a country basis.

1.4 Thesis structure

This thesis consists of 6 chapters. Introduction constitutes the first chapter. A brief description of each of the following chapter is below.

Chapter 2 focuses on internationalization motives. A theoretical background overview presents relevant information of alternative motive classification theories, a brief examination of SME specific motive classification and motive implications for market selection and entry mode selection. A proactive and reactive motive classification is subsequently used to present and cluster Adrialab's internationalization motives which are influenced by the dynamics of the domestic market, the company’s portfolio, capacity of manufacturing facilities and last but not least, managerial urge and spin-off advantage.

Chapter 3 discusses which foreign market should Adrialab enter. A theoretical review presents the most frequently used international market selection (IMS) approaches like screening and clustering as well as the sequential nature of IMS. Subsequently, potential host markets are scored on macro and industry indicators as well as relevant aggregate measures in order to come up with foreign market opportunity index and order of priority of entering foreign markets.

Chapter 4 includes a theoretical background of various foreign market entry modes like exports, licensing, wholly owned subsidiaries and joint ventures. Theoretical background includes presentation of two basic underlying internationalization theories (the transaction base approach (TCA) and the Resource based view (RBV)) as well as the more prominent conceptual frameworks for entry mode selection (EMS) like the OLI framework and the Uppsala model. After examining the SME context of EMS chapter 4 examines internal which influence Adrialab EMS process.

Chapter 5 focuses on competitive and distribution dynamics in target countries, the aim of which is to pinpoint the most promising consumer segments which should be targeted by Adrialab with its product lines and types of intermediaries relevant for distributing products to most promising points of sales in terms of distribution share for each consumer segment.

Chapter 6 summarizes the choices made in previous chapters and concludes with an internationalization proposal answering the main internationalization questions which include where, how and when to internationalize.

2 Motivation relevance for internationalization proposal

„Motivation is defined as the process that initiates, guides, and maintains goal-oriented behaviors. Motivation is what causes us to act, whether it is getting a glass of water to reduce thirst or reading a book to gain knowledge“ Cherry (2016).

It seems only natural to examine why a company would even want to internationalize in the context of an internationalization effort so we begin this part by specifically investigating possible motives for internationalization. Motivations are not always discussed separately, by authors in IB literature but rather written on the margin of empirical overviews on „how“ companies enter markets or „what“ they internationalize because author would rather talk about general factors of internationalization then refer to specific motives (Tulder, 2014). Selecting, grouping and classifying internationalization motives will help clarify market assessment drivers and entry mode considerations in subsequent chapters. We start by examining internationalization motive theory in general before discussing it in the context of SMEs and the implications of internationalization motives on market and mode of entry selection. In order to get to „where“ and „how“ to internationalize we need to be sure on the „why“ to internationalize.

2.1 Internationalization motive classification

Internationalization theory distinguishes between two basic types of motives for internationalization: efficiency based and market based motives. Efficiency motives are generally related to cost and access efficiency in terms of natural, human and financial resources while market – based motives consider new markets mostly through sales and market share expansion but also through more intangible aspects like better market knowledge generation (Puck, 2016).

Efficiency and market based motives can also be alternatively classified under intrinsic, extrinsic and mixed motives. According to Tulder (2014, p.38) intrinsic motives can be described as efficiency approaches closely related with Dunning (1993, p. 63) and his distinction of four main motives for internationalization:

1. Market seeking, i.e. sales expansion, supply goods or service to new markets
2. Efficiency-seeking, i.e. rationalize the current resource structure of the company
3. Resource seeking, i.e. acquiring a specific resource at a higher quality but lower cost

4. strategic-asset seeking internationalization motives, i.e. acquiring strategic assets not present in domestic country

These motives can also be considered as typical foreign direct investment motives because Dunning like many scholars was interested in understanding the FDI phenomenon (Benito 2015, p.16 - 17). However, Benito (2015,p. 17) argues that FDI is only one of several ways in which companies can access customers, resources and assets, or are able to achieve greater efficiency because companies can access most of these through market-based transactions like importing and exporting but also through agreements like licensing contracts and alliances. Today, international activities are not just about FDI because ownership is no longer a pre-condition for control while goods and services that were once considered non-tradables are no longer considered as such thanks to bilateral and multilateral agreements (Cazurra and Narula, 2015, p.4). As Welch, Benito and Petersen (2007) would argue that motives for internationalization are applicable across various forms of international business activities organization. Market and resources seeking motives are considered predominant among first time internationalization firms while efficiency seeking and strategic asset seeking increase in relevance among companies already engaged in multinational activities (Hansson and Hedin, 2017, p.5).

Extrinsic motives consider home and host country considerations in motivation to go abroad and are closely related with bargaining power and stakeholder management approaches toward the home country and towards the host-country Tulder (2014, p.38). As such extrinsic motives can be regarded as institution-based motives because companies can become motivated to internationalize due to un-favoring tax policies or labor regulations in the domestic country while the host-country provides the opposite. It could be argued that such institution-based motives are also efficiency based intrinsic motives in a more general managerial sense. However, Tulder (2014, p.40) concludes that corporate strategists like to reference the more „rational“ sounding intrinsic motives when legitimizing their decisions.

Mixed motives take into account sector specific dynamics because the internationalization trajectory is strongly influenced by the market structure and intensity of competition in the industry sector (Tulder 2014, p. 41).

Czinkota (2004, p.1) classifies internationalization motives as proactive and reactive with profit advantage considered to be the strongest proactive motive where Management may perceive international sales as a potential source of higher profit margins or of more added-on profits. Other proactive motives mentioned by Czinkota (2004, p.4) are company's unique products, a technological advantage, exclusive information, managerial urge, tax benefit and economies of scale. Motives like competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic market and customer and ports proximity are described as reactive.

2.2 The SME perspective of internationalization motive classification

After examining internationalization motive theory this section continue by focusing on internationalization motives of SMEs through IM literature examination for empirical evidence of motive classification and possible correlation between motives and internationalization success of SMEs. Internationalization motives of SMEs are basically SME management's internationalization motives which were found to be among most promising predictors of internationalization success for SMEs in small open economies (Baldauf, Cravens and Wagner, 2010, p.61).

An empirical survey conducted by OECD (2009, p.13) suggests a division of internationalization motives of SMEs into 4 groups: (1) growth motives associated with opportunities in foreign markets, (2) knowledge related motives like manager's previous experience or search for missing know-how, (3) motives reflecting social ties, networks and supply chain relations and (4) motives connected with the domestic and foreign markets. Mwiti, Ofafa and Jagongo (2013, p.76) establish a positive correlation between SME participation in foreign markets and internal proactive motives such as the need to achieve economies of scale, special management interest, possession of competitive advantage, the need to exploit potential growth and production of goods with unique qualities. Baldauf, Cravens and Wagner (2010, p.66) describe development of new sales territories, taking advantage of promising foreign opportunities and attaining international reputation as proactive motives while competitive pressures and overproduction in the domestic market can be regarded as reactive motives. Proactive motives are considered the driving forces behind successful firms. A study of Czech SMEs from five different industrial sectors concluded that the main motive for internationalization of small enterprises is foreign demand which was classified as a reactive

motive while increase in sales as a proactive motive was the main motive for internationalization of medium enterprises (Kubičkova, Votoupalova and Toulova, 2014, p.326).

A brief comparison of SME internationalization studies with the motive considerations of more established internationalization theories shows many similarities. This is only natural as internationalization theory was developed in the context of internationalization strategies, processes and activities of multinational companies. However, in todays globalized world with increasing complexity of cross-border interactions in terms of different activities performed and number of companies involved it can be argued that an increasing share of SMEs engage in internationalization activities and in all parts of the value chain. Therefore, internationalization theory that has evolved in the context of MNEs was expanded to specifically include SMEs. The literature discussing internationalization motives of SMEs classifies them as proactive or reactive (Baldauf, Cravens and Wagner, 2010; Kubičkova, Votoupalova and Toulova, 2014; Mwiti, Ofafa and Jagongo, 2013) which is similar to the Czinkota (2004, p.1) classification. Many of the proactive and reactive motives can also be classified under more general efficiency and market based motives (Puck, 2016) or intrinsic, extrinsic and mixed motives (Tulder, 2014) discussed earlier.

2.3 Internationalization motive implication for market selection

Careful selection and understanding of internationalization motives should be a prerequisite for engaging in market selection as it would make no sense for a company to internationalize into a foreign market which cannot provide an environment where possibilities for achieving these motives are present. Since companies go abroad for different reasons it is likely that they go to different places. If internationalization motives are market driven in the sense of finding new customers, expanding sales and market share companies are likely to seek out locations with large, densely concentrated populations with high-purchasing power (Benito, 2015, p.17). If a company wants to lower its sourcing or production costs it would seek out locations with developed infrastructure and lower labor costs. An even more straight forward connection between internationalization motive and internationalization location is the case of resource and asset seeking because companies seeking resources or strategic assets can only internationalize to locations which can provide these since resources and assets are not evenly distributed geographically. Strategic asset seeking companies are likely to look at

factors such as the existence of vibrant clusters, high level of development, urban centers, etc. (Benito, 2015, p.18). Motive implication for market selection is only one of the parameters for market selection and should be observed and evaluated in correspondence with internal resources and market entry barriers as new market entries are both risky and costly.

2.4 Internationalization motive implication for mode of entry selection

SMEs can use any number of entry equity and non-equity foreign market entry modes including direct or indirect exporting or establish a foreign base through different types of FDI with each entry mode associated with different levels of risk, control, ownership cost and timing considerations (Nisar et al., 2011, p.717). According to internationalization theory companies gradually increase the level of commitment and risk in terms of entry mode selection in foreign markets as the level of market related knowledge increases (Puck, 2016). Nisar et al. (2011, p.717)) associates equity based mode of entry like join ventures with internationalization motives for market development, power of influence and resource access and control. On the other side of the spectrum an internationalization goal for a company purely seeking to fill its production overcapacity may have no particular advantage in controlling foreign operations if this capacity fulfillment is done through private label manufacture. Such a company could be focused on marketing its brands in the domestic market but obtain value from additional revenue streams by exporting private label products for third parties if domestic market does not generate sufficient demand for its manufacturing site. Depending on the motives for internationalization companies should select the value generating activities which should transferred into the host country in order to achieve internationalization goals. In order to do that companies need to understand their value chain process in detail. The resource-based view of the firm (RBV) proposes that the choice should largely depend on the relation between the resources base of the firm and the resource requirements of the market that is new to the firm (Lee and Lieberman, 2010, p. 40).

2.5 Overview of Adrialab internationalization motives

The following section provides an examination of Adrialab d.o.o. motives for internationalization. These motives are discussed and presented according to the Czinkota (2004, p. 1) motive classification discussed above. This approach was chosen for two reasons: (1) it enables me to cluster both efficiency and market driven motives and delineate them between proactive and reactive and (2) the proactive and reactive motive classification is the

dominant type of classifying internationalization motives of SMEs. There is a fine line between these basic motive types as they can often overlap which will become evident in the following sections.

One of the greatest intrinsic concerns of a company seeking to internationalize with an increase in efficient use of existing resources. Earlier we discussed market seeking (Dunning, 1993) in terms of sales expansion by supplying goods to new markets which provides an opportunity for additional contribution margin. Often stagnating or declining home markets and increasing customer concentration are the primary reasons for foreign market seeking. Companies may experience insufficient domestic demand or domestic market saturations and can no longer cultivate future growth in their industry segment (Alon, 2004, p.27). Alon (2004, p.27) logically assumes that smaller firms are more likely to experience insufficient domestic demand while larger firms are more likely to experience domestic market saturation. It simply gets harder to hold existing and gain new customers at home (Grünig and Morschett, 2012, p.28). Grünig and Morschett (2012, p.29) also suggest the need to realize cost economies as a second efficiency driver for internationalization because gaining new customers results in additional sales which enables fixed costs to spread across more units. Adrialab experiences all of these issues in its daily business.

2.5.1 Domestic market considerations (reactive motives)

In chapter 1 it is mentioned that Adrialab d.o.o. experiences declining margin in the domestic market. This is mostly the result of commoditization of its high turnover products rather than a decrease in quantities sold or increase in raw material and labor costs. Commoditization puts a downward pressure on product prices and Adrialab experiences this through increasing discounts of wholesale prices required by large retail chains in Croatia. In the same time the manufacturer's suggested retail prices (MSRP) remains the same and the end consumer feels no price increase. This can be observed by examining the company's income statement for the first two years of operation. The income statements are presented in a format used by the company's management, rather than financial reporting forms in Croatia. This format enables me to monitor and convey the impact of discounts on the company's profitability.

A variance of 21, 3 % in total discount structure between 2015 and 2016 can be observed while the first two gross margin levels show relatively small variances of up to 2%. The increase in discount contribution was also enhanced by a decrease in quantities from a key contract

manufacture account. This decrease amounted to 20% of total revenue so it can be argued that the biggest impact on the income statement structure can be attributed to this event and that without significant contract manufacture output as an additional revenue stream Adrialab is not profitable under current conditions. Such findings only provide a clearer picture on the poor state of terms in which Adrialab supplies products to its retail buyers in the domestic market.

	Item	2016	2015
	Gross sales	159,2%	137,9%
	Trade discount	41,3%	28,3%
	Financial discount	20,8%	12,4%
	Total discounts	62,0%	40,7%
	Net sales	97,2%	97,2%
	Other revenue	2,8%	2,8%
	Net revenue	100,0%	100,0%
COGS units	Raw material	38,9%	43,7%
COGS units	Labour	20,6%	17,8%
COGS units	Depreciation	5,8%	4,3%
COGS units	Finanancial cost	1,1%	0,8%
	COGS	66,4%	66,6%
	Gross margin 1	33,6%	33,4%
	Direct promotion	3,7%	1,8%
	Market authorization costs	0,3%	0,0%
	Gross margin 2	29,6%	31,6%
Corporate units	Salaries	19,5%	14,8%
Corporate units	Location	2,2%	1,5%
Corporate units	Communication	4,9%	4,5%
Corporate units	Promotion	1,5%	2,0%
Corporate units	Services	4,4%	5,4%
Corporate units	Other	0,5%	0,4%
	Operational expenditure	33,0%	28,8%
	Depreciation	0,7%	0,5%
	Business expense	104,0%	97,6%
	Gross margin 3	-4,0%	2,4%
	Financial revenue	0,4%	0,5%
	Financial costs	0,4%	0,7%
	Extraordinary income	0,2%	0,3%
	Extraordinary expenses	0,0%	0,0%
	EBIT	-3,8%	2,5%
	EBITDA	3,5%	8,0%

Table 1 Adrialab income statement % of net revenue for 2015 and 2016 (Source: Monthly management accounting report for December 2016)

The key contract manufacturing account is in fact JGL d.d. and consists of products which are indirectly exported to Russia. Although these products are manufactured under JGL's license and Adrialab only provides a manufacturing service this example shows that engaging in private label manufacture for third parties can provide a valid option for an internationalization strategy of a manufacturing firm with efficiency motives. Especially if the

contribution value of its own brands in the domestic market has been eroding. *Table 2* shows value contribution of each sales channel. By comparing gross sales and net revenue contribution differences in commercial terms between sales channels can be observed. While pharmaceutical wholesale, exports and contract manufacture for JGL and third parties show either the same or higher net revenue contributions over gross sales for each period, contributions from retail network channel show completely the opposite. Year over year trends only strengthen this assumption since gross sales figures increased more than net revenue figures only for the retail network distribution channel. Although quantity contribution figures for the retail network are below net revenue contributions this is mainly due to more expensive larger packaging sizes of products sold through this channel.

Adrialab sales structure	Contribution						%YOY		
Buyer	Gross sales		Net revenue		Quantity		Gross sales	Net revenue	Quantity
	16	15	16	15	16	15			
JGL	7%	20%	10%	26%	17%	32%	37%	37%	43%
Pharmaceutical wholesale	26%	25%	27%	25%	32%	27%	99%	101%	101%
Retail network	63%	53%	58%	47%	49%	38%	116%	112%	108%
Exports	3%	3%	4%	3%	2%	2%	110%	118%	95%
Contract manufacture	0,2%	0%	1%	0%	0,2%	0%	0%	0%	0%
SUM	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**96%**	**91%**	**85%**

Table 2 Adrialab sales structure % and year-over-year (15/16) sales trend % (gross, net and quantity) per distribution channel

The structure of the overall business expenditure increased from 97,6 % in 2015 to 4% above net revenue in 2016 resulting in a negative yearly contribution of -3,8% (EBIT) which means Adrialab was not fully able to reduce its costs comparable to net revenue decline of 9% from 2015 to 2016. Cost of sales structure which included manufacturing labor costs remained roughly the same while corporate unit expenditure structure increased from 28,8% to 33%. The relatively modest increase in overall business expense compared to total discounts increase show that Adrialab exhibits strong financial and efficiency control mechanisms. Especially regarding cost of sales and overall variables costs. However, the total discount cost increase and net revenue decline was not fully offset because of the fixed nature of labor costs, mostly corporate units labor costs where there is a higher percentage of full time employees compared to manufacturing units. It can be suggested that a more efficient use of corporate resources is necessary but to what extent this can keep up with the widening gap between gross sales and net revenue remains to be seen.

Good news for 2017 is the new supply agreement for the JGL portfolio which was licensed out to Egis pharmaceuticals from Hungary exclusively for the Russian market and will provide stabile growth for this sales channels in the following five year period under the terms of the agreement. The 89% increase in net revenue for this channels can already be seen in year over revenue trend for the first three months of 2017 compared to 2016 in *table 3*. This event can provide much needed stability in the revenue stream and possibly enable the company to focus dedicated resources for other modes of internationalization.

	%YOY Cumulative Jan - Mar 16/17		
Buyer	**Gross sales**	**Net revenue**	**Quantity**
JGL	189%	189%	136%
Pharmaceutical wholesale	102%	107%	100%
Retail network	98%	97%	92%
Exports	93%	112%	202%
Contract manufacture	0%	0%	0%
SUM	**105%**	**109%**	**106%**

Table 3 Adrialab cumulative sales trend (Jan-Mar) year over year (15/16) trend %

2.5.2 Portfolio considerations (proactive and efficiency gaining motives)

Adrialab controls profitability of each brand down to the SKU level. Although a fairly elaborate controlling system inherited from JGL this enables Adrialab to exactly know which products generate value under current market conditions where demand is mostly generated in the domestic market. One very useful information provided by this profitability cut is a break-even point fulfillment ratio of each product which estimates to what extent demand for each product can create value for the company. Every product that generates above 100% BEP fulfillment can be regarded as a profit generating center. The arbitrary nature of fixed cost allocations makes it impossible to know exactly where and how value is created but it is useful for guideline and benchmarking purposes. *Table 4* shows planned brand profitability for 2017 and suggests that the baby care cosmetic line Dječja mast is not profitable under current demand with a BEP fulfillment ratio of 98%. In the same time it generates 44, 5% of revenue. Contrary to Dječja mast most of the other lines are considered profitable with EBIT margins above 10%. It should be noted that the bulk of demand for every product line showing an EBIT margin below 10% comes from the retail distribution network. *Table 4* and *Table 2* uncover a kind of vicious circle where product lines sold through the retail trade network generate most of the revenue while profitability comes from lower turnover items sold through

pharmaceutical wholesalers. On a high note even the Dječja mast line is close to crossing its BEP. Perhaps, this could be achieved through foreign market demand in which case the company's bestselling line would become profitable. Considering the significant revenue contribution of Dječja mast the profit contribution could become substantial.

Apart from the JGL-Egis agreement, contract manufacturing shows a very high EBIT margin which can point to competitive manufacturing resources of Adrialab. Terms of the current contract manufacturing agreements enable Adrialab to obtain a very high EBIT margin of 36,4 % in this demand channel. Increasing revenue from current and new key contract manufacturing accounts through domestic and foreign demand could have a very positive effect on Adrialab earnings. Foreign demand should be made a priority due to lower risk of creating additional competition for Adrialab product lines in the domestic market.

Brand	*COGS%*	*EBIT %*	*BEP fulfillment ratio*	*Net revenue contribution*	*Gross margin 1 contirbution*
ULTRAGEL	202,9%	-129,3%	-391%	0,7%	-1,7%
GALENIA	44,1%	26,6%	190%	12,2%	16,5%
HOLYPLANT	56,2%	5,5%	114,4%	21,7%	23,0%
SUNCE MOJE MALO	47,8%	-17,2%	75%	4,6%	5,8%
DJEČJA MAST	67,2%	-0,7%	98%	44,5%	35,4%
NASINE	57,4%	6,0%	117%	0,3%	0,3%
VITALIA	47,4%	12,8%	132%	7,8%	9,9%
KAMFOR	51,6%	20,4%	173%	2,8%	3,3%
DR BEZZ	44,8%	10,4%	123%	3,1%	4,1%
DERMOPLAST	47,0%	18,0%	151%	1,7%	2,2%
Contract manufacture	38,4%	36,4%	244%	0,8%	1,2%
Overall	58,8%	4,9%	114%	100,0%	100,0%
JGL	89,9%	-11,9%	46%	19,5%	4,8%
Total	63,9%	2,2%	106%	119,5%	104,8%

Table 4 Selected profitability indicators per product line (Source: Adrialab profitability report for 2016)

2.5.3 Capacity utilization considerations – easy capacity expansion (proactive and efficiency gaining motives)

The controlling mechanism discussed above enables the company to generate a set of products prioritized for internationalization for a more immediate and substantial impact on the bottom line. If a host country exhibits growth trend in customer segments targeted by the company through these product lines this can provide for a market driven motive in itself. Especially if the company can fulfill foreign market demand without additional investment in increasing manufacturing capacity. Employing excess manufacturing capacity would only spread fixed costs over more units and improve manufacturing resources utilization. A brief examination of planned manufacturing line utilization for 2017 (*Table 5*) shows how Adrialab can expand capacity on both manufacturing lines, Multipharma and Stevenazzi. These manufacturing lines exhibit overall yearly utilization of 89% and 13% under the current one shift manufacturing schedule. By extending working hours through additional employment Adrialab can roughly triple its output without any investment. Any demand increases over that would have to be supported by an investment into additional manufacturing lines. The Stevenazzi line has even more potential but due to the nature of the manufacturing process its capacity is dependent on the mixing vessel capacity. Beginning of the year shows higher capacity utilization of the Multipharma line due to the seasonal nature of the JGL-Egis portfolio with April being the busiest month. However, apart from April monthly capacity utilization is relatively stable throughout the year and excess demand can be absorbed without difficulty.

2017 Manufacturing equipment utilization - one shift basis

No.	Machine name	Unit	1	2	3	4	5	6	7	8	9	10	11	12	Total
MJ1	Mixing vessel Comer	%	40%	65%	59%	90%	65%	77%	167%	58%	71%	52%	70%	60%	73%
DO1	Line 1 Multipharma	%	170%	33%	105%	190%	126%	83%	60%	75%	80%	50%	52%	49%	89%
DO2	Line 2 Stevenazzi	%	15%	19%	31%	13%	19%	8%	8%	8%	8%	3%	14%	8%	13%

Table 5 Planned Manufacturing line utilization for 2017.

2.5.4 Company heritage as a motive – the relevance of managerial urge

Any discussion about Adrialab's motivation to internationalize also has to acknowledge the company background, the story of how it came to be and last but not least, the managers' and owners' intrinsic urge for the future development of the company.

In all honesty, Adrialab started as a side project of JGL's board of directors and in order to understand the backstory we need to understand its parent company backstory as well. JGL

was established in 1991. after Croatia separated from the federal and socialist Yugoslavia and gained independence as a first privately held pharmaceutical company in Croatia. The company grew from a local laboratory with around 200 thousand EUR in revenue in 1991 to a respectable international company with over 100 million EUR in revenue by 2014. JGL exhibited a compound annual growth rate of around 25% until 2014 when growth halted due to inflation and foreign exchange issues in key markets. In its first decade JGL employed a niche strategy of developing, marketing and distributing essential generic medicinal products in Croatia. This niche was at the time unoccupied because of insufficient market demand for larger pharmaceutical companies to engage, both domestic and foreign. The 1990s were marked by a transition from planned to a free market driven economy in Croatia and JGL prospered well in this new environment. By the end of the 1990s competitive forces in primary pharmaceutical sales channels pharmacies and hospitals started increasing mostly due to market entry from international companies and JGL's Management began considering new revenue streams through internationalization. Then, in 1998 a foreign sales subsidiary was opened in Russia. Previous to 1998 JGL was involved only in small scale distribution agreements of its products in Slovenia since 1992 and Bosnia and Hercegovina since 1997. Subsequent company growth fueled by rising demand in Russia supported further internationalization in other CIS and SEE countries through different entry modes. In 2015 exports accounted for 76, 92% of the company's revenue. However, Russia accounted for a staggering 54% of the revenue making the company fairly dependent on one market which was experiencing instability due to various geopolitical issues. Apart from distributing its own product lines, JGL engages in contract manufacturing for the EU market which helped form JGL's reputation as a relevant player in the manufacture of sterile dosage forms such as eye drops and nasal sprays. To this day, the company's most significant source of revenue is the Aqua Maris product line, a global leader in the nasal saline segment (Nicholas Hall Agency, 2013, cited by JGL, 2014).

Considering JGL's history it should be noted that internationalization was recognized very early as a necessity for a manufacturing company with a relatively small domestic market and the decision to go abroad some twenty years ago is nowadays considered the most relevant one of all the strategic choices made by the company's Management. Also, it is interesting to note that JGL started focusing on its international endeavor in Russia, a relatively distant and massive market in comparison with neighboring countries, most of which are former Yugoslav

republics. Subsequent internationalization in to the rest of CIS and geographically and culturally closer SEE countries might even be regarded as a reaction or rather an extension of the success achieved in the Russian market.

In their findings about the influence of the corporate vision on internationalization Singal and Jain (2013, p.253) found overwhelming support for vision as a driver of internationalization utilizing various degree if internationalization (DOI) measures. In their work Singal and Jain (2013, p. 253) also argue that previous performance can cause vision-setting, which in turn may effect internationalization efforts. As a consequence of the international approach of JGL Adrialab developed its vision in the context of internationalization to the SEE region:

„Adrialab will develop manufacturing capabilities for semisolid dosage forms and solutions according to strict GMP and ISO guidelines through which it will establish an important role in the industry domain in Croatia and SEE region."

Because international markets were and still are the main demand drivers for JGL products the perceived necessity of internationalization is engraved into managerial mindset and it is reasonable to assume that as such it was transferred to Adrialab because the entire Adrialab management team are transferees from JGL. Czinkota (2004, p.4) acknowledges managerial urge as one of the main proactive motives to internationalize. Personally I observed this in the company's internal meetings where on more than one occasion we discussed how small and saturated the Croatian market is and how we need to achieve economies of scale and so forth. Each time we would conclude that among many things venturing abroad was instrumental for JGL's success and that there is no other way for a company originating from a relatively small market and which targets end consumers with its portfolio. Although these discussions relate to efficiency and market driven motives discussed earlier in this chapter it is the vicinity of our parent company that only amplifies the urge behind these discussions.

2.5.5 Advantages of a spinoff company as a motive for internationalization

One of the consequences of JGL's growth was the proliferation of the companies offering which over time amounted to over 540 different products and over 5000 SKU's. Apart from key product lines JGL's sales were fairly chipped while the harsh GMP EU guidelines for manufacturing of medicinal products do not discriminate between the requirements for medicinal products and other less demanding regulatory categories if they are produced on the same manufacturing site under one quality management system. In an effort to relieve

constraint on internal resources a packet of 100 products was selected to be transferred to a separate manufacturing site with less rigorous manufacturing requirements. However, JGL's board of directors deemed this transfer package, mostly consisting of JGL's traditional portfolio with over 25 years of tradition in the Croatian market, had potential and decided that the separate manufacturing site should be constructed under a new entity which would also start executing marketing activities and lost but not least, increase revenue and develop new products. In effect, Adrialab started as small corporate entrepreneurship project that has no direct connection with its parent company in daily operations although its identity remains tied to that of JGL and strategy formation is executed in direct coordination with JGL's board of directors.

Uzunca (2011, p.81) argues that spinoff companies exhibit competitive advantage against non-spinoff entrants into the market due to pre-entry capabilities inherited and access to tacit knowledge from the parent company. In his discussion Uzunca (2011, p.84) proposes and evolutionary model where inherited spinoff capabilities are gene counterparts or DNA through which the new company shows relatedness to its parent company. This relatedness constitutes a genotype which enables better organizational learning but also assures the spinoff access to financial, knowledge and human resources which it can use when necessary. Although this relatedness can also bind the spinoff in to a way its parent company operates and restricts its ability to change is still enables the spinoff to operate with lower costs and risks compared to non-spinoffs (Uzunca 2011, p.86).

According to Uzunca (2011, p.88) organizational learning is inherited from the parent company through managerial processes and routines so spinoffs have a unique possibility to exploit what they have learned from their parents but also increase future learning through future exchange and adjustments with the parent company. In essence the firm’s success is affected by the availability of resources it can access (Penrose, 1959). I would argue that the JGL Board of Directors, all of whom are JGL founders and shareholders identified with this project on a personal level due to the transferring product lines history with the company but also came to consider Adrialab as an opportunity to use resources JGL can provide to its spinoff company in terms of assets, routines and information access but in a potentially more nimble and entrepreneurially proactive environment of a small startup company. Therefore, I consider the spinoff nature of Adrialab as an asset that should be exploited because through JGL Adrialab can gain market knowledge, knowledge about distributions channels and

customer groups but also financial and human resources it can potentially use to its own advantage in the effort of designing, targeting and implementing its internationalization efforts.

3 Choice of internationalization location

Malhotra (2007, p.7) suggests selection of countries for international expansion, commonly referred to as „international market selection“(IMS) as one of the key concepts in the broad research area of internationalization. It is part of the early stages if in the internationalization process of a firm. Andersen and Strandskov (1997, p.65) define it as a preemptory factor of success or failure in the international business expansion of a firm and that the selection of an international market affects the entire operational setup of a firm, as it influences the production dispositions as well as financial, organizational and managerial issues adapted to existing business activities. Likewise, Górecka and Szalucka (2013, p.33) argue that answering the question where to internationalize or deciding which countries are worth entering plays a critical role in shaping the performance of foreign activities and influences the future success of the company. They consider mistakes done in this stage as potentially very costly. Kumar, Stam and Joachimstaler (1994, p.29) describe IMS as an important activity of establishing criteria for selecting country markets, investigating market potentials, classifying them according to agreed criteria and selecting which markets should be addressed first and those suitable for later development. They also consider it as crucial in the internationalization process because it sets the pace and tone of future developments. National markets often differ considerably in terms of market size, income, level of development, language, culture, religion, political and economic stability, social aspects and many other important dimensions. Górecka and Szalucka (2013, p.33) acknowledge that the diversity and complexity of market opportunities is huge. Considering the vast amount of data which can be used to evaluate a particular country IMS is a complicated demanding process in terms of content and methodology (Grünig and Morschett, 2012, p. 99). Of course, this depends on the number of variables and complexity of methods a company is willing to use in its IMS activities.

There are many secondary sources for country macro-indicators which can differ in accuracy but in order to objectively assess a narrow range of potential markets industry specific secondary data for each country has to be analyzed. It might even be necessary to collect primary data if company resources can support it. Screening attractive markets abroad is usually characterized by evaluating countries on a set of macro-level indicators (Górecka and Szalucka, 2013, p.37). The preliminary screening should be conducted without regard to the

entry mode as its purpose is to identify markets whose indicators warrant further investigation (Root, 1994). Root (1994) emphasizes that such an approach minimizes the possibility of ignoring countries that offer good prospects for a company's generic product and spending too much time investigating countries with poor prospects. He explains that managers often start with assumptions and prejudices that rule out certain countries as possible target markets. In their article on delineating foreign market potential Ozturk, Joiner and Cavusgil (2015) list the screening criteria covered by literature on IMS as criteria relating to the demographic, political, economic and socio-cultural environment as well as sector/product specific and firm specific indicators present the various criteria dimensions covered by extensive internationalization theory literature.

3.1 Sequential process

The definition established by Kumar, Stam and Joachimstaler (1994) suggests that IMS can be regarded as a sequence of steps. This sequential process is aimed at progressively eliminating the less attractive markets in each step until finally arriving to a final selection of prospective target markets (Górecka and Szalucka, 2013, p.34). Each step is accompanied by increasing data demand (Puck, 2016).

Cavusgil (1985, p.29) sees IMS as three stage process. According to him it consists of: (1) screening of external country indicators like the physical, political, economic and cultural indicators, (2) assessment of industry specific indicators like market access and product potential to assess aggregate demand and (3) analysis of company sales potential based on sales and profitability forecasting in light of companies unique product and circumstances. The issue of delineating and quantifying foreign market opportunities is extensively covered in literature and that numerous methods have been proposed (Cavusgil, Kiyak and Yeniyurt, 2004, p.607). It should be noted that Cavusgil (1985) deals with external factor in the first two stages before considering the internal view of the company. At least in terms of assessing if the markets in question could be profitable for the firm.

3.2 Screening and ranking

(Cavusgil, Kiyak and Yeniyurt, 2004, p.607) say that international marketers use two primary screening approaches. In the first one, they use clustering to yield groups of countries with similar commercial, economic, political and cultural dimension which help managers not only compare countries but also reveal potential synergies among markets.

Criteria for IMS Decisions	Study
1. Demographic environment	
Population age and gender segments	Mullen, 2009
Income distribution	Mullen, 2009
Market size	Cavusgil, 1997; Ojala & Tyrväinen, 2008; Gaston-Breton & Martín, 2011; Sheng & Mullen, 2011; Zitta & Powers, 2003
Infrastructure	Cavusgil, 1997; Mellahi, Guermat, Frynas, & Al-Bortmani, 2003
Geographical/physical distance	Ojala & Tyrväinen, 2008; Gripsrud & Benito, 2005; Sheng & Mullen, 2011; Johanson & Vahlne, 1977; Mellahi, Guermat, Frynas, & Al-Bortmani, 2003
Market similarity	Davidson, 1983; Jekanyika Matanda, 2012
Human resources	Zitta & Powers, 2003
2. Political environment	
Political climate/stability	Zitta & Powers, 2003; Mellahi, Guermat, Frynas, & Al-Bortmani, 2003; Jekanyika Matanda, 2012; Cavusgil, 1985
Country risk	Ojala & Tyrväinen, 2008
Corruption	Malhotra, Zhu, & Locander, 2010
3. Economic environment	
Economic stability	Mellahi, Guermat, Frynas, & Al-Bortmani, 2003; Jekanyika Matanda, 2012
Market growth/development	Cavusgil, 1985, 1997; Wood, Karriker, & Williams, 2010; Gaston-Breton & Martín, 2011; Mellahi, Guermat, Frynas, & Al-Bortmani, 2003
Economic/market intensity	Cavusgil, 1997; Sheng & Mullen, 2011
Market consumption, middle class	Cavusgil, 1997
Economic freedom	Cavusgil, 1997
Long term market potential	Sakarya, Eckman, & Hyllegard, 2007
Trade agreements	Sheng & Mullen, 2011
Trade barriers	Papadopoulos, Chen, & Thomas, 2002; Ojala & Tyrväinen, 2007
Investment incentives, tax advantages	Mellahi, Guermat, Frynas, & Al-Bortmani, 2003
Financial risk factors	Zhao, 2003
4. Social-cultural environment	
Cultural distance, psychic distance	Sakarya, Eckman, & Hyllegard, 2007; Ojala & Tyrväinen, 2008; Dow, 2000; Sousa & Lages, 2011; Whitelock & Jobber, 2004; Brouthers, Brouthers, & Nakos, 1998; Johanson & Vahlne, 1977
Language distance	Sheng & Mullen, 2011; Cavusgil, 1985
Education level	Cavusgil, 1985
Literacy rate	Cavusgil, 1985
5. Sector/product-specific indicators	
Competitive landscape	Sakarya, Eckman, & Hyllegard, 2007; Wood, Karriker, & Williams, 2010; Whitelock & Jobber, 2004; Mellahi, Guermat, Frynas, & Al-Bortmani, 2003
Customer receptiveness, demand potential	Sakarya, Eckman, & Hyllegard, 2007; Cavusgil, 1997; Wood, Karriker, & Williams, 2010; Papadopoulos, Chen, & Thomas, 2002; Mellahi, Guermat, Frynas, & Al-Bortmani, 2003; Jekanyika Matanda, 2012
Personal and social values of consumers	Gaston-Breton & Martín, 2011
6. Firm-specific indicators	
Strategic orientation of the firm	Papadopoulos, Chen, & Thomas, 2002
Network relationships	Zain & Ng, 2006
Firm-related entry barriers	Ojala & Tyrväinen, 2007
Motivations for growth and reputation	Zitta & Powers, 2003; Jekanyika Matanda, 2012

Table 6 Dimensions of IMS selection covered by internationallization literature (Source: Ozturk, Joiner and Cavusgil, 2015, p.124)

In their overview of country clustering methods Cavusgil, Kiyak and Yeniyurt (2004, p.608) identify how researchers have proposed various grouping methods like grouping according to economic development (Liander et al, 1967, cited by Cavusgil, Kiyak and Yeniyurt, 2004, p.608) or cultural, political, socioeconomic and religious indicators by Sethi (1971, cited by Cavusgil, Kiyak and Yeniyurt, 2004, p.608) who argued that countries should not be evaluated solely on the development dimension but on shared traits. Cavusgil, Kiyak and Yeniyurt (2004, p., 608) points out that country clustering has two shortcomings: (1) it does not use product specific indicators and (Papadopoulos and Denis, 1988, p. 41) (2) it ignores consumer similarities in different countries (Jain, 1996, cited by Cavusgil, Kiyak and Yeniyurt, 2004, p.608; Kale and Sudharsan, 1987, p.61) and heterogeneity of consumers within a country (Kale and Sudharsan, 1987, p.61). Although Cavusgil, Kiyak and Yeniyurt (2004) acknowledge that country clustering relies heavily on macro indicators while neglecting the industry specific indicator they argue that the basic appeal of the clustering approach in fact is in the preliminary market assessment based on aggregate demand. The second approach for country screening described by Cavusgil, Kiyak and Yeniyurt (2004) uses ranking countries according to dimension relevant to the international marketers in terms of the overall market attractiveness. Researchers have proposed various indicators as it was done for the clustering approach.

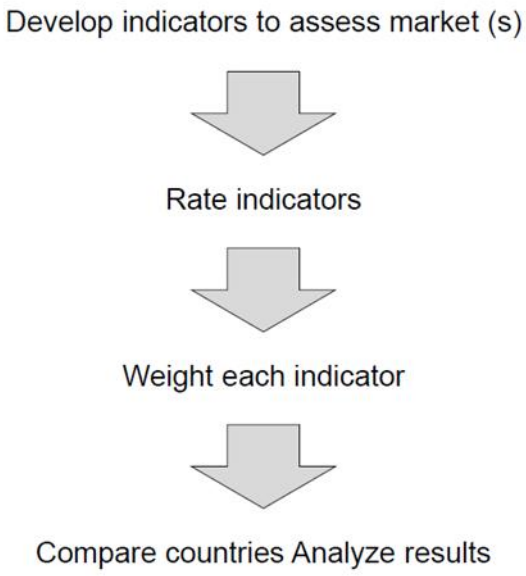

Figure 1 Steps in country market assessment (Source: Puck, 2016)

A number of indexes rank countries and are regularly updated such as the Business environmental risk index (BERI) created by BERI S.A. or the Global EDGE (overall market opportunity index – OMOI) index offered by Cavusgil (1997). These indexes are frequently uses by companies in the preliminary screening (Grünig and Morschett, 2012, p.103).

The basic shortcomings for the ranking approach are similar to criticism of clustering (Cavusgil, Kiyak and Yeniyurt, 2004, p. 609). Additionally, since in order to rank countries indicators need to be weighted ranking results can change if different weights are assigned to indicators. Usually, weights are determined by expert opinions (Mullen and Ye Sheng, 2006; Miečinskiene, Stasytyte and Kazlauskaite, 2014) and assigned using a linear compensatory model where the sum of all weights totals 100 percent. Additionally, various methods use different indicator for same dimensions which can potentially alter country rankings (Mullen and Ye Sheng, 2006).

3.3 Choosing the IMS model for Adrialab

In my attempt to find a relevant IMS tool or approach in IM literature which can be applicable for Adrialab I focused on two key aspects:

(1) Limited resources of an SME
(2) Relevance for the company setting
(3) Managerial usefulness

3.3.1 Limited resources of an SME

In chapter 2 I discussed internationalization motive implications for market selection. Of course, one of the basic assumptions for each internationalization effort in terms of market seeking is that a company would opt for internationalizing sales into markets which can provide sufficient demand for its products. Regardless of the internal, external, reactive or proactive nature of the initial motive for expanding sales, the status of market demand within foreign customer segment in which a company seeks to operate is a fairly rational and self-evident indicator of market potential. However, it should only be part of a larger pool of indicators a company uses for evaluating market attractiveness. For, example it makes no sense for a company to risk getting involved in a market for which demand could not be satisfied with existing resources or those resources that cannot be developed or acquired without compromising the company's well-being. Such a market would have potential but

may prove to be unattractive for the company at the moment and can be suggested as a potential future market.

As evident from *Table 6* the bulk of potential criteria for IMS belong to the external environment of the company which mirrors the three stage process by Cavusgil (1985) discussed above. I would argue that listing the firm specific indicators as last Ozturk, Joiner and Cavusgil (2015) can hint the barrier nature of this indicators. The IMS decision criteria delineation of firm-specific criteria lists firm-related entry barriers which may be described as an internal resource constraints. It is possible to reduce attractiveness of a market with desired potential if the internal barriers are too high. Not all countries have the same market potential but also it is simply not practical to attempt and entry into all 192 nation states (Alon, 2004). The limited nature of companies' resources prevents that. In light of the discussion above I would add that it also prevents the company from engaging some of the most potent markets. This is especially true for smaller companies.

Kumar, Stam and Joachimstaler (1994) acknowledge that multinational companies (MNC) already operating in foreign markets and domestic SMEs need to assess similar factors concerning market potential. However they state that MNCs also must take into account, among other issues, their current product-market portfolio, their operations in other foreign markets and the influence of these on the selection of new country-markets and vice versa while an SME should look to immediate, short-term and long-term objectives and the resource constraints in formulating its international strategies. Therefore, market selection procedures for MNCs and domestic companies seeking foreign activities may be different. Smaller companies tend to have fewer resources and, as a result, have less flexibility in choosing appropriate markets (Alon, 2004, p.25). Alon (2004, p.25) argues that small companies have little in the way of slack resources to devote to international research and expansion and are limited in their ability to hire outside help or utilize their own people for this purpose.

There is evidence that smaller companies that take more systematic approaches in developing international markets are more successful than those using more intuitive and ad hoc approaches (Brouthers and Nakos, 2005, p.377). However Marchi et al (2014, p.2208) argue that only a small number of SME's use a systematic method to select foreign export markets as these evaluations often seem a too complex and costly process.

3.3.2 Relevance for the company setting

In his case study of international entrepreneurship about the company Celectronics Alon (2004, p. 26) proposes a six step model for international market selection consisting of: (1) examining the current products exports, (2) analyzing web-site hits, (3) following customer and competitor globalization, (4) ranking markets in terms of potential, (5) dividing markets in terms of ease of entry and (6) evaluating and prioritizing the most promising markets. Although it is suggested that the six step model can be applied to other small manufacturing, export – oriented entrepreneurial firms I would argue that some of the steps may not be applicable to all small companies depending on current exports, the industry domain and type of customer. The first step of examining current exports is nonsensical if there no exports have been done in the past. Likewise, analyzing web-hits may also provide no usable information if there were no web-hits from abroad which is highly likely in case of no previous exports. Additionally, business-to-consumer (B2C) companies unlike business-to-business (B2B) companies may find it irrelevant to follow customer globalization but find it relevant to follow competitors. I would argue that regardless of this issues each of the Alon (2004) six step model steps can be used for other small companies with adjustments according the company context.

3.3.3 Managerial usefulness

3.3.3.1 Underlying logic of the IMS process

It is possible that clustering and ranking shortcoming discussed by Cavusgil, Kiyak and Yeniyurt (2004) are only issues that should be tackled by expanding the multi-criteria choice model by incorporating additional industry and product specific indicators or simply with using other supplemental methods to these two approaches in the overall IMS process. This is why several IMS methods propose market assessment with simultaneously using a set of macro and industry specific indicators simultaneously to reduce the possibility of eliminating attractive markets at an early stage of the selection process (Grünig and Morschett, 2012;, Ozturk, Joiner and Cavusgil 2015). *Figure 2* presents a three step process of successive elimination and selection proposed by Grünig and Morschett (2012, p. 102). The IMS sequence in *Figure 2* is the basic underlying logic of the IMS process. The authors propose that first and foremost elimination criteria should be determined in order to limit the field activity of the company and keep the list within reasonable bounds.

I would argue this to be specifically relevant in the context of an SME as was discussed earlier in this section. Likewise, the spin-off advantage of Adrialab discussed in chapter 2 suggests that the first elimination criteria should be the presence of international operations of the parent company JGL. Additionally, Grünig and Morschett (2012, p.56) mention the importance of the mission and vision statement as elimination criteria. In case of Adrialab the vision statement would limit international activities of the company in SEE. By incorporating such elimination criteria this analysis would focus more on industry-specific drivers than macro-indicators. However, in order to ensure the benefit of the preliminary market assessment in the future where circumstances of the company might change, the second elimination criteria will be implemented after the preliminary market assessment and industry specific analysis. This will broaden the initial market list but the additional workload is small in comparison with potential benefits.

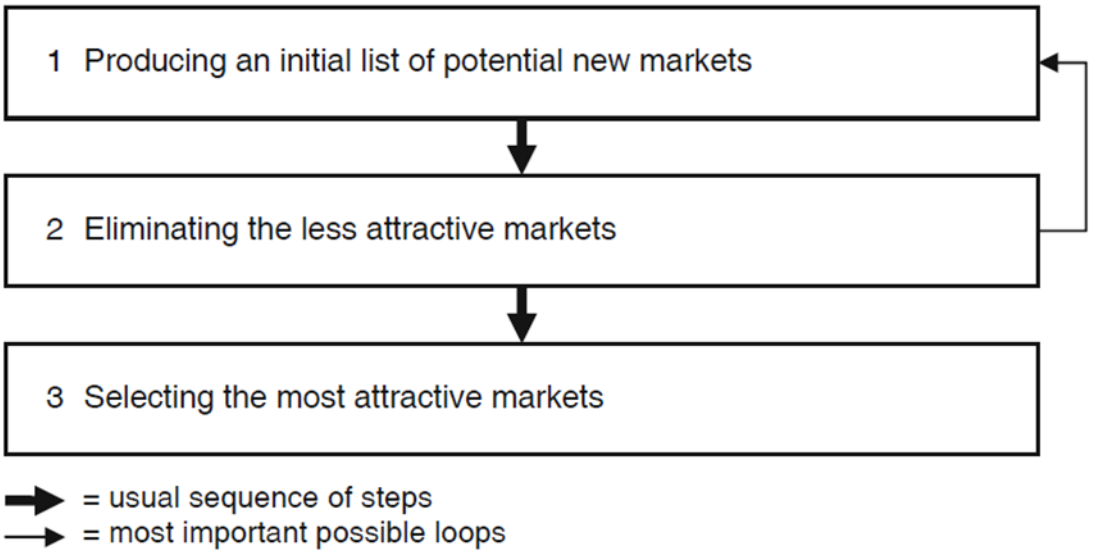

Figure 2 IMS sequence (**Grünig and Morschett**, 2012, page 102)

3.3.3.2 Initial screening

It is stated earlier that several regularly updated indexes rank countries on macro-indicators. These indexes are essentially ready to use if a company can access or acquire them. Although I acknowledge this fact I opted for researching IM literature for a study which could help me decide which macro-indicators to use and how to weight them since I wanted to conduct this preliminary screening on my own for educational purposes. Developing weights to macro-indicators is beyond the scope of this thesis as it requires forming a panel of experts but using

weighted indicators from a relevant study provides a valid option. Miečinskiene, Stasytyte and Kazlauskaite (2014) selected population growth, level of unemployment, inflation, GDP growth rate, GDP per capita, export per capita and import per capita as relevant economic and population indicators. They formed a group of experts selected from small and medium sized companies and determined the significance of each indicators which was used to rank foreign markets attractiveness for Lithuanian companies. I would argue that this example is particularly suitable as it relates to export initiative by manufacturing companies in a small EU member state with relevant exports to both Western and Eastern Europe.

Indicator \ Expert	1	2	3	4	5	6	Mean values	Weights of indicators	Standard deviations
1. Population growth rate (%)	4	5	3	2	6	5	4.17	0.072	1.34
2. Level of unemployment (%)	15	8	10	12	9	13	11.17	0.112	2.41
3. Inflation (%)	9	18	15	13	16	8	13.17	0.132	3.62
4. GDP growth rate (%)	23	28	18	22	17	24	22	0.220	3.70
5. GDP per capita	17	14	27	28	24	20	21.66	0.216	5.12
6. Export per capita	6	3	5	7	2	3	4.33	0.043	1.80
7. Import per capita	26	24	22	16	26	27	23.5	0.235	3.73
The sum of valuations	100	100	100	100	100	100	100	1.000	

Table 7 Expert evaluations of indicator weights % (Miečinskiene, Stasytyte and Kazlauskaite, 2014, p. 172)

3.3.3.3 Hybrid models

Through investigation of IM literature I came upon two relatively new approaches to IMS modelling which incorporate overall macro-indicators and industry drivers in the screening process (Ye Sheng and Mullen 2010; Ozturk, Joiner and Cavusgil, 2015). Ye Sheng and Mullen (2010) propose combining the market-based OMOI (Cavusgil 1997; Cavusgil, Kiyak and Yeniyurt, 2004; Mullen and Ye Sheng, 2006) with the economic-based gravity model for international trade in their attempt to move from overall market opportunity analysis on to industry market opportunity analysis. They acknowledge this is necessary for managerial decision making in practice. In their study Ye Sheng and Mullen (2010) evaluate the significance of 21 different macro – indicators on US exports for 11 different industries and conclude that some factors are sensitive to products-specific differences. Although this model does evaluate significance of macro-indicators for different industries it is descriptive in nature and does not provide a template for finding out and the assessing the underlying industry drivers. The hybrid method presented in their work may be managerially useful but from my

standpoint it is challenging to execute without the market/industry ranking from a perspective of a generic Croatian SME already given. For this reason, I focused on finding a more flexible, practical and prescriptive approach for an industry-level analysis.

Such a tool was proposed by Ozturk, Joiner and Cavusgil (2015) in the form of three stage template which measures country responsiveness, industry growth potential and industry relevant macro measures for a more refined insight on a business opportunity than country – level macro models. In the first step country responsiveness is measured through a linear regression model using industry specific consumer expenditure as a dependent variable, and income and years as the independent variables. The calculated income coefficient represents income elasticity which reflects a unit change in industry-specific consumer expenditure by one unit change in income. In order to capture the overall market potential of each country the model incorporates expected growth for income and consumer expenditure and plots a chart along with industry market size in terms of aggregate expenditure for a period of 10 years, 5 of which are forecasted figures. The third step is methodologically the same as the second step but incorporates an industry relevant aggregate measure, such as the rate of urbanization or country risk instead of expected income growth rate. The purpose of this to show a more lucid picture on country potential for a specific industry. Another practical issue with this foreign market opportunity analysis tool is that the authors employed secondary data from Euromonitor which is also readily accessible to me via the WU Vienna library.

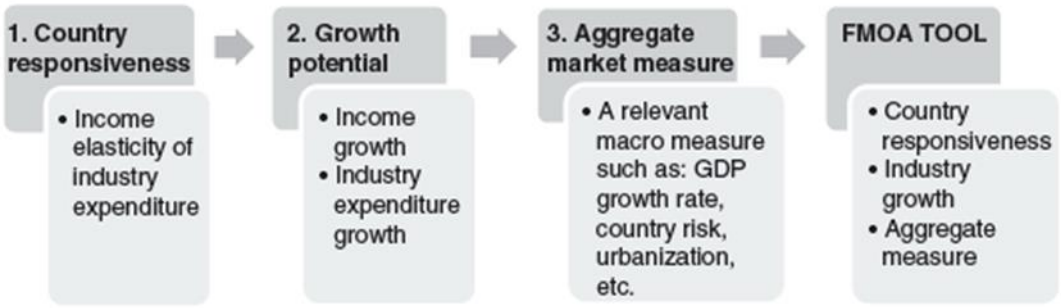

Figure 3 Building blocks for the FMOA tool (Ozturk, Joiner and Cavusgil, 2015, p.128)

3.3.3.4 Model decision

For reasons stated in the previous section I opted for using the Ozturk, Joiner and Cavusgil (2015) sequential process as the central IMS tool for FMOA. However, additional steps are required such as defining the scope of the analysis, a macro assessment scoring on economic and population and preparation of the data set for consumer expenditure in industry specific analysis. Finally, macro assessment and industry specific indicators are both used to make the final selection. *Figure 4 p*resents the overall process used in this section.

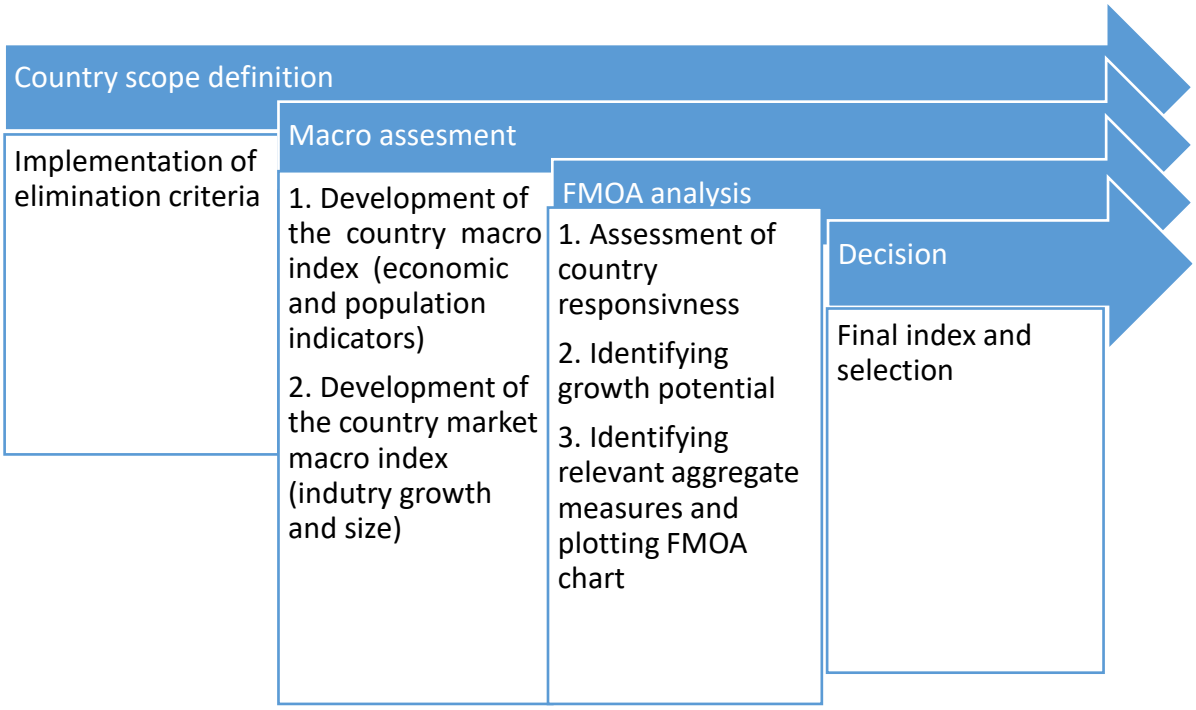

Figure 4 Adrialab IMS process

3.4 Country scope definition

In initial country elimination I proceed by eliminating all European countries where the parent company JGL has not established an entry mode. Of course, this implicates that all non-European countries are eliminated as well. Subsequently, I divide the remaining countries as SEE and non-SEE countries. The purpose of such division is to align IMS efforts with Adrialab vision which considers only SEE internationalization of Adrialab. This is also the direction I received from JGL Board of Directors. However, due to the spin-off advantage discussed in chapter 2 and the presence of JGL in non-SEE countries as well as the possibility of Adrialab engaging in private label manufacturing for third parties non-SEE countries are assessed concurrent with SEE countries.

3.5 Macro assessment

3.5.1 Country index

The macro assessment in this section is executed by applying a quantitative multi criteria assessment designed by Miečinskiene, Stasytyte and Kazlauskaite (2014). Population growth rate, level of unemployment, inflation, GDP per capita, export per capita and import per capita are selected economic and population indicators. These indicators are presented as 5 years' means of their values (*Table 8*),

Country	Population growth rate (%)	Level of unemployment (%)	Inflation (%)	GDP growth rate (%)	GDP per capita ($)	Export per capita ($)	Import per capita ($)
Albania	0,10	15,65	2,00	2,12	3.870,78	370,92	1.342,65
Belarus	0,00	0,70	25,90	0,02	4.104,74	3.519,80	3.764,48
Bosnia-Herzegovina	-0,26	27,22	-0,20	1,52	4.050,60	1.084,84	2.342,54
Bulgaria	-0,60	10,68	0,32	1,84	6.703,72	3.603,20	4.088,92
Georgia	-1,10	13,14	1,58	4,00	3.316,50	930,22	2.035,88
Hungary	-0,26	8,14	1,50	1,92	11.520,92	9.331,44	8.880,20
Italy	0,52	11,80	0,86	-0,54	29.909,44	7.987,04	7.133,90
Kosovo	0,22	29,12	1,95	3,33	3.325,72	215,53	1.650,23
Macedonia	0,14	27,58	1,06	2,42	4.631,34	1.624,84	2.753,66
Montenegro	-0,10	18,52	1,85	2,38	6.180,33	761,40	3.557,13
Norway	1,14	3,86	2,10	1,64	71.837,50	25.585,22	16.375,96
Poland	-0,04	8,62	0,62	2,58	11.402,86	5.068,66	5.107,86
Romania	-0,44	6,68	1,26	3,18	8.339,44	2.843,14	3.315,06
Russia	0,18	5,44	8,48	0,50	8.012,34	3.022,76	1.907,80
Serbia	-0,50	19,62	3,96	0,68	4.934,86	1.833,40	2.578,20
Slovenia	0,16	9,14	0,80	0,82	20.139,84	13.684,46	13.106,02
Switzerland	1,16	4,44	-0,48	1,38	79.748,84	40.490,72	34.197,18
Ukraine	-1,32	8,50	15,18	-2,78	1.528,92	1.076,12	1.351,64

Table 8 Mean values of 5 years' (2012–2016) economic and population indicators (Data retrieved 12th May 2017 from Passport Database: http://www.portal.euromonitor.com/)

Subsequently, each of the indicators is weighed by following the linear compensatory model where the sum of all weight equals 100. However, indicators differ considerably in scale and units used. Therefore the data sets where normalized between 0 and 1 and multiplied by 1000 for presentation purposes. For example, it is easier to present an index of 230 to an executive crowd than 0, 23.

The final country macro index was produced by weighing normalized indicator figures using weights from *Table 7.* and summing up the weighted indicators for each country for each country (*Figure 5*).

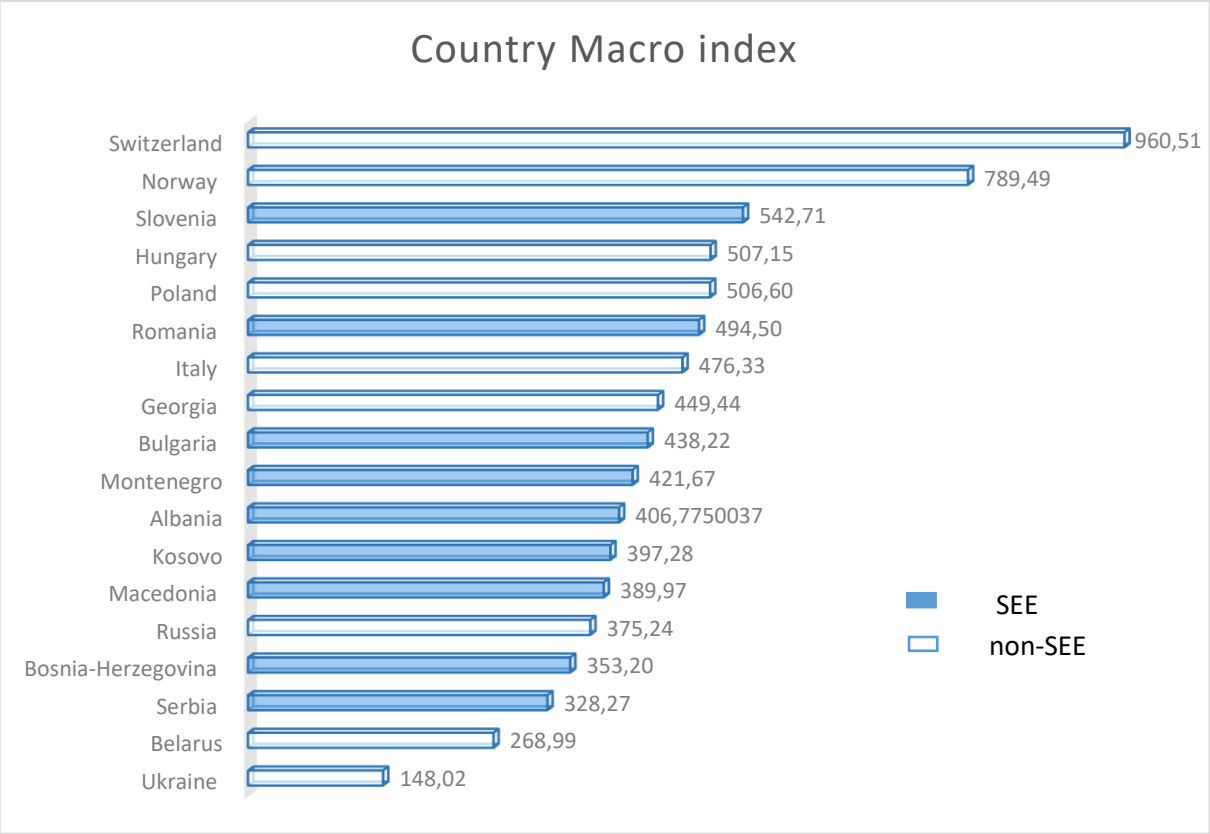

Figure 5 Country Macro Index

It may not be all that unsurprising that most of 7 best ranking countries are from Western and Central Europe (Switzerland, Norway, Poland, and Italy). Likewise, the bottom of the list is dominated by Eastern European countries like Russia, Belarus and Ukraine. Overall, SEE countries are scattered all over the macro index ranking with Slovenia and Romania positioned in the top 6, while Macedonia, Bosnia and Herzegovina and Serbia are among the bottom 6 countries. Most of the SEE countries are positioned right in the middle. Therefore, the SEE region is characterized by a heterogeneous group of countries in terms of the overall macro development.

3.5.2 Category selection for industry consumer expenditure

Adrialab manufactures a wide range of products which could be classified into different industry categories according to Euromonitor data. Ozturk, Joiner and Cavusgil (2015) suggest that a company can aggregate consumer expenditure from different consumer expenditure categories in its effort to quantify product specific demand of each country market. I would argue that it is not possible to align the company portfolio with different consumer expenditure categories completely and that certain trade-offs are bound to happen. Additionally, product lines might cross different categories. *Table 9* presents how Adrialab product lines can be classified into different industry categories monitored by Euromonitor Passport Database. In turn consumer expenditure for each industry category can be used as consumer expenditure for the industry. In order to capture the full potential of each country market consumer expenditure for baby and child – specific products, pediatric consumer health, skin care, dermatologicals, vitamins and dietary supplements and wound care is aggregated to quantify industry consumer expenditure and market size for each country. These are referred to as Adrialab industry segments further on.

	Product line								
Consumer expenditure category (Euromonitor)	Dječja mast	Dr.Bezz	Dermoplast	Dermospray	Galenia	Holyplant	SMM	Panthenol forte	Vitalia
Baby and Child-specific Products	x								
Paediatric Consumer Health	x						x		
Skin Care		x			x	x			
Dermatologicals		x		x	x			x	
Vitamins and Dietary Supplements						x			x
Wound care			x	x				x	

Table 9 Adrialab portfolio according to consumer expenditure categories/Adrialab industry segments.

3.5.3 Country market index

The country market index is developed by equally weighting two indicators: (1) growth in consumer expenditure and (2) market size of Adrialab industry segments. Growth in consumer expenditure is represented by the forecasted growth of consumer expenditure per capita ($) for the 2011 – 2021. Market sizes correspond to the sum of expenditure for Adrialab industry segments for the same period ($). As with the country index these figures were normalized and multiplied by 1000 prior to weighting. Weighted figures were summed up for each country

to produce the country market index. Due to lack of data on consumer expenditure and market size in selected categories Montenegro, Kosovo and Albania will be assessed solely on the basis of the country macro index.

Geographies	Growth in consumer expenditure	Market size 2011 - 2021 (mn $)
Albania	0%	0
Belarus	376%	738
Bosnia-Herzegovina	39%	506
Bulgaria	94%	1.749
Georgia	37%	313
Hungary	71%	3.423
Italy	26%	38.664
Kosovo	0%	0
Macedonia	65%	262
Montenegro	0%	0
Norway	15%	4.385
Poland	60%	14.536
Romania	110%	4.818
Russia	131%	25.723
Serbia	83%	995
Slovenia	24%	817
Switzerland	-4%	7.364
Ukraine	242%	3.524

Table 10 Industry indicators for the 2011 - 2021 period ((Data retrieved 12th May 2017 from Passport Database: http://www.portal.euromonitor.com/)

The country market index shows a significant reversal in country attractiveness in comparison to the country index. For example, Russia, Belarus and Ukraine have climbed to the top while Slovenia fell to the bottom of the list. Since Slovenia is a much smaller country this was to be expected. Meanwhile, most of the SEE countries are positioned in the middle (*Table 11*).

3.6 FMOA

3.6.1 Country responsiveness

The first step required by the Ozturk, Joiner and Cavusgil (2015) FMOA tool is producing country rankings on expenditure elasticity with gross income and splitting the countries into responsive and non-responsive through a median split on regression coefficients for income.

In accordance with my choice to preliminary assess market opportunities in a wider range of country markets this step includes a regression analysis of industry consumer expenditure per capita as a dependent variable and gross income and years as independent variables of

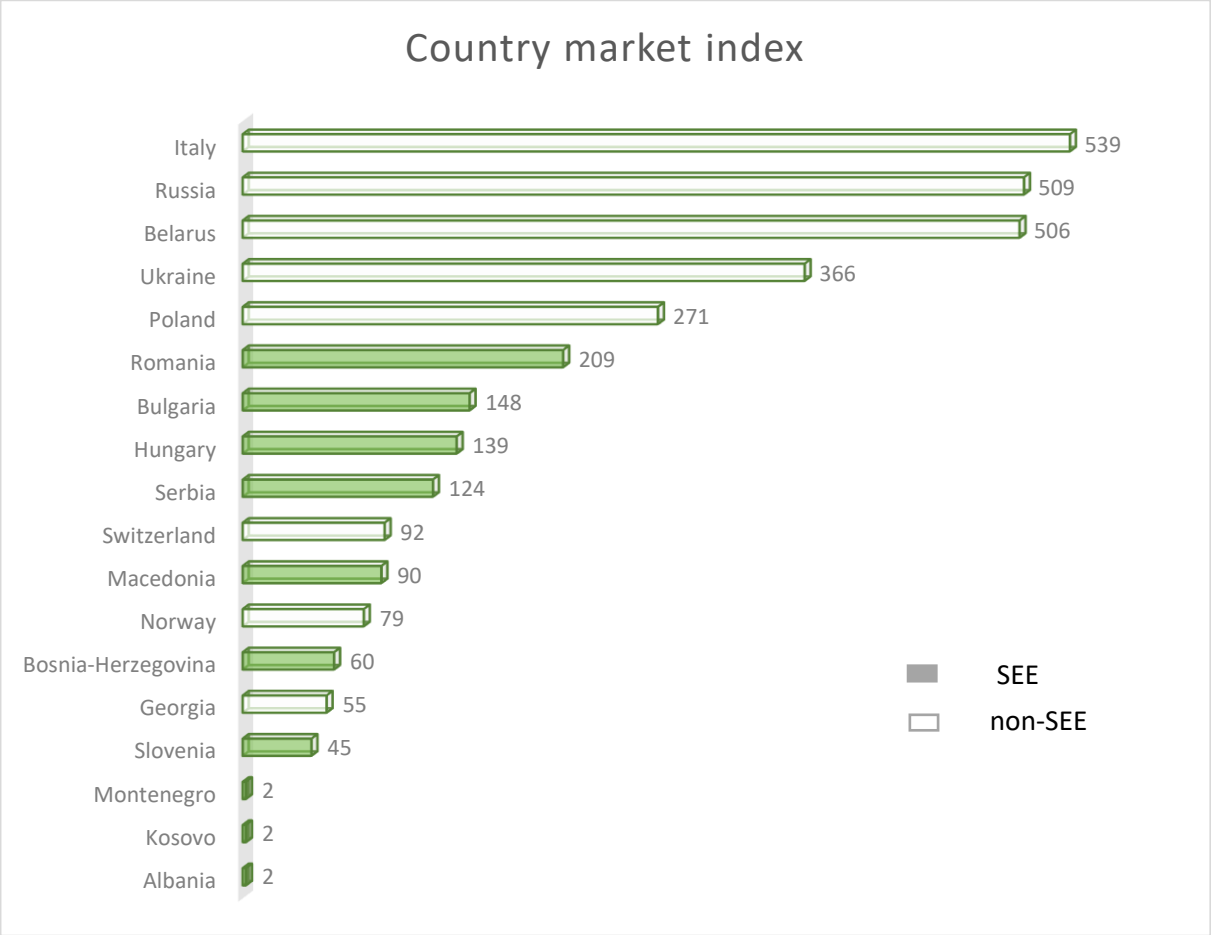

Table 11 Country market index

European countries selected in the first elimination step but only for those for which data is accessible through Euromonitor. Therefore, Albania, Montenegro and Kosovo are excluded from further analysis. The regression analysis is limited to a period of twenty years and included historical figures from 2002 till 2016 and forecasted figures until 2021. Currently, Euromonitor does not provide forecasts in a longer timeframe, at least for the categories subject to this analysis.

8 countries above the median of 0, 00118 are considered responsive and those below as unresponsive. Ranking results according to the income coefficient show Georgia. Bosnia and Hercegovina and Poland as the most responsive countries in terms of industry expenditure per unit of change in gross income, while Macedonia, Russia and Switzerland show to be the least responsive country markets. The three top responsive countries in SEE are Bosnia and Hercegovina, Bulgaria and Romania.

		Coefficients		Model Statistics	
Geographies	Country code	Income	Years	AdjR2	Pr > F
Georgia	GEO	0,00435	-0,4974	0,872	<.0001
Bosnia-Herzegovina	BIH	0,00318	0,0584	0,988	<.0001
Poland	POL	0,00283	0,5149	0,998	<.0001
Italy	ITA	0,00237	0,9398	0,997	<.0001
Ukraine	UKR	0,00215	0,4283	0,994	<.0001
Bulgaria	BUL	0,00169	1,0383	0,997	<.0001
Hungary	HUN	0,00123	1,2001	0,998	<.0001
Romania	ROU	0,00118	0,9601	0,997	<.0001
Slovakia	SVK	0,00115	0,0394	0,991	<.0001
Serbia	SRB	0,00099	0,4986	0,999	<.0001
Belarus	BLR	0,00088	0,4037	0,998	<.0001
Slovenia	SLO	0,00084	0,3431	0,976	<.0001
Switzerland	SWI	0,00050	-0,7457	0,969	<.0001
Macedonia	MAC	0,00046	0,4795	0,999	<.0001
Russia	RUS	0,00027	1,2694	0,993	<.0001
Norway	NOR	-0,00106	3,1521	0,972	<.0001

Table 12 Regression coefficients for Consumer expenditure on Adrialab industry segments.

3.6.2 Growth potential

Assessing country responsiveness fails to provide insights in terms of overall market potential and industry trends since responsive countries may also experience a decrease in income per capita which could potentially have negative effects on industry consumer expenditure. Market trends and potential are captured by plotting countries in a bubble chart using the expected growth in income and growth in expenditure for Adrialab industry segments per capita for the 2011-2021 period. Market sizes are represented by bubble sizes which correspond to the sum of expenditure for Adrialab industry segments for the same period.

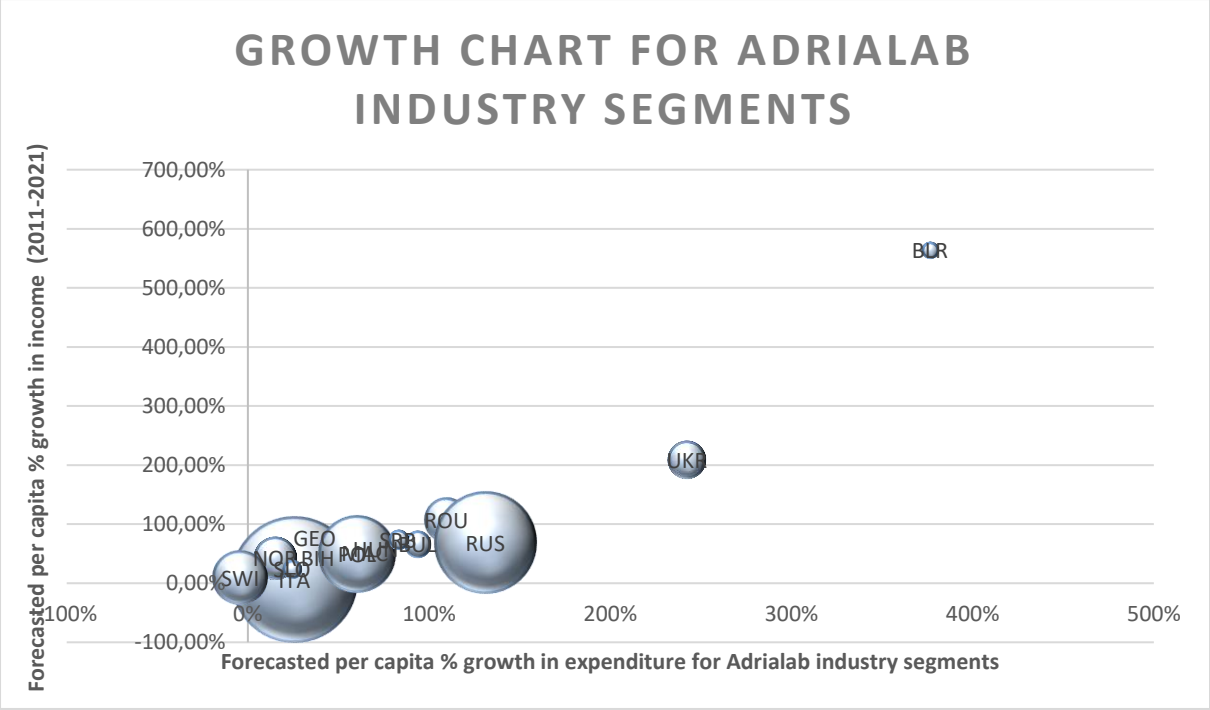

Figure 6 Growth chart for Adrialab industry segments (Data retrieved 12th May 2017 from Passport Database: http://www.portal.euromonitor.com/)

None of the analyzed countries exhibit a reduction in consumer expenditure per capita while Russia is the only country forecasted to experience reduction in income per capita. However, Russia also shows increase in consumer expenditure and ranks among the largest markets. Romania and Bulgaria consumer expenditure is projected to roughly double in the selected period with Poland, Hungary, Macedonia, Serbia and Bosnia and Hercegovina also showing considerable growth. Ukraine and Belarus exhibit enormous consumer expenditure growth in

the observed period with modest income growth pointing to inelastic demand for these consumer categories. Overall, there is significant correlation (0, 94) between income and consumer expenditure growth. However, Belarus and Ukraine exhibit extraordinary growth in income and consumer expenditure. This can be related to *Table 8* which exhibits high inflation figures for these countries with Ukraine experiencing 15, 18% and Belarus 25, 9% on average in the last 5 years is up for discussion.

As a consequence I exclude these outliers from figures in the next section as they would make it very hard to produce useful and easy-to-use FMOA charts for relevant aggregate measures. However, although not present in the FMOA charts their position is mentioned in the text since Belarus and Ukraine also exhibit a proportional growth in income and consumer expenditure which should ensure no decline in the purchasing power of the population. Growth in consumer expenditure for these two countries also exceeds the consumer price index for pharmaceutical products suggesting that inflation is not the only driver behind consumer expenditure growth (*Figure 7*).

3.6.3 Relevant aggregate measures

Ozturk, Joiner and Cavusgil (2015, p.129) acknowledge that under normal circumstances consumption of most products will rise with income growth. *Figure 7* confirms this. However, they continue by pointing out that different magnitudes with which this is happening necessitate incorporating a relevant aggregate measure to better differentiate countries. FMOA charts are plotted using the selected relevant aggregate measures and consumer expenditure. They are essentially perceptual maps which position countries into 4 quadrants: (1) Global Valuables, (2) Global industry winners, (3) Stagnants and (4) Industry valuables (Ozturk, Joiner and Cavusgil, 2015, p.129). Since the scope of countries is not global but rather limited to European countries where JGL has established an entry mode the 4 quadrants can be renamed: (1) Valuables, (2) Industry winners, (3) Stagnants, (4) Industry valuables. Quadrant boundaries are positioned half way between the largest and smallest figure on each axis.

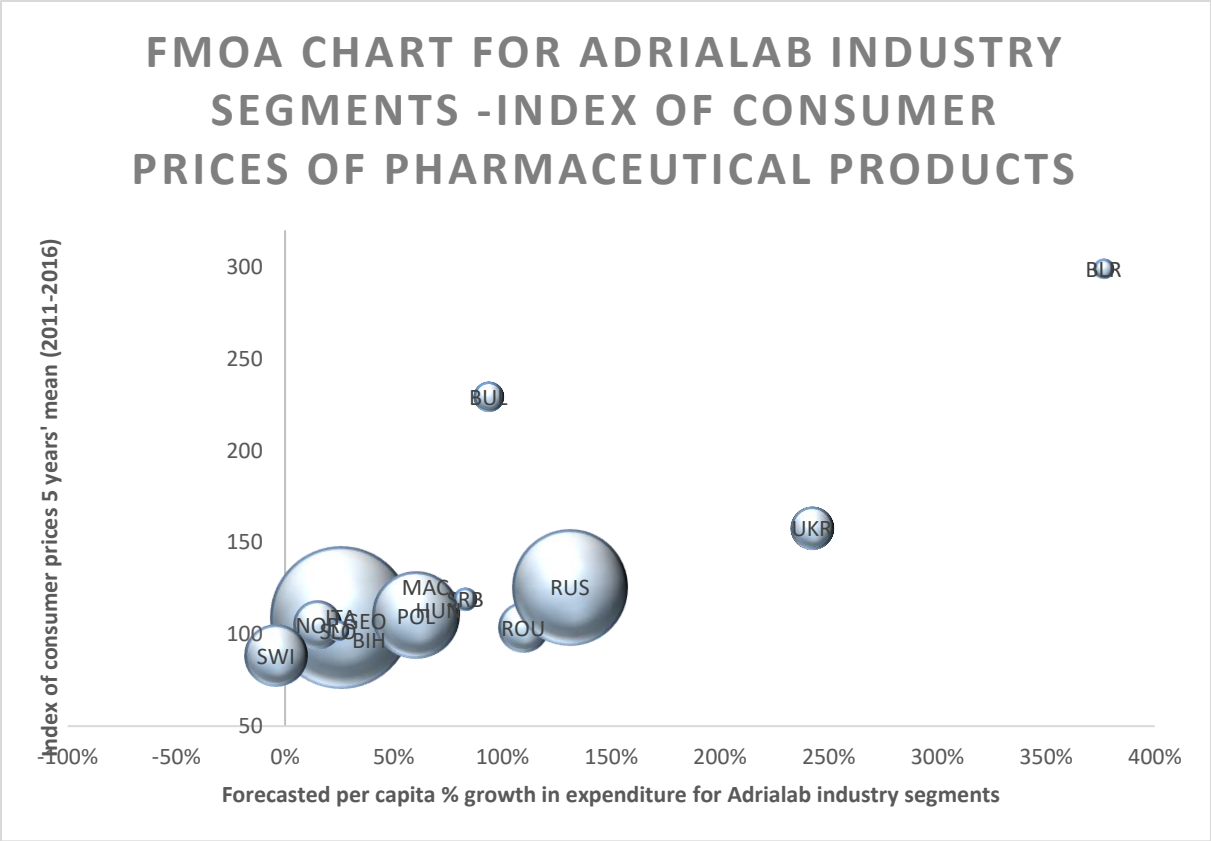

Figure 7 Correlation between consumer price index and consumer expenditure (Data retrieved 12th May 2017 from Passport Database: http://www.portal.euromonitor.com/)

Choice of aggregate measures to use depends on the managerial judgmental decision Ozturk, Joiner and Cavusgil, 2015, 132). I would argue that managers should intuitively suggest which aggregate measures to employ because they should already have a deep understanding of their domestic market. Additionally several aggregate measures can be tried out. In this section I produce FMOA chart according to four potential aggregate measures which I believe are relevant for Adrialab industry segments: (1) % of households with disposable income over 10.000 $, (2) median population age index growth and (3) imports as % of GDP.

3.6.3.1 % of households with disposable income over 10.000 US$

Adrialab industry segments are mostly comprised of products which cannot be described as a necessity. In the same time they are not a luxury and can be purchased by people with enough disposable income to include non-essential products. Globally, the expansion of middle class in developing countries continues to enlarge a more sophisticated consumer base. Although European countries do not follow the same population indicators I considered growth in disposable income as a potential key driver of expenditure on beauty and healthcare. Plotting

a chart using growth in disposable income and consumer expenditure would likely mirror *Figure 7* to a large extent. A clearer picture is provided by using the percentage of households with disposable income above 10.000 US $ because this is likely to vary from country to country. In *Figure 9* most of the high growing markets in SEE are positioned as industry valuables since they have lower share of households with income over 10.000 US$. Hungary is the only winner while Romania is a borderline industry valuable, close to being a winner.

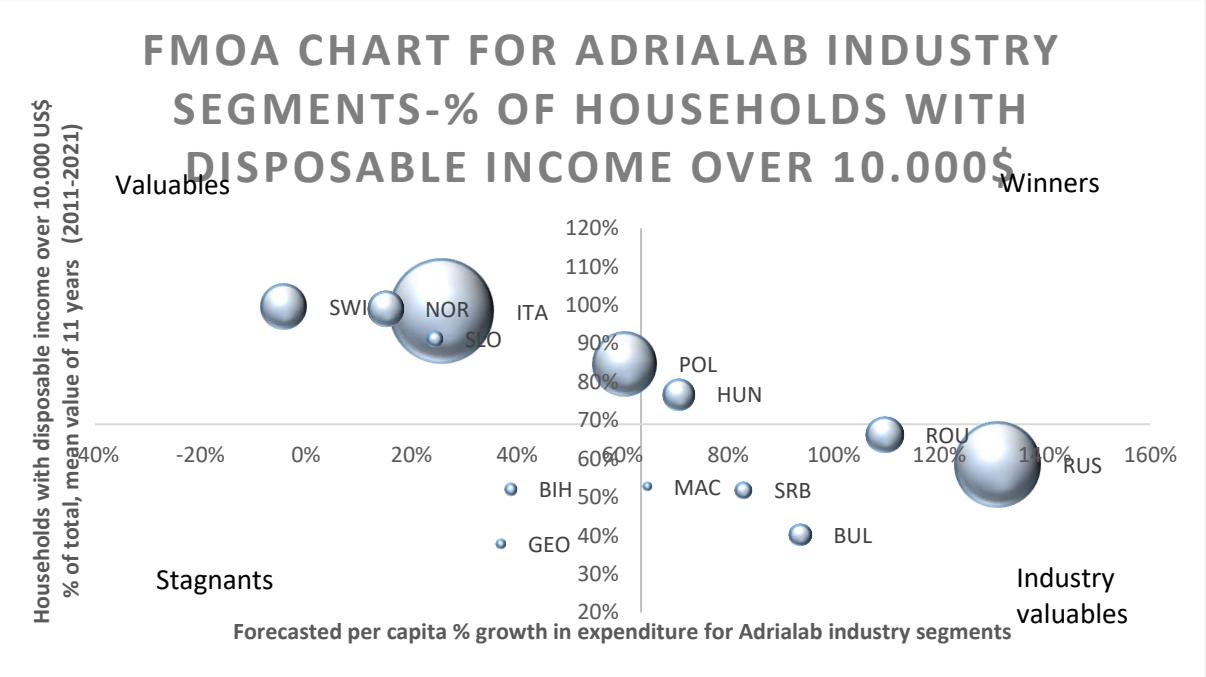

Figure 8 FMOA chart for Adrialab indsutry segments – % of households with disposable income over 10.000US$ (Data retrieved 12th May 2017 from Passport Database:

http://www.portal.euromonitor.com/)

3.6.3.2 Aging population

Among key trends driving demand for vitamin and dietary supplements are trends toward healthy lifestyle and prevention (Carolina Ordonez, 2017). The author argues that this trend is underpinned by public health agencies' aim to decrease and prevent chronic diseases and increase healthy lifestyle spans. Vitamins and dietary supplements are therefore considered as a tool to prevent medical conditions. I believe that this is true for many other healthcare and beauty product. As people become more educated on how to improve their health consumption of health related products may increase. I supplement this claim by arguing that consumption of health related products also increases with an aging population because of higher risk for chronic diseases, necessity for prevention and purely the willingness of people

to try solutions which could improve their quality of life. A relevant aggregate measure for this macro trend is growth in population median age over the observed period which is plotted with industry consumer expenditure in *Figure 9*. It can be observed how some of the industry valuables *Figure 9* disposable income like Romania, Bulgaria and Macedonia have shifted to industry winner in terms of aging of total population. Russia and Serbia remain industry valuables in both aggregate measures. Poland is again positioned as a valuable but close to being a winner.

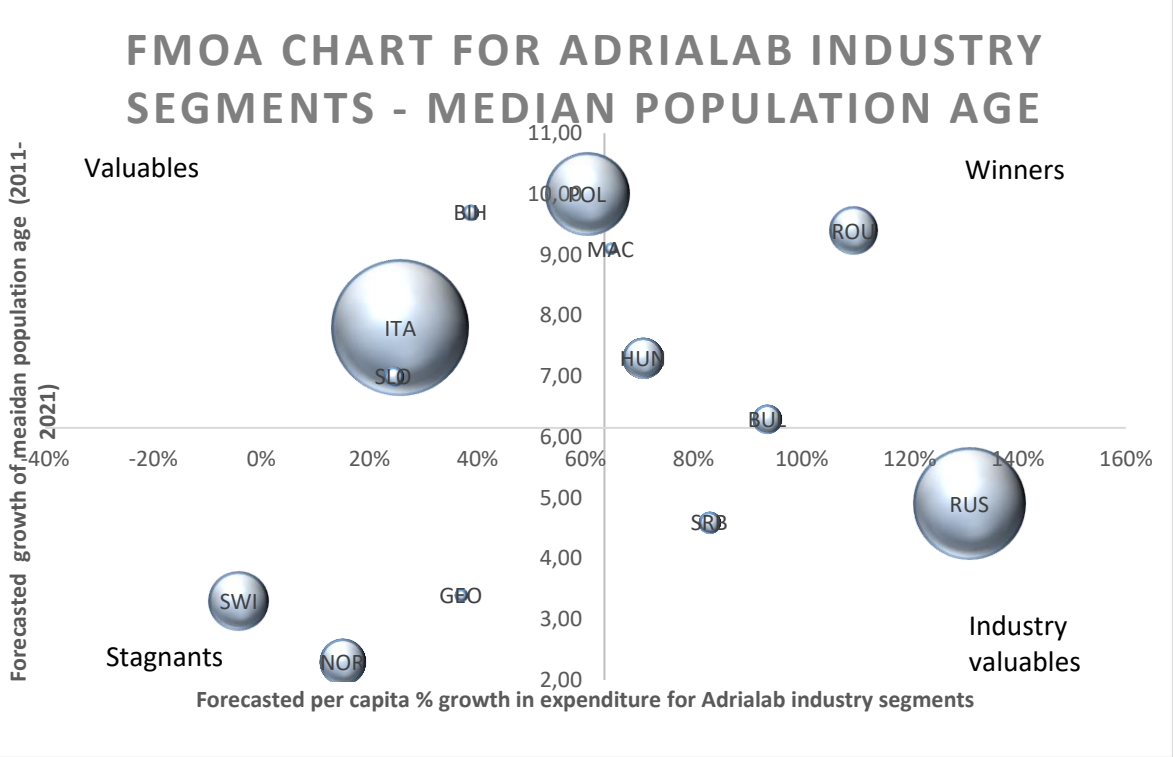

Figure 9 FMOA chart – median population age (Data retrieved 12th May 2017 from Passport Database: http://www.portal.euromonitor.com/)

3.6.3.3 Imports as % of GDP

Although imports are already part of the country macro index I decided to position candidate countries into an FMOA chart on imports in order to clarify the influence of imports even more. However, this FMOA chart is not used in the subsequent final decision in order to avoid using the same measure twice. I chose imports as percentage of GDP as a relevant aggregate measure. Such a figure may show, in relative terms, the propensity of a country to import goods. The rationale I put forward for this is that countries with larger relative imports and higher consumer expenditure growth are better suited as a potential foreign markets because a larger share of consumer expenditure will go towards consuming imported products. This

measure is far from perfect. In a perfect scenario I would have plotted the imports of selected consumer category but I did not manage to obtain such figures. Again, Hungary, Bulgaria and Macedonia are winners with Romania and Serbia switching quadrants in comparison with *Figure 9*. However, Romania is close to being a winner as it was in *Figure 9*.

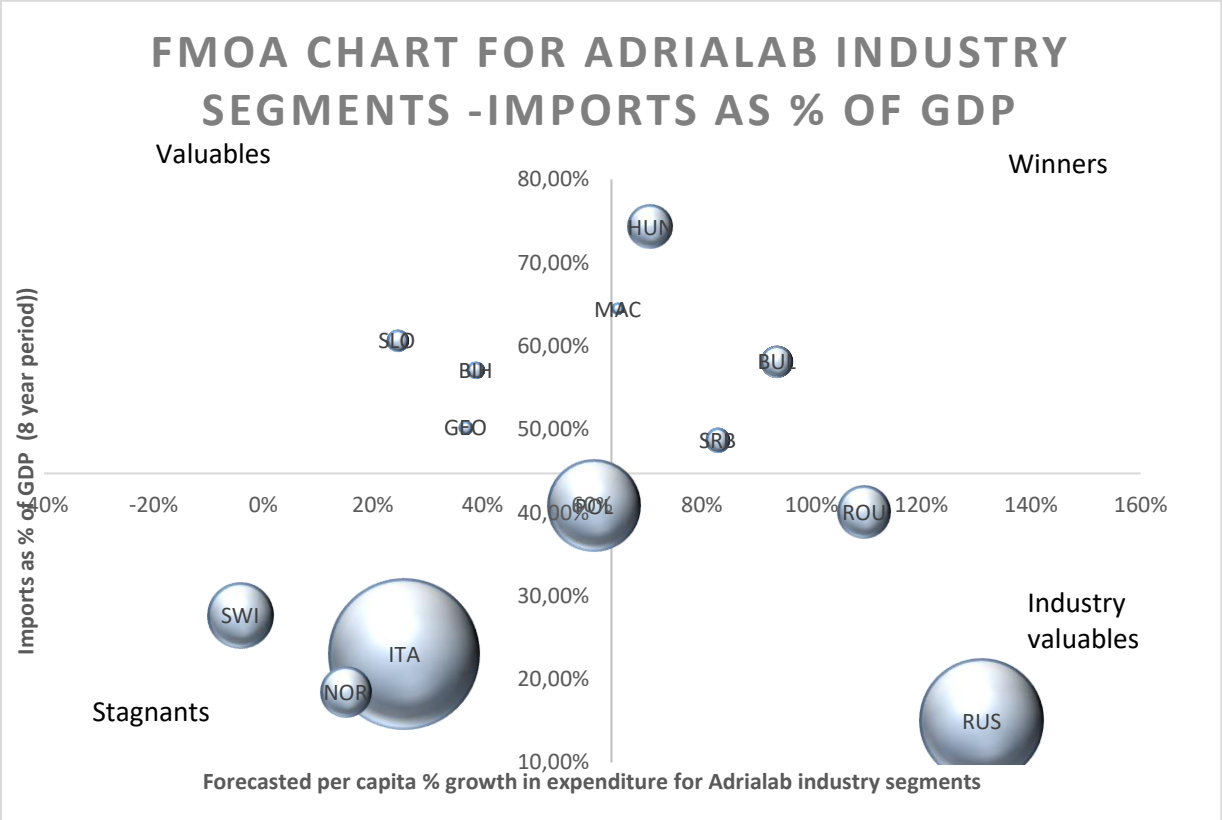

Figure 10 FMOA chart – imports as % of GDP (Data retrieved 12th May 2017 from Passport Database: http://www.portal.euromonitor.com/)

3.7 Decision

This chapter concludes with a selection of markets attractive for internationalization purposes of Adrialab. The macro assessment and FMOA analysis are combined to produce an overall ranking of countries through a FMOA index.

Additionally, three groups of markets are produced with each group containing 5 or more markets in a priority sequence. Finally, due to the constraints of Adrialab's vision and the decision of JGL's Board of Directors to focus on SEE the final selection is made in order of ranking from countries which are both located in SEE and in which JGL has established an entry mode. The rest are automatically put in the third category.

3.7.1 Country index

The country index is constructed by adding up the country macro index and the country market index (*Figure 11*).

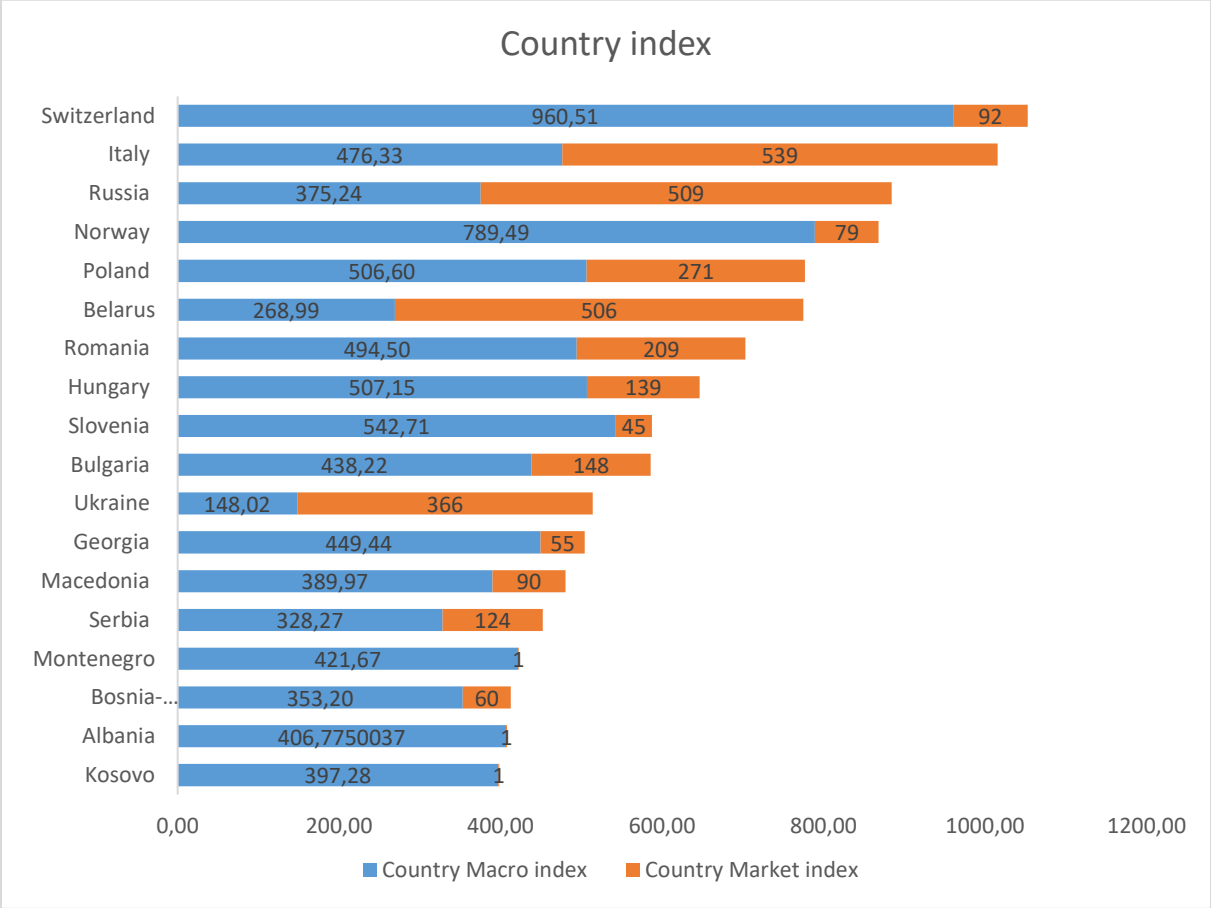

Figure 11 Country index

3.7.2 Final Selection and Categorization

Finally, by adding the FMOA analysis to the country index, a FMOA index is produced. *Figure 13* shows summary of the FMOA analysis. Although the country index might already point out which markets should be selected the FMOA index enables to me refine the list even more since most of the SEE countries are positioned very close in *Figure 11.*

The country index score for each candidate country is added 100 points for each time a country is considered a winner, 50 points for when it is considered an industry valuable and

50 points when it is considered responsive. For example, Macedonia is added another 100 points, Serbia 150 points, Hungary 250 points and so on.

Differences in terms of rankings can be observed between the country index (*Figure 11*) and FMOA index *(Figure 13*). Italy has replaced Switzerland on the top of the list while Romania has climbed from 7th to 4th place. In the SEE Bulgaria is now more attractive than Slovenia while Bosnia and Herzegovina is identified as a better choice than Montenegro. However, this remains debatable since the final index lacks industry data for Montenegro as mentioned earlier.

	Count				
Country code	Stagnant	Valuable	Industry valuable	Winner	Responsiveness
BLR	0	0	2	0	non-responsive
BIH	1	1	0	0	responsive
BUL	0	0	1	1	responsive
GEO	2	0	0	0	responsive
HUN	0	0	0	2	responsive
ITA	0	2	0	0	responsive
MAC	0	0	1	1	non-responsive
NOR	2	0	0	0	non-responsive
POL	0	2	0	0	responsive
ROU	0	0	1	1	responsive
RUS	0	0	2	0	non-responsive
SRB	0	0	2	0	non-responsive
SLO	0	2	0	0	non-responsive
SWI	1	1	0	0	non-responsive
UKR	0	0	2	0	responsive

Figure 12 FMOA analysis of candidate countries

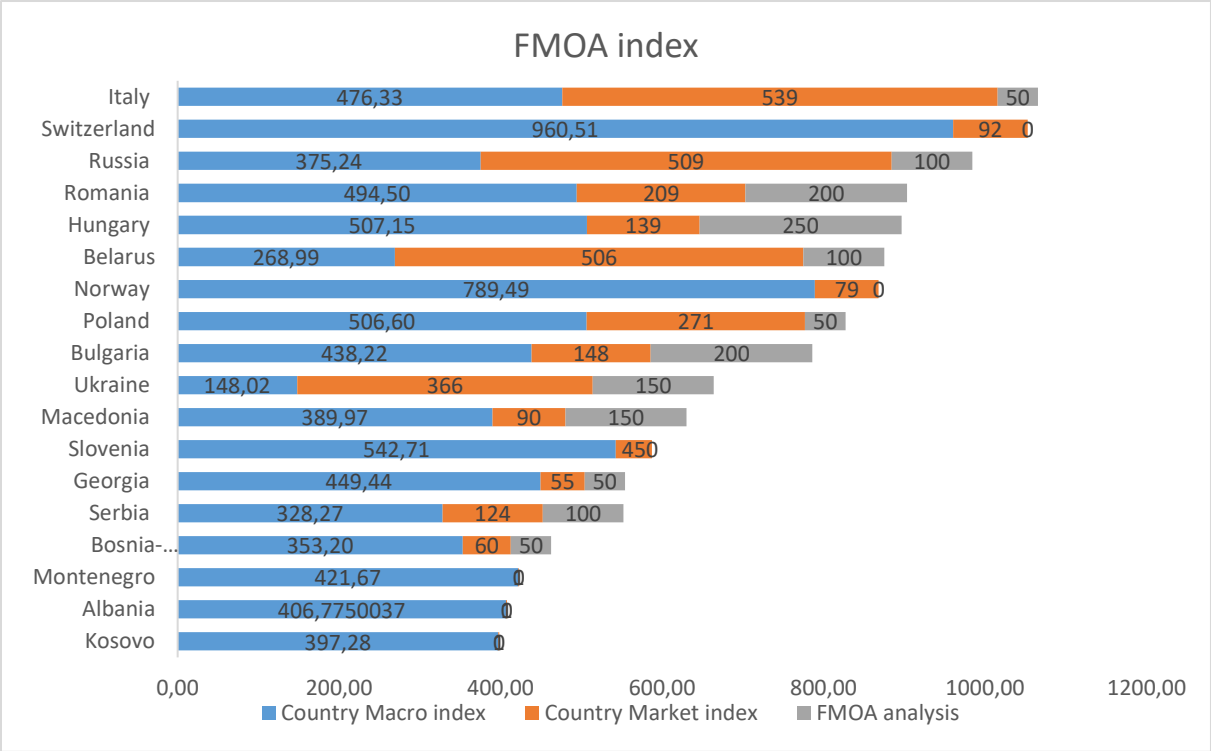

Figure 13 FMOA index

The three categories are constructed as follows:

1. Best ranking SEE countries for which the entry mode decision should be developed with most priority (1 to 5)
2. Lower ranking SEE countries and higher ranking non-SEE countries which should be considered with less urgency (6 to 10)
3. Lower ranking non-SEE countries (10 – 18)

If the SEE geographic constraint where to change the order of countries would change with it. Because of this I consider this chapter and IMS process presented in it as a versatile and relevant guideline for the company on how to assess foreign market opportunities in the future.

	Ranking	Country
Category 1	1	Romania
	2	Bulgaria
	3	Macedonia
	4	Slovenia
	5	Serbia
Category 2	6	Bosnia and Hercegovina
	7	Montenegro
	8	Albania
	9	Kosovo
Category 3	10	Italy
	11	Switzerland
	12	Russia
	13	Hungary
	14	Belarus
	15	Norway
	16	Poland
	17	Ukraine
	18	Georgia

Table 13 Country ranking

4 Entry mode selection

While the first two chapters focus on answering why and where should Adrialab internationalize this chapter concludes the thesis by answering how the company should internationalize into countries selected in the third chapter. More specifically, which entry modes should be chosen out of the wide range of options from export entry modes on one end of the spectrum to equity based entry modes on the other end in terms of commitment and control (Grünig and Morschett, 2012, p.144). Root (1994) considers it as one of the most crucial decisions an international firm has to make. Additionally, Laufs and Schwens (2014, p.1109) argue that this choice is an important strategic decision because entry-mode choices determine the degree of resource commitment to the foreign market (Hill, Hwang and Kim, 1990, p.119), the risks the firm will bear in the host country (Hill, Hwang and Kim, 1990, p.119) and the level of control a firm can exercise over its foreign activities (Anderson and Gatignon, 1986). Selecting a suitable arrangement for expanding internationally can enable the firm to gain competitive advantage (Osland, Taylor and Zou, 2001, p.153). In the same time Osland, Taylor and Zou (2001, p.153) argue that inappropriate entry modes are difficult to change when long-term contracts and large resource commitments are made.

In chapter 3 I discussed the sequential nature of IMS. Similarly, any search for the right foreign market entry mode can be regarded as sequence of steps in which different entry mode options are evaluated and eliminated according to agreed criteria until a final choice has been made. Therefore, in analogy with IMS I adapt the term entry mode selection (EMS) because this chapter focuses on describing the various entry modes through the internationalization theory lens and examines their suitability for the company and selected foreign country context. However, before diving into EMS an examination of various entry mode possibilities for country markets targeted by Adrialab as well as the underlying theories needs to be presented.

4.1 Entry mode overview

According to Root (1994) four major structural arrangements exist for companies facing internationalization: (1) exporting, (2) licensing, (3) joint ventures and (4) wholly owned subsidiaries. These entry modes are differentiated by three characteristics (Osland, Taylor and Zou, 2001, p.154): (1) quantity of resource commitment, (2) amount of control and (3) level of technology risk. The relative positions of entry modes in terms of the degree of resource

commitment and degree of control over the foreign market are represented by *Figure 17*. Usually the degree of risk associated with each entry mode is positively correlated with the level of resources employed by the entry mode. Exporting and licensing can further be categorized as non-equity based entry modes while joint ventures and wholly owned subsidiaries are categorized as equity based entry modes ((Osland, Taylor and Zou, 2001, p. 154). More recent approaches group the four alternatives into three categories according to the degree of commitment and resources employed in setting up the entry mode (Puck, 2016): (1) market based transactions (export, licensing, franchising), (2) cooperation arrangements (joint ventures, cooperation, merger) and (3) wholly owned subsidiaries.

4.1.1 Non-equity based entry modes

4.1.1.1 Exporting

Exporting is non – equity and market based approach characterized by the transfer of the last step of the value chain abroad (Puck, 2016) and differs from other modes in that the company's final products are manufactured outside of the target country and subsequently transferred to it. A most basic distinction can be made between direct and indirect exports. While indirect exporting uses independent home country intermediaries (Root, 1994) who take the responsibility to ship and market the products, in direct exporting the company may utilize target market intermediaries or export directly to foreign customers (Osland, Taylor and Zou, 2001, p.156) Intermediaries in indirect exporting are usually export specialists or trading companies that act as merchants, buying the products from the manufacturer and selling it in the foreign market (Grünig and Morschett, 2012, p.125). Technically, this turns the exporting activity into a domestic sale for the company. Grünig and Morschett (2012, p.125.) consider indirect exporting as an option for companies that have sporadic international sales and in instances when the sales are spread over a large number of countries since the specific knowledge for each country would be difficult to build up.

In direct exporting sales can be made to any type of buyer in the foreign market. *Figure 15* presents various export alternatives discussed by Grünig and Morschett (2012, p.126). An agent can be hired to represent the company in the target market. The agent sells the product on behalf of the exporter but does not hold the products on stock so the sale and purchase transaction is made directly between the manufacturer and the customer. The agent makes his revenue from commissions paid by the exporter (Hollensen, 2011, p.342). Direct exports

via a distributor that is familiar with local markets, customs and has existing customers in the manufacturers target industry segment is also a frequently used entry mode. Both agents and distributors usually seek exclusive selling rights for their geographic territory and exclusive representation in all aspects of sales and service for the manufacturer in the host country is common (Grünig and Morschett, 2012, pp.126 - 128). However the authors argue that distributors present an additional step between the manufacturer and the customer which reduces the profit margin but an even more significant can be the dampening effect on the accumulation of market information and product feedback for the host market.

If direct customer relations are very important the manufacturer can employ its own sales force in the target market. Employing a sales representative specifically for the target market implies a growing commitment to the target market. However, this sales force does not have to be employed solely in the target market but can be more flexible and responsible for more than one market. Finally, a company can establish a formal sales branch as foothold in the target market which is organizationally incorporated within the company and does not exist as a separate legal entity in the target market. A sales branch usually takes over the complete selling process and some of the marketing functions for the foreign market because it can adapt to local customer needs more efficiently (Grünig and Morschett, 2012, p.131).

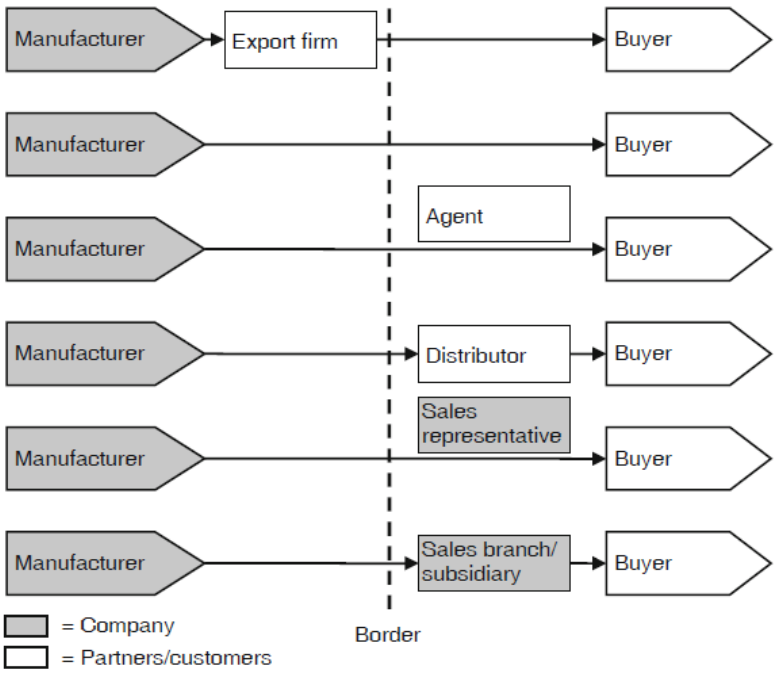

Figure 14 Different export alternatives (Source: Grünig and Morschett, 2012, p. 124).

Finally, a wholly owned sales subsidiary (WOS) can be established in which case it falls under the jurisdiction of the host market and produces its own financial statements which are further consolidated in the parent company financial reports. WOS is further elaborated in this chapter under equity based entry modes.

4.1.1.2 Licensing/franchising

Licensing is a portfolio-resource transfer characterized by a vertical cooperation of legally independent firms through licensing contracts (Puck, 2016). The nature of such contractual agreement varies depending on the position of the licensed resource in the value chain, e.g. production and/or distribution and marketing. The licensor transfers to a foreign organization the right to use patents, trademarks, company name, technology, the right to sell or produce a good and/or use business methods (Osland, Taylor and Zou, 2001, p. 157; Puck, 2016) for a defined period (Grünig and Morschett, p. 134). Different forms of licensing fees are payed by the licensee to the licensor. For example, an initial fee and/or percentage of sales.

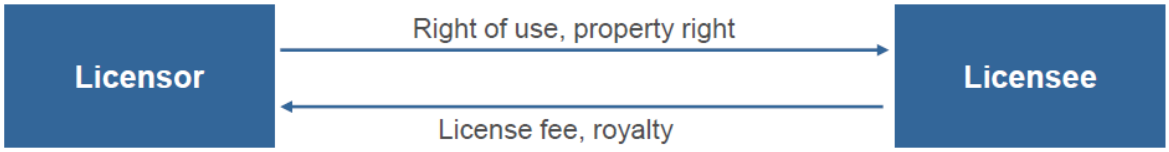

Figure 15 Transfer of rights and compensation in a licensing agreement (Source: Puck, 2016)

A franchising agreement is much more comprehensible transfer of rights than licensing. In such arrangements the franchisor transfer to the franchisee the right and obligation to sell goods and services for his own account in a geographically limited area while using the name, brand, equipment, marketing and organizational concept developed by the franchisor (Puck, 2016). The franchisee is monitored by the franchisor an under constant supervision and instruction (Puck, 2016). Although a potential entry mode in all sectors and industries, franchising has its main relevance in retailing and the service industry in general such as retail stores, cosmetic studios, hotels and restaurants (Grünig and Morschett, 2012, pp.140 - 141). One of the main franchising benefits is the combined use of procurement scale, logistics, advertising and central administration with the strength of an independent entrepreneur who manages the outlets, supervises the employees and is in contact with the customers.

Customer usually do not see the difference if the outlet is a WOS or a franchise (Grünig and Morschett, 2012, p.141).

4.1.2 Equity based entry modes

Equity based entry modes like joint ventures and wholly-owned subsidiaries entail direct investment in the target country.

4.1.2.1 Joint ventures

Joint venture is a cooperating entry mode (Puck, 2016) formed by two or more independent organizations who share the ownership, management, risks and rewards of the newly formed entity (Osland, Taylor and Zou, 2001, p.157). Often, joint ventures concern establishing production capabilities in the target country. For example, implementing the technology of an internationalizing company on the production location of a local partner in the target country (Grünig and Morschett, 2012, p.139). Although joint ventures are not necessarily involved in production matters their key characteristic is leveraging the combined capabilities of the partnering companies. In terms of internationalization theory, focus is put on local knowledge and speed gained through the domestic partner while in the same time sharing the risk of the new operation (Grünig and Morschett, 2012; Puck, 2016; Osland, Taylor and Zou, 2001).

4.1.2.2 Wholly owned subsidiaries

WOS is the ultimate entry mode arrangement in which the foreign company retains the full ownership, responsibility and control for the foreign operations (Osland, Taylor and Zou, 2001; Puck, 2016). These can range from production subsidiaries to sales subsidiaries or incorporate both. Whichever part of the value chain is incorporated in to a wholly owned subsidiary this does not change the fact that it represents the most committed entry mode possible due to locking in of the company resources in the foreign market. In any case a WOS likely to be implemented after the internationalizing company has established a significant presence in the foreign market and implicate longer time horizons. Although a WOS provides full control over foreign operations, the resource commitment bears substantial risk. These risks range from the necessity of sufficient output or revenue to cover fixed costs of the WOS to legal and political risks embedded in the difference between then legal and political environment of the home and host country. WOS can be built up by the internationalizing company or form as result of an acquisition or a merger. An internationalizing company can purchase a company which has already established its product lines or production capabilities in the host market.

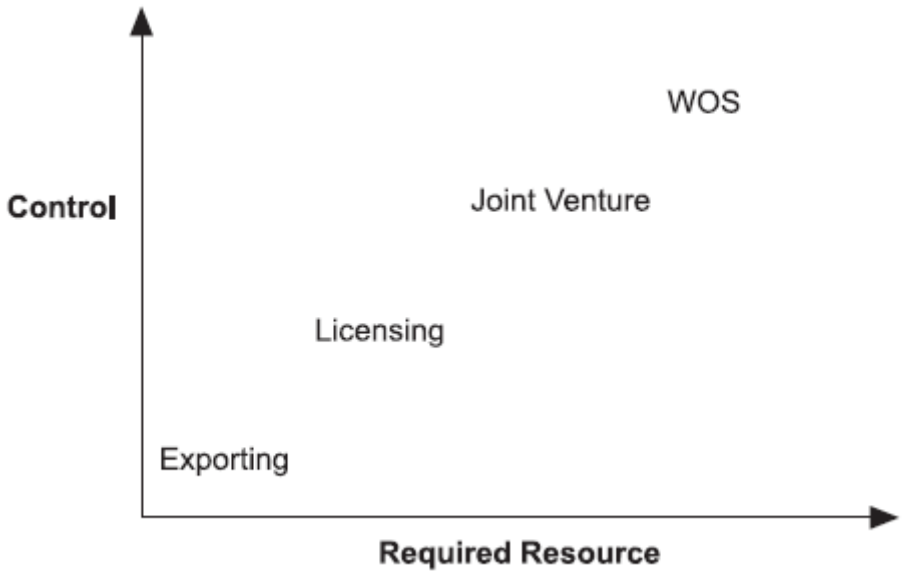

Figure 16 Characteristics of entry modes (Source: Osland, Taylor and Zou, 2001, p. 155)

4.2 Theories of internationalization

Internationalization processes are supported by choices made within the company and influenced by the environment in which the company operates. Reasons behind these choices are explained by several theoretical perspectives which have developed in IM literature over the years. Through screening of IM literature I became painfully aware of the complexity of internationalization entry mode theoretical research. In addition it is hard to distinguish between theories or theoretical perspectives and conceptual frameworks. However, Andersen (1997, p.30) clarifies this by arguing that conceptual frameworks and theories are not identical terms. For Andersen (1997, p.30) a theory is a systematically related set of statements, including some law like generalizations, that is empirically testable. Meanwhile, a conceptual framework is logically developed, described and elaborated network of associations among concepts that have been identified through theoretical and empirical research (Sekaran 1992, cited by Andersen, 1997, p.30). A theory is much more general in scope and describes a broader relationship between things while a conceptual framework uses more specific variables in defining the relationship among things (Regoniel, 2010). Additionally, a conceptual framework can se be based on more than one theory and theories can be represented by various conceptual frameworks.

It would be pointless to summarize all conceptual frameworks on internationalization processes as this would make for an elaborate master thesis in itself. Due to globalization forces and the vast increase in internationalization examples scholars seem to be relentless in their pursuit to develop new and better explanations of entry mode choices over the past few decades (Sharma and Erramili, 2004, p.6).

	Entry mode as a chain of establishment	Transaction cost approach	The eclectic framework	The organizational capability perspective
Basic theory	Resource-based theory	Transaction cost theory	Transaction cost theory, international trade theory, resource-based theory	Resource-based theory
Unit of analysis	Firm	Transaction	Firm	Firm
Explanatory variables	Firm's knowledge (i.e., experiential knowledge)	Transaction characteristics (e.g., asset specificity, uncertainty)	Ownership, locational, and internalizational advantages	Firm's capabilities (in particular, know-how)
Behavioral assumptions	Bounded rationality	Bounded rationality and opportunism	Bounded rationality (and opportunism)	Bounded rationality
Decision criteria	Trade-offs between growth and risk	Transaction cost minimization	Trade-offs between return, risk, control, and resources	Trade-offs between value and cost
Modes of entry	Entry mode according to an establishment chain: a) No export, b) Export via independent representative, c) Sales subsidiary, d) Manufacturing abroad	Several classifications; e.g., Contractual transfer, Joint Venture, Wholly owned operation	Several classifications; e.g., Independent mode, Co-operative mode, Integrated mode	Internalization vs. collaboration

Figure 17 Comparison of EMS theory and conceptual framworks (Source: Andersen, 1997, p.31)

According to (Sharma and Erramili, 2004, p.6) firms enter foreign markets to exploit their ownership advantage which has to have two key characteristics: (1) sustainability and (2) cost effective transferability across countries. Authors conclude that the final choice of entry mode relies on the effective interplay of ownership advantage characteristics with host country factors such as competition, the legal and economic environment, infrastructure, etc. I would argue that theories and frameworks overviewed by Andersen (1997) cover many of these basic assumptions in entry mode choices. A particularly useful comparison of conceptual

frameworks in *Figure 18**Error! No bookmark name given.*** shows the resource-based theory and transaction cost theory as dominant underlying theories in IM literature with the eclectic paradigm by Dunning as an example of conceptual framework encompassing combinations of different theories (Andersen, 1997). For this very reason this overview fill focus on these two underlying theories and some of the more prominent examples of conceptual frameworks listed in *Figure 18*.

4.2.1 Transaction cost approach

Transaction cost approach (TCA) is the most widely used theoretical perspective on international entry mode choice (Brouthers and Hennart, 2007, p.400; Chen and Hu 2002, p.193; Puck 2016). It has been proven that MNEs which choose entry modes prescribed by rules of TCA outperform those that do not (Chen and Hu, 2002, p.207). The basic idea behind transaction cost economics (TCE) is that firms will internalize activities in which they have a cost advantage and will subcontract those in which they have a cost disadvantage (Williamson 1981; Tecce 1986). TCA distinguishes between two types of governance, markets (exports, imports, licensing, etc.) and vertical integration or hierarchies (JVs, WOS, etc.). Generally, vertical integration is assumed to be more efficient in minimizing transaction costs but the gain from activity internalization has to be weighed against cost economies that could be foregone by not using specialist firms such as marketing intermediaries (Wilkinson and Nguyen, 2003, p.45). In terms of internationalization theory this means that all decisions regarding entry mode selection are made through transaction cost as a basic unit of analysis (Williamson, 1981). Specific assets, the frequency of economic exchange and uncertainty surrounding the exchange of resources between the buyer and the seller represent the core dimensions of the transaction (Hernandez, 2011, pp. 13-17). In that light, three assumptions characterize TCA decisions: (1) different levels of transactions costs of entry modes, (2) influence of asset specificity on EMS and (3) influence of bounded rationality (Hernandez, 2011; Andersen 1997). Asset specificity indicates to which degree and asset can be redeployed to alternative uses and by alternatives users without sacrifice of productive value (Williamson, 1989, p.142). Bounded rationality is introduced into TCA as a behavioral assumption that acknowledges the complexity of the entire decision making process of TCA that results in incomplete contracts. Incomplete contracts are plagued by high possibility of opportunistic behavior of economic agents involved in the contracting process and various additional transaction costs may arise because of this (Hernandez, 2011, p.15).

TCA predicts that firms integrate when asset specificity is high in order to retain control over the specific advantages they offer to the market in which case the entry mode cost is evaluated relative to the entry mode objective (Whitelock, 2002, p.343). Practically, this means that with increasing asset specificity companies tend to move towards entry modes with higher levels of control like JVs or WOS (Williamson, 1981; Teece 1986). By doing so companies also decrease governance costs of bounded rational behavior, opportunistic behavior and transaction uncertainty (Hernandez, 2011, p.16).

4.2.2 The resource based approach

While TCA rationalizes internationalization choices mainly on cost minimization the Resource-Based View (RBV) examines the link between the firm's resources and sustained competitive advantage (Hernandez, 2011, p.18). RBV emerged during the mid-1980s and was increasingly applied to different business areas, among them internationalization in the last decade (Sharma and Erramilli, 2004, p.6). Essentially the RBV examines a firm as a bundle of linked and idiosyncratic resources and resources conversion activities (Barney, 1991; Conner, 1991). Resources can be capabilities, distinctive competencies, technology, organizational assets, customer loyalty, supplier relations, financial assets, brand name, machinery, processes and procedures, market orientation and/or any other tangible and intangible asset. Such a bundle of specific resources can generate competitive advantage if resources are valuable, rare, imperfectly inimitable, and non-substitutable (Barney, 1997, p.41). The more the resources contribute to the firm's competitive advantage the more valuable they are (Madhok, 1997). In terms of entry mode choices RBV logic emphasizes that a company should opt for entry modes which can preserve the competitive advantage of the firm in the host country. Therefore, an entry mode needs to be evaluated on its ability to transfer assets or a bundle of assets into the host country without value erosion. In a somewhat basic example a firm can have resources in the form of „products ready to be exploited" but may not have enough financial resources on its own to invest in the host country in which case it should supplement its own resources with those of a potential partner (Sharma and Erramili, 2004, pp. 7-8). Without such a partner a company may not be able to sustain competitive advantage, at least in the beginning since it can always develop resources internally over a certain time period if conditions enable it.

The conditions in which cooperative or internalized entry modes are preferred is the primary concern of the organizational capability framework by Madhok (1997). While rooted in RBV Madhok (1997) broadens the boundaries of the RBV and considers resources outside of the firm. He argues that source of competitive advantage in the host market is the ability of the company to exploit its existing knowledge through combination of the company's know-how and the host country location. When choosing an entry mode the company concerns itself in minimizing value erosion and chooses cooperative entry modes in cases when it identifies the location itself as a greater mediator of value erosion that the ownership effect (Madhok, 1997, p. 49). Vice versa, in cases where value erosion is more pronounced if the company externalizes its resources it chooses internalization and integrative entry modes.

Sharma and Erramili (2004) also discuss environmental influences in their RBV framework and argue that transfer of advantage generating resource might not be possible because they are bound to the domestic location, which is not uncommon with production specific resources like skilled labor. Also, resources not be compatible with the host country like incompatibility with host country laws, business policies, etc. In their application of the RBV theory to entry mode choices Sharma and Erramili (2004, p.9) explain EMS through four major constructs: (1) probability of establishing competitive advantage in production operations in a host country, (2) probability of establishing competitive advantage in marketing operations in a host country, (3) capability to transfer advantage generating resources in productions operations

PRODUCTION ACTIVITIES		MARKETING ACTIVITIES		Entry Mode Favored by the RBV Framework
Firm's Likelihood of Establishing Comparative Advantage in the Host County	*Firm's Ability to Transfer Advantage-Generating Resources to Host Country Partners*	*Firm's Likelihood of Establishing Competitive Advantage in the Host Country*	*Firm's Ability to Transfer Advantage-Generating Resources to Host Country Partners*	
Low	N.A*	Low	N.A.	Do not Enter; Indirect Exporting
Low	N.A.	High	High	Direct Exporting via Host Country Intermediaries
Low	N.A.	High	Low	Direct Exporting via Company Owned Channels
High	High	High	High	Contractual mode (Licensing, Franchising)
High	High	High	Low	Production Joint Venture
High	Low	High	High	Marketing Joint Venture

Figure 18 The RBV explanation of EMS (Sharma and Erramili, 2004).

to host country partners and (4) capability to transfer advantage generating resources in marketing operations to host country partners. *Figure 19* presents a useful rule of thumb for EMS according to the RBV.

4.2.3 The eclectic paradigm (the OLI framework)

Dunning's (1988) eclectic paradigm combines insights from RBV and TCA (Brouthers and Hennart, 2007; Andersen, 2001). In his conceptual framework Dunning suggests that the most appropriate EMS choice into a host market is made by considering advantages as they relate to three factors: (1) ownership advantages (O), (2) location advantages (L) and (3) internalization advantages (I). Ownership advantages refer to firm specific advantages already discussed by RBV in terms of company assets and competencies that need to be unique, sustainable and transferable in to the host country to preserve value and competitive advantage (Madhook, 1997; Hernandez, 2011; Sharma and Erramili 2004; Barney, 1997). Location advantages are country specific advantages which reflect the host country attractiveness such as market potential and investment risk but also culture similarity, infrastructure and availability of lower productions costs (Andersen 2001, p.34). Internalization advantages are the benefits that a firm obtains by choosing a high commitment entry mode (Dunning, 1988, Andersen 2001; Laufs and Schwens 2014) based on the TCA approach. It can be observed from that the OLI conceptual framework is basically a sequential approach which can stop at any of the three factors (*Figure 20*). If a company can justify its ownership advantage then it proceeds to consider element of the internalization advantage and so on. Although Dunning (1988, 1993) concerned himself mostly with FDIs I would argue that the sequential nature of the decision making process of the OLI conceptual framework is quite versatile and applicable to any number of internationalization cases and there is sufficient evidence that a number of SMEs acted according to this framework (Laufs and Schwens, 2014, p.1113).

4.2.4 The Uppsala model

Maybe the most prominent example of EMS which uses mostly RBV as an underlying theory is the Uppsala internationalization process model which emphasizes gradual increase in market commitment in the target market (Hernandez 2011, p.13). However, compared to the OLI framework, the Uppsala model is more descriptive in nature. In their model Johansson and Vahlne (1977, 2009) argue that firms develop foreign activities over time and in an incremental fashion, based on their knowledge development about the foreign market.

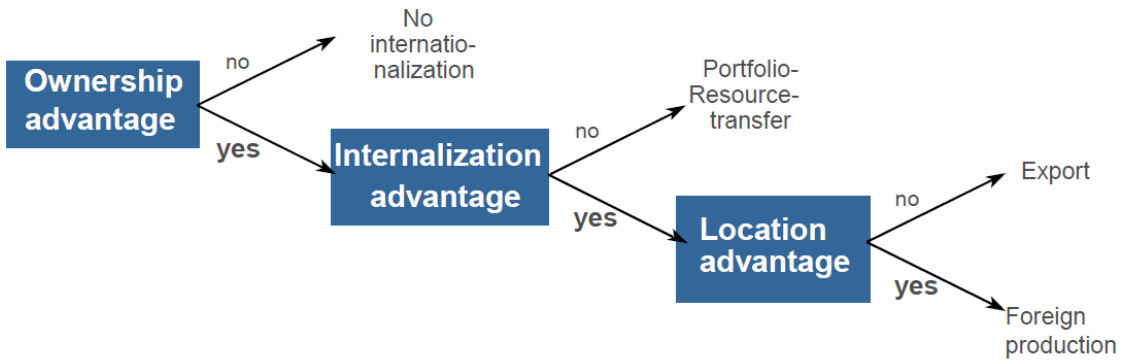

Figure 19 The OLI framework (Source: Puck, 2016)

Authors observed that Swedish companies frequently start internationalization through ad hoc exporting with formalization following subsequently through deals with intermediaries, mostly agents representing the company in the foreign market (Johansson and Vahlne, 2009, p. 1412). With sales growth companies tend to replace intermediaries with their own organization. In the same time firms tend to internationalize into markets close to the domestic market in terms of psychic distance. These observations are used by Johansson and Vahlne (2009, p. 1412) to build their model on two assumptions: uncertainty and bounded rationality. They argue that firms change in two ways. First, companies change by learning from operational experience and current activities in foreign market. Second, companies change by redefining their commitment to strengthen their position in the foreign market. As experience builds a firm's knowledge of the market influences the level of commitment and activities that grow out of this commitment. In turn this leads to another level of commitment as can be observed in *Figure 21*. (Johansson and Vahlne, 1977, p.26).

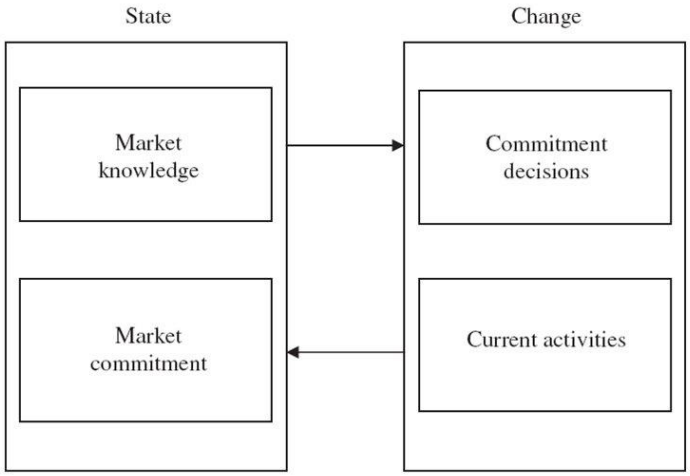

Figure 20 The basic mechanism of internationalization: state and change prospects (Source: Johansson and Vahlne, 1977, p.26).

4.3 EMS discussion for Adrialab

4.3.1 The SME context

EMS activities of SMEs use the same basic approaches as MNE internationalization activities. However, the relative impact of decision variables might be substantially different due to resource constraint already discusses in chapter 3. Of course, no single theory can cover all angles of the internationalization process. It may also be that the hybrid nature of the OLI framework is the reason for its popularity today. In their systematic review of foreign entry mode choices of SMEs Laufs and Schwens (2014, p.1112) examined 33 IM articles and concluded that TCA and the OLI framework (TCA and RBV) are among most frequently used approaches by SMEs. To what extent are SMEs aware of the theoretical background behind their choices is not discussed in the systematic review. Additionally, the authors include the Institutional Theory and Network Theory as another two theoretical frameworks used to rationalize SME EMS choices. The Institutional theory focuses on the host country's formal and informal institutional environment and mainly concerns itself with the risk arising from such influences and how SME's cope with this risk (Brouthers and Hennart, 2007, pp. 405-407). The Network theory rationalizes EMS choices through examining the influence of business networks and customer, buyer and competitor relationships of the company (Chetty & Agndal, 2007, cited by Laufs and Schwens, 2014, p.1119).

Both the Institutional theory and Network theory can be characterized as theories examining different facets of what is essentially a matter of the RBV and TCA and that they represent only additional variables for the same RBV and TCA equation in which a company wants to transfer its competitive advantage into a foreign a company in a most cost efficient way. However, as it was discussed earlier in chapter 3 SMEs are distinguished from MNE's by their constrained resources and may be even more risk-averse (Laufs and Schwens, 2014). Therefore, SMEs are less prone to choosing higher-commitment entry modes (Zacharakis, 1997) and try to find an entry mode that allows them to deal effectively with the risks that arise in the host country (Laufs and Schwens, 2014, p.1109). This is effectively seen in the chapter three and the limitations of IMS set forth by the company vision and the parent company instructions for the case of Adrialab. Limiting the EMS to SEE countries can be therefore traced to its SME nature and the resource and psychological barriers of the company and its management. However, this should not be considered as something negative. IMS and EMS are dynamic processes and the analysis developed in this mater thesis is set in one point in time. The success of immediate and subsequent internationalization efforts of the company as well as the influences from the external environment will change the context in which IMS and EMS of Adrialab are viewed through the TCA and RBV approach. Therefore, the feasibility of various host market/entry mode combinations will change over time. Simply the fact that Adrialab's internationalization is being discussed in a systematical manner is already a good course of action.

4.3.2 One process or two?

It has been debated within IM literature if IMS and EMS are two distinct processes or part of one process (Musso and Francioni, 2014, p.302). In most cases where scholars distinguish them as distinct processes (Johansson, 1997 and Root, 1998, cited by Musso and Francioni, 2014, p.302) the IMS decision precedes the EMS decision. Although considered distinct the two are very strongly connected (Papadopoulos and Jansen, 1994 and Whitelock and Jobber, 2004, cited by Musson and Francioni, 2014, p. 302) and interdependent. Therefore they should not be considered without each other (Guerini, 1997, cited by Musso and Francioni, 2014, p.303). I would also argue that it makes no sense to systematically evaluate markets within the IMS process and then risk internationalization effort success with ad hoc decisions on internationalization modalities. Koch (2001, pp.71-72) even argues that the right way to conduct IMS and EMS is only through comparing combinations of markets and entry modes.

In his opinion comparing country markets without the influence of an entry mode is simply not correct and that various combinations may have different attractiveness. Especially when company resources for pursuing different options are considered. Previous chapters already emphasized the resources constraints of SMEs. However, in his considerations of the eclectic market and entry mode selection model (MEMS) Koch (200, p.73) excludes EMS from the preliminary screening of markets. By doing so he acknowledges the unnecessary burden of having to evaluate all potential combinations but rather focus on feasible market/market entry options.

The preliminary market screening was done in the IMS process in chapter 3 where foreign market opportunities where identified and divided into three categories in order of attractiveness. The remainder of this chapter will focus on assessing the feasibility of host country/entry mode combinations and conclude with a short –list of combinations. However, one must be realistic about the constrained resources of a small company like Adrialab, regardless of its spin-off advantage (Uzunca, 2011). For this reason, the discussion of entry mode choices of Adrialab into category 1 markets for Adrialab is greatly affected by its SME nature already discussed in previous chapters. Therefore, the bulk of the discussion focuses on internal resources of the company while specific market considerations are limited to brief competitive forces and distribution analysis which may influence EMS.

4.3.3 Internal and external factors

From now on, this thesis discusses internal and external factors which can influence EMS of Adrialab. This is similar to an approach presented by Koch (2001) in his examination of the very various factors influencing IMS and EMS. Discussion of internal factor focuses mainly on the organizational capability, the spinoff advantage and already present business policies while external factors discussion is basically, a brief examination of competitive forces and distribution dynamics in selected countries follows in chapter 5. Each step is characterized by reducing either the sum of proposed entry modes, export product lines or potential host country partners. Internal factors are mainly used in an effort to reduce the number of feasible entry modes in the beginning of the discussion. . External factors are then opposed to internal factors and internationalization motives from chapter 2 to reduce the total count of internationalization alternatives. In order to keep the focus of chapter 4 purely on TCA and RBV approaches and thematically divide the discussion of internal and external factors the

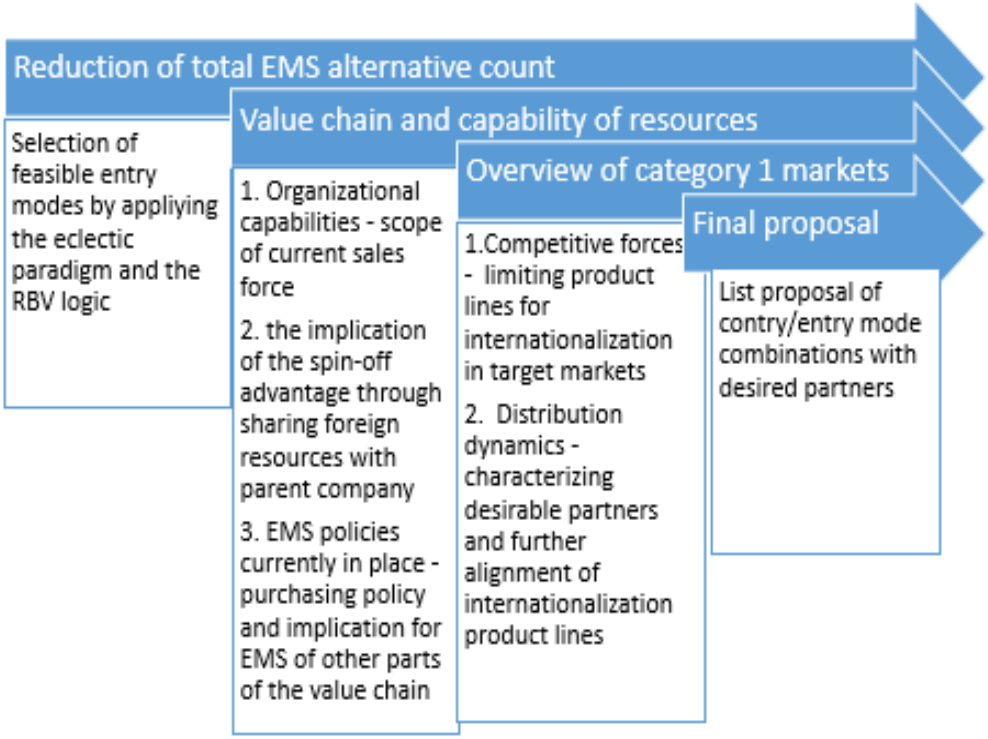

Figure 21 EMS process for Adrialab

overview of category 1 countries continues into chapter 5 while the final internationalization proposal concludes the thesis in chapter 6.

4.3.4 Feasible entry mode options

In this section I continue to narrow down the host market/ entry combinations to a more manageable scale by ruling out all of the unfeasible combinations. This is done through a discussion based on the OLI framework (Dunning, 1988; Puck, 2016) as well as the RBV approach of EMS by Sharma and Erramilli (2004).

Adrialab internationalization motives presented in chapter 2 can be used as rationale for the ownership advantage according to the OLI framework. I believe that this rationale is limited to the proactive motives such as the ease of capacity expansion, the portfolio considerations and the spin-off advantage. However, further discussion of the ownership advantage is not relevant for this section as the first step in the OLI framework is concerned with the decision of whether to internationalize at all. Simply, the topic of this thesis confirms that this decision was already made.

Chapter 3 concluded with a list of five category 1 countries: Romania, Bulgaria, Macedonia, Slovenia, and Serbia. By considering Osland, Taylor and Zou (2001) types of entry modes (exporting, licensing, JV and WOS) this discussion starts 20 different host market/entry mode combinations, 4 entry mode options for each of the 5 countries.

4.3.4.1 Feasibility according to the OLI framework

Initially, I exclude all of the equity based entry mode due to resource constraints and the immediate business environment of the company (parent company context) narrowing the feasibility discussion to 10 basic market/entry mode. In terms of the OLI framework this means that currently there is no location advantage for Adrialab in category 1 countries which are all part of the EU, except for Serbia in which the parent company JGL has already established a sales and production WOS. However, this does not mean that such an advantage could not exist in future, but rather that building or acquiring a plant or opening a sales subsidiary is simply not feasible for Adrialab at this moment and further commitment will depend on market success.

By dismissing location advantage, the OLI framework puts further discussion of entry modes between various forms of portfolio resource transfers, exporting and their combinations *Figure 20*.

4.3.4.2 Feasibility according to RBV

Since there is no likelihood of establishing a competitive advantage in production activities in the host country and there is no point in transferring advantage generating resources in productions activities to a partner in the host country the Sharma and Erramili (2004) RBV approach would suggest to focus further discussion on the ability of the company to establish competitive advantage in marketing activities in the host country and the firm's ability to transfer advantage generating resources in marketing activities to the host country partner. Simply put, the RBV approach would suggest evaluating various exporting entry modes in the Adrialab case.

While, the RBV approach does make sense it excludes portfolio as a feasible option. However, it does not mention the possibility of a hybrid export/licensing mode possible in case of innovative manufacturing companies and companies which own attractive consumer brands. This is something frequently executed in the pharmaceutical industry. Pharmaceutical companies or distributors frequently buy exclusive licenses to market and sell medicinal

products in a particular geographic area while products continue to be supplied by the licensor from their own manufacturing facilities. Therefore, the hybrid export/licensing mode is also a feasible market entry mode which only further confirms the usability of the OLI framework with its hybrid RBV/TCA nature and the limitations of using only one EMS theory like the RBV approach. JGL's licensing deal with Dr. Reddy's in Romania is discussed later in this chapter is an example for such entry mode.

4.3.5 Value chain and capability of resources

Although not mentioned explicitly in previous chapters I assume it has become obvious that this thesis is focused on assessing foreign sales opportunities which implies the transfer of later stages of the value chain, namely marketing and sales. The value chain and capability resources discussion in this section puts forth several reason which can affect final EMS.

4.3.5.1 Organizational capabilities

Currently Adrialab deploys a simple three tier functional organization presented in *Figure 22*. Each business function is overseen by a Unit Manager reporting to the Managing Director. As of May 2017 Procurement has one member, Technical operations 17 members, Quality unit 4 members and Sales and Marketing has 7 members.

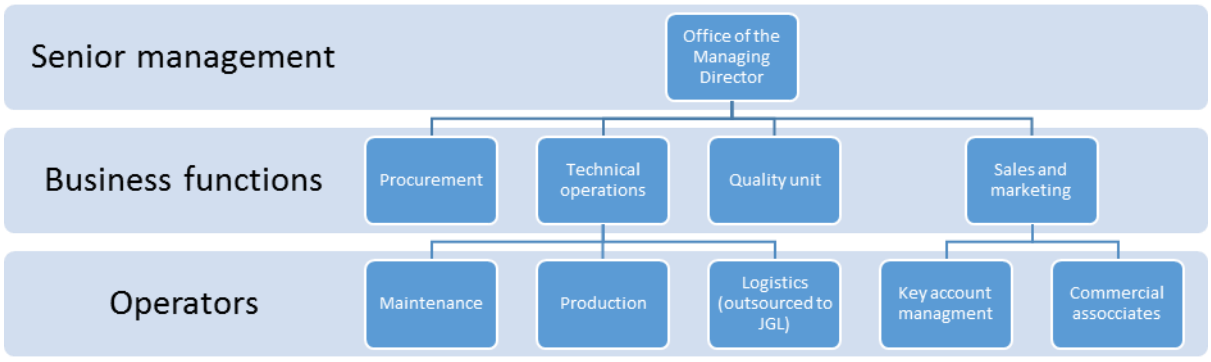

Figure 22 Adrialab organizational chart.

The relatively shallow organizational chart reflects the small size and the nature of the company business. As a manufacturing company most of the employees are engaged in technical operations. As it was already stated in chapter 2 Adrialab has spare capacity which

could be easily utilized for internationalization purposes. Commercial field associates are spread over 5 commercial territories which roughly correspond to Croatia's administrative regions: West region (Istria, Croatia proper), Central region (Croatia proper), South Croatia (Dalmatia), Eastern Croatia (Slavonia). In case of internationalization into geographically close countries Adrialab can extend commercial activities of its field associates into neighboring countries. Slovenia can be divided into two regions which can be covered by field associates from Croatia's west and central regions respectively. While the Western part of Serbia can be covered by an associate from Croatia's Eastern region. The implications of this is that for Slovenia it may not be necessary to transfer any of the marketing activities to a domestic partner but rather use the services of local or regional distributor. However, for most of Serbia and rest of category 1 countries Adrialab will not be able to support field commercial activities with current resources.

4.3.5.2 With JGL or not?

EMS cannot be comprehensible in case of Adrialab if we do not consider the presence of JGL operations within SEE. The presence of JGL in a target market reduces psychological distance, formal and informal institutional risk and possibly the initial resource commitment in the market. In such instances the legal and business environment knowledge is already present in the parent company to a certain extent. Operational procedures for exporting as well as any other paperwork obligations are easier to execute.

For example, if Adrialab considers opening a sales branch it can do so by employing a sales associate within JGL offices abroad whereby all of the costs associated with such employees are proportionally payed by Adrialab. Also, the flow of goods from Adrialab to its customers can be managed through the JGL sales subsidiary where present which can be beneficial for inventory management.

Adrialab's parent company JGL has established entry modes into 4 of the category 1 countries: (1) Wholly owned sales subsidiary in Slovenia with distribution done through a local pharmaceutical wholesaler – 2.000.000 EUR in revenue in 2016

(2) Wholly owned production and sales subsidiary in Serbia with distribution done through a local pharmaceutical wholesaler – 400.000 EUR in revenue in 2016

(3) Sales branch with distribution done through a local pharmaceutical wholesaler – 900.000 EUR in revenue in 2016

(4) Exclusive licensing agreement with Dr. Reddy's in Romania in late 2016 – JGL medicinal products are sold to the final customer under Dr.Reddy's brand

As evident from JGL arrangements in Slovenia, Serbia and Macedonia, these countries are similar to Croatia in terms of distribution modalities of medicinal products. In all three countries distribution of pharmaceutical products is done by specialist wholesalers and while it may be prudent for Adrialab to lean on JGL resources in some aspects this should be weighed in respect with opportunities which may arise by considering different business partners in a host country as well as regional distributers which may encompass several countries. Because of the differences in portfolio between Adrialab and JGL, primary customer competences such as the knowledge and connections with decision makers in local companies (distributors, retailers), key opinion leaders or target customer demographics may be very different for Adrialab and JGL product lines.

4.3.5.3 Purchasing policy - evidence of TCA and implications for EMS

Regardless of the fact that the EMS focus of Adrialab is on expanding foreign sales, it has to be mentioned that since Adrialab is a pharmaceutical manufacturing company located in a small country, a considerable portion of our purchasing, especially raw material, is already conducted abroad. The simple reason for that is that most of the raw material needed is not produced by anyone in Croatia. In cases where a domestic supplier is used the supplier is nearly a local distributor for the original manufacturer or a reseller. In the first 5 months of 2017 Adrialab has purchased raw material from 38 suppliers in 6 different countries (*Table 14)*, even as far as China. Except for China, from where only one high turnover ingredient is purchased, rest of purchasing is done from geographically close or neighboring countries. With its highly developed economy it is not surprising that Italy is second on the list. In fact, share of Italian suppliers will increase considerably in the second part of 2017 due to new product launches for which the ingredient base is mostly sourced from Italian highly industrialized north region but also due to shifting some of the purchasing from domestic suppliers due to better purchasing terms on high turnover SKUs.

I would argue that a high share of purchasing value from Italy and China is an obvious example of TCA and how value chains have become globalized. In instances when the purchase scale

is sufficiently large we tend to shift or initiate purchasing directly from the foreign country in order to cut out the reseller and decrease our cost of materials.

Country	Value share	SKU share
Croatia	66,4%	83,2%
Czech Republic	0,5%	1,4%
Germany	0,5%	1%
Italy	15,0%	6,2%
Slovenia	3,4%	7,7%
China	14,3%	0,5%
Grand Total	100,0%	100%

Table 14 Purchasing share per country Jan-May 2017 (Source of data: Adrialab ERP tool)

In case of purchasing shifts two other conditions need to be secured beforehand: (1) the quality of the manufacturer was affirmed by our internal supplier assessment procedure over the period of one year and (2) the shift does not affect supplier relations with our key domestic suppliers. Therefore, I would argue that we evaluate different types of costs associated with purchasing transactions: (1) the price, (2) logistics cost, (2) quality costs which includes non-conformities and (3) other cooperation costs like opportunistic behavior. Inherently, we would like to use domestic supplier because we speak the same language and operate under the same agreed business norms. However, in cases where purchase terms of the foreign suppliers are sufficiently better that those of the domestic supplier we choose a foreign supplier. When we do choose a foreign supplier, the supplier tends to come from geographically close countries for the very same reasons stated above. Additionally, high SKU share of 83, 2 % for domestic purchases and a lower 66, 4% of value share from domestic purchases may point out that indirect imports through domestic suppliers are used for the more fragmented and sporadic raw material purchases. I would also argue that in terms of raw material country of origin the number of countries from which raw material is indirectly sourced is much higher than the number of countries presented in *Table 14*. However, this would have to be verified by a detailed analysis of country of origin since this data is not available in Adrialab ERP tool. This approach also seems to hold in case of indirect exports where a domestic partner should be used in cases of sporadic exports and in cases where sales

are spread over a large number of different countries where it would be difficult to build up specific knowledge (Grünig and Morschett, 2012, p.125).

To conclude this section, the China example solidifies the TCA approach because in some cases the reduction in price brings the sum of all transaction costs so low that it is attractive to purchase raw material from a geographically and psychologically very distant country. Purchasing policies of Adrialab reveal a proactive approach in establishing parts of value chains outside of national boundaries in search of better value and can be used to rationalize EMS decisions in other parts of the value. In the context of this thesis EMS focus is put on only 5 markets, in 4 of which the parent company JGL has already established an entry mode. Therefore I exclude indirect entry modes from further consideration for countries where JGL has already established a subsidiary which can keep Adrialab products on stock.

5 Country overview – influence of competitive and distribution dynamics on export strategy

The country overview focuses on examining industry dynamics for Adrialab industry segments in category 1 countries established in chapter 3 with emphasis on competitive rivalry and distribution channel analysis.

While chapter 4 focused on shortening the list of potential market/entry modes combinations and excluded all equity based entry modes as well as indirect export modes for countries where the parent company has established its sales subsidiary or has develop relationships with local distributors, the decision still needs to be made on how to organize exporting or licensing for remaining options and which types of intermediary to look and possibly contract. Internal factor influencing EMS were discussed in previous chapter while this chapter emphasizes the fit between external and internal factors which can influence the direct exporting and licensing strategy. In order to do that, this chapter uses a fine grain approach which decomposes Adrialab industry segments used for IMS in chapter 3 in order to focus on particular product lines as export candidates with the most potential and selects the most feasible distribution channels for these product lines.

Therefore, this chapter assumes that the choice of a suitable export partner/intermediary type is contingent of the company's decision on which product lines and distribution channels to focus in the host market, which itself is contingent of the competitive dynamics in each host market consumer segment which could potentially be targeted by Adrialab with its broad product portfolio. Essentially, the aim of such an approach is to maximize export market performance with a clear export market orientation (EMO) which requires companies to monitor their customers, competitors and market environment in order to develop and sell goods and service perceived valuable by customers in export markets (Cadogan et al., 1999, 2001, 2003, cited by Lin, Huang and Peng, 2014, p.404). I believe that such monitoring is easier to sustain if the customers segments are not widely dispersed and if they are in alignment with the company's most established core competences.

5.1 *Co*mpetitive rivalry

Competitive rivalry is analyzed through a perceptual map similar to those used in FMOA analysis (Ozturk, Joiner and Cavusgil, 2015) in chapter 3 by plotting growth in consumer expenditure, and the market share of top 5 companies (5 – firm concentration ratio) in each of the industry segments. However, market size as bubble sizes are excluded because by this point they have already made the required impact in the IMS process. Therefore, while in chapter 3 Adrialab industry segments figures were aggregated, here they are split into 6 segments for each of the 5 countries, producing 30 options overall. Each country segment is designated by combining the country code letters (ROU, BUL, SER, SLO, and MAC) and the first three letters of the consumer expenditure segment. For example, dermatologicals in Serbia are designated as SERDER, baby and child - specific products in Bulgaria are designated as BULBAB, etc. However, the 5-firm concentration ratio figures where not available for SERPED, SLOPED and MACPED. As such they are excluded from *Figure 23*.

Less competitive segments are characterized with greater industry concentration and high growth (Porter, 2008). Especially, if the overall market is relatively large. I would argue that a high 5-firm concentration ratio may also indicate two diametrically different states of competitive forces. On the one hand, the segment may be in the early stages of its development with few innovative incumbents but also it can be a highly mature and consolidated market. Entering an industry segment in early development increases the chance of gaining market share. In the same time entering an industry segment with a lot of competitors increases the need for a strong competitive advantage in order to „stand out from the crowd“.

However, intensity of competitive rivalry should be less pronounced in industries where high concentration is accompanied by high growth figures since all of the incumbents which can grow at different paces, do not have to „steal“ market share from competitors in order to grow. A moderate negative correlation (-0, 5) between 5-firm concentration ratio and growth in consumer expenditure can be observed from *Figure 23*. Therefore, the fastest growing consumer segments in category 1 countries are populated by many smaller incumbents.

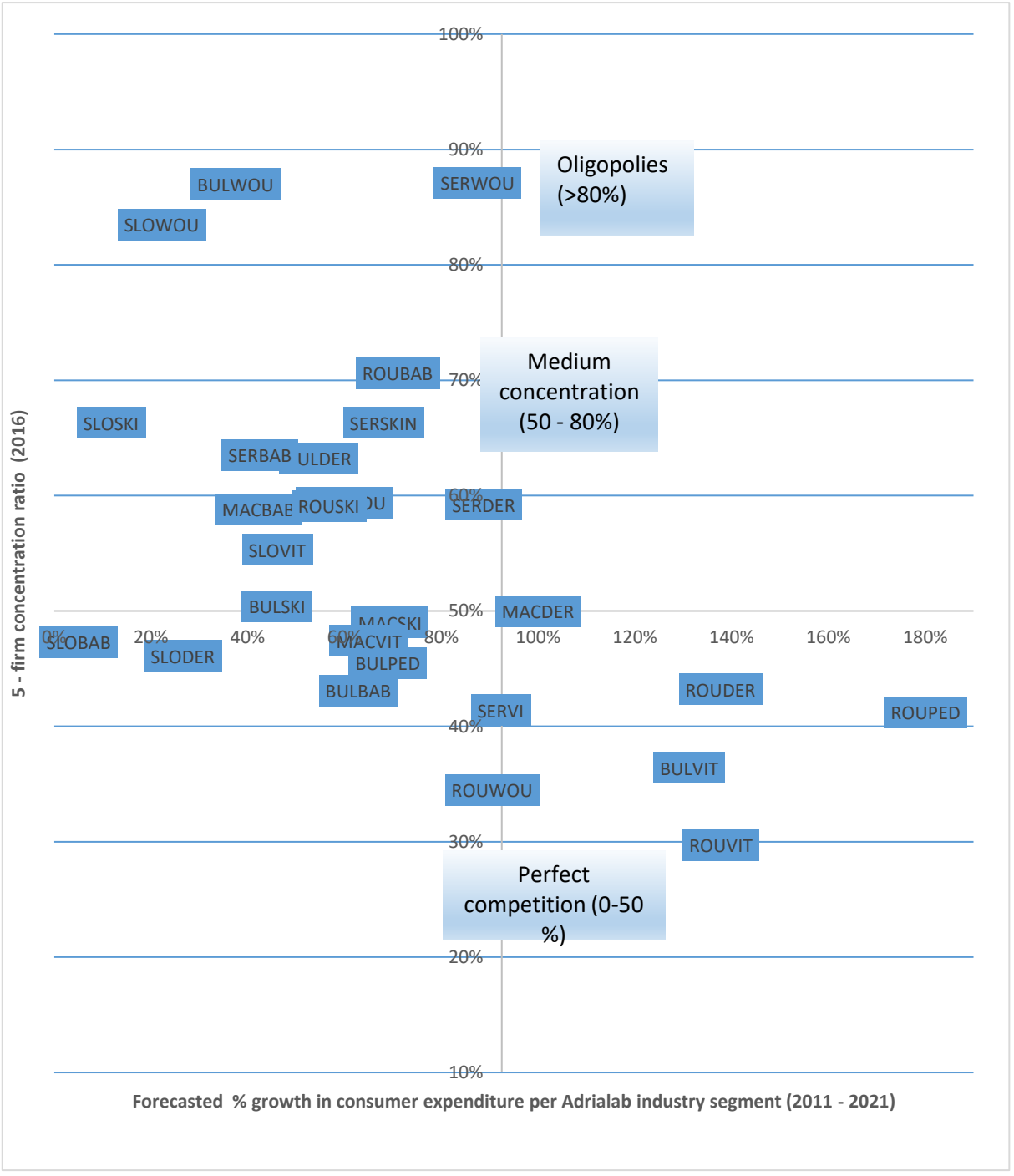

Figure 23 Competitive rivalry perceptual map (Data retrieved 11th Jun 2017 from Euromonitor Passport Database: http://www.portal.euromonitor.com/)

The absence of a strong competitive advantage and the ability of transferring it into the host country reduces the willingness of initial company resource commitment in market entry due to risk of failure, regardless of industry growth in the target market. This is in line with the

basic financial concept of greater return/greater risk. However, if a strong competitive advantage does exist in the home market the RBV theory proposes to choose an entry mode with the highest possibility of transferring this competitive advantage into the host market.

In terms of Adrialab portfolio from *Table 4* Adrialab should already have a pronounced competitive advantage in the home market in product lines which constitute the bulk of the company's revenue. Product lines Dječja mast, Holyplant, Galenia and Vitalia generate 86, 2 % of revenue. Therefore Adrialab should possess the most expertise in market segments corresponding these product lines. Because of lack of a more suitable measure expertise is used as a proxy for competitive advantage. Translating this into market segment by applying classification from *Table 9* would eliminate the wound care consumer segment from further consideration. The fact that *Figure 23* shows wound care segments as mostly oligopolies dominated by few strong player and with relatively lower consumer expenditure growth only makes the decision to not actively pursue this segment even more apparent.

5.2 Distribution dynamics

In 2016 most of the retail sales for Adrialab consumer segments come from Health and Beauty Specialist retailers. *Figure 24* shows BULBAB, MACBAB, MACSKI, MACVIT, ROUSKI, SERBAB and SERSKI as only consumer segments where the share of retails sales of Health and Beauty Specialist retailers are below 50%. This is not surprising since baby and child-related products and skincare segments are very heterogeneous groups of consumer products. For example, a baby and child-related products are also items like diapers and baby food which are usually bought in grocery stores or a nappy area cream usually bought in Health and Beauty specialist store, including pharmacies. In contrast, dermatologicals, wound care, and pediatric items consisting mostly of OTC medicinal products as well as vitamins and dietary supplements are in specialist stores, mostly pharmacies *(Figure 24*). Among many internationalization motives established in chapter 2, maybe one the strongest ones is the very thin profitability of product lines distributed through the retail network. In accordance with the fact that most of the profitability for Adrialab product lines in the home market comes from the pharmaceutical wholesale distribution channel, albeit with lower turnover figures, Adrialab should emphasize developing this same distribution channel in host countries by focusing on dermatologicals, pediatric health and vitamins and dietary supplement segments as a primary concern. Additionally, by doing this Adrialab increases the chance of contracting the same

pharmaceutical wholesale specialist distributors as JGL in Slovenia, Macedonia and Serbia. Also, opting out of the mass retail market, at least in the beginning, would be prudent in terms of reducing the risk of not being able to satisfy host market demand.

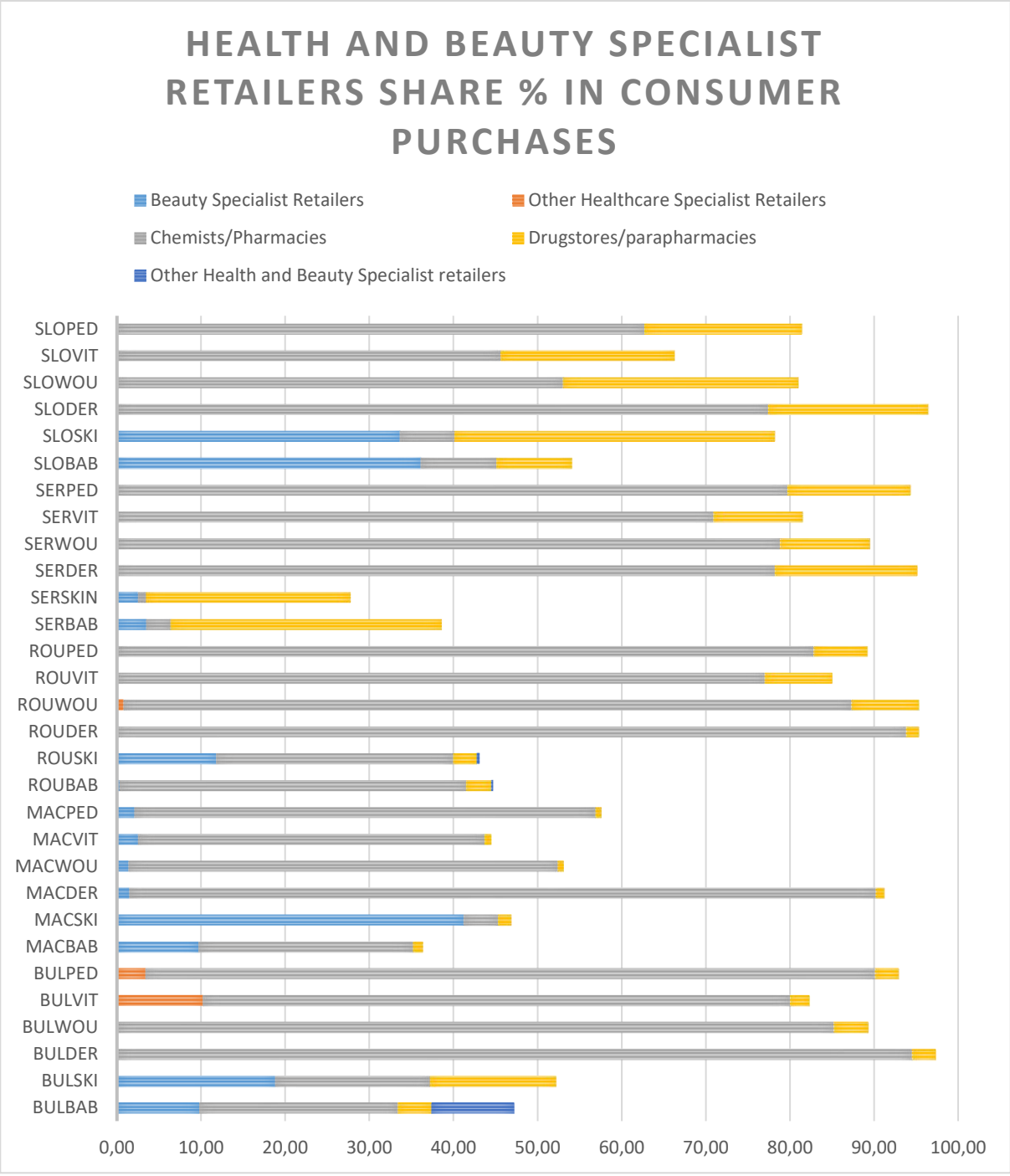

Figure 24 Specialist retailer share % in consumer purchases (Data retrieved 11th Jun 2017 from Euromonitor Passport Database: http://www.portal.euromonitor.com/)

6 Conclusion - Internationalization proposal for Adrialab

Chapters 2 to 5 discuss the various aspects which should influence choices to be made in the internationalization path of Adrialab. Additionally, chapter 3, 4 and 5 each deliver choices which are necessary for setting the frame of discussion in the following chapter. This chapter summarizes the choices made so far and concludes with an internationalization proposal for Adrialab d.o.o.

6.1 Why does Adrialab want to internationalize?

While chapter 1 sets the context of the company through its brief history, product portfolio presentation and its spin-off nature, chapter 2 “kicks-off” into the area of internationalization processes through examination of internationalization motivational factor since it is necessary for the company and its management to be aware of the specific motives behind the desire to internationalize parts of the value chain. In part to reflect on the domestic business itself but mostly because of the implications these have for both IMS and EMS processes. For example, negative experience with large retailers and a higher profit margin from pharmaceutical wholesalers in the domestic market serve as a motive for internationalization but these motives also influence the choice of intermediaries and targeted consumer segments in the host market which is only exacerbated by the fact that the most promising segments identified in chapter 5 (dermatologicals, pediatric healthcare, and vitamins and dietary supplements) exhibit strong growth mostly in pharmacies as final points of sales. In line with the prevailing classification used by IM scholars investigating the field of internationalization motives of SMEs internationalization motives of the company are presented as either proactive or reactive. Apart from the more psychological and opportunistic motives like managerial urge due to company’s heritage or the spin-off advantage based on the company’s spin-off nature, both proactive an reactive motives which are influenced by domestic market environment and manufacturing capacity of Adrialab can be considered as efficiency seeking motives *Table 15*.

6.2 Where should Adrialab internationalize?

After establishing motivational factors for internationalization this thesis continues with a search for most suitable target countries in chapter 3 by applying screening and clustering techniques in order to produce a final foreign market opportunity index prioritizing countries on a set of macro and industry indicators as well as company specific scope limitations

formulated by the parent company such as the focus on SEE countries. Initially, the IMS model assesses the economic and population attractiveness of countries in scope by weighing population growth, level of unemployment, inflation, GDP growth rate, GDP per capita, export per capita, and import per capita, through usage of a linear compensatory model developed for manufacturing firms by scholars from Lithuania which shares demographic and international trade traits with Croatia.

Source of motivation	**Type of motive**	**Brief explanation**
Domestic market environment	Reactive/efficiency seeking	commoditization in the mass retail channel accompanied with increasing discounts and downward pressure on profitability (negative EBIT margin in 2016)
Transparent overview of profit generating centers	Proactive/efficiency seeking	1. unequal profit contributions of products sold through pharmacies and mass retailers, 2. best sold product line still not breake-even
Manufcturing capacity utilization	Proactive/efficiency seeking	The company can easily triple its output solely through additional employment and without any invesmtent
Company heritage	Proactive	Managers and owners intrinsic urge for the future development of the company based on past parent company success.
Spin-off nature	Proactive	Competitive advantage over other incumbents due to pre-entry capabilites inherited and acces to tacit knowledge from the parent company.

Table 15 Internationalization motive overview of Adrialab d.o.o.

This country macro index is further supplemented with a country market index by equally weighing aggregated market size and growth figures in the 2011 – 2021 period for consumer

expenditure categories Baby and Child-specific products, Pediatric Consumer Health, Skin care, Dermatologicals, Vitamins and Dietary Supplements and Wound care monitored by the Euromonitor Passport Database.

In an effort to identify and quantify industry specific drivers for countries in scope a hybrid IMS tool identified through IM literature overview is used to assess each country's demand elasticity (country responsiveness) and position them as Stagnants, Valuables, Industry Valuables or Winners according to 4 aggregate measures deemed relevant by the author: (1) % of households with disposable income over 10.000 US$, (2) median population age index growth and (3) imports as % of GDP.

By combining the country macro index, country market index and relevant aggregate measures results chapter 3 concludes with a priority list of target countries clustered into three categories: (1) best ranking SEE countries for which the entry mode decision should be developed with most priority, (2) lower ranking SEE countries and higher ranking non-SEE countries which should be considered with less urgency, and (3) Lower ranking non-SEE countries.

6.3 How should Adrialab internationalize?

Best ranking SEE countries or category 1 countries which include Romania, Bulgaria, Macedonia, Slovenia and Serbia can be entered through several types of equity and non-equity based entry modes. Overall, 10 equity based and 10 non-equity based market/entry mode combinations are possible. However, equity based entry modes are not feasible at this point due to constrained resources characteristic for an SME like Adrialab, the lack of the location advantage emphasized by the OLI framework, no likelihood of establishing a competitive advantage in productions activities abroad and no point in transferring advantage generating resources in production activities to a partner in the host country which is necessary for establishing a WOS in the host country according to the RBV. The OLI framework logic sets the frame for subsequent discussion between various forms of portfolio resource transfers and exports. As a result, Adrialab's policies, capabilities and resources are evaluated based upon their importance for the 10 non-equity based market/entry mode combinations, 5 export combinations and 5 licensing combinations. An overview of the sales force capabilities reveals that currently employed field commercial associates can manage

commercial activities in Slovenia and northeast Serbia. Additionally, the parent company JGL has established entry modes in 4 countries, excluding Bulgaria, with a sales branch established in Macedonia and WOSs established in Slovenia and Serbia. These findings suggest a slight internalization advantage in Macedonia, Slovenia and Serbia suggesting that portfolio resource transfers are not suitable for these countries. A purchasing policy overview shows that Adrialab already uses TCA in that part of the value chain and that adhering to same basic principles would be in line with the company's current international value seeking approaches. Consequently, indirect entry mode are disregarded. However, the choice of a suitable intermediary in each country has to be in line with the primary customer competence necessary for successful introduction of Adrialab product lines which are quite different than those marketed by JGL. Therefore, chapter 5 focuses on the influence of competitive and distribution dynamics in target in order to clarify the most promising consumer segments and distribution channels. Oligopolistic segments like Wound Care and segments with a high share of distribution into mass retail outlets like Skin Care and Child and Baby-Specific Products are excluded from the internationalization proposal.

6.4 The internationalization proposal

This thesis concludes with a short list of internationalization proposals for Adrialab (*Figure 25*). Based on competitive and distribution dynamics discussion from chapter 5 Adrialab should focus its internationalization efforts on product lines which can compete in dermatological, pediatric healthcare and vitamin an dietary supplement segments where it has built expertise in the domestic market and for which an increase in turnover would have immediate impact on profitability (e.g. Dječja mast). These segments have also proven to be in alignment with the company's internationalization motives. Therefore, Adrialab should focus its efforts on distribution into pharmaceutical outlets through local pharmaceutical wholesaler in cases where a direct export entry mode is selected. However, in order to decrease exposure to opportunistic behavior of foreign partners' exports should be done via JGL subsidiaries where possible.

Field activities should be executed by the domestic sales force where possible and contractually in others cases, initially by outsourcing it to the JGL subsidiary, a specialist organization or distributor.

More distant markets like Bulgaria and Romania should be screened for potential exporting and licensing partners since an internalization advantage is not evident at this point. Licensing partners could purchase exclusive licenses for agreed territories while supply should be maintained by the company's domestic facilities. This approach can be feasible for proprietary medicinal products in the company's portfolio.

Following results of this thesis sales feasibility plans of direct exports for Slovenia and Serbia and potential partner screening for Romania and Bulgaria should commence.

			Intermediary		
Order of entry	Consumer segments	Entry mode	Exports via	Domestic distributor	Promotion
end of 2017	SLOPED, SLODER, SLOVIT	Direct export	JGL subsidiary	Local pharmaceutical wholesaler	Field asscoiates from west and central Croatian Region
end of 2017	SERPED, SERDED, SERVIT	Direct export	JGL subsidiary	Local pharmaceutical wholesaler	Field associate from east Croatian region + contract with JGL subsidiary or specialist partner
Already started	MACPED, MACDER, MACVIT	Direct export	Local pharmaceutical wholesaler		Contract with JGL sales branch
end of 2018	ROUPED, ROUDER, ROUDER	Direct export / licensing	Local or regional pharmaceutical wholesaler and/or licensing partner		Contract with host country partner in case of exports
end of 2018	BULPED, BULDER, BULVIT	Direct export / licensing	Local or regional pharmaceutical wholesaler and/or licensing partner		Contract with host country partner in case of exports

Figure 25 Adrialab internationalization proposal

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