



Project Report

Master in International Business

***Internationalization process of TUBOFURO®***

**Ludovic Carvalho**

Leiria, September 2016

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## ***Internationalization process of TUBOFURO®***

**Ludovic Carvalho**

Report developed under the supervision of Professor *Ana Lúcia Marto Sargento*, professor at the School of Technology and Management of the Polytechnic Institute of Leiria.

Leiria, September 2016

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# Dedication

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A dissertation or project report results from a long process of profitable periods, doubts, happy moments and sad moments. The friends and family are without no doubt all our support through this period.

When we don't believe that it would be possible do reach the end, they are always beside us loan us their strengths and beliefs. For all that support, I would like to dedicate this report to all my personal friends and family, and also to the supervisor of this hard work, Professor Ana Lúcia Marto Sargento for all her support and guidance.

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# Acknowledgements

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## Resumo (*in Portuguese*)

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O presente trabalho de projeto teve por objetivo central formular a estratégia de internacionalização da empresa Tubofuro®, discriminando os pontos relevantes desde a sua formulação à sua implementação.

Trata-se de uma empresa situada em Leiria, freguesia de Ortigosa, que opera, entre outras, na indústria portuguesa de tubos em PVC para a qual correntemente o mercado interno é claramente insuficiente tendo em conta a excessiva oferta em comparação à procura.

Sendo a Tubofuro® uma empresa exportadora desde 2004, o trabalho aqui desenvolvido pretendia especificamente incrementar as vendas para o mercado externo, passando este a representar 45% do volume total de negócios da empresa em 2018. O aumento do número de mercados, através de novos parceiros que permitam o posicionamento da Tubofuro® entre os principais *players* de cada mercado, nomeadamente em mercados Sul-Americanos, norte-Africanos e europeu.

Para concretizar os objetivos anteriormente apresentados, foi aplicado um estudo de caso, centrado na empresa Tubofuro®, alvo da estratégia de internacionalização. A pesquisa levada a cabo para a formulação da estratégia suportou-se numa análise aprofundada do ambiente externo e das características internas da empresa em causa, para a qual foram cruzados diferentes tipos de dados, quantitativos, qualitativos, dados secundários e dados primários.

Do trabalho desenvolvido resultou a elaboração do plano de internacionalização e de marketing internacional para os próximos 3 anos, cujos objetivos assentam na entrada e conseqüente crescimento em novos mercados, nomeadamente no mercado Chileno, Peruano, Mexicano, Argentino, Argelino e Alemão, bem como o crescimento em presença e volume de negócios nos mercados para os quais a Tubofuro® já exporta regularmente, sendo exemplo a Espanha, França, Tunísia e Marrocos.

Tendo por base a capacidade produtiva de empresa Tubofuro®, a qual não sofrerá nenhum tipo de investimento para incrementação, mas apenas para atualização, prevê-se que a capacidade de resposta adequada para a empresa seja de 8 mercados regulares, podendo eventualmente surgir exportações esporádicas para outros mercados não interferindo com a normal capacidade produtiva da empresa. A sugestão dos mercados

apresentados tem por base o estudo do preço final a que os clientes locais adquirem um produto igual ou semelhante ao da Tubofuro® e ao número de potenciais clientes existentes em cada mercado.

O modelo de internacionalização conhecido por Uppsala Model, corresponde à estratégia adotada pela empresa para o seu processo de internacionalização, tendo em conta a filosofia dos quadros superiores e da aversão ao risco dos mesmos. A equipa de vendas Tubofuro® procura, para cada mercado, exportar um contentor completo registando o feedback do cliente, nomeadamente qualidade e capacidade de escoamento no mercado, por forma a procurar estabelecer um contrato de parceria com um distribuidor local, que permita à Tubofuro® passar ao ponto dois do modelo supramencionado. O contrato de parceria assenta no compromisso mútuo de cooperação técnica e comercial entre a Tubofuro® e o parceiro, por forma a incrementar a capacidade de atuação junto dos clientes locais. Somente se o mercado apresentar uma procura maior à nossa capacidade de oferta e se justificar, através da relação custo/benefício, a entrada nesse mercado através de uma Joint-Venture ou subsidiária é que a decisão será tomada.

Embora se trate de um estudo de caso, o que implica que se encontra ajustado ao caso concreto da Tubofuro® impedindo a generalização de conclusões, entendemos que o presente trabalho poderá ser útil como exemplo para outras empresas similares em processo de internacionalização, quer pela metodologia adotada na formulação estratégica, quer pelos outputs e conclusões obtidas.

*Palavras-chave: Internacionalização, Teorias de internacionalização, modos de entrada, Exportação, Indústria de tubos de PVC, o contexto ambiental, Estratégia*

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# Abstract

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The central objective of this case study was to formulate the strategy of internationalization of Tubofuro®, discriminating relevant points from its design to its implementation.

This is a company located in Leiria, Ortigosa parish, which operates, among others, in the Portuguese PVC pipes industry for which currently the domestic market is clearly insufficient, given the oversupply compared to demand.

Being Tubofuro® an exporting company since 2004, the work here developed specifically intended to increase sales to the foreign market, with this representing 45% of total company's business in 2018 increasing of the number of markets through new partners to enable the positioning of Tubofuro® among the main players in each market, particularly in South American markets, North African and European.

To achieve the above objectives presented a case study was applied, centred on Tubofuro® company, target of the internationalization strategy. The search carried out for the formulation of the strategy has been supported on a thorough analysis of the external environment and internal characteristics of the company, for which were crossed different types of data, quantitative, qualitative, secondary data and primary data.

From this work resulted the development of internationalization and international marketing plan for the next three years, whose objectives are based on entrance and consequent growth in new markets, including the market Chilean, Peruvian, Mexican, Argentine, Algerian and German, as well growth in the presence and turnover in the markets for which Tubofuro® already exports regularly, for example Spain, France, Tunisia and Morocco.

Based on the production capacity of Tubofuro® company, which will not suffer any kind of investment for incrementing but only to update, it is expected that the appropriate response capacity for the company is 8 regular markets, and could eventually arise sporadic exports to other markets not interfering with the normal production capacity of the company. The suggestion of the presented markets resulted from the study of the final price based on the one that local customers purchase a product equal or similar to Tubofuro® and the number of potential existing customers in each market.

The internationalization model known as Uppsala Model corresponds to the strategy adopted by the company to its internationalization process, taking into account the philosophy of senior management and the risk aversion of them. The sales team Tubofuro® demand for each market, export a full container registering customer feedback, including quality and flow capacity in the market in order to seek a partnership agreement with a local distributor, which allows the Tubofuro® go to step two above mentioned model. The partnership agreement is based on mutual commitment to technical cooperation and trade between the Tubofuro® and partner, in order to increase the performance capacity among local customers. Only if the market presents a greater demand to our supply capacity and be justified by cost / benefit ratio, the entry into this market through a joint venture or subsidiary is that the decision will be taken.

Although this is a case study, which means that is adjusted to the concrete case Tubofuro® preventing generalization of findings, we believe that this work can be a useful example for other companies in the internationalization process or the methodology adopted in formulating strategy or the outputs and conclusions drawn.

Keywords: Internationalization, Theories of internationalization, Entry Modes, Exportation, PVC pipes industry, Environmental context, Strategy

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## List of acronyms

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PVC – Polyvinyl Chloride

JV – Joint Venture

PME – *Pequena e Média Empresa*, Small and Medium Enterprise

SA – *Sociedade Anónima*, Public Limited Company

ICC – International Chamber of Commerce

OLI – Ownership, Location, Internalization – Eclectic Paradigm

MNE – Multinational Enterprises

FDI – Foreign Direct Investment

PDI – Power Distance

IAV – Individualism VS Collectivism

MAS – Masculinity VS Femininity

UAI – Uncertainty Avoidance

TOS – Temporal Orientation of Societies

PESTE – Political, Economic, Social, Technologic, Environmental

CEO – Chief Executive Officer

SMART – Specific, Measurable, Attainable, Real, Timetable

GDP – Gross Domestic Product

INE – *Instituto Nacional de Estatística*, Statistic National Institute

DGEG – *Direção Geral Energia e Geologia*, General Direction for Energy and Geology

DGEEC – *Direção Geral de Estatísticas da Educação e Ciência*, General Directorate of Education and Science Statistics

USD – United States Dolar

PE – Polyethylene

CAE – *Coeficiente de Atividade Económica*, Coefficient of Economic Activity

GWE – German Water Energy GmbH

SGPS – *Sociedade Gestora de Participações Sociais*, Management Companies of holdings

LNEC – *Laboratório Nacional de Engenharia Civil*, National Civil Engineering Laboratory

uPVC - Unplasticized Polyvinyl Chloride

VRIO – Valuable, Rare, Imitability, Organization

SWOT – Strengths, Weaknesses, Opportunities, Treats

CDRSP – *Centro de Desenvolvimento Rápido e Sustentado do Produto*, Sustainable and Rapid Development Center of Product

SCT – *Sistema Científico e Tecnológico*, Scientific and Technological System

PEHD – Polyethylene of High Density

PELD – Polyethylene of Low Density

OECD - Organisation for Economic Co-operation and Development

TLCUEM - *Tratado de Libre Comercio entre México y la Unión Europea*, Free Trade Agreement between Mexico and the European Union

VAT – Value-Added Tax

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# Introduction

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The internationalization issue became to be more important in nowadays economy. The globalization brought new conditions, new preferences, opened new possibilities and changed the business done towards the entire world. Today it is almost essential to the competitiveness of an enterprise to expand its activity outside frontiers based on a strong strategy. For those reasons, the investigation to achieve the best practices of internationalization became to be more important and nowadays the literature is wide, resulting from the recent literature.

The present case study uses the most recent literature to define the process of internationalization of the enterprise Tubofuro®. It is based on the available literature regarding the process of internationalization, modes of entry, strategy definition, explaining also the motives, benefits and barriers of this process. The literature review provides the base information from the firsts ideologists and also the most recent theories.

This report is based on a Portuguese company, called Tubofuro®, SA, and specialist since 1999 in extrusion of u-PVC pipes for water drillings. Along the last years, Tubofuro® diversified its offer and nowadays it is able to provide a wide range of products for the water and environmental markets, from PVC pipes to waste water treatment plants for example. Today it counts with 54 employees, working divided in 2 shifts and it had a total revenue of 6.5M€ in 2015, being considered a PME (Portuguese simplification to Small and Medium Enterprises). The selection of this company has been made considering that it is where I worked, allowing to reach important information and to develop the internationalization process of the company as long as I was writing this report. Another reason is that Tubofuro® represents a challenge to implement a new internationalization strategy, since it was a company accustomed to export to Portuguese Native Speaker countries, Angola, Mozambique, Cape Verde, Brazil, and also to Spain through a local distributor. It was not taken into consideration any strategy other than sell the maximum possible. Since those markets faces serious financial, social and economic problems, Tubofuro® had to look to another horizons and after convincing the administration I've been authorized to develop the new strategy to internationalize and to apply to international funds.

The report is divided into 5 different main chapters. After the introduction, the literature review is presented, exposing the current state of the art concerning the internationalization theme, since the modes of entry, processes, motivations, risks, associated costs, competitive advantages and other issues strictly related to the process of internationalization of a company. Chapter 2 follows, regarding the research methodology, explaining how the information has been collected, where it has been collected and how it has been processed to origin the present report. The third chapter focuses on the development of the case study of the company Tubofuro®, presenting the internal and external analysis and defining strategies and objectives. Concerning the fourth chapter, it presents the main conclusions resulting from the development of this report and the future perspective of my short/medium carrier at the company. The last chapter provides information about the limitation of this report for the current literature.

# Literature Review

## Internationalization

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It is easy to understand that internationalization cannot be considered as a phenomenon of our days by simply looking back to the old times in history. The international trade between nations was usual at those times. However, nowadays the internationalization has achieved a new dimension and it is in constant development what makes this a relevant case to be studied. From the literature, more precisely from (Ferreira, Reis, & Serra, 2011) the international business comprehends all the commercial transactions and investments involving at least enterprises from two different countries. One of the most important aspects for the success is the capacity to understand and to conduct operations in different countries with different economies, legislations, laws, governments' rules and policy realities, as well as different cultures.

The phenomena of internationalization of the companies emerged in the 60's, period post World War II, due to the US economic growth and expansion and the considerable evolution of the technologies and transport grids. Before 1960, there were already some investigators that came out with important theories, as Dunning and Vernon for example but after the 60's significant growth of the phenomena, investigators surged with new theories and until today the updates are still surging.

It is important to understand that internationalization is an example among other strategies to expand. Internationalization is considered the most complex way to expand. (Johanson & Wiedersheim-Paul, 1975), suggests that basic assumption is that the firm first develops in the domestic market and that the internationalization is the consequence of a series of incremental decisions. They also assume on that paper that the most important obstacle to internationalization are lack of knowledge and resources.

## Reasons and benefits of Internationalization

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According to Ferreira, Reis, & Serra (2011) there are many reasons to internationalize as the ones listed as follows:

- Increase the market that the companies serve and explore growth opportunities. The international sales may absorb the surplus productions and thus contributing to reduce the unitary costs;
- The exploitation of competencies or specific advantages from the enterprise which are generators of revenues from external markets;
- The profit of possible scale economies at the production and commercialization;
- The following of clients;
- The exploitation or enlargement of the product life cycle since it develops differently from one market to another;
- The access to inputs on quantities, quality and/or costs;
- Reduce the production costs, by producing in countries where the man-over is cheaper or the natural resources are easily attainable;

From the literature, enterprises internationalize to profit from governmental incentives through financial policies or legal benefits attributed by the local government (Dunning J. H., 1993). Companies may also profit from the diminution of the fiscal weight through the diminution of the taxes to pay.

Dunning (1993) also developed a theory in which he introduced five different motives for the internationalization of the firm's. The market research, resources research, efficiency research, strategic resources search and networking research. The market research is focused on demand aspects. Companies that invest in a particular country or region with the intention to export products and services are designated market seekers. Companies which internationalize to find cheaper and best quality resources are designated the resource seekers companies. The companies that looks for rationalize structures of some investments in order to implement a common governance are called the efficiency seekers. The strategic resource seekers correspond to the enterprise that seek to develop of a strategic resource. Normally it is attained through acquisition at a foreign market. At last the network seekers are the companies which want to nurse, develop and expand their existing networks with suppliers and customers.

The motives to internationalize may be classified as proactive or reactive depending the event that lead to the decision of internationalize. If the decision came from the enterprise interests, as profiting of new market opportunities and acquire new

competencies, the motive is proactive, so the firm takes deliberately the decision to improve. If the companies decide to internationalize as an answer to the competition growth and pressure, the motive is reactive because the enterprise waited to be almost obligated to find a solution to be more competitive (Masum & Fernandez, 2008).

## Obstacles and internationalization costs

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Peter J. Buckley and Pervez N. Ghauri, (The Internationalization of the Firm) suggests that the main obstacle to the internationalization of a company is the lack of knowledge and resources, that can be overcome through the incremental decision process and knowledge acquired at foreign markets (Buckley & Ghauri, 1999). The perceived risk of market investment decreases and the continued internationalization is stimulated by the increased need to control sales and the increased exposure to offers and demands to augment the operations. (Johanson & Wiedersheim-Paul, 1975)

Johanson & Wiedersheim (1975) assumed that because the lack of knowledge about foreign countries and the propensity to avoid uncertainty, the firms start to export to nearby foreign markets or to markets that are comparatively well-known and similar regarding business practices.

The psychic distance, is correlated with geographic distance, and it is defined as the factors preventing or disturbing the flows of information between firms and market. The differences in culture, language, political systems, level of education, industrial development, among others are examples of psychic distance (Johanson & Wiedersheim-Paul, 1975). The market size is important to the internationalization decision process.

Risk may emerge from different sources, ones can be predicted by firms but others are totally impossible to prevent since firms are not capable to control the policy uncertainties, local crisis, and local exchanges of legislation, among others.

The risk of the firms is also related to their international activity, having in consideration the home and host country. When firms from a more stable economy internationalize increase their risk and reduce their debt usage when the market chosen is less stable, being designated as a downstream investment, and when firms from less stable economies internationalize to more developed markets, they tend to decrease the risk and it

allows greater debt use, being designated as an upstream investment. (Kwok & Reeb, 2000)

Other important obstacles to the internationalization of firms are the costs associated to the process. Normally the less the experiential knowledge about the host country, the higher the cost. The perceived cost includes not only the direct cost of enter a new market, through traveling costs, salaries, marketing information collecting, among others, but also the costs due to changes in the organizational set-up of the firm, such as training and retraining of staff, routines changes, reporting systems and others. The opportunity costs for searching local distributors may also be included in the case of joint-ventures or alliances (Eriksson, Johanson, Majkgård, & Sharma, 1997).

## Openness influence

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Many factors such as cultural distance, infra-structure, political system, that implies or amplifies perceived risk, have a very important impact in the decision of doing international business, especially in the foreign direct investment field. That idea of associated risk is also related with a more “abstract” concept called openness.

From the past we know that there were periods in economic history where many policy makers believed that the best protected or closed the economy was, the strongest the companies would be, especially in the developing fazes of the industry. Edwards (1993) writes that “*protectionist theories, in fact, became dominant and for decades the majority of the developing countries implemented industrialization policies based on a very limited degree of international openness*”. We also know from history that in the 50s and 60s the economies started to open again and experienced an impressive growth. As the international trade was incrementally fostered many economies became market economies so, less protected, more open and willing to do international business (Edwards S. , 1993). Edwards (1993) remembers that the idea of international trade as an engine of growth is very old, and the concept comes at least from Adam Smith. In other hand Edwards (1998) remembers that for over a century there have been controversy on the performance (or results) of the trade liberalization versus economic protectionism in terms of growing speed and economic performance. Lately, and although the recent financial crisis that made economies give some steps back in terms of liberalization, it has been a consensus that

openness and liberalization have a positive correlation with faster economic growth (Edwards, 1998).

In the ICC Open Markets Index 2013, I find the same perspective, economic liberalization and consequently, openness, promotes prosperity. As they state *“over the past 60 years, trade liberalization has contributed to improving the standard of living of billions of people across the world by creating new economic opportunities and providing greater choice and lower prices to consumers. An open international trade and investment environment is fundamental to foster economic growth, job creation and prosperity”*.

Alesina & Wacziarg (1998) discusses the evidence of the direct effect of openness on government size, concluding that country size is negatively related to government size and it is also negatively related to trade openness, it means that larger countries benefit from major markets which permit them not to be as open or as exposed as small markets. (Alesina & Wacziarg, 1998)

Nowadays, in the era of knowledge, the epoch of the fiber-optic speed of communication, in a globalized world, it is barely impossible to an economy to survive, to grow and promote a prosperous environment to the population without opening the boundaries. Even now in this new age, there are factors that promote the foreign direct investment into a country and other factors that fear those investments.

In the ICC Open Markets Index 2013 I found few aggregate factors we consider significant to measure the openness level. As stated in that Index, what is in that analysis is the ease of market access, the focus is on the *de facto* openness to imports and investment inflows.

To invest and do business abroad few factors are heavily relevant in the moment of truth when talking about openness. Some of them are the trade policy (low level or no protective tariffs and barriers to imports), infra-structure and logistic access/connection to other economies, institutional quality and fair treatment, political stability or no political/institutional interference in business.

These characteristics/factors are connected to the openness level of a country/region and as stated before, they are relevant when thinking about the right place to invest or to do business with.

# Theories of internationalization

## Uppsala Model

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Probably the model developed by Johanson and Vahlne (1977) is one of the most important theories to explain the process of internationalization. They suggested that the all process of internationalization of the firm could be divided per steps. To illustrate the complexity of the internationalization strategy, it is plausible to refer to the Uppsala model that according to the reference used above, it consists in four stages, according to Johanson and Vahlne (Johanson & Wiedersheim-Paul, 1975):

1<sup>st</sup> - no regular export activities, so the firm doesn't make any commitment of resources to the market;

2<sup>nd</sup> - export via independent representatives (agent), meaning that the enterprise has a channel to the market through it gets fairly regular information about sales influencing factors;

3<sup>rd</sup> - sales subsidiary, in which the enterprise is able to get controlled information concerning to the market;

4<sup>th</sup> - production/manufacturing, this step represents a higher commitment of resources and it should be done only when the knowledge about a specific market is large enough to advance to a Joint-venture or a Greenfield investment.

It is important to follow the order of the stages presented by (Johanson & Vahlne, 1977) to avoid surprises that could lead an enterprise from the top to the failure.

The division of the internationalization process per steps allows companies to reduce the risk of entry in new markets, since they don't have sufficient knowledge to enter directly new markets, being this knowledge relatively difficult to obtain. The focus is to absorb the maximum knowledge available regarding the characteristics of the market and about the local competitors. The commitment to the market is also important and it is measured though the quantity of resources committed and the degree of commitment. The jump to other step can only be done after the increase of the commitment and the market knowledge. This knowledge is divided in two kinds, the objective knowledge, which can be taught and the experiential knowledge which cannot be taught and can only be learned

through market experience. If the experiential knowledge is enough and the current activities are sufficient the company may jump to another step.

The Uppsala model do not serve to explain all the internationalization processes and it didn't serve has a base of theory to another empirical studies. (Benito & Gripsrud, 1992)

## Product life cycle

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The product life cycle theory has been developed per Vernon in 1966. Vernon's theory divides a product cycle of life into 3 different stages, focusing the market size and structure and also the technological innovation.

The introduction phase takes place after the research and development stage, when the finished product comes out ready to be introduced at the markets. After been introduced, the product will take some time to enter the consumers mind, and this phase is called the maturing product stage. At this last stage, the product obtains a considerable growth on its sales and it will enter a new stage, the standardized product stage where the product is considered stable. Normally the all products face the declining stage, when they outdated to a specific market and they must be renewed or taken out of the market. This is where normally entrepreneurs guarantee the disruptive stage, putting a new product at the introduction stage while the oldest one is starting to be outdated.

For Vernon, the division do not consider the fourth stage above mentioned, he only considers the new product stage, the maturing product stage and the standardized product stage, relating each stage to the process of internationalization of an enterprise.

The first stage explained by Vernon, state that at the product enter the home country market with an inelastic price and where the profits are higher. The companies will do is best to sell the most possible into the national marketing and after it outruns the local consumption the exporting takes place to other industrialised countries where the product can even be produced.

Then the product enters the maturing stage, where a considerable percentage of sales comes from the exportation. While the maturing stage takes place, the companies from other advanced countries will work to develop a substitute product. Companies must be prepared to pass from the developing strategy to the market protection strategy, if the

number of substitutes increase. Also, the innovative companies must search to less developed countries to export their products.

At last comes the standardized stage of the product, where the product is characterized by its outdated technology and it is already available everywhere. Some products normally start to be produced at low-cost companies at less developed countries and it is sold as a new product for those markets. The price will reach the consumers demand price (Rugman, Collinson, & Hodgetts, 2006).

This theory is important to understand how companies may decide the location of their production and when they should change. However, according to (Golik, 2009) this theory has some limitations, it ignores the existence on tariff and non-tariff trade barriers and the behavioural aspects, the verification and generalization is difficult, it neglects threat of substitution through upcoming nations and their industries and it is becoming obsolete.

## Transaction Costs Theory

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Ronald Coase, (1937) developed the transactions cost theory of the firm what turned him the first neo-classical who has attempted to define the firm theoretically in relation to the market.

In a perfect market, the transactions are done without transaction costs, the information if available for free, the decision making is rational, there are always alternative customers and suppliers, and it doesn't exist carry-over effects from one period to another. When these condition are not maintained, transaction costs emerge because there is a need to do efforts to organize, realize and control transactions between interdependent actors. (Johanson & Mattsson, 1987)

Williamson describes the firm not as production function to which a profit-maximisation objective has been assigned, but as a governed structure with the objective is the reduction of the transaction costs. Williamson (1981) Those costs arise whenever an enterprise establishes a relation with another agent to purchase equipment's, products or services, and can be devised in ex-ante costs, due to the search of information, negotiation and definition of the contract and in ex-post, due to the risks of non-accomplishment of the contract standards.

He also assumed two behavioural conditions on which transaction costs analysis relies, the first one assumes that the recognition that human agents are subject to bounded rationality and the second one assumes that at least some agents are given to opportunism. To prevent losses given by opportunism or irrationality, economic agents use written contracts which have transaction costs associated. According to Williamson (1981), the asset specificity is the most important dimension for describing transactions. When an asset is traded, both economic agents are operating in a bilateral exchange relation. If the value of the specific capital is much smaller than the specialized use for which it has been intended, the supplier will be sealed to the transaction to a significant degree. The buyer is also committed to the transaction. When the specificity of the asset is higher normally the buyer and seller tend to make special efforts to design an agreement that has good continuity properties. The asset specificity can emerge from three different ways, the site specificity, related to the mobility of the assets which can bring inventory and logistics costs, the physical asset specificity, regarding the properties of the composition of the asset, and human asset specificity, related to the human capacity to learn. (Williamson, 1981)

The specificity of an asset is related to the risk and problems of adaptation. The higher the specificity, the higher will be the risk and problems, thus the transaction costs will also be higher. Governance structures which have better transaction cost economizing properties will eventually overcome those that have worse.

## Classic Theory of the international trade

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The international trades had been subject of study since the classical theories developed by Adam Smith and published in 1776 (*Wealth of Nations*) known as the Theory of Absolute Advantage, and by David Ricardo published on the *Principles of Economics* in 1817, known as the Theory of Comparative Advantage. Ricardo took the “responsibility” to continue the work developed by Adam Smith and created the foundation of the theory of free trade market, which is based on the international specialization of each country products’. (Sen, 2010)

Adam’s theory (absolute advantage) is that with the correct division of labour companies may increase considerably the production. For him, the nation’s benefit from

the international trades by increasing the quality through the production processes, since the foreign market is bigger than the domestic market and thus the labour will be more motivated reducing the non-conformities and increasing the production. This leads to a reduction of labour costs, since they are now distributed per a higher percentage of finished products. International trade leads to the specialization, rising the productivity sustained per technological and organizational developments, which guarantees more and better production and less costs maintaining the same amount of labour. (Shumacher, 2012)

The all process is based on three reasons, the first one states that the increase of dexterity of each employee, then the second is that the passage from one kind of work to another decreases and finally the innovation is strictly linked to the development of new production lines in which one workman can operate more than one machine.

Resuming, the division of labour capacity leads to qualitative and quantitative production improvements and also stimulate the innovation, man-over skills and productivity, incrementing the national economy.

As already stated above, Ricardo's theory can be considered the continuation of Smith's ideas. The main difference is that Ricardo suggest that both countries have the similar production skill (machinery and employees with the same level of knowledge) the main variable compared is the number of labour hours. Ricardo suggest that the comparative advantage ensure mutually gainful trade across different countries, guaranteeing the specialization in a commodity with the comparative advantage in terms of labour hours used per unit of output.

## Internalization Theory

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This theory has been conceptualized by Buckley and Casson (1976) through their short book. They show that multinational enterprises organize bundles of activities internally that allow them to be able to develop and exploit firm specific advantages in know-how and other intermediate products. Those firm-specific advantages serve to overcome the externality of knowledge that is a public good.

Buckley and Casson (1976) suggested the internalization, performing activities inside the MNE, as governance mechanism to develop and explore the firms-specific advantages, as a protection against market failure. It explains the existence and functioning

of MNE's, allowing us to understand its boundaries and its relation with the external environment as well as its internal organization. (Rugman & Verbeke, 2008)

Internalization occurs only when to the point where the benefits are equal to the costs. Buckley and Casson (1976) recognized four sets of parameters to the internalization decision:

1. Industry-specific factors, related to the nature of the product and the structure of the external market;
2. Region-specific factors;
3. Nation-specific factors, including government policies;
4. Firm-specific factors, focusing on the ability of the management to organize an internal market (Rugman & Verbeke, 2003)

This theory demonstrates how it is possible to the MNE's to do some activities previously done by intermediaries and provide a comparative analysis to the MNE's behaviour. The main objective is to reduce the costs of the internalization process and to guide the entrepreneurs to decide if it is the best option after comparing the cost of the activity in cause and when should the companies finish to internalize the activities which is after the cost overcome the ones needed to outsource.

## Eclectic theory of OLI (ownership, location & internalization) paradigm

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John Dunning presented in 1977 his approach to foreign direct investment. The OLI becomes from ownership, location and internalization, three potential sources of advantage that may lead the companies to become MNE's. The first is the competitive advantages of the companies seeking to engage in FDI, which are specific to the ownership of the investing enterprises. Considering *ceteris paribus*, the greater the competitive advantages of the investing firm, the more they are likely to be able to profit from, or increase, their foreign productions, so they can be differenced from the competition. These advantages are not equal to all enterprises, they vary from one enterprise to another and also depend from the type of product and in which market the enterprise is inserted. (Dunning, 2000) (Dunning, 2001)

The second potential source of advantage is the location (L). The attractiveness of certain locations of alternative countries or regions, for undertaking the value adding activities of MNE's. It must answer where to produce according the attractiveness of other countries or regions. The companies must opt to produce part of the total production in a region where they could have a specific advantage higher than in their own region. It has a straight relation with the O advantage of the companies, since they would choose the specific advantage in a specific region to allocate it. (Dunning, 2000) (Dunning, 2001)

The third source revealed per Dunning is the Internalization and it permits the evaluation of alternative ways which the firms can organize the creation and exploitation of their core competencies, considering the location attractions of different regions, through a given framework. (Dunning, 2000) (Dunning, 2001)

Resuming, the eclectic paradigm OLI present 3 parameters which varies from company to company depending of the context and reflecting the host country or region economic, political and social characteristics so that the enterprises choose the most profitable region to allocate part of their production after considering the potential profit. (Vintila, 2010) (Dunning, 2000)

## Network model of internationalization theory

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Johanson and Vahlne, (2003) argued that the psychic distance should be a part of the business network definition. Business network is defined as an interconnected set of relations with other actors in business, such as supplies and costumers, affecting new internationalization processes. The relation network results from the involvement of the enterprises through the coordination of their production activities, distribution and use of products and services, enhancing the creation of relation based on the principle of trade. Thus, networking is based on mutual trust relationships where companies complementary of each other and also interdependent. (Johanson & Vahne, 2003)

(Johanson & Mattsson, 1987) Divided the degree of internationalization into four stages, Early Starter, Late Starter, Lonely International and International among others. Since the firm has only two ways to acquire experience and know-how, or through the level of commitment that the enterprise has with the market, scale and scope of

internationalization or through acquiring knowledge by interacting with the market intensifying its activities. The early starter is characterized as a firm with low international experience having poor relations with international suppliers, so the knowledge acquired is limited. The later starter has a low level of commitment in the international market and weak international relations with foreign suppliers. The lonely international types of enterprises are known because they act alone at the foreign markets obtaining a first-hand experience useful to acquire market knowledge. At last the International among others refers to enterprises which have developed resources and relations in foreign markets, being able to acquire high levels of experiential knowledge.

The creation of international relation networks is complex and requires mutual efforts, time and resources from all partners. However, after the network is fully “operational” the results are quite satisfactory, since it surges rottenly new opportunities for international expansion. The networks increase with the level of internationalization. (Johanson & Vahne, 2003)

## Competitive Advantage Theory

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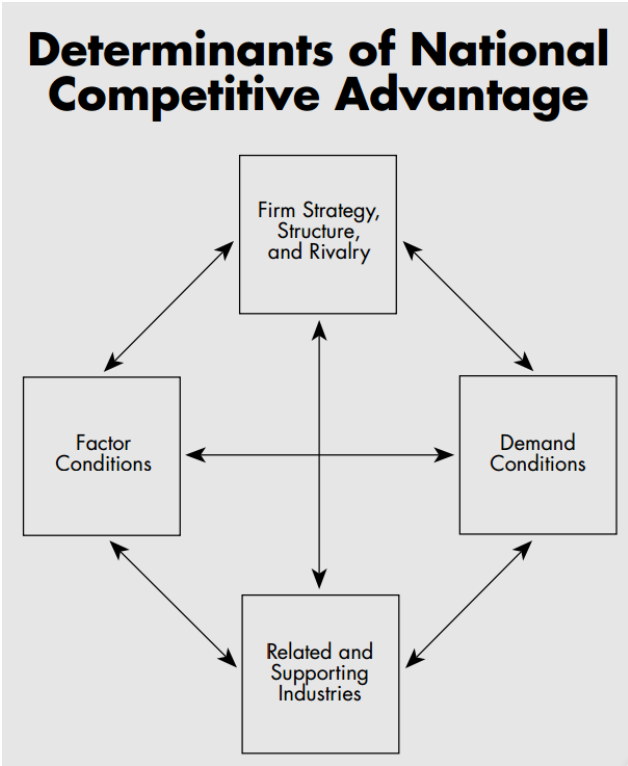
This theory surged after Michael Porter introduced the concept of competitive advantage, and it surged through Porter’s book, “The Competitive Advantage of Nations” at 1990. This theory aims to explain how companies succeed in international markets. According to (Porter, 1990) the competitiveness of a nation lies on the capacity of its industry to innovative and upgrade.

Competitive advantages are created and sustained through a highly localized process, considering the culture, national values, economic structures, institutions and histories. There are considerable differences on the competitiveness from country to country, having in mind that any nation can be competitive in all its sectors. Normally the successful industries are the result of a forward-looking, dynamic and challenging environment, from each country. (Porter, 1990)

Porter’s theory is based in four broad attributes of the host nation, which influences the capability of an enterprise to create and sustain a competitive advantage at the foreign

markets. These attributes were designated as the “Diamond of National Competitive Advantage” as the following figure illustrates:

Figure 1 - Determinants of National Competitive Advantage



Source: (Porter, 1990)

The factor conditions are the nation’s position in regarding the conditions of production, such as skilled labour, demography, or specialized infrastructures, necessary to compete in a given industry.

The demand conditions state the nature of the home market demand for the industry product or service (Porter, 1990). Regarding the internationalization, this factor provides the information about the nature of the demand to the products and services produced.

The related and supporting industries are the presence or absence in the nation of supplier industries and other related industries that are internationally competitive. Normally a company tend to be more competitive if it exists a specialized cluster with trade of know-how, suppliers and clients as the Portuguese moulds cluster.

At last the Firm’s strategy, structure and rivalry comprehends the condition in the nation governing how companies are created, organized and manager, as well as the nature of domestic rivalry. This rivalry stimulates the innovation and creation of a competitive advantage. (Porter, 1990) (Grant, 1991).

## Resource-based view Theory

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The resource-based view theory is an approach to achieve a competitive advantage that emerged with Wernerfelt, B. with the publication of “The core competence of the Corporation”, Barney, J. with the work “Firm resources and sustained competitive advantage” and Prahalad and Hamel with their work “The core competence of the Corporation. These authors affirm that companies must look inside to find sources of competitive advantage instead of looking the competitive environment to find it. Resources are anything that could be thought as a strength or weakness of a company and that can be defined as tangible or intangible assets which are controlled per the enterprise. (Wernerfelt, 1984)

Firm’s resources can be divided in three categories, physical capital resources, human capital resources and organizational capital resources. The physical ones include the physical technology, the firm’s plant and equipment, its geographic location and access to raw materials. The human capital resources comprehend the training, experience, judgement and inside relationship while the organizational capital resources respects to the firm’s formal reporting structure, the informal and formal planning, informal relations among groups. (Barney, 1991)

For Barney (1991) to be a competitive advantage, the resources must answer the following aspects:

- Resources must be valuable. They are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency.
- They must be rare. Resources are considered rare when they are not possessed by a high number of companies.
- Imperfectly imitable resources, are resources that strategic innovators develop and other companies are incapable to imitate perfectly. Normally they must be history dependent, the cause of ambiguity of the competitive advantage and be socially complex.
- They cannot be substitutable. It cannot exist any strategic resource able to substitute the resource of the enterprise.

The resource-based view theory assumes that firms within an industry may be heterogeneous regarding the strategic resources they own and control and also that these resources may not be perfectly mobile across firms, so the heterogeneity can be long lasting. The analysis of the impact of these two assumptions to study the sources of sustainable competitive advantages. If the companies are able to develop and control a valuable, rare, imperfectly imitable and that cannot be substituted, the propensity to have a sustainable competitive advantage increases since they can obtain it when the competitors cannot duplicate it and when the resources are complementary. (Barney, 1991)

## Modes of entry

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Most managers had to face the increasing globalization of markets and thus the increase of competition. It requires that each company decides whether it must become a worldwide competitor to survive, and it is not easy to take this decision. (Yip, Loewe, & Yoshino, 1988)

Once the market has decided to enter a foreign market, it has to determine the nature of its operations in the market chosen. The nature of the firm's operation on the chosen market will depend from the mode of entry, which is one of the most critical strategic decisions for the firm, affecting all the future decisions and operations of the firm in the country chosen. (Kumar & Subramaniam, 1997)

From the different modes of entry, Exportation, Franchising, Joint Ventures, Acquisitions, Foreign Direct Investment, Greenfields, Strategic Alliances and Licensing were the ones chosen to be a part of this literature review. The different modes of entry previously mentioned differ from the degree of control over the foreign operation. (Anderson & Gatignon, 1986)

Exportation: It is the process of sending or carrying of the goods abroad, normally for trade and sales. With the exportation activity, a firm's product is produced in the domestic market or a third country, and then it is transferred to the host market, via two broad options: indirect or direct exporting (Durmaz & Tasdemir, 2014). Normally it is the first option to enter new markets, and it provides the first information's about the host

country. The company may opt to contract a local experienced importer to handle the entire distribution and divulgation through the host market.

**Franchising:** This method to enter new markets is a contractual agreement between two independent firms, where the franchisee pays the franchisor for the right to sell the franchisor's product and its trademark at a given place for a certain period of time (Durmaz & Tasdemir, 2014). In spite of being a long duration contract, it provides to the franchisor the reduction of risk (Masum & Fernandez, 2008).

**Joint-Ventures:** It is a business agreement whereby two or more owners create a separate entity. It can be a partnership or a closely held corporation. It surges as an alternative to wholly-owned subsidiaries, where the risk is shared and the total investment is smaller than if the company opts to open a subsidiary. By choosing this mode of entry, enterprises decrease the risk by eliminating some barriers like the lack of access to distribution and supply channels, government policies that protect some industries from foreign capital, elevate need of capital and lack of knowledge, experience and learning curve of the local partner. (Durmaz & Tasdemir, 2014) (Masum & Fernandez, 2008)

**Acquisition:** It is the alternative to the Greenfield investments. It is defined as the process of purchase of the stocks of the acquired firm in the host country by the acquiring company outside the country, alone or through a partnership and with enough capital to control the company. (Durmaz & Tasdemir, 2014)

**FDI:** The foreign direct investment assumes the possession and control of assets on foreign countries that can be commercial or industrial, when the main objective is the control of the supply chains or the production in the target markets.

**Greenfield:** When companies tend to have problems through acquisition, the Greenfield investment surges as an alternative where firms establish their operations, constructing and developing a new company from the beginning. This mode of entry also surges on the entrepreneur's mind when there are no valid targets of acquisition or the cost of purchase are too high. The company will control all the capital and operations but the investment is considerable. (Durmaz & Tasdemir, 2014)

**Strategic Alliance:** It results from the cooperation and coordination of two or more enterprises that becomes partners through a deal, with the objective to benefit from extra capital, resources and know-how, sharing the control of the operations. (Johanson & Vahlne, 2006)

Licensing: It is a contractual transaction where the firm, licensor, offers some proprietary assets to foreign company, licensee, in exchange for royalties' fees. It offers more control than exporting, it grants a foreign entity sell the firm's product in return for a royalty fee on every unit that the foreign entity sells. (Durmaz & Tasdemir, 2014)

## Hofstede dimensions

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### *Hofstede Five Dimensions Cultural Model*

The author of this model defines the concept of “mental images” and represents them in layers. From the Outer circle to the Inner circle we have four layers: Symbols, Heroes, Rituals and Values. According to the model, the higher layers are more easily understood and also are more permeable to change. However, the core layer - values - is considered immutable and almost impossible to influence.

### *Power Distance (PDI)*

In order to understand this study is important to define accurately the five dimensions, starting with the Power Distance. This dimension reflects the hierarchical distance that is associated with different behaviors, depending on whether the distance is more or less (e.g. changes in the structure of society pass through evolution or revolution, respectively). More power distance means a hierarchical structure more defined and accepted by the society. When the power distance is smaller there is a demand for equal distribution of power.

### *Individualism VS Collectivism (IAV)*

This dimension measures the results of a collectivist or individualistic behavior in the societies. This is critical to realize the ease / difficulty in intercultural communication. In individualist societies there is a concern to take care of yourself and your close relatives. In collective societies there is a sense of loyalty without questioning inside specific groups.

### *Masculinity VS Femininity (MAS)*

In societies dominated by masculinity individuals (men and women) prioritize personal affirmation and value the dispute or competition. In contrast, femininity is characterized by more harmonious attitude where personal privacy and modesty are highly

valued. More competitive societies or more cooperative societies is the result given by this dimension. Higher results obtained in this dimension show a more masculine society.

#### *Uncertainty Avoidance (UAI)*

This dimension, in extreme, can be evaluated by how death is viewed and the emotions expressed. The way to respond to the uncertainty of "how, when and where" is also a reflection of how the individual reacts to the uncertainties of everyday life. A higher result in this dimension indicates a society with aversion to change their codes of belief and behavior.

#### *Temporal Orientation of Societies (TOS)*

This dimension defines how societies prioritize two existential goals. Maintaining links with the past while facing the present issues and the future challenges. The different ways a society deals with these can define them as more short-term oriented or long-term oriented. (Hofstede & Minkov, 2010)

Hofstede's five dimensions need to be carefully analyzed in order to increase the quality of the internationalization strategy. The correct perception of each dimension prevents uncertain decisions and economize important funds to allocate into another markets. The combining of all dimensions will lead the enterprise to choose correctly where to go and define the unattractive markets.

# Research Methodology

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This case-study has been developed to study the internationalization process of a Portuguese enterprise called Tubofuro® SA, presenting the delineation of the strategy to adopt in each market entry, the explanation of the choice of the different markets and the main barriers to enter the markets proposed. This work also can be considered an action research, which according to (Saunders, Lewis, & Thronhill, 2009), is a research method where the researcher is part of the organisation studied. In action research it is important to have in consideration the role of the researcher as an employee, being important to implement changes and help to solve problems he/she detected during the research.

Case studies allow an investigation to preserve the holistic and significant characteristics from an event of real life, such as individual cycles of life, organizational and administrative processes, changes in urban regions, international relations and maturation of some sectors, (Yin, 2001).

According to (Yin, 2001), the case studies answer to the questions “how?” and “why?” and focus contemporaneous events, into a context of real life. The case studies may be singles or multiples depending if it deals with one or more issues. The present case study is a single example, since it deals with one unique case, the internationalization of an enterprise.

## Case selection

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This single case study and action research is about a Portuguese enterprise called Tubofuro SA, where I've developed my internship after the management graduation in 2014.

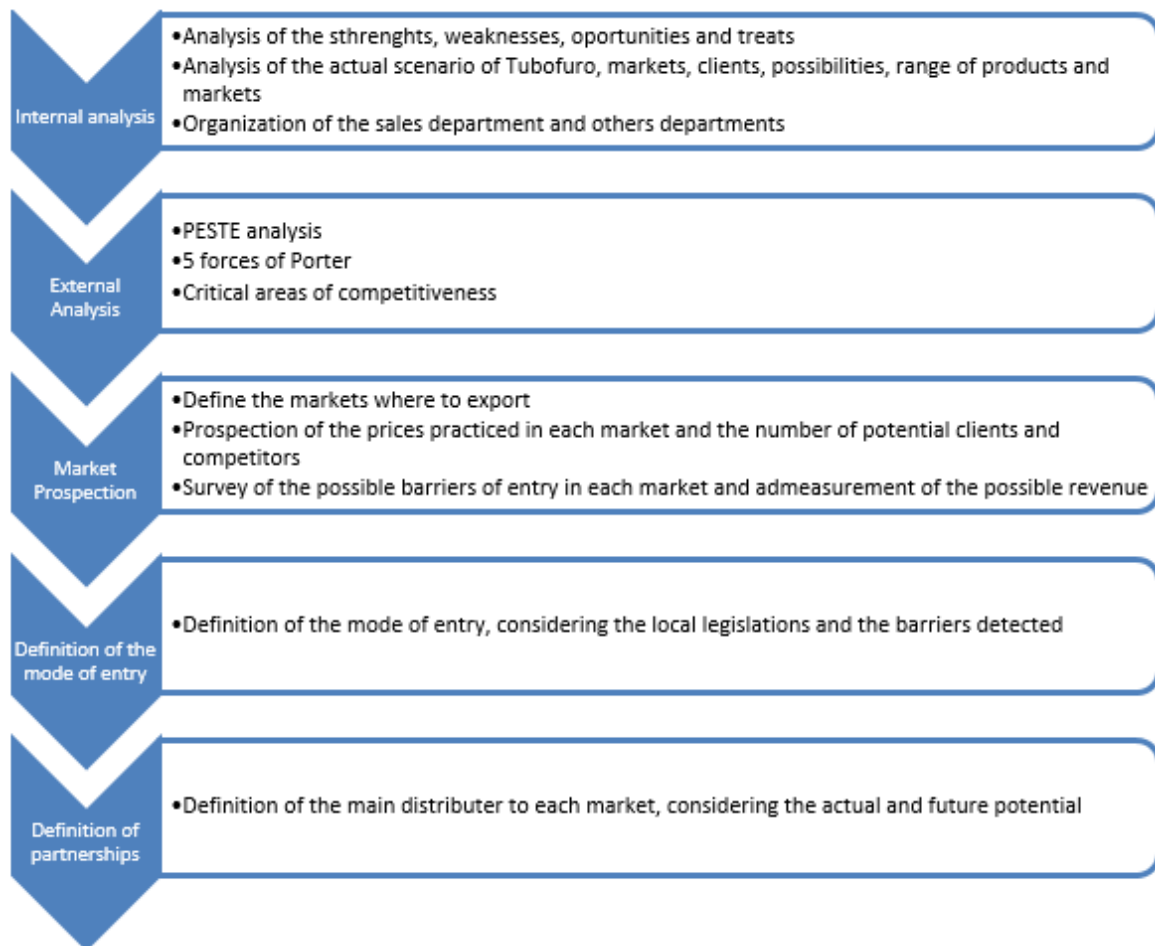
Tubofuro® SA is a manufacturer company with a wide range of products for divers markets. The main production of Tubofuro® are the PVC pipes, produced by the process of extrusion, and the equipment's to store and threat water by the process of rotational moulding of polyethylene. It counts with 17 years of experience in the national market what guarantees one of the most recognized know-how through the competitors.

Tubofuro started its internationalization process in 2003, with unstructured strategies, answering to the foreign demand of specific products which were cheaper or with recognized quality in Tubofuro. In 2014 the administration opted to organize a well-coordinated plan to internationalize their products to another markets, looking for new markets, and overcoming the passive way to expect possible businesses.

### Phases in the internationalization strategy formulation

Aiming to formulate the internationalization strategy, a phased process was carried out, depicted in Figure 2.

Figure 2 - Strategy Formulation



Source: Developed by the author

Before 2014, the internationalization of Tubofuro® were basic. The single process that existed in the company were a basic excel file with an unfinished prospection market

through the internet. Since my arrival in 2014, I had to understand what the main objectives of the administration were and understand if they were attainable or not.

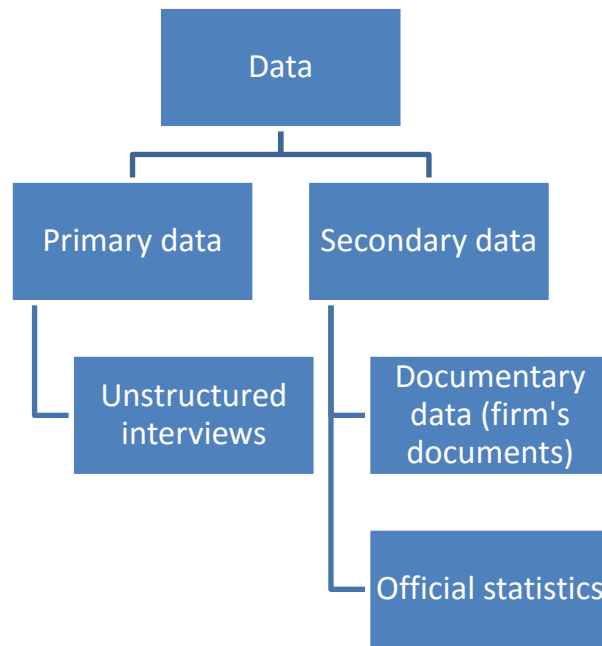
Since I was new to the enterprise, I've needed some time to understand all processes and to know all the product done by the enterprise and see what was interesting to export and if it had market in other markets. Tubofuro® only had exported to Angola, Mozambique, Cape Verde, and had done some sales to Spain, Germany and Tunisia.

The all structure of the enterprise was not sufficiently ready to export, since they had no one to follow the sales processes and assure the after sale attendance. Some intern changes have been done and actually the structure is able to support the commercial department during all process of sales.

In order to develop a case study, the researcher may use primary or secondary data. The data developed per other researchers and that it's reanalysed for another objectives is known as secondary data. This secondary data includes raw data and summaries. Normally the secondary data can be obtained through recognized media, firm's documents that may be negotiated since they are private, statistics of recognized institutes or banks, among other sources and it is essential to answer some research questions that couldn't be answered by using primary data. Resuming, the secondary data may be divided per 3 different types, documentary (written materials, non-written materials), multiple source (area based or time-series based) and per surveys (censuses, continuous and regular surveys and ad hoc surveys).

The primary data can be obtained through sampling definitions or by structured observation, interviews or questionnaires. To this case study, I've opted to realize unstructured interviews, always one to one, face to face, by phone and also per internet. This type of interviews is informal, and exploits in depth a general area, in this case the market of water capture, storage and treatment. It is not necessary to have a pre-defined structure of questions, since the conversations flows naturally to the topics we want to talk about. The data collected has been treated qualitatively.

Figure 3 - Data collection scheme



Source: Developed by the author of this case-study

The secondary data obtained through official statistics from INE and the Portuguese Bank allowed me to idealize the evolving scenario of Tubofuro®, obtaining reliable information regarding the actual Portuguese economy status, socio-cultural influences, technology advances, environmental and political scenarios. This information was extremely useful to the external analysis of the enterprise.

The firm's documents were an important source of secondary data, since it comprehends all the information normally paid to get access to. This information was utile to define the main objectives of the enterprise and to realize the internal analysis of the actual situation of the enterprise. It was also important to establish a comparison point to realize if the strategy adopted is efficient and makes the difference or if it would be better to redefine the strategy.

The unstructured interviews provide important information to define the markets to choose. The interviews face to face were registered during the interviews with the help of my cell-phone, the ones made by phone where normally done by WhatsApp and for that reason they are registered on the phone's memory. Those interviews turned to be useful to the definition of the internationalization strategy because they gave me important information about the potential of the markets, the legislations, habits and also important,

the prices practiced per the local competitors. Allied with those interviews, the use of secondary data from recognized sources, provide me solid bases to develop a strong strategy to enter new markets.

## Internationalization strategy formulation

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This chapter emphasizes the process of strategy definition of Tubofuro®. Internationalize takes a lot of financial and logistics choices from the administration of the companies. Those decisions are made over a considerable collection of internal and external data, from where the managers get the information essential to define how to start the international activity. Should the products be adapted? Will the company opt to a global strategy or a domestic strategy?

When the pressure to local adaptation is higher, companies must adapt their offer to each market where they act and vice versa. This pressure may be caused by the differences between preferences of habitants from different countries. The national infrastructures and habits also influence the adaptation needs. The power outlets are different in Portugal compared to France, and also different from the ones from China. Another influence may come from the activity of the local government and legislation.

When the pressure over the costs is high, the companies need to be more efficient choosing carefully the location of the production plants. Normally this pressure is higher to universal products, the ones which cannot be replaced.

So, Tubofuro® may opt to an International Strategy (exporting and not having any direct activity into foreign countries), a Multinational Strategy (having investments in foreign markets, but having independent subsidiaries caused by the need of local adaptation) Global Strategy (using the same marketing-mix and not adapting to each specific market) or Transnational Strategy (combining the benefits of global and domestic strategies, by combining the production efficiency with the adaptation to the local market).

The selection of the positioning of the value chain is also crucial and this chapter justifies the option of the company.

## Proposal of internationalization plan

## Definition of the strategic objectives

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The strategic objectives proposed at the definition of the international plan, have been discussed through numerous meetings with all the members of the administration, the two sales managers responsible per the international markets, the financial department and also with the legal department.

The financial department has been trained to answer quickly to international payments and how to prevent difficult problems to receive to international clients. This department also imposed their point of view to define the working capital fund the enterprise has to exploit new markets. The legal department attend to the meeting to know which markets we want to explore to study the local legislations to prevent legal issues.

The CEO just gave his opinion regarding the markets he thought it would be profitable to Tubofuro® and how should we enter new markets and which. However, after analysing the data collected through the last year, as prices absorbed by the markets, number of potential clients, number of local competitors and how fast they were able to supply their clients, the duty costs, shipping costs, how fast the local clients needed to be supplied and if our production and quality were sufficient to the markets we would like to enter, we defined new priorities

We cannot forget that Tubofuro® already exported for different countries, however, the strategy was inexistent, and the main objective was to profit the financial moment and the purchase power of the African markets, strategy that went down since the oil crisis. Angola and the Democratic Republic of Congo were the main importers of Tubofuro® products. Consider the following table:

*Table 1 - Strategic Objectives*

<b>Strategic goal</b>	<b>Indicator</b>	<b>Goal</b>	<b>Year</b>
<b>SG1 – market diversification</b>	Number of new markets	5	2018
<b>SG2 - market diversification</b>	Number of markets to augment the commercial presence	5	2017

<b>SG3 – Revenue objectives</b>	Total revenue - turnover increase in perspective	40% from 2014 until 2018	2018
<b>SG4 – Revenue objectives</b>	Foreign revenue - increase in perspective	74% from 2014 until 2018	2018
<b>SG5 – Increase of the number of collaborators</b>	Qualified personnel – new employees	2	2017
<b>SG6 - Increase of the number of collaborators</b>	Factory personnel – new employees	4	2018
<b>SG7 – Increase of the number of distributor</b>	New distributors	6	2018

Source: Develop by the author of this case-study

It has been decided to enter 5 new markets, Argentina, Peru, Algeria, Chile and Mexico through exportation to a local distributor. The enterprise also wants to restructure and reinforce the actual markets, Spain, Germany, France, Tunisia and Morocco, where it already exported, following different methodologies explained along the case study.

Through the achievement of new markets and the reinforcement of the ones where Tubofuro® already exported, the total revenue in 2018 is expected to reach 7 954 641,51 € supported by the increase of the foreign sells which are expected to be 45% of the total revenue. This means an increase of 9% of the international sales weight in 2 years. It is a SMART objective since it is specific, measurable, attainable, and real and timetable (possible to define through the time spectrum).

The increase of the number of employees serves to reinforce the actual staff of Tubofuro® in order to provide the company the capabilities needed to obtain a strong structure to face the augment of demand. The qualified staff to admit will be helpful to the sales department and marketing department. Actually the marketing department doesn't have the capability to provide information and campaigns in foreign languages, so it is an

issue needed to be solved, and the solutions is to hire one more marketer to be responsible for foreign campaigns. Another qualified collaborator to be hired is for the sales department to increase the covered area and to answer more efficiently to all requests.

Regarding the non-qualified personnel, it is also important to sustain the increase of the production with a capable team. These four new collaborators will help the factory personnel to face the increase of the production without putting in risk the quality standards and providing the man-over needed to answer as fast as possible to the orders.

## Strategic Analysis

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What should the companies do to achieve their objectives? How to prevent the competitors next moves? How organize the value chain to be able to subsist and guarantee profit margin? All those questions guide the CEO's to define what and how to do to be competitive. However, the strategy is not static, it should be continuously adapted to face the competitor's moves, market and economic changes.

## External Analysis

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Understand the external environment is fundamental for the enterprises. The definition of the strategy cannot be done without realizing that companies act in a open world and are influenced by external factors. It can be understood as na open system with inputs and outputs. The inputs are the external information's, suppliers, financial resources and the outputs are the services and products.

Companies must so closely monitor the external environment continuously to realize their competitiveness compared with other companies from the same operating sector. It is essential to analyse macro environmental factors such as economic factors, political and legal aspects, technological factors, socio-cultural factors and environmental factors.

### Political factors

Political factors can influence the enterprises success by applying restrictions or by giving incentives to the local or foreign companies.

For example, Portuguese government is giving incentives to the fixation of foreign entrepreneurs with fiscal incentives known as "Vistos-Gold", Golden Visa. This incentive

allowed the income of millions of euros of external investment and it is one example of how governments can influence the markets.

Another political factor to be analysed is the establishment of international agreements to the development of international trades between two or more countries. A good example is the Mercosur, south regional bloc composed by Argentina, Brazil, Paraguay, Uruguay and Venezuela. Chile, Bolivia, Peru, Columbia, Ecuador and Suriname also participate but as associated countries. The main propose of this “common market” is to promote the trade of goods, movement of people and changes of currencies. For Portuguese enterprises it is difficult to enter South American markets through exportation, since the Mercosur improve the internal trades and difficult the incoming of outsiders’ goods applying high custom duties and other taxes.

On the other and, Portuguese government celebrated different agreements with former colonies as Angola, to promote the trades and improve the level of partnership between the countries. Although this attempt to help Portuguese companies to export and to go to Angola, the actual crisis and instability are a difficult barrier to overcome.

Concerning other markets, the Portuguese ministry of foreign affairs has celebrated different agreements in order to promote the Portuguese products and services worldwide. The agreements celebrated could be more efficient, but Portugal don’t have the same economical weight as China have. The example of China emerges from the fact that their Government have been able to celebrate different agreements that helps Chinese companies by reducing the duty taxes allowing them to be even more competitive than local companies, as a good example we may consider Cameroun and Angola.

Portugal passed through a period of uncertainty and some political instability surpassed with the agreement of leftist political forces. The approval of the state budget need the agreement of the 3 parties and it is always a moment of expectations and speculation leading the international economical agencies to increase the level of risk and consequently the taxes augment and the international investment decrease.

### Economic factors

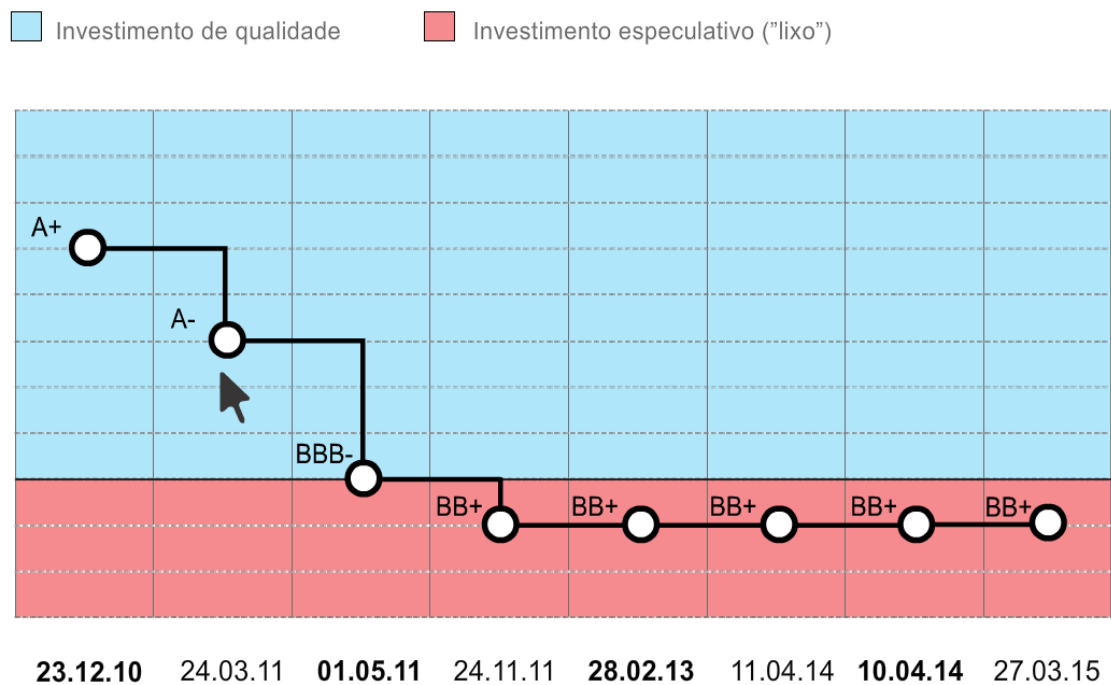
The domestic and international economies affect directly the performance of the enterprises, reason why managers should study different indicators as the evolution of the national GDP, unemployment rates, and interest rates, among others. Although this analysis is important, it cannot be used to predict the short/medium future, but only to

establish the tendencies that the indicators may follow, based on past and actual information.

After the Subprime crisis of 2008, the Portuguese economy faced unstable periods being in the sights of international rating agencies as Standard & Poor's that keeps Portugal rating on the level of "garbage", explained by the slowdown of the Portuguese growth even when the Portuguese deficit is expected to be lower than 3% in 2016.

According to the "Jornal de Negócios" a Portuguese recognized media press, the 3 biggest financial agencies maintain the rating of Portugal at a negative perspective as the following 3 graphs demonstrates.

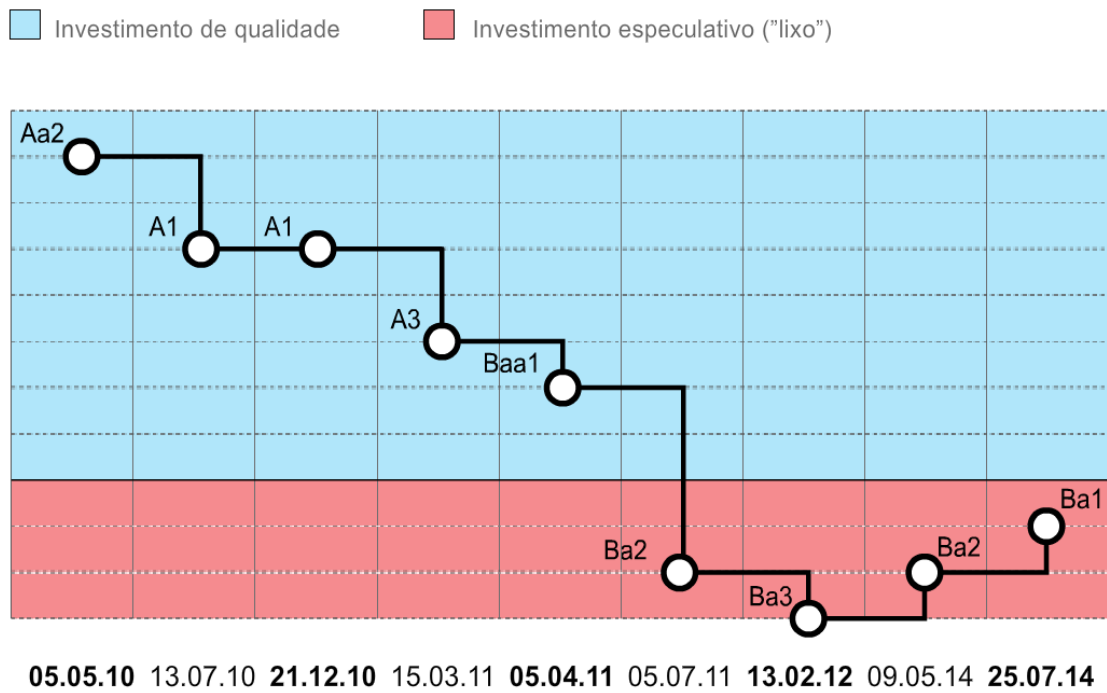
Graphic 1 - Fitch Rating for Portugal



Source : [http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/infografia\\_tres\\_grandes\\_ja\\_tem\\_o\\_rating\\_de\\_portugal\\_no\\_ultimo\\_nivel\\_de\\_lixo.html](http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/infografia_tres_grandes_ja_tem_o_rating_de_portugal_no_ultimo_nivel_de_lixo.html) 18/09/2016

The blue part of the graph indicates that the investment has quality and the pink area reflects the investments without quality. This has been taken from the journal above referred who in turn adapted from the Fitch rating agency. The BB+ is a speculative level which maintain the investment on a certain level of risk waiting for the economic changes.

Graphic 2 - Moody's Rating for Portugal

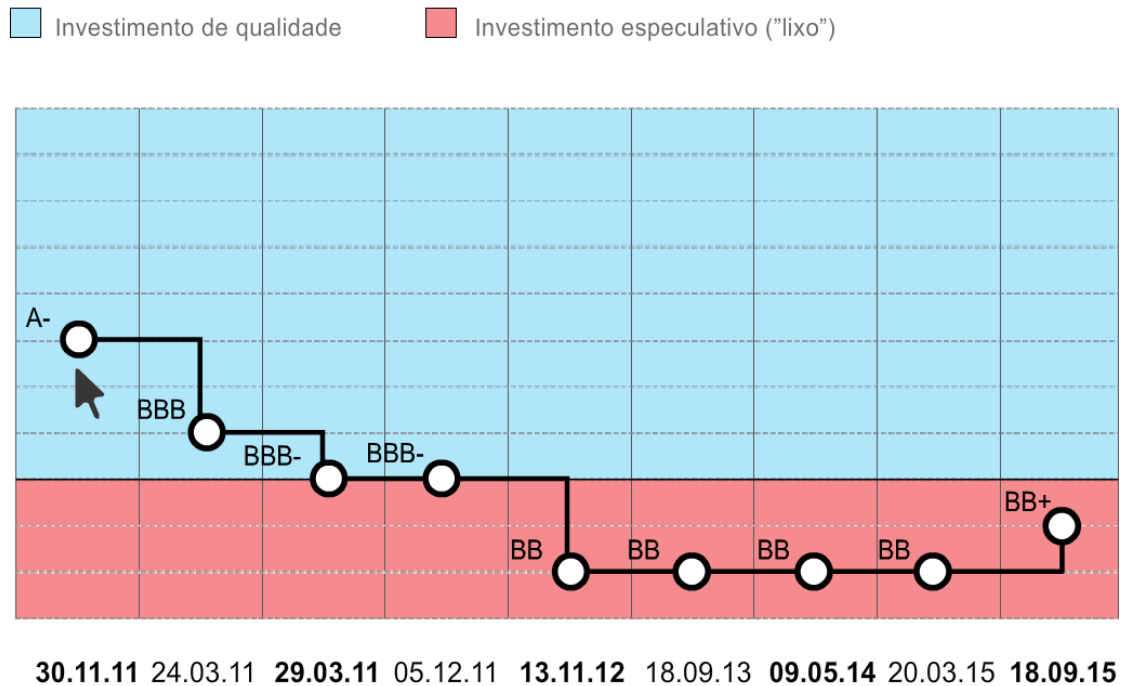


Source:

[http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/infografia\\_tres\\_grandes\\_ja\\_tem\\_o\\_rating\\_de\\_portugal\\_no\\_ultimo\\_nivel\\_de\\_lixo.html](http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/infografia_tres_grandes_ja_tem_o_rating_de_portugal_no_ultimo_nivel_de_lixo.html) 18/09/2016

The financial agency Moody's was the first to put the Portuguese rating at the level of "garbage". As the Fitch agency, one more improvement and the rating of Portugal will be positive.

Graphic 3 - Standard & Poor's Rating for Portugal



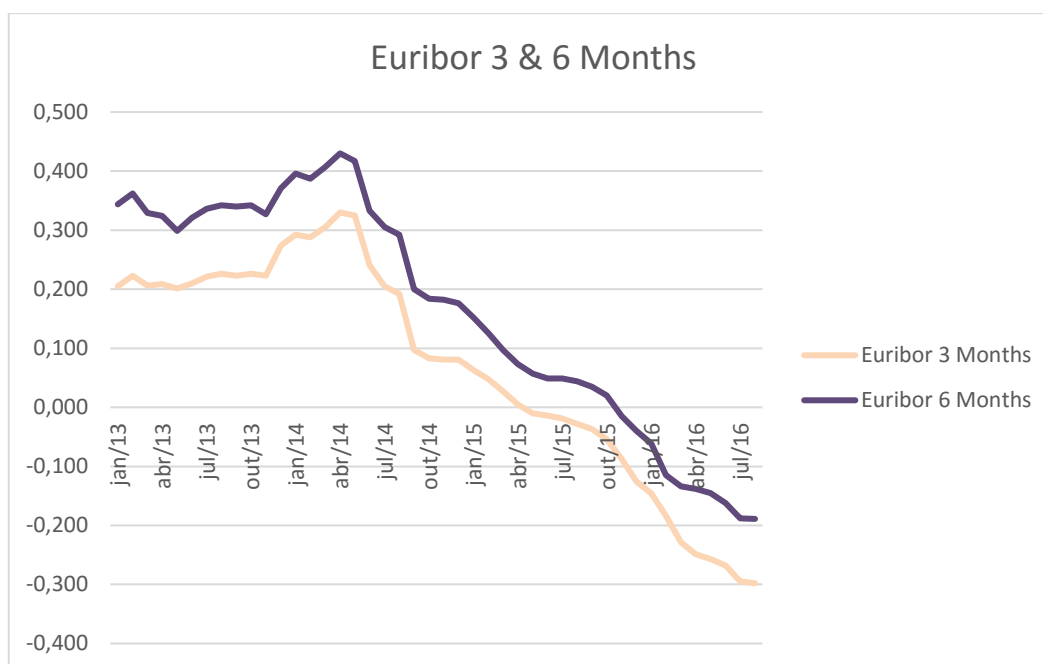
Source: [http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/infografia\\_tres\\_grandes\\_ja\\_tem\\_o\\_rating\\_de\\_portugal\\_no\\_ultimo\\_nivel\\_de\\_lixo.html](http://www.jornaldenegocios.pt/mercados/obrigacoes/detalhe/infografia_tres_grandes_ja_tem_o_rating_de_portugal_no_ultimo_nivel_de_lixo.html) 18/09/2016

The Standard & Poor's agency was the last to put the rating of Portugal at the "garbage" level and the last to improve the rating to BB+. The latest news was that this agency would rise the rating of Portugal but since the actual economy growth is lower than expected, the rating didn't change.

This rating agencies have a preponderant weight on the international markets and the fact that Portugal's rating is steel at the "garbage" level, it is a disincentive to foreign investment and to the allocation of attractive interest rates for financing.

Related to the ratings are the interest rates. In the European system the referral is the floating rate Euribor. The Euribor 3 months and 6 months are the reference rates for the financing from the Portuguese banking.

Graphic 4 - Euribor 3 & 6 Months

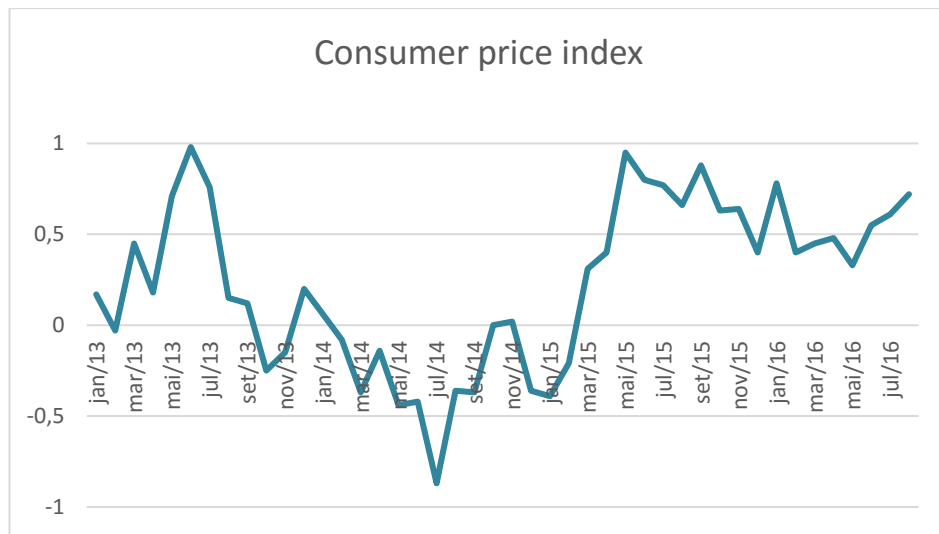


Source: Developed in Excel with data from <http://pt.euribor-rates.eu/>

Both the Euribor taxes are in the negative field of the graph, since May 2015 the Euribor 3 Months turned from the positive to the negative and the Euribor 6 Months turned to be negative in November 2015. Normally if the negative indexer is superior to the spread of the bank, the bank should pay you for your credit. But it is not so linear.

For the companies this means that if they have deposits indexed to Euribor, the revenue will be zero, since they will not have to pay anything to the bank because the deposits normally have capital guaranteed. Actually it is a good period to ask for credit lines since the taxes are negative. Although, some banks have already state that if the Euribor goes under 0% nothing will be taken from the Spread.

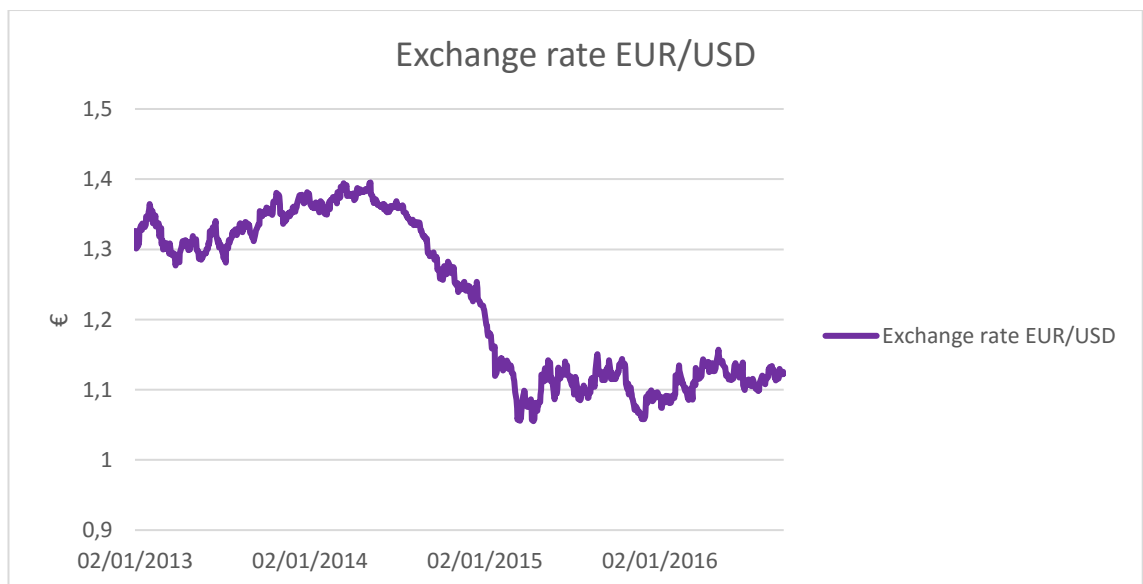
Graphic 5 - Consumer Price Index



Source: Developed by the author of the case study with data from PORDATA

Since March 2015 the inflation rate became to be positive after a period of one year in negative fields, and consequently became a deflation. Actually this index is above 0,6% which indicates that the price increased equal percentage. This is positive for the enterprise viewing the scenario as the seller position but as a buyer position the scenario becomes worst since they have to pay more for raw-material for example.

Graphic 6 - Exchange Rate EUR/USD



Source: Developed by the author of the case study with data from the Portuguese Bank

The exchange rate EUR/USD is one of the most important to be analysed. For the enterprises which operates at the PVC extrusion sector, most of the suppliers of raw-material are located at USA. The cheaper the dollar is, the cheaper the raw-material would be for European enterprises. Since 2015 the markets suffered a significant change when the dollar got closer to the value of the European currency, the euro. Competitors from other markets, with weaker currencies, equilibrated one of the factors to be competitive, the price of purchase of the raw material. Unfortunately, the American economy seems to be more stable than the European markets so it is expected to maintain this tendency.

Graphic 7 - Portuguese Unemployment Rate



Source: Developed by the author of the case study with data from INE

The unemployment rate has been declining from the past year, reaching the actual value of 10,8% of the total active persons. This is the lowest values from the past 5 years and it can mean that the economy is growing, creating jobs to meet the needs of companies offer. Also, it can be seen as a consequence of the aging of the Portuguese habitants, and the migration phenomena.

In sum, the Portuguese economy is facing a recovering period, reverting the negative cycle lived in the past 4 years. The investment came back to reasonable levels, the confidence also, in spite of the preoccupation of the rating agencies.

Environmental factors

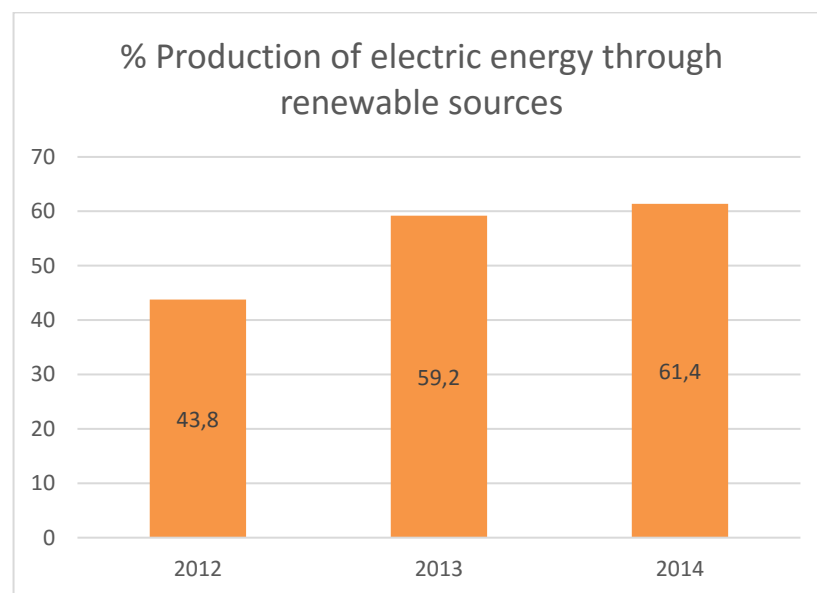
From the past years, the education and environmental awareness has gained a prominent role in society from the very young, to the older population. The education starts now at the first years of school and it is also well publicized through the media.

Regarding the clean energy, Portugal have the chance to be well located to get benefits from Eolic energy, Hydro energy, Oceans energy, Solar energy, Geothermal energy and biomass energy.

According to DGEG (Portuguese initials for General Direction for Energy and Geology) the main objectives for Portugal are reducing 20% of the use of primary energies until 2020, replacing those 20% per renewable energies and increasing in 10% the use of renewable energies to public transports.

For the enterprises which operates at the environmental protection market, these incentives are important to the growth of the activity. The protection of the water sources and the treatment of the residual water, from communities and industrial uses, is an actual issue already legislated be the local governments in order to reinforce the need to save the environment and re-use what can be re-used.

*Graphic 8 - Production of Electric Energy*



Source: Developed by the author of the case study with data from PORDATA

As perceived through the analysis of the graphic above presented, it is reasonable to say that Portugal is improving its capacity to obtain electric energy through renewable and clean sources. From the total production, 61,4% were obtained through alternative sources other than fossil resources.

## Technological factors

The technological evolution is very important to the development of the markets. Obviously, all companies would like to be able to have the last technological update to improve their capabilities and decrease the productions costs but it is not easy to be always updated considering the important amount of investment needed.

The sector of PVC pipe extrusion and environmental equipment's, is known for the high intensity of research and development of new lines of productions, new and improved equipment to the treatment of residual water, new tools to water drillings and new lines of productions of PVC pipes. All those novelties are normally presented at the international exhibitions worldwide, but more often at the Europeans exhibitions at Munich, Madrid, Zaragoza, Barcelona, Paris, Lyon and Milan.

The improve of the productions lines are extremely well received by the PVC pipes manufactures since the reduction of productions costs and the improvement of production capacity answers two of the main aspects to be competitive, be quick to produce and deliver and reduce costs augmenting the margins.

Regarding the environmental sector, it is important to be aware of the novelties that normally appear. New sewage pumps with new technologies, new solar pumps more efficient, new equipment to improve the efficiency of water treatment plants among others.

Another important technology is the 3D printers available on the markets. Actually it is not expensive to acquire this product that could lead the companies to avoid unnecessary cost to develop new products.

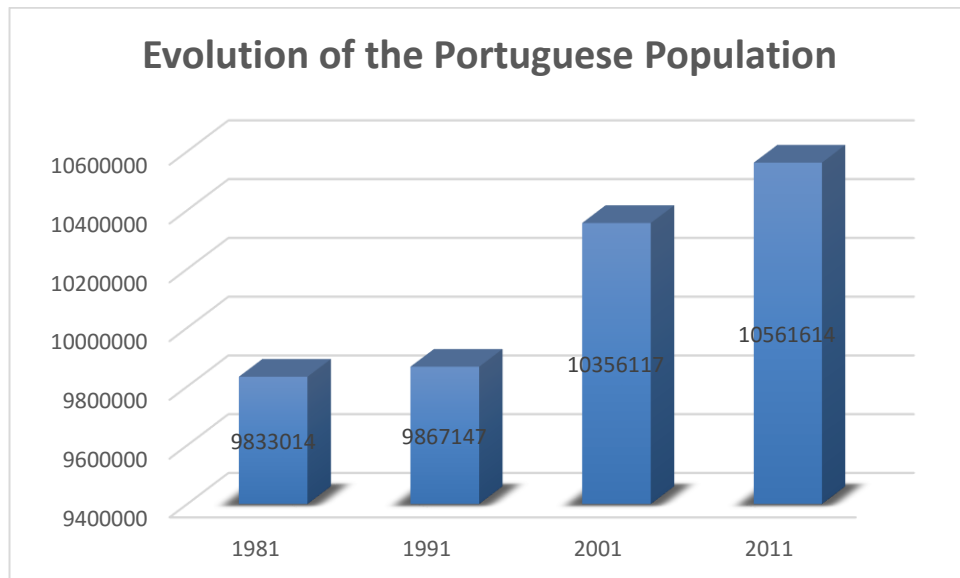
## Socio cultural factors

The Portuguese population according to INE data, were 10,5 million habitants. Unfortunately, the Portuguese population faces serious risks and there are already studies, made by INE, that anticipate the aging of the population and the decrease in the number of inhabitants in Portugal caused by migration of the formed people seeking to improve their lives in countries with social and financial conditions above the Portuguese. INE estimate that in 2060 the population in Portugal will be about 8,6 million inhabitants and the gross of the population will have more than 65 years old.

This is extremely dangerous to the future perspectives of the Portuguese companies, since the skilled labour is migrating and it is more difficult to have professional staff. The

migration phenomena are also dangerous having in consideration that the decreasing of the number of inhabitants is correlated with the construction sector and also with the level of internal consumption.

*Graphic 9 - Evolution of the Portuguese Population*

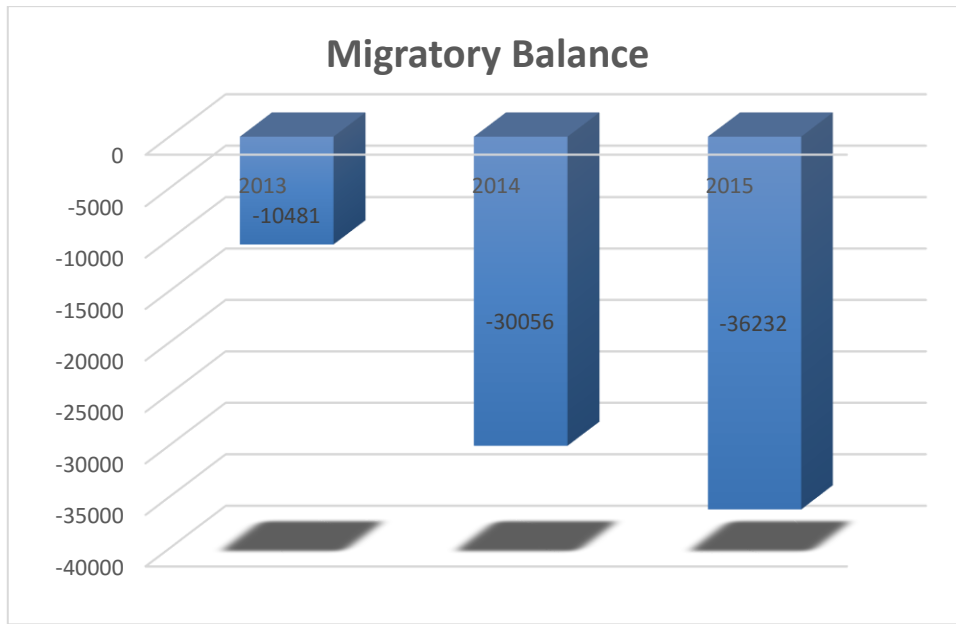


Source: Developed by the author of the case study with data from the Censuses 2011

From the information extracted from the Census since 1981 until the last one made in 2011, the Portuguese population growth from the last 30 years. The main variation was between 1991 to 2001 with 488 970 new inhabitants. This variation is in part explained with the period of prospecting lived in Portugal and when a considerable number of migrators came back to Portugal. From 2001 to 2011 the variation decreased to almost half of the previous period, and the previsions are that the number decrease through the next years.

The Subprime crisis of 2008 was also a great booster for migration since the life conditions have worsened caused by the stringent financial control measures imposed by the International Monetary Fund.

Graphic 10 - Migratory Balance

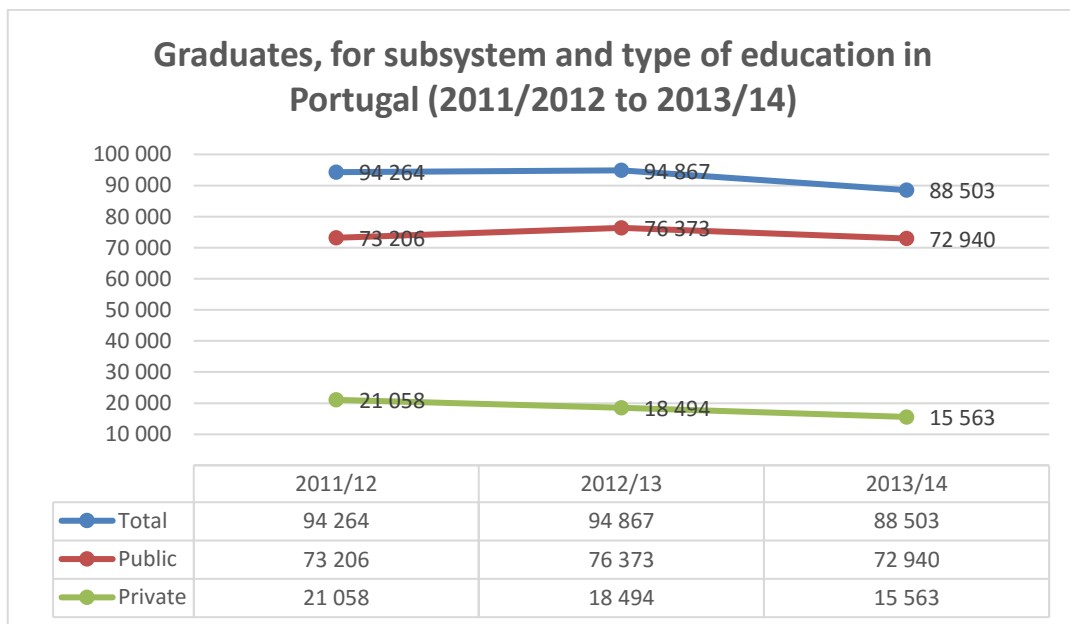


Source: Developed by the author of the case study with data from PORDATA

Difference between the number of inputs and outputs for migration, international or internal, to a particular country or region in a given period of time.

This graphic synthetize the theme of migration phenomena, showing that from the past 3 years, the number of habitants who leaves Portugal is higher than the new habitants.

Graphic 11 - Education



Source: Developed by the author of the case study with data from DGES

According to the data extracted and treated from the DGEEC, the number of graduated persons decreased in 2013/2014. For the Portuguese companies it means that there are less new graduated students in the market, and so, less specialized labour. Adding it with the fact that new graduated opt to migrate to reach better salaries, the specialized market is straightening.

### Five competitive forces

According to (Ferreira, Santos, Reis, & Marques, 2010) the enterprises are not a closed system, by the contrary, they are influenced by external factors which they cannot exchange. It comprehends customers, suppliers, culture, technology, demography, international, the government, investors and competitors, so the strategy need to be developed having constantly in mind the other players of the market. Everything that happens around the company environment must be monitored in order to avoid possible surprises.

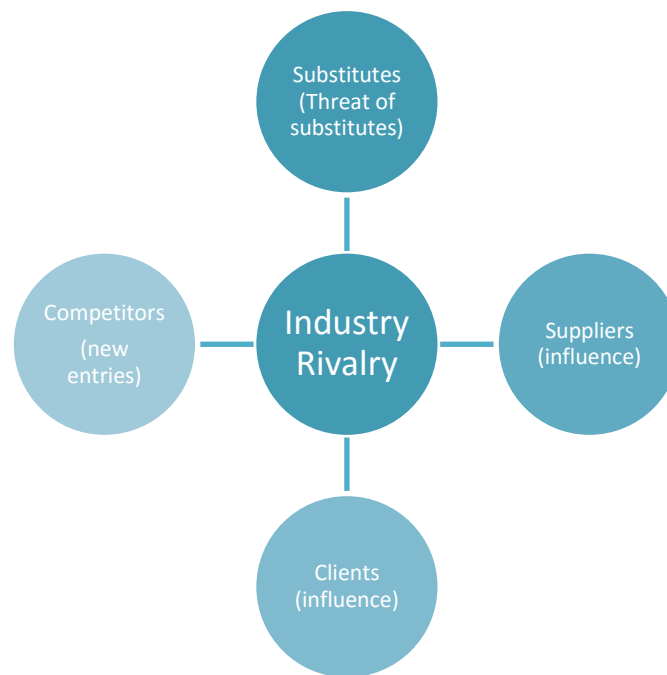
With continuous monitoring of the external environment, threats can be detected and surpassed or at least minimized, but enterprises may also detect opportunities, created by changings at local legislation or changes at the consumer's minds, that must be immediately exploited, overcoming the competitors. Although the evolving environment is not deterministic so the enterprises can adapt themselves to it or control it.

At more stable environments the enterprises tend to implement mechanical models of organization and if the environment is inconstant they will opt, or should opt, for a flexible organization to easily change to adapt to the modifications of the markets.

The industry is the group of enterprises that supplies the same, or identic, product or service. The analysis of the industry where Tubofuro® is inserted allows the head office to survey the competitors move's and decide what to do. Overall the manager of Tubofuro® and other enterprises may assure that the industry is attractive in a long-term perspective and decide to invest or not.

To analyse the industry the managers may use the model of the five competitive forces analysis, following the model developed by Michael Porter. This model allows the managers to place the company against the supplies, clients and competitors and understand the actual and possible profitability.

Figure 4 - Porter's 5 Competitive Forces



Source: Developed by the author of the case study

One of the principal determinants of the attractiveness of an industry is its rivalry.

The highest the rivalry, the highest is the price competition, so the enterprises tend to invest more in marketing campaigns, and innovative components to increase the quality of the production lines to supply better products allied to a after sale service. This represents high costs to the enterprises and can put them in danger.

The industry of PVC pipes for boreholes faces a high rivalry problem and the margins tend to decrease. Nowadays it exists 7 players in this markets, Fersil, Sival, Baquelite-Liz, Urcamat, Politejo, Alfatubo and Tubofuro® decreasing the prices to levels close to the “danger-zone” where companies only trade raw-material per euros. It is dangerous to the companies to act this way, the margins are not enough to face the production fixed and variable costs and after a long period it can put in danger the financial health of the company guiding it to bankruptcy.

To leave the industry there are high losses to face. The investment in production lines is very high so it is an exit barrier to Tubofuro® if someday it would decide to abandon the industry because its attractiveness.

The level of diversity of the industry is high, all the competitors have a unique product, obtaining a competitive advantage. It is also an industry that is not known by the

high intensity of research and development. Normally the novelties come associated with other enterprises of other industries in order to obtain a complementary product to a new product.

The products produced by this industry are considered the substitutes of the iron industry. PVC is known by its long durability and benefits against iron. It is not easy to substitute these products in the short and medium term.

Resuming the rivalry is high and it leads to an unattractive industry.

The risk of new entries is almost inexistent, the investment is high and the variable costs are difficult to support. This to reasons represents barriers to enter. Also the scale economy is patent in this industry, to reduce the costs the enterprise must have continuous production but for that they must also have clients to sell all that production and it is not easy to achieve that. New competitor, without clients, need to exploit scale economies but also needs clients that buys considerable amounts of PVC pipes, in contraire the logistics costs would do damages to the financial health because they would transport air.

For those reasons, the risk of new competitors does not have influence to the profitability and attractiveness of the PVC pipe industry.

Clients also have their influence in the profitability of this market. They are able to reduce the prices, since the rivalry is so high and the simple PVC pipe is so cheap, clients may opt for price aspects instead of quality. The cost of changing is not relevant, the final client may buy the same regular pipe in all the competitors. This leads to an unattractive industry.

Regarding the suppliers, their negotiating power is very high to this industry. The raw-materials of this industry are sold by important brokers with a high financial capacity and they are much bigger than any Portuguese enterprise of the PVC pipes industry. It is impossible to buy quality raw material directly to the producer, so it is always mandatory to purchase it by a broker. This brokers have straight alliances with the raw material producers and in some cases they even invest USD to guarantee some kind of partnership.

When the price of the raw material (PVC) is decreasing and cannot be controlled by the brokers, they ask the producers to decrease the production and sometimes the final clients receive the justification that the powder is missing.

This leads to the managers of the PVC pipes factories to monitoring constantly the price changings to know when to buy and how much quantity to buy. Normally these enterprises tend to purchase a big quantity of raw-material at the beginning of January, when normally the price is lowest, in order to be competitive all the commercial year.

Since the product is very important to the industry, there is no substitute and only a few brokers, the power of the suppliers is very high, contributing to the low attractiveness of this industry.

The menace of substitute products is low. Actually the PVC is one of the best products to use into a borehole and the main reason is the relation price/quality. The market does not accept innovative products because the range of normal clients wants to pay a low price for a reasonable quality and it is impossible to put an innovative substitute solution without a high price into the market. Probably it would be considered by the niches, as Tubofuro® has for the Georoscado® and Hidroroscado® (homologated references of PVC pipes). For those reasons, the threat is low and the attractiveness of the industry is high.

Considering the five topics above, the main conclusion is that the industry of PVC pipes is not attractive and the profitability is low considering the low prices practiced and the high cost associated.

## Internal Analysis

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### Group Tubofuro®

The constitution of Tubofuro - PVC Pipes Ltd, refers to April 4, 1998, with registered office in Ortigosa parish, Leiria municipality, developing pipe production activities with PVC and PE for water boreholes, with CAE 20160-R3, having been incorporated with a share capital of 175,000 euros, spread over 2 partners - Jorge Duarte Cordeiro (37%) and Rui Duarte Cordeiro (63%).

The creation of Tubofuro® resulted from the vision of its founding partner majority (Rui Cordeiro), who was manager at Sondalis - Water Funding Ltd and holding a thorough knowledge of water capture market identified a flaw in the national market, since there were no specific products for the abstraction of water, with only standardized products, which were used in many other areas. The initial objective of Tubofuro® was to produce

specific products for water abstraction. The creation of the first production line, which was made in accordance with European guidelines, represented an investment of € 700,000.

Although the initial phase has been difficult, the market began to recognize the need to use specific products in water catchment. With a 2nd phase of the company it was created two production lines and constituted a commercial team, which made it possible to market opening, allowing to drain the surplus production.

In 2004, Tubofuro® participated in an event in Spain, where he was approached by GWE - Global Water Engineering (German company), with a view to creating a commercial and technical partnership, which proved to be crucial as the company's growth. The GWE is a German group of global dimension, specialized in wastewater treatment, water recycling, and use of biomass, sludge, folders and biogas. This partnership allowed him to have access to specialized know-how, innovative technological solutions and knowledge of the world market allowing the first contacts with international customers.

In the European market the GWE had the role of exclusive representative of products Tubofuro®, making constant demands for the continuous improvement of products. This high level of demand, was instrumental in the growth process of Tubofuro® since it had led the company to equip itself with features and technologies, differing from market players for the excellence of its technical capacity.

The period 2004-2007 was characterized by strong growth, mainly resulting from the demand from the domestic market. In 2008 the market began to collapse and the beginning of the crisis in Spain, began to have an effect on GWE, translating into a reduction in the volume of orders to Tubofuro®. This less positive phase of the European market has coincided with an increase in customer demand on the African continent, which recognize the quality of their products, increasing the volume of orders.

In 2007 there was a change in partners at Tubofuro® and in 2008 proceeded to the transformation into a joint stock company and simultaneously to a capital increase of € 25 000, being set in € 200,000 spread over five partners. A few years later Tubofuro® became 100% owned by Duroduelo SGPS, SA., Keeping the company's founder partner to perform Administrator functions today.

In 2008, it already started the process of approval of Georoscado® products (specific to water abstraction boreholes) and Hidroroscado® (for columns of submersible pumps)

with LNEC - National Civil Engineering Laboratory and a product line is developed in environmental area: septic tanks, oil separators and sewage treatment plants.

In 2011 the registered office of the company was changed to Lisbon, but the facilities and all the activity of Tubofuro® continued to be developed in Ortigosa - Leiria.

In the period 2011-2013 the Tubofuro® invested around € 2 million in photovoltaic panels to increase energy efficiency and minimizing carbon dioxide emissions, making it one of the most efficient plants nationwide since the all of the energy used comes from solar origin.

In 2014 the Tubofuro® opened a hotel, located in Ortigosa, Leiria, investing € 2.5 million. Despite not having any relation to the core business of the company, it should be noted that it was built using products from Tubofuro® (PVC pipes Hidroroscado® and Georoscado®, geothermal probes, polyethylene tanks, and PVC conduct pipes among other products) allowing it to get the Green Hotel seal.

GWE is currently experiencing a restructuration, drastically reducing its commercial dynamism, which led to sharp drop in the number of orders to Tubofuro®. These factors led to the cancellation of the existing partner, reinforcing the need for Tubofuro® step up its internationalization process.

Currently Tubofuro® is investing in a new production line, which should be completed by the end of the year and will serve to produce products with larger diameter, mainly geared to the international market, getting after this investment with 13 production lines installed.

The Tubofuro® holds 35% of Tecnifuro, a company with more than 30 years, developing the activity in the execution of boreholes and installation of pumping and irrigation systems, complementing the activity of Tubofuro®.

The core business of Tubofuro® is the production and marketing of specific products for collection, storage and treatment of water, working in a niche market, having national direct competitors that produce specific products for this segment.

Its industrial activity in the production of polyethylene and PVC pipes by extrusion technology and large tanks made of polyethylene through a line of rotational moulding.

Nowadays Tubofuro® bet on its two value added products, the Hidroroscado® uPVC column pipes to install submersible pumps and Georoscado® uPVC pipes to protect

the borehole. Those products were produced and certified with guidance of LNEC and demand high quality standards. These provides Tubofuro® a competitive advantage, allowing the competition with the best uPVC pipes production factories worldwide.

## Vision

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The vision of Tubofuro® is to be a national reference company and internationally recognized through a comprehensive and integrated range of quality products and differentiated, obtained with the use of innovative and skilled human resources technologies, ensuring business sustainability.

## Mission

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The mission of Tubofuro is to design, develop and manufacture specific products and quality recognized for the collection, storage and treatment of water, betting on a team with high technical skills, offering integrated solutions tailored to the requirements of its customers.

## Values

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Respect, Rigor, Reliability, Honesty, Flexibility, Effort, Commitment, Innovation.

## Strategic objectives

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Betting on high-end products (differentiated product), which has higher added value, especially in markets where these products are already valued, as is the case of Togo, to be replaced iron pipes for food PVC (approved), that the activity of high segment comes close to 100%.

Increase the number of markets diversification where the company is present with a strong focus on markets in South America and Africa, which present a potential above average;

Diversification of industry sectors to whom they sell, because the products are applicable to various industries, such as mining, agriculture;

Expansion of production capacity, if the market corresponds to very positive way to our products.

## Tubofuro® areas of critical competitiveness

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Quality - this is one of the reasons of the success of the company. It is a differentiating factor against competition, and in the niche market in which it operates, and has been guaranteed in Tubofuro® products, particularly at the products approved by LNEC, Georoscado® and Hidroroscado®, but will continue to be decisive for the growth of the company.

Technical capacity - the skills, industry knowledge and market experience held by its human resources have been a success factor in the sustained growth strategy of Tubofuro®, allowing differentiation. Involvement with STS entities, such as the LNEC and the University of Minho, and a strong motivation to grow beyond the domestic market, recently opened new opportunities for cooperation with clients which result into partnerships, so it is critical to Tubofuro® continue to acquire key competencies.

Range of solutions and integrating capacity - Response time, as a dynamic factor of activity, with short deadlines, to increasingly demanding requests in terms of solutions by customers, is critical and differentiator for the success of Tubofuro®, particularly in the most demanding segment, and in the international markets. Tubofuro® enjoys strong advantages in this critical factor, distinguishing themselves in offering specific, integrated and innovative solutions, with superior quality and short delivery times.

Guidance for innovation – Tubofuro® looks to keep updated to the innovative level of their equipment, and leader of its market and its niche capture-storage and treatment of water, providing continuously new solutions and being at the forefront in the knowledge that already holds in the market which it operates. They search for new solutions and products and their know-how, expertise and organization, responsiveness make it a reference. This innovative and integrator capacity lies in the enlarged presence in the value chain and the synergies created by the large scale of operation of their business (collection, storage and treatment of water).

Market presence and direct contact with the customer - Customer proximity in this business is critical for companies to succeed, both in terms of physical presence / direct contact as strengthening the image between markets and customers. Tubofuro® had for several years a technical-commercial partnership with GWE, a German company of a global dimension that has revealed to be crucial in the growth of the company. Currently,

Tubofuro® bet on market prospection and exclusive promotion of the company and products, resulting into presence at International fairs and exploration activities with customers. There are still some commercial skills / marketing to develop such international marketing, prospecting and promotion, as well as skills in the knowledge of other languages.

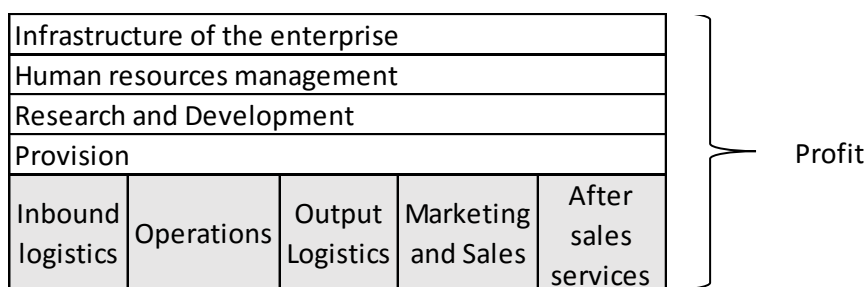
## Positioning at the value chain

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The analysis of the value chain is nowadays important to define strategies and actions to face the international markets. The main objective of this analysis is to select which activities should the enterprises do internally and which should be outsourced. Regarding the internationalization, this tool is important to establish where should the companies invest and implement their activities in order to decrease the cost of each one of them. Some may choose to outsource an international factory to produce their products to get benefits of the low costs of production for example.

Porter said that an enterprise can be seen like a value chain composed by different activities intertwined. Those activities need be well coordinated because each one influences the rest. All those activities converge to profit, the best coordinated and well executed each activity is, the highest will be the profit of the enterprise.

*Figure 5 - Value Chain*



Source: Developed by the author of the case study

Tubofuro® has a very broad presence in the value chain, covering the various activities, design, conception and projection, one of the largest equipment in Portugal to production by rotational moulding, with specific internal capabilities and competencies, turnkey products, as well as excellent logistics and distribution abilities, resulting from excellent stocking capacity and use of distribution channels ranging from own channels to resellers and partners up to the web channel.

The significant extent of the value chain by Tubofuro® becomes even more intense given their strong integration and coordination with the others Group companies, which is dedicated to the execution of holes, thus ensuring an almost scope of the above value chain.

### Critical competitive areas

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Technical capacity: it is one of the key factors in business, as the company has to have resources with technical expertise to effectively respond to customer requirements, and the ability to develop solutions tailored to the specific requirements of each client.

Responsiveness: it is highly valued in this business, the ability to respond to customer requirements in a short time.

Innovation: provide customers with specific solutions for every need, requires a great degree of innovation, so that products and services enhance the value to the customer.

Competitive pricing: it is essential to have competitive prices, especially in low-end products, making it essential to control the main operating costs: raw materials, personnel and services

### Comparison with enterprises from the same productive sector

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In the past year, 2014, Tubofuro® reach 5.681.886,79€ in sales in Portugal and international Markets. Angola has been the international market to which Tubofuro® exported de most, actually it has suffered a drastic change since the oil crisis became to that country. The export ratio of 2014 has been 36,18% and it has increased in 2015 to 41% of the total sales of 6.089.017,90€. Tubofuro® bet on an internationalization program to obtain European funds, 450.000€, to invest into new production lines, marketing, hiring of trained personnel and to expose in international fairs to the sector. The main objective of this program is to increase the international presence of the brand and products Tubofuro® ending 2018 with an income sale of 9.5M€ where 65% results from international sales.

According to the data from the Bank of Portugal, obtained after selecting Medium Enterprises to the class dimension, economic sector (revision 3) 22210 - Manufacture of plates, sheets, tubes and profiles of plastic, and the year 2014, there were 16 companies

operating in the sector. It is important to remind that Tubofuro® economic sector is actually 20160 – Manufacture of plastics in primary forms which is not absolutely correct according the main activity of Tubofuro®. The economic sector 2229 – Manufacture of other plastic articles is also inclusive of the activity of Tubofuro®. When we also use this economic sector to compare the 2014 performance of Tubofuro® it existed 58 competitors.

Using only the economic sector 22210 to compare the performance, the average of collaborators per enterprise has been 88 in 2014 and the turnover has been 17.844.182€ which 10.679.885€ were to foreign markets. It means that in 2014 the degree of internationalization of the sector were 58,95% (international sales / total turnover) about xxx% superior of the percentage of Tubofuro®. This means that Tubofuro® has a play to role at the international markets to get closer to the sector numbers.

### *Business Situation in the critical areas of competitiveness*

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The sector in which the Tubofuro® is included is characterized by aggressive competition, where the price allied to the quality, the range of solutions and the response time, reveal to be essential, not only for success, but for the survival of businesses.

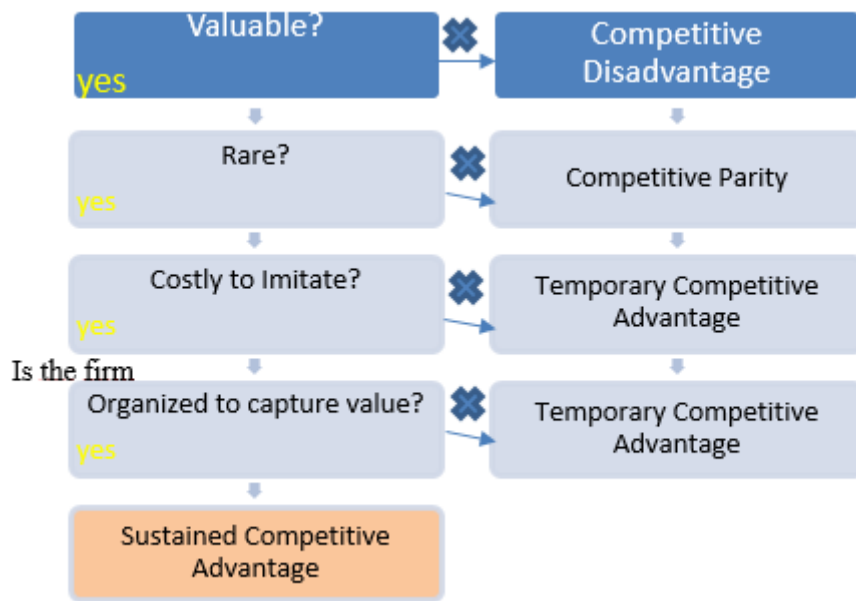
The situation of Tubofuro® in these areas proves to be overall quite positive, translating into a strong presence in the value chain in its sector, providing a diversified offer, from the design of the solution, to the quality of materials and the differentiation and innovation of the final product (only at national level). The technical and associated services is a key factor for the success of Tubofuro® and the Group, asserting itself unequivocally the distinctive character of its offer.

### **VRIO Analysis**

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Valuable, Rare, Costly to imitate and Organized to capture value, is what the resources of an enterprise must be. The VRIO framework is used to analyse the internal resources and capabilities to evaluate if it can be a competitive advantage to the company.

Figure 6 - Vrio Resources



Source: Developed by the author of the case study

Regarding the question if the resource add value by enabling Tubofuro® to exploit market opportunities or defend against threats, the PVC pipes Georoscado® and Hidroroscado® developed and homologated by Tubofuro® lead the company to reach market niches with high quality product and high prices. The perceived value to the costumer increased when we started to deliver the homologation document with all the technical specification of the pipe and all the tests done. This have never been done in Portugal for PVC pipes to boreholes what contributes for the differentiation of the products and Tubofuro®. This resulted from the partnership with LNEC and the University of Minho. It guided the name Tubofuro® and the brand Georoscado® and Hidroroscado® to be distinguished by being high quality products and fabricants.

Considering the superior price comparing to the standard PVC pipes sold across the regular market, the Georoscado® and Hidroroscado® are only acquired per a small group of boreholes drillers. Although the product is not rare, only the formula and composition turns it rare, otherwise the PVC pipes market has another solutions. The homologation document is rare through this market and for that Tubofuro® may exploit a temporary competitive advantage.

Costly to imitate? It is really costly to homologate a product, specially a product with different pressure classes and diameters like the PVC pipes. For that reason, Tubofuro® truly believes that no one will enter this specific market. This is an argument valid to the niche market for which we sell the homologated pipes. When comparing the other products of Tubofuro® there are not costly to imitate for almost all our competitors, but very expensive to imitate for a new enterprise.

The resources itself cannot confer any competitive advantage to Tubofuro® if the enterprise is not organized to exploit the value of them. All the internal processes, communication, structural organization and policies must be strictly defined to realize its VRIO resources. Tubofuro® bet on rewards for innovative ideas brought from inside collaborators, motivates the employees with fair salaries and rewards per objectives, it uses a defined management process strategy and implements controls systems at the production lines and office.

For those reasons, Tubofuro® may consider that it has a sustained competitive advantage.

## SWOT Analysis

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The swot analysis is used to combine the internal and external analysis in order to establish corporate strategies. Strengths and weakness of the enterprise can be combined with opportunities and threats to know how to proceed. The present should be compared with the past and the result of the SWOT analysis need to be followed and confronted with the past.

This analysis aims to choose the obvious choices to maximize the profit based on what the company does well and to minimize the threats and weaknesses of the enterprise.

### Main strengths and weaknesses compared to competitors

#### Strengths:

- The financial situation allows support growth and reduced delivery times
- Excellent production capacity

- Strong focus on eco-efficiency, making it energy efficient and with lower costs
- Quality of products and technical expertise
- Innovation and range of products integrators above the industry average

#### Weaknesses:

- Fragilities in prospection and international promotion and insufficient commitment to international marketing will face the strategy in this area of major international groups
- Lack of fluency in foreign languages
- Digital economy and new unexplored technologies
- Contact with international clients undeveloped and insufficient

#### Internal factors / Strengths

- Excellent know-how of the business and indisputable expertise, pioneers in the national development of products in its high-end
- Clear strategic definition and consistent
- Forefront of market niche that works with low number of competitors in the high-end products
- Good corporate image and unquestionable quality of its products against the competition
- Use of innovative equipment, high performance, technologically advanced
- Good level of stocks and reduced delivery time
- Ability to adapt nationally and internationally recognized development of turnkey solutions
- Strong focus on eco-efficiency, producing the energy it consumes, making it one of the most efficient plants energy
- Coverage of the entire national market
- Excellent production capacity, one of the largest machine of rotational moulding in Portugal and Spain
- Excellent ability to develop new products, given the undoubted skills of its technical staff and connection to the national SCT
- Integration in a group of companies, allowing business knowledge and market, development capacity and testing of new products

#### Internal factors / weaknesses

- Qualification and international proactivity promotion is insufficient compared to the company's goals
- Insufficient knowledge in foreign languages, to the markets they want to explore
- Insufficient focus on the international market, there is great potential identified both products and markets receivers
- New technologies and little explored digital economy and insufficient for the demands of the market and current business objectives, outlined in its strategy
- The type of products and customers requires an initial contact with potential buyers, requiring a huge investment in human resources, exploration and promotion

#### External factors / Opportunities

- Support systems of incentives for business investment available in the Portugal 2020, and Horizon 2020
- Increasing demands for adoption of more sophisticated internationalization strategies from alliances and partnerships, to the establishment of commercial and productive branches
- Growth of the importance of establishing cooperation strategies, networks and partnerships (CDRSP to develop new products, LNEC for approval of products and the University of Minho, for new or improved materials)
- Increasing investment in basic infrastructure, particularly African countries (projects 'Water for All'), mineral exploration in South America as well as in agriculture
- Poor competition from competitors, given the composition of materials with calcium carbonate, and leave open the entry for companies that offer integrated solutions and greener, turnkey and with excellent quality / price ratio
- Developing closer links between qualified suppliers and strategic customers, verifying that the former are increasingly indispensable partners of the second

#### External factors / Threats

- Global economic recession risk and its effects on demand for domestic production and from Tubofuro® in particular in community markets
- Competition, especially India and Italy, which may have effects on the position of Tubofuro® in the global market, for price and quality of products
- Patent financing difficulties in the Portuguese economy and European
- Maintenance of strong restrictions on the financing businesses
- Fluctuation in oil prices, affecting the prices of the main component of the raw material of Tubofuro® (ethylene - PVC) and may affect mainly the lower value added of products

## Combined analysis

### Strengths / Opportunities

- Capitalization image it has in the market to establish strong direct partnerships with major international customers, contributing to greater export orientation of the company, in particular for new markets
- Capitalize on innovative and distinctive tradition and expertise as a way to sustain its leading market position
- Deepening the synergies of belonging to a group (sharing of know-how and integrated solutions)
- Utilization of incentives to support business investment systems
- Establishing special and lasting partnerships with strategic customers where Tubofuro® is assumed as first-line supplier, multifaceted, flexible, innovative and reliable
- Deepening of relations with institutions of the SCT and others to develop new solutions / products, particularly for new markets
- Investing in differentiation and integrated response time and solutions, taking advantage of the poor performance of the competition, becoming a preferred supplier and renowned
- A strong financial capacity to support entry into new markets, given the good capacity to invest in stocks

### Strengths / Threats: Warnings

- Global economic recession risk and its effects on demand for production on a national and international
- Increasing competition in the global market, which will have effects on the market position and niche dominating
- Oil price instability and its consequences in the prices of the main raw material (PVC), may affect the excellent relationship between the generated value and resources spent on productive activity

#### Weaknesses / Opportunities: Restrictions

- Tubofuro® can take advantage of support systems of incentives for business investment to boost training and proactivity in the field of international marketing and digital economy, catapulting the company into new markets, according to its strategy
- The company can take advantage of vocational training support incentive systems to increase the skills of your team in foreign languages and approximate its approach to unexplored markets, and strengthen alliances, partnerships and even organize branches
- Poor competition from competitors motivates Tubofuro to increase your bet in international markets, including South America and Africa, as they identify opportunities for their products in these markets receivers, eager to integrated solutions and excellent quality / price ratio

#### Weaknesses / Threats: Risks

- The risk of economic recession in export markets may jeopardize Tubofuro® establishment process as a strong direct exporter, particularly because it is not highly qualified for access to international markets, given the insufficient proactivity in international marketing and low level of language skills of its human resources
- Global competition, particularly from India and Italy may have onerous effects for the entry of Tubofuro® in selected international markets, as it presents some lower skills for exposure and communication to international markets, the result of insufficient expertise of the areas international marketing and digital economy and ICT

- Fluctuation in oil prices and consequently in raw materials may influence the competitiveness of Tubofuro® in international markets compared to other competitors
- The absence of international marketing actions and prospection and promotion to potential customers may penalize Tubofuro face to its most direct competition, Italy and India

## Analysis of potential markets for Tubofuro®

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In this section it is stated all the detailed information of each potential market, based on internal information and on unstructured interviews to local market players. Other information was obtained through websites of the embassies and international institutions.

### Europe:

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#### Germany

Covering an area of 357.021 square kilometres with about 81.8 million inhabitants is the most populous member state of European Union.

Germany is one of the most attractive markets in Europe, considering their growth from the past years and financial stability. Actually governed by *chancellor* Angela Merkel, considered the most influent woman of the world, it is a market where the quality of the products is half way to achieve success but to Tubofuro® it means an increasing of quality costs and decreasing of profit margins, because it is necessary to enter with a penetration price strategy, defining a medium price to a high quality product in order to persuade potential clients to buy our products. This strategy will be crucial to enter the German market of PVC pipes.

The actual players in Germany, and principal competitors, are 2 host enterprises, Germand Water and Energy (GWE) that has already been our partner and Stüwa, then the Italians companies Pancera Tubi e Filtri s.r.l., Lareter and Plafond Plast and also an Indian company named Jane.

Decreasing our margin of profit and considering the logistics costs we are able to reach the 4<sup>th</sup> place in terms of price comparison, according to a partner we have in another segment, the geothermal.

Thanks to the German culture, cold and patriotist, it is fundamental to enter with a local enterprise as a partner to an easier entry by allying our name to a local name. It is difficult to reach this market using phone calls and mailings, using English as the business language. For mailings they don't answer and by phone they don't give importance if you don't try to speak their language.

The quality standards are similar to north Europe, so the market of PVC pipes is much legislated to protect local producers and costumers. To be able to sell PVC pipes in Germany, foreign companies must apply their products to local legislation and spend considerable amounts of founds to obtain the needed certification. This amounts can reach around 30.000€ for PVC pipes to water drills only to test the safety of the composition of the pipes to the human health.

This is a barrier of entry for foreign companies, because when they think they have all the certificates needed, the legislation change and they need to apply to new certificates.

Also, the image of the final product, and the marketing are extremely important to be able to play a role into this market. For us specifically, the thread of the pipe (used for sample, to show to the final client) need to be perfect or we would never be able to sell to this client anymore. It is a one-shot market.

Although the differences from the Portuguese culture to the German culture and the barriers, Tubofuro® has a role to play into this market. The logistics cost, around 2400€ from Leiria, Portugal, to Munich, Germany, allows us to charge a full truck of different diameters of pipes, completing it in weight and space reducing the cost per meter almost to an insignificant value. We also are equipped with last generation tools and machines to face the quality standards of the German market.

Until 2016 it is almost insignificant the weight of this market to the sales of Tubofuro® what should be changed through 2016.

Germany - Hubert Graft – Mechanic Engineer – Specialist in Geothermal components

“You will only have one shot. Take care of the quality standards, be prepared with all the information translated in German and prepare quality samples to distribute through the clients. Those samples must be perfect, because they will absorb 80% of the client's attention.

The Indians entered the German market by their price strategy, but they had a very poor quality and they take another 5 years to come back with new improvements to reach the quality standards. Nowadays they are 4<sup>th</sup> placed regarding the market share. So do not waste time with imperfections and start with contacts only when you have all the certainties that you can supply quick, with quality, and with a strategy of price penetration, otherwise keep your efforts for other markets and do not even try to sell here.”

## France

The French market for the sector where Tubofuro® is included, is known by the local players like the “Chinese market”. It is one of the most attractive markets on Europe because it absorbs almost all the products from the sector of collection, storage and water treatment, but foreign companies use to fail the entry to the market.

According to data from 2010, France had 65.447.374 habitants and it is one of the main producers of agricultural products, such as cucumber, tomato, among others, using considerable amounts of kilometres of PEHD, PELD and PVC pipes.

Quality standards seems to be poor but it is why most of the foreign companies failed when they have tried to enter the market. French government started to implement the NF (Normative Française, French normative) and others legislations to assure the quality standards. This constitutes a barrier to enter the market, it protects the local companies, even if it is considered one of the causes to the failure of some small local companies.

This is the European market where it is possible to find almost all the competitors of all parts of the world trying to make their move. Indians, Turkish, Germans, Spanish, Portuguese, Americans, and others try to get a percentage of the market, but all of them makes mistakes.

The French culture changed through the past years. Nowadays it is one of the countries in the world where the multiculturalism is higher. You may find Muslims, Catholics, Protestants, Jehovah, Mormons, Jews, Buddhist and others. It is difficult to define the French culture and more difficult it is when we talk about business. The natives are similar to the Nordic Europe, patient, intelligent and they look to get the best quality possible for the better price.

Actually Tubofuro® found its way to enter the market, slowly and with a learning perspective.

Christophe Lopez, Hydraulic Engineer:

When I started to look for a local distributor, I found immediately Mr. Lopez at the south of France, and his acknowledgement of the French market of boreholes and water treatments convinced me that he was the best shot to enter the market.

Mr. Lopez told me that “the French market is one of the most desirable markets of Europe but it is where the failure when entering is higher. Everyone thinks it would be easy to implement their product here but the local customers are very exigent concerning the low prices but medium/high quality. Also the government tries everything to protect the local enterprises with legislation which also prejudice the local enterprise and lead to a market with 3 or 4 big players and others working only to pay the bills.

The culture of high quality standards disappeared since the 80’s when the French frontiers started to allow the multiculturalism without control. It is not criticism, but regarding the maintenance of a quality standard, you may see German’s example, their people kept the tradition of what is German is good”

## Spain

It is absolutely wrong to think that Portugal and Spain have similar cultures and ways to do business. Comparing to the Portuguese behaviours, in Spain they had the famous “Siesta” for long years, and Friday afternoon, regarding our sector, it is impossible to find anyone working. They are enthusiasts and live some break issues, with the differences between Catalans and Spanish.

However, the Spanish market is highly attractive for the Portuguese enterprises. The logistics costs for the companies located at the middle of Portugal are almost the same to Madrid that would be to Algarve, at south of Portugal, or Guimarães, at north. This allows us to be competitive with delivery dates, logistics costs, and to maintain closer relations between Portuguese and Spanish enterprises. With 47.265.321 inhabitants in 2012, according the data from 14<sup>th</sup> June 2016, from Wikipedia, and with low precipitation, Tubofuro® is able to sell almost all their range of products.

Tubofuro® believes that the potential of the Spanish market can reach 1/3 of the sales of the actual volume of sales in Portugal.

For this sector there are no barriers for Portuguese PVC pipes producers to enter the Spanish market.

### Spain – Pablo Martin, Hydraulic Engineer:

“The Portuguese market seems so similar to ours that some of your competitors failed to enter with this theory. We have two types of markets for your product. The low quality standard and the high quality, and with both you only have one shot to try, otherwise if you fail by presenting bad products and high prices, you keep your way going home.

Although I believe Tubofuro® has high quality products to fulfil the high quality market of Spain, more precisely the south, where the PVC pipes certified are needed to salt water drillings to process it into potable water.

The proximity is also important for your company, you are able to deliver quicker than any other market, which is important regarding the last minute purchases and to be quicker to answer the nonconformities.”

### **Africa:**

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#### Tunisia

Former French colony, almost all the habitants speak French, but the principal language is the Tunisian Arab. It is a small country with almost the same population as Portugal, around 10 million.

The agriculture represents around 12% of the production, meaning that in a country with a significant part of the area covered by the Sahara Desert the need for underground water open doors for foreign companies’ producers of PVC pipes. In Tunisia there is no local competition, it is a market of importation of foreign products.

In the North Africa countries, the mark “made in Europe” is important and it turns the negotiations easier. In Tunisia Tubofuro® has already a distributor that buys us for quality and also because we are European.

The actual currency is the Tunisian Dinar, with 1€ corresponding to 2,3655 dinars according the Portuguese Bank (data from May 2016).

Concerning the culture, it is an Arab community so they have the implicit costumes of their religion. The Ramadan is celebrated in February and during this month they cannot eat, drink, smoke or have conjugal relationships before the sun sets. It is a less productive

period that the foreign suppliers must respect. They have also some European habits since they have been colonized by France through a long period.

The orange tastes almost like the Portuguese one, from Algarve, and it is one of the most exploited product. This increments the need of boreholes thanks to the weather.

Regarding their way to receive foreign tourists and suppliers, they are very cozy and polite, although like anywhere else, they must be respected.

#### Tunisia - Mohammed Masmoudi – boreholes driller

Mr. Masmoudi became a real friend, he comes to Portugal very often and I have already visited him to realize the Tunisian reality. He always says me “the Maghreb region buys everything that comes with EU marked, you only have to provide me better quality products than the ones made in Africa and from Italy. The Italians have a lot of problems to sell in Tunisia because they thought we were dummies. The quality was horrible and the after sales services was incredibly slow and inefficient.

You only need to adapt your well to win to the Tunisian culture and you will be successful.”

#### Algeria

Like Tunisia, Algeria were also a French colony so the French language turned to be the business language, but the Arab is the official language. It is also an Arab culture so during February they celebrate the Ramadan.

According the information from the Algerian embassy in Portugal, actually it has around 35 million habitants an in terms of area it is the biggest country in Africa although a considerable percentage is desert. The currency is the Algerian Dinar and with 1€ you may purchase 123, 1071 Algerian Dinars.

The week starts Sunday, instead of Monday as Europeans start, and end Thursday, so the weekend is Friday and Saturday and not Saturday and Sunday as we have. The day work normally stands until 19h00 to use the available daylight.

Algeria seems more developed than Tunisia, they have more industry but the advantage for European companies still is the fact that the local clients wants to buy products made in Europe. Tubofuro® has a local competitor called Tuboplast but it is not capable to face all the intern demand.

The way how they greet shows the respect they have for the other. In Portugal normally men greet each other with a hand shake, and in Algeria they greet with a hug or with two kisses on the cheek.

For Tubofuro® it is an attractive market that has bilateral agreements with the Portuguese government. The most difficult barrier to enter this market is the need of establish a partnership with a local entrepreneur, to open a subsidiary with a minimum quote of 50%. Also the politic instability lived through the Maghreb region, with a critical period known as the Arab Spring, can affect the region from one day to another.

Algeria - Mr. Khaled Yata – Responsible for the production of the Algerian water company

“Algeria is now opening to the foreign investors, but you always need to have a local partner. But be careful, the power will be at least equally distributed so choose correctly your partner otherwise you will face problems and the local legislation and law is not made to protect the foreign investment.”

## Morocco

For the proximity with Portugal, morocco is an attractive market. The logistics costs are comparable to the ones paid if Tubofuro® send material to Madrid (Spanish Capital). It also exists two local competitors but without the European quality and productive capacity to answer all the requests.

Morocco is a monarchy and from the Maghreb region it is probably the most stable country regarding the politics issues. It is considered the Europe of Africa for the high European community installed most of all at Marrakesh, Rabat and Casablanca, where we may also find the worldwide known brands of clothes and cars. The business language is also French but the official language is Arab. The business environment is favorable to foreign investors, the infrastructures became to be quite developed, with significant investments on highways, railways, airports and seaports. Actually the local government is investing around 3 billion USD on the new high-speed railway.

The currency is the Morocco Dirhams, and with 1€ it is possible to purchase 10,8774 Dirhams.

The Ramadan is also celebrated by the morocco population during February.

Based on information extracted from the Morocco embassy, Morocco has 34.957.175 habitants distributed by its 710.850 km<sup>2</sup> geographical area. With an average life expectancy of 71.22 years old in 2007, the investment made by the government to increase the average is an opportunity for Tubofuro®. Morocco ordered recently to replace all the iron conducts of water by PVC tested for human consumption, and released monetary aids to implant waste water treatment plants.

Until last year, it was possible to see diesel motors, from old cars, working to extract water from boreholes. Now it is forbidden and the solar systems are appreciated to replace the old motors.

Morocco is also attractive because of its geographical proximity, regarding the distance between Lisbon and another foreign capital, Rabat is the closest capital, even closer than Madrid (straight line measurement). The labor costs are moderated compared to Portugal and the exportation costs are small.

Morocco also has important investment lines, through investment programs to increase the competitiveness of the local enterprises and it presents low fiscal costs. To the Portuguese exporters the good news is that the customs duties are decreasing to attract more foreign direct investments.

### *America:*

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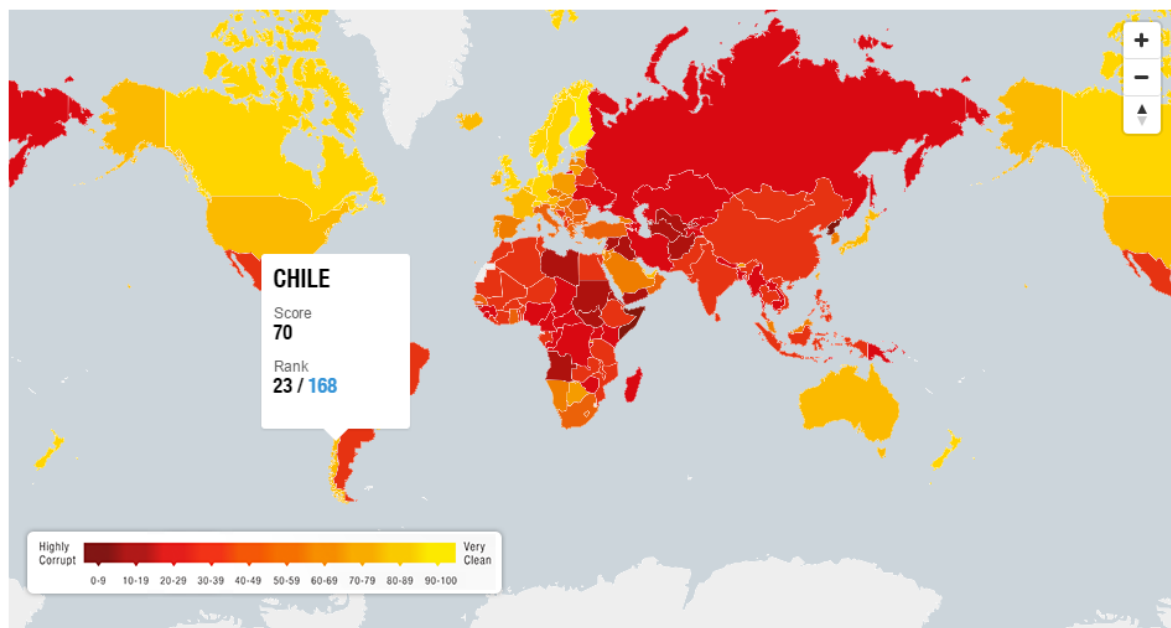
#### Chile

As the Maghreb countries, Chile is also an attractive market to export by being bathed by the ocean allowing shipping goods via sea, which is the cheapest way to ship PVC pipes.

Chile has 759.950km<sup>2</sup> and approximately 15 million habitants. The official language is Spanish and the actual currency is the Chilean peso. Comparing to the Euro, it is possible to buy 767,618 Pesos with 1€.

From the past years, within the Latin American countries, Chile stands out for being the country with higher rates of social development, quality of life, financial development and technological growth. The corruption perception is growing and nowadays, according to 2015 information from the Transparency International Organization, Chile is on the 23<sup>rd</sup> position of the cleanest countries of the world, and the 2<sup>nd</sup> cleanest of South America.

Figure 7 - Transparency Of Chile



Source: Developed by the author of the case study with data from Transparency International Organization

In 2010 Chile was the first country of South-America to enter the OECD (Organisation for Economic Co-operation and Development).

For Tubofuro® the mining industry and agricultural are attractive having as the principal competitor the Brazilian enterprise Tigre, regarding the PVC pipes.

## Peru

With an area of 1.285.220km<sup>2</sup> and approximately 31.5 million habitants, according the 2016 censuses, Peru is also an attractive market for Tubofuro®. The mining industry for extraction of copper, gold and zinc is one of the pillars of Peru's economy and exportation. The mining industry needs PVC pipes because associated to this industry is the service industry of borehole drillers to lower the groundwater levels to allow the miners to go deeper underground.

For the gold mining, Tubofuro® is able to sell differenced products, developed specifically to this sector, in particular the PVC pipe covered with gravel fixed with special resin, to filter the underground water and process the extracted gold. For this reason, the Peru's market is highly attractive for Tubofuro®.

The economy faced difficult periods, especially in 1990 with the government of Fujimori decreed the "Fujishock", the shock for Peru's economy which had drastic consequences in the inflation, exchange rate and unemployment. From the last 15 years, the economy growth, but connected with the parallel economy given the corruption. Peru's is on the 88<sup>th</sup> place of the cleanest countries regarding corruption levels.

The Peru's culture is based on the Spanish culture and Indigenous. With the significant development of the last years, the effects of globalization are visible in Peru's way to negotiate and cooperate. Although it is current practice to pay to have facilities.

## México

México is the second biggest destination of the Portugal exportations after Brazil, since the celebration of TLCUEM (Tratado de Libre Comercio entre México y la Unión Europea - Free Trade Agreement between Mexico and the European Union). After that the trading's increased 339.6% passing from 139.9 million \$ in 1999 to 852 million \$ in 2011.

Surrounded by sea, it is also attractive to the Portuguese enterprises. The logistics costs decrease considerably.

Mexico as 1.959.248 km<sup>2</sup> and in 2010 it was habited per 112.322.757 habitants according to the national institute of statistics and geography. The official language is Spanish and the actual currency is the Mexican Peso (1€ - 20, 8811 Pesos). The culture is similar to the Latin American countries.

The mining industry is also important for the Mexican economy, and also for Tubofuro®.

## Argentina

With a total area of 2.780.400 square kilometers and approximately 42 million inhabitants, Argentina is nowadays the fifth biggest economy of South-America and the agriculture is one of the top products exported.

The alteration of the governmental power, with the new president Mauricio Macri, changed the paradigm existing until there. Now it is easier to export to Argentina and to invest there.

Macri decreed the end of the capital control, which influenced directly the exchange rate and the market shares. Argentina is now an open market for the foreign direct investment and for the PVC pipes it is very attractive.

According to some local clients, Tubofuro® is able to introduce the product via export by sea, to at least half the price practiced actually by the exclusive distributors of TIGRE, the biggest PVC pipe company of South-America.

At 29<sup>th</sup> June 1€ were equal to 16, 55 Argentinian Pesos. Normally the business currency is the American Dollar.

Argentina – Mr. Miquel Coma – Hydroo® Chief Marketing Officer

“Argentina is the “boom” of the south American top countries to foreign investments and exportations. They changed the government and now they are open to investment. But

be fast, if not you will be surpassed and then it will be harder. If you can go there, go now, do not wait.”

Hydroo® is a European company from the pumps industry and only has a distributor in Argentina. Mr. Coma gave me his opinion and personal experience while he visited me in Portugal.

Argentina – Mr. Omar Sanchez – Owner of “Servicios Sanchez” – Borehole driller

“Regarding the PVC pipes market, you have all the needed factors to be successful, the VAT is 21%, you have to add around 1000€ for a 20” container and count with 6% for import taxes, but even adding all those costs your price is half the price of the principal PVC pipes provider in Argentina.

Argentina opened recently the frontiers to foreign direct investment and for importation of products, that is why you must enter right now or you will face difficulties when everyone is already here. The government changed and this one seems to know that we have to be world citizens”

This statement has been obtained recently and actually is one of the main costumers of Tubofuro® in Argentina. Every day we speak by “Whatsapp” about how we may increase the sales in Argentina. Unfortunately, there is a local lobby which is interested to keep the iron pipe as the standard product, reducing the need of PVC pipes.

Table 2 - Potential Markets information

	VAT (%) Standard Rate	Average Logistics costs (€)	Import taxes (%)	Potential Clients (Distributers)	Main Competitors
<b>Germany</b>	19%	2500€ Full 13mt Truck	-	3	4
<b>France</b>	20%	2000€ Full 13mt Truck	-	4	2
<b>Spain</b>	21%	1500€ Full 13mt Truck	-	3	6
<b>Tunisia</b>	18%	2150€ 40”HC	[10% to 230%]	2	3

		container			
<b>Algeria</b>	17%	2150€ 40''HC container	[0,5% to 30%]	5	6
<b>Morocco</b>	20%	1500€ 40''HC container	[9,3% to 300%]	3	6
<b>Chile</b>	19%	2560€ 40''HC container	6%	3	1
<b>Peru</b>	16%	2450€ 40''HC container	6.2%	2	1
<b>Mexico</b>	16%	2300€ 40''HC container	16%	1	1
<b>Argentina</b>	21%	40''HC container – 1500€	[6%:14%]	2	1

Source: Developed by the author of the case study with data collected from different sources

## Specific barriers of each market

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At Germany the main barrier of entry is the legal protection for the local enterprises. This aspect protects the local enterprises against foreign enterprises by establishing local legislation which is mandatory for the water supply and treatment sector. These legislations are highly expensive and that is why the German market does not have a lot of competitors. Foreign companies like Tubofuro® must respect the legislations which are expensive.

Also, the German final clients look for German products and for the “German quality” what turns difficult the entry of foreign enterprises. This is also a barrier, which Tubofuro® has to take care incrementing the quality standards to be able to enter the

market. For Tubofuro® it is also important this barrier to avoid the Chinese and Indian competitors to enter the market with low prices and fair quality.

The French market also has the legislation as a barrier of entry despite being less expensive than in Germany. The main competitors of Tubofuro® have decision power enough to modify legislation to close the market against new competitors. For Tubofuro® there is no other barrier to enter the French market, considering the mode of entry by exportation and by a local distributor.

The Maghreb market has some barriers against foreign companies, although they need foreign investment. In Tunisia, since there are no local producers of PVC pipes, the government does not implement specific legislation, demanding only the compliance certificate to assure the quality standards regarding the non-modification of the water properties to human consume. Although, there are other barriers, the culture must be respected and for women it is difficult to negotiate. The gender equality it is not so developed as in Europe and America, which is a barrier to women to negotiate equally with local companies, because they are not seen so capable as men's are, it is easily understood with the need of the local woman's to use the Islamic Veil, and only can be concerned with household chores and taking care of their families. Also, the culture is quite different, and the local governments tend to give priority to companies with a local partner at public tenders. Although, through the investment on education and the prosperity of new formed generations, some human rights are increasing and through globalization, someday they will have almost the same human rights as Europe. Another barrier is the high sensibility to the price issue. North-Africans are known for the high tendency of bargaining and foreign companies must know how to explain why their prices cannot be as low as they wanted to be giving high quality products.

If Tubofuro® wanted to invest on that region, the local law requires a local partner with 50% quote of the business or Tubofuro® cannot do anything out there. In Tunisia and Algeria the safety issue is also a negative aspect for the foreign investors. Although Tubofuro® way to enter those markets is by exportation and local distributors, reducing the exposition to those barriers and threats.

The Mexican market presents as barrier of entry the parallel market and the bribery issues. For the mode of entry Tubofuro® used to enter this market, the import rates do not represent a barrier. The use of bribes and the corruption level are impeditive to provide competitive offers to the final clients.

From the four South-American countries here referred, Chile and Peru presents similar cultures, Argentina is considered a country of immigrants with diversified cultures and habits. The bribery and corruption is higher on Mexico and Argentina. Mexico as the biggest GDP, but Argentina, Chile and Peru seems to be best positioned regarding the technology and financial stability. For Tubofuro® there is no specific barriers at those markets.

## Critical factors for success in each market

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The critical factors for success are what an enterprise does the better and cannot fail. The image of an enterprise lies on the critical factors, and those cannot change to avoid critical damages to all the enterprises structure.

All the markets may be seen as one unique, because for the nine different markets above stated, Tubofuro® strategy lies on best quality products with a fair price, fast delivery and also important a good after sales service. All the departments of Tubofuro® are ready to answer the exigence of the foreign markets.

Regarding the production, the products with value added, as the PVC pipe covered with gravel, or ribbed PVC pipes, turns Tubofuro® attractive to market niches. The highly trained collaborators can fulfil a 20” or 40” container with different diameters to help the client to pay less per meter for the transport. This process starts with the sales department that advise the foreign clients what diameters can be included into the container to better distribute the logistics costs. This is very important and appreciated by the clients that almost don’t feel the weight of the logistics costs.

## Mode of entry for each market

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Tubofuro® internationalization plan started to be designed since the last year. First the administration hired me as the responsible of the foreign markets, because before they had no one fluent in English, French and Spanish.

There are different ways to enter foreign markets, or the companies exploit their competitive advantages and export their production, or they can move the production to another market, in order to reduce production costs and be closer to the final client, by licensing, franchising or management contract. If the companies detect and are able to control assets at a foreign country, they also may opt per partial acquisitions or Joint-Ventures or can establish a subsidiary into a foreign country, by acquisition, Greenfield or merging with host country enterprises.

According to the theory described into the literature review chapter, Tubofuro® chosen the Exportation as the mode of entry to the markets where it does not have any activity yet. Although it does not provide market knowledge and does not allows the establishment of solid relation with costumers to create a strong network, Tubofuro® as a

SME will opt to follow the Uppsala model and start its internationalization process with the first step described previously. Tubofuro® strategy passes through no regular exports, and, if the market absorbs the quantity expected, the step two will be followed to increase the level of knowledge of the host market through a local distributor.

Tubofuro® is already in the step two of the Uppsala model in some markets, such as the French market, German market, Tunisian market and Morocco's market, where it has already a local distributor charge to do all the marketing activity and to answer all the demands received from that market, as well as increase the sales revenue through market prospection.

In Spain, Tubofuro® bet on a Joint-Venture with a local entrepreneur, linked to the same market, and created the new company of the group Tubofuro® called Pesa Well Engineering SL, and located in Madrid. These Joint-Venture only advanced since both partner were friends for a long period and bet on this partnership to divide costs and provide a competitive company to explore the Spanish market.

The mailings and phone calls helps to obtain important information and avoid prospections trips without sense. Only after the first contact and the safe information that the market as potential buyers, comparing prices they have with the price we are able to liver the product adding the import taxes and logistics costs avoiding that way the unnecessary work without financial return.

After the first contact with all the potential clients, Tubofuro® sales department define a business trip to meet the clients in their facilities and realize the true potential of purchase and work.

Since Tubofuro® strategy relies on a local distributor to import their products and distribute them through local clients, the choice of the distributor is taken carefully to avoid being not known on the market. Normally a contract with objectives is firmied with a local distributor where it is stated the minimum purchase amount per year, only to reinforce the cooperation and mutual involvement of both parts. The value is accorded between both companies, considering the market potential and the growth potential of the market, and Tubofuro® signed that it cannot be competitor, all the prices inquiries passes through the distributor and the quality must respect the minimum standards accorded when negotiation process.

Actually Tubofuro® already has this contracts in France, Germany, Tunisia and Morocco, representing at least half a million euros per year. The relation evolves and the distributors almost act as employees of Tubofuro®. The information obtained by the straight relation, provide a solid base from each country. Tubofuro® act like a support to help its distributors to have more and reliable information, adapted for each market, done by mutual agreements and between the client and the marketing department of Tubofuro®.

The quality issues are also threated between Tubofuro® and the local distributor, where all the support is given.

## Marketing Strategy

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To enter new markets, the relation between the sales and marketing departments is very important. It is necessary to know what will be accepted per each different country and culture and avoid errors to not compromise the strategy.

At Tubofuro® those two departments work together to think and implement marketing strategies differenced for each market.

The first step has been the modification of all the catalogs of Tubofuro® to more attractive ones, with best quality images and technical information. It is important to avoid problems linked to lack of information. It is also important because with detailed information we may transmit the high quality we want to pass to the market. Tubofuro® only had catalogues in Portuguese so we translated everything to French, Spanish, English and German.

The website has also been modified, and we opt to develop and include an institutional video to show Tubofuro® to the foreign clients and establish a closer relation. The image has been reviewed and it is the essential of the website. A lot of images from different angles of each product to be easier to choose the product based on real images.

The communication mix is also done by the personal selling of Tubofuro® in Portugal with 4 commercials and at the foreign markets with local distributors and commissioners. Tubofuro® also bet on promotions to every months promote a product towards its clients. This strategy allows to maintain the stock rotating.

With the European founds, Tubofuro® also increased its participation at international fairs selecting fairs at Brazil, Germany, France, Algeria, Morocco, Spain, Chile and Peru.

This fairs allowed Tubofuro® to establish the partnership with the German enterprise GWE in 2009 and provides visibility through exigent and selective clients. The fairs need to be prepared 6 months before the first day of exposition, inviting clients and potential clients and selecting the products to emphasize and ways to communicate. After the fairs, the contacts done must be threatred looking for the best profit possible.

The online communication is done by mailings periodically, to keep the contact with the foreign clients. The tactic is to send every month a mailing with the prices since the raw material and the exchange rate changes. This allows Tubofuro® to do better offers and some clients tend to order a considerable quantity of material.

Tubofuro® also started to use communication applications to keep contact 24h per day, by WhatsApp and Skype, sending images and in time information. The straightening of relationships with foreign clients increased a lot since it is almost like the negotiation was done personally. For example, I sold a full container for a Tunisian enterprise and I took pictures of everything to send to the client since is buying something he cannot follow. The reaction has been marvelous, the client felt like he was at Tubofuro® and inclusively had the opportunity to reject a product for unconformity.

The only adaptation made was the language depending the country.

Regarding the distribution channels, in Portugal Tubofuro® has in consideration the place utility, having different distributers spread to the 18 districts of Portugal, the time utility, form utility, and information utility. The involvement is indirect in Portugal and outside Portugal because Tubofuro® bet on distributers and agents but keeping straight communication regarding marketing strategies and new products development.

For the communication strategy, Tubofuro® invested on a new website, with all the important information and images. The website is prepared to be easier to communicate with us, to be our distributer, to inform about non-conformities, to send the curriculum vitae and to download all our information. The previous website was not attractive.

Figure 8 - Previous Tubofuro web-site



Source: [www.tubofuro.pt](http://www.tubofuro.pt)

It has been done into a standard platform and we did not have the promotional video, images from our products installed by some of our clients, information regarding all the variables of our value chain and it was not updated by our marketing department.

Actually the new website has the mission to sell and to promote the best we have.

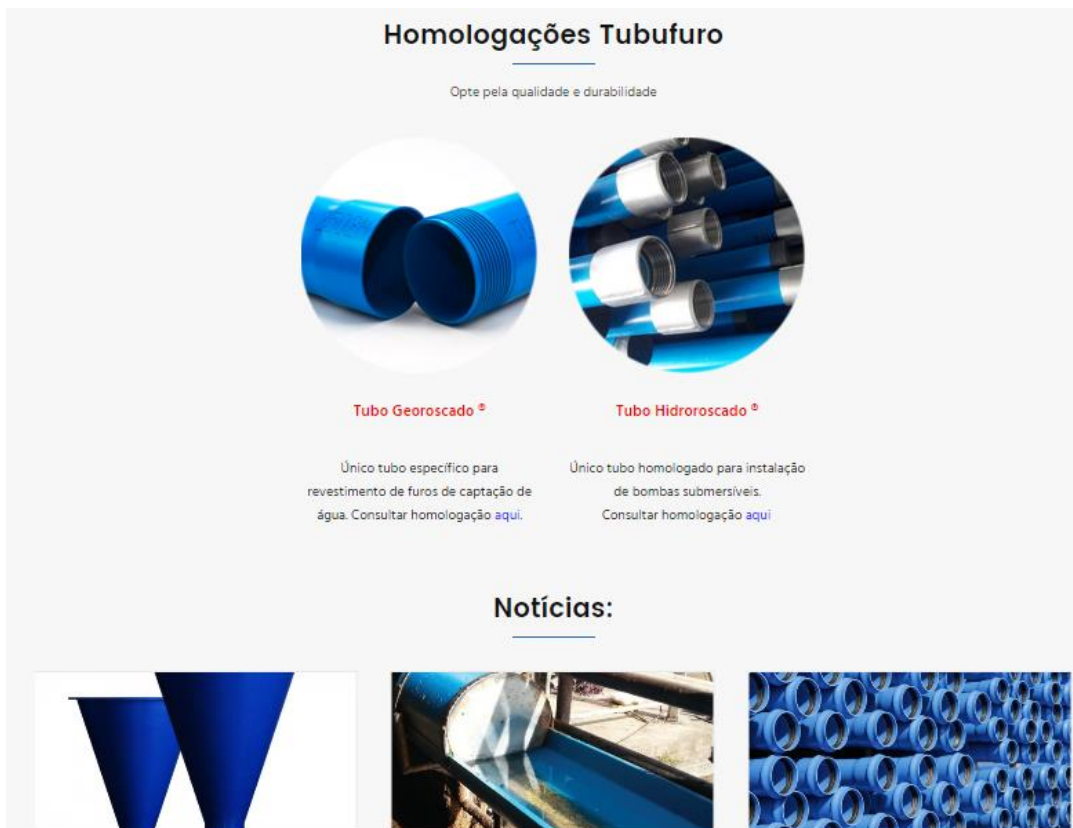
The presentation of the enterprise has been created from the beginning, with institutional values, mission and vision. We also put the information about the innovation processes of the enterprise, the product development, and the logistics and marketing capabilities. The after-sale service is now easier for the final clients, since they have the possibility to send a non-conformity through the website and even attach a photograph.

Figure 9 - New Tubofuro® web-site



Source: [www.tubofuro.com](http://www.tubofuro.com)

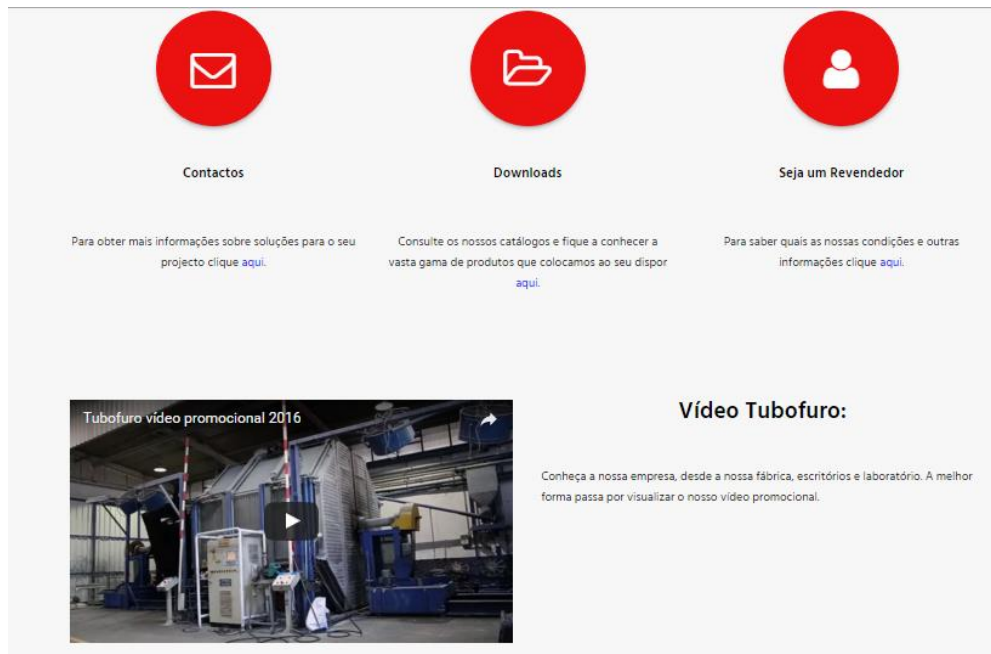
Figure 10 - New Tubofuro® web-site



Source: [www.tubofuro.com](http://www.tubofuro.com)

The Georoscado® and Hidroroscado® are our top products and our top priority is to change the consumers mind to start using this product instead the non-specific products used nowadays.

Figure 11 - New Tubofuro® Web-site



Source: [www.tubofuro.com](http://www.tubofuro.com)

The institutional video allows the clients to check our internal structure and to be familiarized with us. We opted to show how we act since the first contact until the shipping of the order to transmit confidence to our clients, especially the foreign ones.

## Conclusions and future perspectives

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As previously mentioned in the introduction of the report, the internationalization theme became to be studied since the Classic theory of internationalization dated from 1776, and until nowadays it is possible to find a wide range of valid literature to guide the companies with needs to internationalize. Among other reasons, due the national crisis and the need to expand the to other markets, Portuguese companies, principally the Small and Medium enterprises started to use European funds as leverage to start its international activities nowadays provided by PT2020 to help them to be more competitive internationally.

The main purpose of this report was to develop the strategy to the internationalization of the company Tubofuro®, combining literature and theory with internal information from the administration of the company as well as data concerning external environment and potential markets. It has been possible to identify the most attractive markets to where Tubofuro® should guide their efforts to enter, the main barriers and risks, and it has all been achieved by the definition of specific, measurable, attainable, real and timetabled which has been accepted per the administration. To achieve the objectives, the data collected through primary and secondary sources, through interviews, data collection from the bank of Portugal, and other sources allowed for the definition of a suitable strategy for the needs of Tubofuro.

The literature review presents different aspects from different theories developed to guide the enterprises to correctly internationalize and all have some contributes to generate a new perspective and create a strong strategy to correctly go beyond frontiers. Tubofuro® cannot escape from what is already discussed through the available literature. By following the Uppsala model, Tubofuro® strategy is to internationalize with guarantees. The first step will be the market exploitation through exportation. After this first step, and after acquiring market knowledge, the next step will be to export through a local partner.

Being based on the available literature this report provides actual information and an actual perspective from a company which has started its internationalization process in 2016. However, it cannot be seen as an international guide to other companies, since the internal analysis and external analysis are different and the final objectives also.

For future research's it would be interesting to develop a new case study inside the sector where Tubofuro operates, comparing the strategies used to internationalize and establishing common strategies if possible to the enterprises analyzed. This possible case study would lead to compare different strategies and understand where the companies presently fail and where they act correctly when internationalizing. The sector where Tubofuro is operating does not have a lot of competitors, reason why it would be easier to study the international behavior of its players and try to establish a possible guide.

Being an action-research based in a single case study, the main propose was applying the acquired knowledge in the Master in International Business, to the benefit of the enterprise Tubofuro. For this reason, it cannot be generalized to other enterprises and it cannot even be generalized to other sectors. It has been developed based one specific enterprise and the sector in which it operates. Also, the confidential information has been collected inside the enterprise, which it is impossible to outsiders without paying for this kind of information if the enterprises are willing to sell it. For this last reason the information regarding the main objectives and strategies are not here described totally in order to keep them confidential to respect the good will of the company.

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# Appendices

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## Unstructured Interview

The habitual questions made when I talk to a potential distributor are the following:

How many competitors will we face in your market?

What is the practiced price for a standard product to the final customer and for the distributor?

Regarding the culture, which are the main aspects I should have in consideration when interacting to local customers? Does our product fit the local legislation and quality standards?

Do you know if there are any local interests that protects local or some international supplier?