
INTERNATIONALIZATION STRATEGIES FOR MULTINATIONAL COMPANIES (MNCs)

IN THE CASE OF KWH MIRKA OY TO ETHIOPIA



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ABSTRACT

This thesis is done for the fulfilment of Masters of Business Administration (MBA) degree program in Business Management and Entrepreneurship at Häme University of Applied Sciences (HAMK). The main focus of the study is internationalization of companies to a new market as a development task for the company.

The commissioner of the thesis is Mirka Oy, a Finnish multinational company. The purpose of the thesis was to study factors that should be considered in internationalization strategies to enter to a new market. The research studied Ethiopia as a potential market for the company business expansion to the market.


The author collected information by reading different books, articles and research documents to find out the required information. The research was made using both quantitative and qualitative methods. For the quantitative research, the five years country import data of the selected products were analysed and for the quantitative research interviews with the potential importers and product users were made.

The result of the research shows that, there is a huge potential for the company to enter to Ethiopian market and a potential business relation with selected companies has been started to enter to the market. Furthermore, a general guideline to market entry process to other markets were developed. The research was a complete development project for the company to study the market potential and finding potential business partners and start a business to enter to the market.

The thesis can be used as a guideline for multinational company's internationalization activities to different business countries by taking the case study as an example and for those companies who wish to enter to Ethiopian business market gives a clear picture about the country business environment and business potentials.

Keywords Internationalization, Internationalization Strategies, Market entry process, Multinational companies, Market entry modes, Cultures, Ethiopia

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ABBREVIATIONS

AAU	Addis Ababa University
ART	Automotive Refinish Solutions
AGOA	African Growth and Opportunity Act
BITs	Bilateral Investment Treaties
CBN	Cubic Boron Nitride
CIF	Cost Freight and Insurance
DTTs	Double Taxation Avoidance Treaties
EIA	Environment Impact Assessment
EIC	Ethiopian Investment Commission
EEPA	Ethiopian Environment Protection Authority
ERCA	Ethiopian Revenue and Customs Authority
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GTP	Growth and Transformation Plan
HS code	Harmonized System code
ISO	International Standardization Organization
ICT	Information Communication Technology
MNCs	Multi-National Companies
MOFED	Ministry of Finance and Economic Development
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturers
OHSAS	Occupational Health and Safety Management System
PESTEL	Political Economical Social Technological Environmental and Legal
R&D	Research and Development
SPC	Statistical Process Control
SUB	Strategic Business Unit
SWOT	Strength Weakness Opportunity and Treats
TCA	Transaction Cost Approach
WTO	World Trade Organization

1 INTRODUCTION

1.1 Background

This thesis is prepared to support the internationalization activity of multinational companies in different part of the world. Specifically, the thesis is prepared as a case study for KWH Mirka oy to expand its international involvement to different countries by focusing Ethiopia as a target market. KWH Mirka is a Finnish multinational company established in 1943. Mirka is one part of the KWH group of companies which was established in 1984. At the moment, Mirka is involved in development, manufacture and sale of highly innovative products and solutions whose application span across several industries for automotive refinish, vehicle manufacturing, wood industry constriction and decoration across the world. The area of operation ranges from flexible abrasives, tools, polishing compounds, complete sanding and polishing systems.

With a total of 15 subsidiaries and 4 branch offices across the globe the company has more than 1000 employees worldwide, 674 of these reside and work in Finland and about 398 work and reside in countries where the company's subsidiaries are located. The company is also involved with other strategic business partnerships all over the world since more than 90% of the company's products are sold in over 100 countries. Its annual turnover in 2014 exceeds 206 million Euros. Furthermore, the establishments is still exploring options for further expansion in to other territories (Mirka).

The interdependence of the global economy brings about the need for developing an internationalization strategy that can enhances the firm's internationalization involvements. The growth of the multinational business has been accompanied by significant increase in internationalization strategies. Globalizing the internationalization strategy formation is to delineate a structure and direction for Multinational companies (MNCs) internationalization operation development. The development of internationalization strategy need to consider the variables which have direct effects on the business and internationalization functions. These strategies and policies can enable companies to function effectively in new business environment. In dealing with internationalization strategy, MNCs need to aware of host countries economic, socio politics, legal, and cultural dimensions is probably the most natural and effective way of gaining the best out of the new market environment. A properly designed internationalization strategies are fundamental to ensure harmonious working relationship with the parties which involved in the internationalization process of the company.

1.2 Objectives

The objective of the thesis is to prepare prerequisites for internationalization strategies for the multinational companies to different markets by taking KWH Mirka as a case company and Ethiopia as a case country. Mirka has planned to peruse its internationalization activity to different countries especially to African market with automotive refinish solutions, so that guidelines to support its internationalization strategy to different markets by considering the Ethiopian market as a case country will be prepared to attain the objective of the company.

The theoretical backgrounds in relation to internationalization of multinational companies will be reviewed for a better understanding of the concepts and different factors that should be considered in market entry process activity will also be discussed. By discussing the internationalization strategies of multinational companies, entry modes, factors to be considered in entry process, other companies who wish to peruse their internationalization activity will gain a better understanding of market entry and internationalization processes.

By taking Mirka as a Case company, guidelines for internationalization of multinational companies to Ethiopian market will be developed and the country business environment in relation to challenges and opportunities will also be discussed to have a general understanding of the country business environment for other multinational companies who wish to internationalize their business to Ethiopian market.

General objective

- To develop prerequisites for internationalization strategies of multinational companies which can be applied to different markets and focus on market entry to Ethiopian business environment.

Specific objectives will be

- To assess factors which can be considered during internationalization activity and develop guideline which can be applied in different market
- To evaluate the market entry choices and develop market entry process
- To study the Ethiopian market potential and business environment for the company
- Identifying potential distributors, car dealers, assemblers and manufacturers

1.3 Definition Key concepts

1.3.1 Multinational Companies

Multinational companies are companies which are involving in the productive activities beyond their incorporated country. They can be defined as companies which are involving internationally. Their engagement in foreign involvement depends on the comparative ownership advantage and host country firms, and the comparative location endowments of home and foreign countries (Dunning, 1995).

It can also defined as “a business entity that is committed to its international business activities to such an extent that it reproduces its domestic business in different business markets and countries of the world” (Rhine smith, 1996). Furthermore it can be defined as “a corporation that has its facilities and other assets in at least one country other than its home country. Such companies have international replicas in different countries and usually have a centralized head office from where they co-ordinate the company’s global activities” (www.investopedia.com).

1.3.2 Internationalization

The concept of internationalization is used and discussed widely. However it is not clearly defined what exactly mean so that different Authors give a variety of definition for the concept. It will be important to clarify the concept of internationalization to have a common understanding of the concept before the detailed theoretical discussion about internationalization process and theories related to MNCs internationalization activity. Accordingly, the term internationalization is used roughly to describe the outward movement in an individual firm or large grouping international operation. This concept leads to have a border definition as the process of increasing involvement in international operation both inward and outward movement in international trade (Welch and Luostarinen, 1988).

Further it was also defined by (Calof & Beamish, 1995), as the process of adapting firms operations in relation to strategy, structure, resource etc. to international environment. Internationalization also defined as the synonym for the geographic expansion of economic activity over a national country’s border. Firms by involving outside their domestic market they can develop their network and become competent in the international market and this enhance their profitability. (Gjellerup 2000).

From the perspective of relationship and process, internationalization is defined as the cumulative process in which relationships are continuously established, developed, maintained and dissolved for the successful achievement of the objective of the firm (Johanson and Vahlne, 1990). In addition the concept of internationalization from the dimensions of relationship, firm’s operation process in the international environment defined as internationalization is the relationship between the firm and its interna-

tional environment in the development and utilization process of various international activities basically inward, outward and cooperative operations (Lehtinen and Penttinen, 1999). Finally Ahokangas (1998), defined as “Internationalization is the process of mobilizing, accumulating and developing resource stocks for international activities”.

1.3.3 Internationalization strategy

Internationalization strategies refer to the way multinationals fashion relations between headquarters, subsidiaries and the diverse markets and institutional contexts in which they operate. The main structuring dimensions of this concept are, following Bartlett and Ghoshal (1989), the interdependence of subsidiaries and headquarters (or global integration) and responsiveness to local markets and other situational specificities (Harzing & Sorge, 2003).

“International strategy is a global plan specific to a company or conglomerate where a model for global expansion and commerce is the ultimate goal. International strategy usually refers to actions that occur across multinational corporations in the private sector. Although international strategy refers to doing business across nation-state boundaries, it is based on home market resources. This business model tests which foreign markets are receptive to domestic products. There are several different international strategies that apply to the different world markets and cultures. No matter how different international strategies are, they all start with analysing the market and sizing up the competition. For an international strategy to work successfully, a company must have a method of entry and buyers for their service or product. There must be a long-term goal in mind and a growth projection which answers the question why here?”
(www. Ask.com).

1.3.4 Market entry process

The market entry process gives an outline of the way in which an organization should select which foreign market to enter. The international marketing entry evaluation process has different stage process, and its purpose is to measure which international market or markets offer the best opportunities for the company products or services to succeed. These steps include country identification, preliminary screening, in-depth screening, final selection and direct experience (www.marketingteacher.com).

Expanding into a new market can be an effective way to grow ones business. A disciplined process will help accurately assess the potential of each growth opportunity. Investing the appropriate level of resources in market analysis, selection, and entry method can create a foundation for success in the chosen market. Accordingly, the following steps are suggested to properly assess the opportunities and risks of a new market: defining the market, performing market analysis, assessing internal capabilities, prioritizing and selecting markets and developing market entry options (www.inc.com).

1.3.5 Market entry modes

Market entry mode is defined as an institutional arrangement for organizing and conducting international business transactions, such as contractual transfer, joint venture, and wholly owned operations (Root, 1987). There are a variety of ways in which a company can enter a foreign market. No one market entry strategy works for all international markets. Direct exporting may be the most appropriate strategy in one market while in another one may need to set up a joint venture and in another licensing of manufacturing. There will be a number of factors that will influence the choice of strategy, including, but not limited to, tariff rates, the degree of adaptation of company product required, marketing and transportation costs. While these factors may well increase the costs it is expected the increase in sales will offset these costs (www.tradestart.ca).

1.3.6 Culture

Culture refers to the way that people do things around their environment. Culture could relate to a country (national culture), a distinct section of the community (sub-culture), or an organization (corporate culture). It is widely accepted that culture is a learned behaviour. So that, culture includes all that people have learned in relation to values and norms, customs and traditions, beliefs and religions, rituals and artefacts. The involvement in international business needs to take in to consideration that the local culture of the country in which a company wish to market its products have a crucial impact on success (www.marketingteacher.com).

Culture is defined in a general context by Geert as "the collective programming of the mind distinguishing the members of one group or category of people from another". The "category" can refer to nations, regions within or across nations, ethnicities, religions, occupations, organizations, or the genders. A simpler definition is 'the unwritten rules of the social game' (www.geerthofstede.nl)

1.4 Context of the study

1.4.1 Abrasive industry and its special characteristics

An abrasive is a substance which can be rubbed against a surface to produce a desired shape or finish. These products are mineral-like materials which can be find in different sizes, shapes and types. The key product segments of abrasives include bonded abrasives, coated abrasives, loose abrasive grains and raw super abrasives. The common application of abrasives include cutting, grinding, drilling, polishing, lapping, honing and buffing. The application varies from various end user industries such as machineries, electrical and electronic equipment, transportation and metal fabrication and other related industries (Transparency Market Research, 2013).

The industry of abrasives includes the manufacturing of coated and bonded abrasive products, grinding wheels, sanders and abrasive grains. The global abrasives manufacturing industry is growing increasingly and the forecasted growth is nearly 6 percent per year through 2017, with a reaching total value of \$40 billion, according to the Freedonia Group. (First research, 2015). Furthermore, according to Transparency Market Research, 2013, the global abrasives market was valued at USD 35,203.6 million in 2012 and it was projected to reach USD 51,389.7 million by the year 2019 with a Cumulative Average Growth Rate of 5.5%. The largest abrasive producing countries include China, Germany, Japan and the U.S.

The demand for abrasive globally is increasing and the Asia/pacific, particularly china, is expected to lead global gains in abrasives demand through 2017. As china is the base for extensive manufacturing base and plentiful natural resources, it becomes the leading market for both production and sales of abrasive products. The demand for abrasive in china is accounted for half of the global demand through 2017 according to Freedonia group (First research, 2015). In addition India is also one of the potential market for abrasive products due to the rapid industrialization.

The global abrasives market is primarily driven by increasing demand from end-user industries such as transportation, electrical and electronic equipment and metal fabrication. The machinery segment is accounted for the largest share of abrasives market with 23.8% of the global consumption in 2012 and expected to grow from USD 8,586.7 million of 2012 to USD 12,418.5 million in 2019. In addition, the growing demand for cutting tools in several industrial applications is one of the major factors driving the growth of the abrasives market. However, external factors such as a sluggish economic growth in developed regions and emergence of substitutes are slowing the market growth (Transparency Market Research, 2013).

The demand for abrasives in North America, Western Europe and Japan is also expected to continue to improve. Furthermore, abrasive markets in Africa, and the Middle East, central and South America, and Eastern Europe are expected to grow as the improvement of manufacturing sectors. Generally according to the Freedonia Group, the demand for abrasives globally will increase with the increasing manufacturing sophistications (First research, 2015).

Abrasive products are made of grains of hard minerals and they are used to manufacture and maintain a wide variety of manufactured products which are made of metal, plastics, glass, and wood. Abrasives are basically used to shape materials through grinding, smooth surfaces during manufacture; remove surface layers of paints or corrosion, cut hard materials like concrete or steel; and for polish, finished products. The commonly known abrasive products are coated and bonded. (First research, 2015).

The coated products includes grains of a hard minerals which are bonded to a baking sheet, belt, pad or wheel which are made of paper, nylon cloth, rubber, or other material. Different glues and urea that allows the bonding

effectively. The coated products are made in two different coating stages: in the first coat the binding of the abrasive mineral to the backing is made then in the second phase, a coat on top to hold the abrasive layers together is performed (First research, 2015).

The bonded products includes mineral grains which are mixed and embedded in matrix that is moulded in to different shapes, for example, grinding wheels, cut-off wheels, disks or blades and which are furthermore hardened. The matrix could be made of metal, resins or rubbers which are finally be cured to harden, or fired in to an over to get the hardened products (First research, 2015).

The common minerals which are applied in the manufacturing of abrasives includes natural ones such as emery and garnet ,and synthetics such as aluminium oxide, Zirconia alumina, silicon carbide, cubic boron nitride (CBN), and synthetic diamond. The manufacturing of synthetics is made at high temperature furnaces by mixing the natural minerals. The minerals are grades in to different grit sizes. The size, orientation and concentration of mineral grains in abrasive products characterizes the products abrasion or stock remover capability. Manufacturing firms usually bought abrasive mineral in the form of grains, powders or flours form producers which are specializing in such products. Due to the availability of various types of abrasive minerals, backings, glues, resins, matrix materials, and product shape and size, there are different variety of abrasive products in the market. The availability of variety products shows that the application of abrasives varies considerably for hands, power and industrial machines. Most of the companies in the industry produce material to be applied for a particular makes and models of machines, however, most of the standard products fit for various machine in the market (First research, 2015).

The majority of abrasive customers include the manufacturer of automobiles and auto parts, aircrafts, steel products and furniture, machines and auto body shops etc. Abrasives in the form of grinding wheels are very important for grinding of steel parts for precise dimensions. Manufacturers of abrasive usually sell their products through nonexclusive arrangements to independent distributors of various industrial products, however some distributors may also sell directly to end users (First research, 2015). The distribution channels in the abrasive market comprises retailers, whole sellers, direct selling, supply agreements and online portals. Trade platforms such as iAbrasives engage in online trading of various types of abrasive materials and abrasive tools. There is a high degree of forward integration in the abrasive market (Transparency Market Research, 2013). The competition in the abrasive industry is so intense in terms of price however, the characteristics of abrasives has a slight difference among the manufacturers (First research, 2015).

The nature of abrasive business strongly depends on manufacturing. The demand for abrasive products highly depends on the level of industrial productions. These abrasive products are used for the manufacturing of long lasting, expensive items such as auto, ships and aircraft parts, the demand for which item is highly cyclical. Furthermore, the abrasive indus-

try is highly relies on construction market. The business is also challenged by different factors the R&D expense applied for the development and improvement of sophistication of abrasives technology makes it difficult for smaller companies to compete with the larger companies with the latest technological advancements. The production of abrasives also influenced by the raw material and transportation costs. The fluctuation of price on the raw material is one of the business challenge that can be mentioned. Furthermore, the intellectual property protection is a very critical factor. Abrasive products and manufacturing process can be proprietary so that need protection by patents and trade mark laws, however, if it exposed in certain foreign market where the protection of intellectual right is less, to gain the property right back will be costly as the legal expense is expensive (First research, 2015).

The industry has an opportunity with the increasing growth in construction market. The global expansion in construction sector is one of the key area for abrasive manufactures with a demand for grinding, cutting and sanding products, The global construction output will increase by more than 70%, to reach \$15 trillion, by 2025 based on the global construction perspective China, India, and the US are accounted for the major growth in the area (First research, 2015). Furthermore, there are certain factors that can drive the global abrasive markets and which are predicted to drive growth in demand for abrasives materials and abrasive products in the next few years. The rising demand for automobiles, increasing production of electronic equipment and growing medical devices can be included (Transparency Market Research, 2013). The need for increasing precision tooling is also one of the industry opportunity, the development of specialized manufacturing process requires smaller, more accurate shape parts. Precision grinding is the only way for producing accurate product that fits properly. Abrasive manufacturers need to look for the needs of customers in the manufacturing of precision instruments (First research, 2015).

The application of abrasives to new manufacturing materials is also another opportunity. Strong steel, concrete and new ceramics require better abrasive to cut and shape them. The super abrasive segment of the industry has been growing, due to the fact that the conventional abrasives do not work effectively with harder materials. Ceramics are highly viewed as low-weight alternatives to steel and they are used for the application of automotive and aerospace parts (First research, 2015). In addition, the application of abrasives is highly demanded in the plastic manufacturing. The metals and wood have been the focus of abrasives manufactures, however, the use of these materials in the manufactured products is decreasing, whereas the use in the plastic use is increasing. Developing solutions and products for plastic applications will give a growth opportunity for abrasive manufacturers (First research, 2015). Furthermore the growing use of self-cooling abrasives is likely to act as an opportunity for abrasives market in the future (Transparency Market Research, 2013).

1.4.2 The case company KWH MIRKA OY

KWH Mirka is a Finnish family owned multinational company established in 1943 at Helsinki Finland. In the year 1962, the company moved to Jippo, Finland where the main office is located at the moment. Mirka is one of the KWH Group of companies which was established in 1984. The company exports more than 90% its products to more than 100 countries globally with 15 subsidiary companies and 4 branch offices which are located in different part of the world. Mirka has a total of 1076 workers at the end of 2014 and among which 674 are located in Finland and the rest 398 are working abroad. The company has a total turnover of €206 million in the year 2014.

Mirka is one of the world leader in the manufacturing of abrasives. The company provides a complete sanding solutions consisting of abrasives, polishing compounds and tools which are highly innovative and environmental friendly. Mirka is a specialist in superior coated abrasives that allow for true dust-free surface finishing and it became a choice in a wide variety of industry sectors. The patented net sanding solution saves both time and money whilst making the work place environment healthier. The advanced sanding and polishing machines are providing outstanding benefits to users. These innovatively designed tools combined with a complete range of high quality abrasives and polishing compounds as well as wide range of supplementary products, offer concept solutions to meet customer's individual needs. The total products ranges of the company accounted for 81% abrasives, 13% tools, 5% accessories and the remaining about 1% accounted for polishing compounds.

The company vision is “to reach a market position, where customers and interested parties see us as a market leader and the most responsible company who drives innovation in our core business sectors” with the mission “to give people the opportunity to perform better” to achieve goals by offering to the customers added value through systematic specialization in unique abrasive products, tools and finishing systems. The company has four values: responsible, committed, innovative and respectful in all its business activities.

Mirka believes in success driven by people and invests a lot on training and personal development programs. The company also has a modern technology centre that support training for the customer and distributors all over the world about Mirka products and its applications. Mirka is awarded investors in people since 2009. The company give much emphasis for the clean commitments by respecting clean performance, clean production, clean partner and clean proactivity. Being clean proactive the company look ways to reduce the environmental foot print of its products, as a clean partner develop a strong relationship based on trust with mutual benefits, with clean production the work culture is team-oriented and work to reach-high level safety, quality, efficiency and sustainability goals with all manufacturing facilities and with a clean performance emphasis is given for long –term economic strategy with a focus on sustainability.

The company core business sector includes surface finishing- Automotive refinish trade (ART), surface finish - Automotive industry (Cars, buses, trucks), aviation, windmills, marine industry (OEM), wood industry, and construction and decoration.

The automotive refinish trade sector has been the most important part since 1980's as most of the collisions repairs are done by body shops. During the last years Mirka net sanding concepts has revolutionaries sanding processes in the body shop industry and Mirka's products are approved by the most important global paint dealers and they are used in body shops all over the world.

The original equipment manufacturers (OEM) consists of automobile manufacturers and direct suppliers to vehicle manufacturing industry. The main important customers include car plants, manufacturers of commercial vehicles, aviation and marine industry. Mirka products are used by all car manufacturers in the world.

The wood and furniture industry includes furniture manufactures, cabinet shops, window and door manufacturers, parquet manufactures etc. Mirka provides a wide range of abrasives both for wide belt machines sanding and hand sanding applications.

The last group of application is the construction and decoration industry. Mirka offers easy to use high quality traditional abrasives as well as a dust - free net sanding concepts to professionals and semi-professional workers. A wide range of products for coarse, intermediate as well as for fine sanding applications are provided by the company.

Mirka has modern production equipment's and highly automated. The majority of the process and many machines are developed by its own research and development department. The consistency of the production is monitored by six sigma and SPC (Statistical Process Control) analysis to ensure efficient production of the products. The product are with higher quality standard and international certifications, the ISO 9001 quality assurance system, ISO 14001 environmental management system and OHSAS 18001 occupational health and safety management systems are awarded for the company. Furthermore, Mirka has its own bio energy power plant that was established in September 2013 in Jeppo Finland, for the incineration of production waste. The energy production mix for the plant is the production waste of the company, other waste derived fuel and wood chips. The produced waste will be utilized and this reduces the use of non-renewable energy sources. The company is significantly able to reduce waste that goes to the landfill. It is able to decrease the amount of heavy fuel that is used for the production and able to reduce the greenhouse gas emissions.

Mirka has four manufacturing site in Finland at Jeppo, Oravais, Karjaa and Jakobstad one in Belgium. The company has an efficient logistics solutions and distribute its products throughout the world. The distribution center for European is located in Belgium and serves markets such as

France, Germany, Great Britain and Spain. The distribution centre in Singapore serves South – East Asia and the pacific areas and other markets are served by the subsidiary branches which are located in Europe, North and South America, and Asia. Despite a strong global presence, Mirka's entire manufacturing is still based in Finland. This is possible due to constant investment in automation and logistics.

1.4.3 Mirka's Internationalization History

Mirka has been exporting abrasives since the 1960's. Although the company established in 1943, the first order received from abroad was in 1962 from Iceland. The export continues to grow and two years later, the first order from USA was received. With this start Mirka peruse its internationalization activity and develop its export business through different part of the world. In the year 1979, the first subsidiary company, Mirka Abrasives Ltd, established in United Kingdom. A year later in 1980, Mirka Schleifmittel GmbH was established in Germany as a second subsidiary. Further Mirka Sweden sales office was established in 1981. Four years later, in 1985, Mirka Abrasives Inc., USA was established. With increased export business it was able to develop the business further and Mirka received the President's export award in 1986. The establishment of subsidiaries was continued and in 1992, Mirka Abrasifs, France was established. Two years after the Mirka France, in 1994, Mirka Italia was established as a subsidiary branch in Italy. Three years later in 1997, a sales office in Kuala Lumpur, Malaysia was established, nowadays Mirka Asia Pacific, Singapore. After six years of export expansion, in 2003, KWH Mirka Iberica was established as a subsidiary in Spain. Two year later in 2005, Mirka develop further and opened KWH Mirka Mexicana, Mexico, Mirka Asia Pacific, Singapore and Mirka Trading Shanghai, Chain were established at the same year. A year after in 2006, Mirka Brazil as a subsidiary was founded. The internationalization moves continued and in 2007, KWH Mirka Ltd Eesti Filiaal, Estonia as subsidiary was established. A year after in 2008, Mirka Rus LLC in St. Petersburg Russia was established. In 2009, Mirka Abrasives Canada and Mirka Scandinavia, Sweden (Branch offices in Denmark and Norway) were established. A year after Mirka further developed it capacity and in 2010, Power tool business unit started up in Jeppo, Finland and the same year Mirka India was established. Two years later in 2012, the European distribution centre moved to new premises in Opplabbeek, Belgium. A year later in 2013, Mirka Turkey Zimpara Ltd Sirketi was established as a subsidiary, the same year KWH Mirka Ltd - Belgian Branch was established. Mirka's internationalization is continuing and by the beginning of 2016, the sixteenth subsidiary, Mirka United Arab Emirates will be functional. (Mirka internal source)

1.4.4 Ethiopia as a business country

Ethiopia officially known as the Federal Democratic Republic of Ethiopia, is a country located in the Horn of Africa. It is bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. With over 94 (94,633,456) (CIA, 2014) million inhabitants. Ethiopia is the most populous landlocked country in the world, as well as the second-most populated nation on the African continent. It occupies a total area of 1,100,000 square kilometres (420,000 sq. mi), and its capital and largest city is Addis Ababa.

GDP \$49.86 Billion (CIA 2014). Annual Economic growth actual 10.4%. GDP Per capital \$1500 CIA (2014). Economic composition by sector Agriculture 47.7%, Industry 10.4%, Service 41.9% (CIA 2014). Currency Ethiopian Birr current market value 1 € 23 Birr.

Ethiopia is amongst the fastest growing non-oil economies in the world. Government reforms succeeded in opening the economy to foreign direct investments and resulted in expansion of commercial agriculture and manufacturing industry (World Bank, 2015).

Ethiopia is a multilingual nation with around 80 ethno linguistic groups, the two largest of which are the Amhara and Oromo. The official working language is Amharic and for international companies English is used as a medium of working language.

The country is sub divided by two administrations Addis Ababa and Diredawa, and nine regions Afar, Amhara, Benishangul- Gumuz, Gambella, Hararai, Oromia, Somalia, Southern Nations Nationalities and People's Region, and Tigray. Addis Ababa is the main business centre and it also considered as a capital city of Africa as the African Union, and Economic commission for Africa are headquartered in Addis Ababa.

2 THEORETICAL FRAMEWORK

2.1 Internationalization Strategies of Multinational companies (MNEs)

The strategic- management process is conceptually the same for multinational firms as for purely domestic firms; however, the process is more complex for international firms due to the availability of more variables and relationships. The cultural, social, demographic, environmental, political, governmental, legal, technological, and competitive opportunities and threats that face a multinational corporations are almost limitless, and the number and complexity of such factors increases dramatically with the number of products produced and the number of geographic area served (David,F.,& David,F.,2015).

More time and efforts are needed to evaluate and identify external trends and events in multinational corporations than the domestic corporations. Cultural and national differences, geographic distance, and variation in business practices usually make communication between domestic headquarters and overseas operation difficult. As a result the strategy implementation may be more difficult due to different cultures have different norms, values and work ethics.

Multinational corporations face unique and diversified risks, such as expropriation of assets, currency loss through exchange rate fluctuations, unfavourable foreign court interpretation of contracts and agreements, social or political disturbances, import export restrictions, tariff, and trade barriers. It is advisable that before entering to a new international market, companies should scan relevant journals and patent reports, seek the advice of academic and research organizations, participate in international trade fairs, form partnership, and conduct extensive research to broaden their contacts and minimize the risk of doing business in new markets (David, F.,& David, F.,2015).

The question of internationalization strategies and market entry modes are attracting the attention of most researchers in the area of international business. There are various reasons why such an attention is given for the area. First, the internationalization activity is highly influence by the entry modes selection. Secondly, the choice of the appropriate market entry mode for a particular market is one of the major decision a firm has to made (Wind,1977) and the third aspect relates to the theoretical contribution in such area has been advanced and a variety of frameworks has been developed that may influence the firms internationalization activity (Anderson,1997).

Most of the existing literatures do not make a consensus as to how which conceptual frameworks is used to explain the firms foreign market entry mode (Anderson,1997) still more conceptual frameworks and factors affecting the choice of market entry modes are developed. Accordingly (Hill et al, 1990), argue that the relationship between different frameworks need to be analysed and investigated to come up with a unifying conceptual frame works.

Different approaches of internationalization theories from the perspective of multinational company's point of view and the conceptual frameworks on foreign market entry modes will be discussed for a better understanding of the concepts. Such reviews will give a wider perspective of internationalization strategy and foreign market entry development process for multinational companies.

2.2 The internationalization concept

Internationalization is described by most of the researchers as the outward movement in a firm's international operations (Turnbull, 1987). However, the definition of internationalization varies from people to people. For instance, (Wind et al, 1973), put it as a process of specific activities which are associated with step by step stages for the birth of international operations. The interpretation of internationalization further continues as a sequence and orderly process of increased international involvement and these related to changes in the organizational forms (Bilky,1997, Johanson/Vahlne,1977). A broader definition by taking both the inward and outward process Welch and Luostarinen (1988), defined as "Internationalization is the process of increasing involvement in international operations". Internationalization as a strategy process Calof and Beamish (1995), defined as "The process of adapting firms' operations (Strategy, structure, resource, etc.) to international involvements". From companies long term plan perspective Beamish et al. (1997), defined as "the process by which firms increase their awareness of the influence of international activities on their future, and establish and conduct transactions with firms from other countries".

Internationalization in most of the business firms can be considered as one of the ongoing strategy process of the firms (Melin, 1992). The basic difference between other type of strategy or growth process and internationalization process relies on the following areas: First, the company engage in transferring of products, services or resources across national boundaries. This shows that the company has a need to choose in which country/ies the desired transaction may happen. Secondly, the company has to select the right foreign market entry mode, which relates to foreign market entry strategy. These two areas the selection of entry mode and international market targeting relates to the key internationalization strategic decision of a company (Bradley, 1995). Having these two dimensions in consideration Anderson (1997), further define internationalization as "the process of adapting exchange transaction modality to international markets" where by the entry mode selection and international market selection taken in to account.

2.3 Internationalization theories focusing on MNCs

There are different approaches of internationalization and the selection of the conceptual frameworks vary from author to author. Accordingly, in this thesis the following four perspective of internationalization which are, entry mode as a chain of establishment, the transaction cost approach, the eclectic framework and the organizational capability perspective will be discussed for a better understanding of MNEs internationalization strategies.

2.3.1 Entry Mode as a Chain of Establishment

Internationalization as a chain of establishment is most closely associated with the Uppsala model (Anderson, 1993). The Uppsala model of internationalization bases its theoretical foundation from the earlier studies on behavioural theory of the growth of the firm. Accordingly, the Uppsala model of internationalization states that firms gradually acquire, integrate and use knowledge about foreign markets and operations. Thus, the companies are expected to progressively increase their commitments to the foreign market (Johanson & Wiedersheim-Paul, 1975). The incremental stage model of internationalization perceives internationalization as occurring in stages and incrementally after the domestic opportunities are exhausted. The internationalization activity of the firms are slow and gradual process. Firms incrementally build their international market information and commit their resources for the foreign market operation (Johanson & Vahlne, 1977).

According to the earliest school of thoughts, internationalization of the firms takes place through a series of stages of development from: no regular export, export via independent representative or agent, sales subsidiaries, and production or manufacturing plants (Johanson & Vahlne, 1977). They state that when the market knowledge increases, the commitment toward the new market also increases and vice versa.

The market knowledge can be characterized as an objective knowledge which can be taught and the other relates to experiential knowledge which relates to the personal experience about the market and which is unique to the firm. The underlining assumption of Johnson and vahlne (1977, 1990), relies on performing activities results on firms internal assets such as skills and knowledge and this assumption also shared by Porter (1991).

The establishment chain approach describe that the market entry mode decision is highly depend on the time. One state happen as a result of some prior states or due to the sequence of the previous activity. The approach is criticized as deterministic due to the fact that the overseas market needs may be denied as firms give due attention to the stages which has to be followed (Red,1983).

2.3.2 Entry mode and the Transaction Cost Approach (TCA)

The transaction cost approach is one of the internationalization modes of multinational companies by putting emphasis on the transaction as the basic unit of analysis and holds that understanding of the transaction cost economizing is the central factor of the organization. The application of this approach for multinational companies depends on the diminishing of the transaction cost and other alternative means of doing the transaction need to be implemented. This approach can be implemented both on the determinants of efficient boundaries i.e. on firm and markets, to the organization of internal transaction, along with the employment relations (Williamson, 1981). The TCA can be considered as an effective way to explain vertical integration decision of the company, and it has been used to forecast the market entry mode for both service and manufacturing firms (Erramilli & Roa, 1993).

The transaction cost approach relies on the core dimension of the concept on specific assets, the frequency of economic exchange and uncertainty surrounding the exchange of resources between the seller and the buyer. These compositions are the base line for the cost efficient internationalization modes assigned to the given transaction (Williamson, 1979). The majority of researchers in foreign market entry modes, however, made some adjustments on the transaction cost theory (Erramilli & Roa, 1993). These modifications are made based on the assumption that non-transaction cost which arise from increased control need to be included in the approach. Such factors as co-ordination of strategies in multinational corporations, to extend market power, and to obtain a large share of foreign enterprise's profit (Anderson, 1997).

Though the extension of the transaction cost theory provides knowledge on firms entry mode, such modifications show that the assumption of transaction cost minimization is abandoned. Other decision criteria on how to internationalize the business other than transaction cost minimization could lead to other conclusions concerning choice of entry mode that would be suggested by the original transaction cost theory (Anderson, 1997).

The transaction cost theory is closely related to the internationalization theory. In the transaction cost theory, companies always strive for minimization of their costs at all points of internationalization and their decision making activity. This is the reason that companies need to consider to either entering to a foreign market with their total assets or working in collaboration with their external partners as externalization and foreign market entry failure is highly dependent on the decisions made by the company (Williamson, 1979).

2.3.3 Entry mode and Eclectic Framework

The eclectic framework is also referred as OIL Paradigm, is another way of MNEs internationalization theory based on the theory of internationalization and focus on explaining the different forms of international production as well as the selection of country for foreign direct investment

(Ruzzier, Hisrich and Antoncic, 2006). This mode of internationalization has been a dominant analytical framework for multinational company's foreign direct investment analysis (Dunning, 2002). The eclectic paradigm of internationalization states that there are three advantages which determine the level and structure of the firm's value added activities in the international market. These factors are the ownership advantage (O), the internationalization advantage (I), and the location advantage (L) (Dunning, 1993).

In order to successfully involve in the international market these three conditions need to be fulfilled, first, the degree to which the company has sustainable ownership specific (O) advantage compared to the other company in a particular market which are serving the market or planning to serve the market. These (O) advantages of the firm relate to assets and skills (production innovation, production management, organizational and marketing management and others) or some common governance advantage (synergetic economics in production, purchasing, marketing, economics of scope, finance and other). These advantages are referred to as advantages (O) (Dunning, 1993). Which are both unique and sustainable to provide the firm with a competitive advantage in the entry mode selection (Andersen, 1997). The next consideration is the location advantages (L) which associate to the attractiveness of the specific country market environment, and the attractiveness of the country can be characterized in terms of the market potential and investment risk (Root, 1987). Furthermore the location advantage relates to the cultural similarity, infrastructure of the market, and the availability of lower production cost (Dunning, 1993). Finally the third aspect which is the internationalization (I) relates with the associated costs in choosing the mode of operation in international market (Dunning, 1993) and these costs are related to the transaction cost (Williamson, 1981).

The eclectic framework shows a multi-theoretical approach for analysing the choice of entry modes: International trade theory, resource-based theory and transaction cost theory are used as basic theories for the concept and it allows for the researchers to create new determinants for predicting market entry modes (Andersen, 1997).

2.3.4 Entry mode and the Organizational Capability Perspective

The organizational capability of internationalization is a recently developed mode of internationalization (Anderson, 1997). The basic principle originated from the resource based to internationalization and shares the experiential knowledge which was developed by Johanson and Vahlne (1977). The resource based to internationalization emphasizes on sustainable and unique costly – to – copy attributes of the firm as the source of competitive advantage for the firm which allows internationalization. The ability of the company to attain and maintain profitable market positions relies on the ability to gain and protect the advantageous positions in relation to the resources which are valuable for the firm (Ruzzier et al., 2006). The resource - based model to internationalization gives attention to the importance of intangible- knowledge based resources for competitiveness of the company in its internationalization endeavour (Ruzzier et al., 2006).

The organizational capability perspective of internationalization perceives the firm as a bundle of resources which can be transferable to capabilities through dynamic and interactive firm specific processes where by the individual skills, organization capability and the technology are integrated together (Anderson, 1997). Due to the heterogeneity of the firms and their operating environments, identifying and defining the critical firm specific resource for internationalization is difficult. Putting the attributes that resources in long term competitive advantages of the firms provides, resources of a firm relates to valuable, rare, imperfectly imitable, and not substitutable, from the other dimensions resources must capture durability, transparency, transferability, and replicability (Ruzzier et al.,2006). Thus as they are of variety in nature resources of a firm generally are “stocks of available tangible or intangible factors that are owned or controlled by the firm and converted into products or services, using a variety of other resources and bonding mechanisms” (Ruzzier et al.,2006).

The capability- driven framework of internationalization of multinational companies consider the firms attempts to build, protect, and exploit a set of unique capabilities and resources as the key forces that drive companies in to international and global strategies (Tallman & Fladmoe – Lindquist , 2003). According to Tallman & Fladmoe - Lindquist (2003), the main focus has to be how companies create new values for themselves in order to increase their long term profitability, rather than on how to divide markets and share profits among a group of undifferentiated static companies.

The capability-based strategy of internationalization states that the competitive advantage of companies resulted from the availability of unique internal resources and capabilities and the ability to apply and use these resource in the market place to gain superior profits. Having these perspective in to account, multinational companies gains advantage internationally if it possesses unique resources which can be leveraged in foreign markets (Tallman & Fladmoe - Lindquist, 2003). In addition, multinational companies will sustain their competitive advantage by developing new capabilities in the dynamic business environments and resist competition. Two general types of resource related capabilities in multinational companies which are relevant to internationalization strategies: business - level components capabilities and corporate-level architectural capabilities were mentioned by Tallman & Fladmoe - Lindquist (2003).

The business-level component of capability refers to the competitive advantage of the companies in their business activities which include the ability to produce a better products, devise superior processes and generate more effective marketing. These activities are described as competencies capabilities or skills of a company depending on its activity. The availability of such capabilities are referred as component knowledge (Tallman & Fladmoe - Lindquist, 2003). The components of a business knowledge possess various complex, but identifiable activities and skills which are needed to operate the business with strategic resources which are unique to the company (Tallman & Fladmoe - Lindquist, 2003). These component knowledge includes broader set of actions and structures which are critical

to competitive advantage and multinational internationalization strategy (Tallman & Fladmoe - Lindquist, 2003).

The architectural capabilities of a company referred as organization-wide routines for the integration of components of the organization to productive purposes (Tallman & Fladmoe - Lindquist, 2003). These activities are the core source of the organizational synergies. From the perspective of multinational companies, these capabilities relates to identifying, replicating, integrating and otherwise managing hard assets and business -level component capabilities efficiently and effectively. Such capabilities are derived during the process of operating the firm, so that these activities are strictly firm- specific and they are closely related to the company's administrative history (Tallman & Fladmoe - Lindquist, 2003).

2.4 Globalization drivers

Global marketing and internationalization benefits companies in a variety of ways. However, small number of companies are truly have global operation which is balanced across major regional markets (Cateora, Gilly & Graham, 2013). If large international market segments can be identified, economics of scale in production and marketing can be crucial factor for the multinational company's competitiveness in the global market (Vila & Kuster, 2008).

The transfer of experience and know how across countries through improved integration and coordination of marketing activities can also be one of the advantage of global operations. The global diversity in marketing talent leads to new approaches across diversified markets. This diversity will bring about a financial benefits as well as stability of revenue and operation to most global companies (Cateora, Gilly & Graham, 2013).

The effect of globalization reflects a business orientation based on the thought and belief that the entire world is becoming more similar and that difference among national markets are not only fading but, for some products, will finally disappear. Due to the fact that companies need to internationalize their strategy by adjusting it across markets to take advantage of underlying global effect. The internal as well as external factors will create a conducive atmosphere for the development of strategy and resource allocation in an international level. These factors can be summarized as market, cost, environment and competitive factors (Czinkota & Ronkainen, 2006).

The market factors is one of the reason for company's global engagement. The trends and the customer purchasing power and behaviour changes rapidly and the infrastructures to reach to global customer is becoming easier. Due to the fact that companies need to fill the gap by involving in the global market and produce items which can fulfil the similar trends across the globe. In the same token, the channels of distribution are becoming more international, which means more retailers are now exhibiting greater flexibility in their strategies for entering new geographic markets. Some

companies are involving in most of the world while others perusing aggressive growth. In addition the cross border retail alliance that expand the presence of retailers to new business market in a fastest pace. The presence of international and regional channels supports the marketing efforts of the marketer in a rationalized manner (Czinkota & Ronkainen, 2006).

The need to consider the cost factors for the company's internationalization involvement is the next important driver. Avoiding the cost inefficiencies and duplication of efforts are two of the aspects that enhances the company's global involvement. Adopting a single - country approach may not be sufficient for the domestic businesses to gain all the possible economies of scale and scope in a dynamic business environment. In most of the cases, expanded market involvements and activity can fasten the accumulation of learning and experience (Czinkota & Ronkainen, 2006).

The environmental factors are the third aspects of company's internationalization drivers. The barriers in government regulations have shown a dramatic progress in most of the world and leads to further facilitate the globalization of markets and activities of marketers internationally. Furthermore, the resulting for the removal of physical, fiscal, and technical barriers is an indication for changes around the world with a greater scale. At the same time, the rapid technological evolution is supporting the internationalization activity of companies in a global bases. The advancement of technology supports the newly emerging economy to boom with fastest rate (Czinkota & Ronkainen, 2006).

The competitive factor is the last general aspect for firm's global involvement. The majority of the industries are dominated by international competitors which are focusing on to take advantage of the market, cost and environmental factors which are found globally. To keep the competitiveness of a firm, marketers need to involve actively more than ever to go hand in hand with the competition or to pre-empt competitor's moves. The recent, product development, upgrade and distribution rates are unimaginable few years ago. Due to fierce competition companies are looking for new markets and for new product categories for growth. Furthermore, market presence can be necessary to execute global strategies and prevent other competitors to undue advantage in unchallenged market (Czinkota & Ronkainen, 2006).

2.5 Internationalization Stimuli

The internationalization activity of a company is stimulated by a number of reasons. The need for internationalization, what drives the process, putting a company from a little or no involvement, and what makes a firm to widespread multinational investment is a basic questions that determine the internationalization process of a company (Welch & Luostarinen, 1998).

The capacity of a firm to undertake international expansion highly depends on the means accessible to carry out its operations. The availability of required resources to undertake international expansion makes a differ-

ence in the output. However, the issue of questions in relation to resource whether it is just a physical resource or financial resource to consider. The very important aspect that makes a difference in international expansion relies on the availability of appropriate knowledge. The knowledge factors include, about the foreign market, about techniques of foreign operation, about ways of doing business, about key people in buying organization, and related factors. But to find such information and understanding may not be an easily available and to get them may be costly. Most of such information are not rapidly acquired as such activities are developed through the foreign operation actual experience. The learning by doing principle is a key factor that needs to be taken in to consideration (Welch & Luostarinen, 1998).

The communication network for international expansion also plays a crucial role. Personal contacts and social interaction enhances success in international market development activities. The networking between the buyer and seller as a base for effective communication should be maintained. It should be taken in to consideration that the networking establishment process is time consuming and demanding in the sense that the gap between the seller and buyer is huge due to the fact that the initial knowledge about the buyer is limited and the availability of gap in physical as well as cultural distances makes it difficult at the initial stage of the process. As time passes strong and long lasting relationship can be maintained and the internationalization activity of the company can be more effective (Welch & Luostarinen, 1998).

The risk and uncertainty which might be faced by the company in the internationalization activity is higher during its initial phase of internationalization. As a company is establishing a relationship with an unknown buyer, due to lack of initial knowledge and experience will lead to have uncertainty to peruse to new markets which are not familiar to the company. It is due to the fact that companies start their internationalization activities with countries closer to them both culturally and physically and further peruse their internationalization activity to a more distant markets. This intern brings experimentation with involving less risk and time required to gain relevant information and experience before a deeper commitment in the market is maintained (Welch & Luostarinen, 1998).

The internationalization activity of a company needs a through control. Having a limited market knowledge and experience, at the early stage of internationalization, companies look for outside intermediaries to support their internationalization penetrations. However, with experience and developed foreign market knowledge and identifying of potential buyers, the activity of the foreign intermediary need to be scrutinized. The controlling activity is reflected with efforts to direct the operation of the intermediary more closely. This involvement mean that the commitment towards the market is increasing and the controlling factors interacting with risk perceptions and knowledge development will have an influencing factor over time and will forward the company to enhance the foreign operation involvements. This intern results to have a close market control with high

involvement and incurring high cost and risk (Welch & Luostarinen, 1998).

The success of internationalization activity highly depends on the commitment of the company. With the development of international involvement the resource, people and process commitment will also increase. The internationalization commitment will increase when the key decision makers are involving in the internationalization strategy development processes. Therefore, the commitment aspect represents a dynamic driving force in the overall process of internationalization (Welch & Luostarinen, 1998).

Generally speaking, the need to develop relevant knowledge and skills and communication networks, as well as reducing risk and uncertainty exposures play a key role for the move of internationalization. In essence, the above mentioned factors, apart from any general market size and potential consideration, support to have a better understanding about a change in foreign market development activity (Welch & Luostarinen, 1998).

2.6 The internationalization strategy planning processes

Planning is a systematic way of relating to the future. It can also be considered as an attempt to manage the effects of external, uncontrollable factors on the company's strength, weakness, objectives, and goals to attain the desired level of outcome. In addition to this, it can also be a commitment of resources to a country market for the achievement of company's specific goals. Planning allows for a fast international function growth, market changes, increasing competition, and prevents the challenges in the various business markets (Cateora, Gilly & Graham, 2013).

Planning relates to the formulation of goals and methods of accomplishing them, so it can be considered as both a process and philosophy. The major advantage for multinational companies (MNCs) involved in planning is the discipline imposed by the process. Going through the planning process will have a framework for analysing problems of marketing and opportunities and can be a base for information coordination from various country markets. The planning process can be seen as important as the plan itself, as it pushes the decision makers to evaluate all factors that affect the marketing program success and those who can be involved in the implementation process can be easily identified (Cateora, Gilly & Graham, 2013).

The planning process requires to know the company objectives and the available resources. Defining objectives clarifies the orientation of the domestic and international divisions, permitting consistent policies. Unclearly defined objectives will lead companies to rush in to promising foreign markets only to look for activities that do not much with the company's objectives or detract with the purpose. The opportunities in foreign market may not always resemble with the corporate objectives and resources, it may require the adjustment of the objectives, change the international plan scale, or abandon them. An immediate profit from a certain market with a poor long run outlook may be found, where as other market

offer the reverse. It is only when a company's objectives are clear that such discrepancies can be reconciled effectively (Cateora, Gilly & Graham, 2013).

The international commitment of the company plays a crucial role for the success of the company in the international market. The planning approach of the international firm affects the internationalization degree to which the management is committed enough. The commitments also affects the decision of the firm as well as the specific international strategies. Once the company objective is identified, the determination of the management to make the required commitment for the successful international operation in terms of the investment require, the management of international organization, and the determination to stay in the market to realize the investment returns is a very important aspect that needs to be considered (Cateora, Gilly & Graham, 2013). If the company is not certain about its prospects then it will enter a market timidly, with inefficient marketing channels, methods, or organizational forms, which will intern results failure of venture that might have succeed with the support and commitment of the main company. The marketing plan which is meant for longer period need to be supported by senior management and a realistic time frame for sales growth need to be made in collaboration. Sometimes, casual market entry is successful, however, more often that is not, the success of the new market require long-term commitment (Cateora, Gilly & Graham, 2013).

The success of international involvement is highly depend on the planning weather the company is marketing in several countries or is entering a foreign market for the first time. If the company is involved in international market for the first time, what products to develop, in which market, and with what level of resource commitment should be decided. However, if the company is already committed, the key decision to make is allocation of efforts and resources among countries and products, deciding on new market segment to develop or old ones to withdraw from, and determining which products to develop or drop. In order to systematically evaluate the international opportunities and risks guidelines to develop strategic plans to take advantage of such opportunities need to be followed (Cateora, Gilly & Graham, 2013).

Putting in to consideration of the opportunities and challenges provided by the new realities of the market place, the engagement of the decision makers in the strategic planning to match markets with products and other corporate resources more effectively and efficiently for the long term competitive advantage of a company is important. Although the process of the planning is summarizes as a sequence of steps, many of the stages can occur simultaneously. In addition, as a result of the evaluation of the process activity it may start again at any stage of the phase for a better outcome. For the global oriented and committed marketer, a formal strategic planning contributes to both financial performance and nonfinancial objectives. These benefits include cost reduction effort, increase the efficacy of new- product launches, and improving quality and market share perfor-

mance (Czinkota & Ronkainen, 2006). The planning process will be discussed from the perspective of (Czinkota & Ronkainen, 2006) as follows.

2.6.1 Understanding and adjusting the core strategy

The strategic planning process has to start with a clearly defined business for which a strategy is to be developed. The strategic business unit (SBU) is the base for the decision making. The SBUs represents groupings based on product-market similarities by considering needs or wants to be made, end user customers to be targeted, and the product or service used to meet the needs of specific customers (Czinkota & Ronkainen, 2006).

In this phase of the strategic planning process, the participation of managers from different departments such as marketing, production, finance, distribution, and procurement is highly required. The geographic representation need to include the major markets or regions as well as from smaller but emerging markets. Having an appropriate member committees help to focus on product and markets including the competitors which they face in different markets. The heading of such efforts need to be made by an executive with high level of experience in regional and global markets. It should be noted that the assessment against the environmental realities mean a dramatic change in direction approach (Czinkota & Ronkainen, 2006).

2.6.2 Market and competitive analysis

The second phase of the planning process focuses on the market and competitive analysis. Planning on a country-by- country basis can result with a diversified worldwide market performance. The very step for the global planning is the understanding of the underlying forces that distinguish the business success are similar to different countries that the company competes. The planning processes which focus across a broad ranges simultaneously in different markets will support the global marketer with means to help balance risk, resource requirement, competitive economics of scale, and profitability to attain long-term position in the market. From the perspective of the demand side an understanding of the common behaviour of customer requirements and choice factors are highly required. The competition analysis is mainly focus on understanding of the structure of the global industry to identify the driving forces that will determine profitability and competition (Czinkota & Ronkainen, 2006).

The strategy development need not start with individual national markets, but with the understanding of the general trends and source of profit in a global business environment. Considering factors such as what are the world demand trends? What are the underlying lifestyles? What is the emerging structure of the industry? What will determine the competition among different companies? If competition is intensifying highly, which companies will emerge as winners, understanding the scale of economics,

state of technology and other factors which can determine the cost efficiency of the company need to be critically evaluated (Czinkota & Ronkainen, 2006).

2.6.3 Internal analysis

The strategic choice made by companies need to consider the organizational resources to check the reality to determine the capacity of the company for the establishment of a sustainable competitive advantage in the global market environment. It may be easy for giant companies to establish a presence in new business market they want. However, for small companies such decisions may not be easily made and require a cautious move. The availability of human resources to undertake a global strategies efficiently is one of the factor that needs to be evaluated from the company's internal analysis point of view. In a survey of multinational companies international strategies challenges, good marketing managers, skilled technicians, and production manages along with people with a cross-cultural experience were difficult to find (Czinkota & Ronkainen, 2006). At this stage of the strategy process, the company assesses its readiness for the necessary move towards internationalization by evaluating the organizational commitment for expansion including assessing the readiness of the products to face the global competitive environment. It requires a wise decision to focus on certain product lines or industries and leave others which are not competitive for the target market (Czinkota & Ronkainen, 2006).

3 DEVELOPING GLOBAL MARKET ENTRY STRATEGY

The formulation of the global marketing strategy focus on the choice of the competitive strategy to be undertaken by the company and the choice of country to be entered or expansion further (Czinkota & Ronkainen, 2006). These parts will be discussed as follows.

3.1 Factors to be considered in developing market entry process

3.1.1 Choice of competitive strategy

The success of foreign market operation is highly depend on the competitive strategy that the company adopts. There are a variety of approaches and theories that describe how a company attain and hold a competitive edge against its competitors. In dealing with international business it is important to know the competitive areas of a company that distinguishes from its competitors. According to the generic strategy developed by Michael Porter companies can deal with the global markets with three choices which can be applied based on the competitive scope and source of competitive advantage (Porter, 1998). Accordingly the cost leadership, differentiation and focus strategies can be used.

The cost leadership strategy is applied by offering an identical products or services at a lower price than the competitors. Such strategies give much emphasis on cost reduction by involving investments in scale of economics and control of costs from overhead, research and development and logistics (Czinkota & Ronkainen, 2006).

The cost leadership strategy focus on a broad market using price as a target. To achieve the cost leadership strategy effectively, different approaches needs to be adopted. First the company need to make its process more efficient, of course it is also possible to outsource some of its operations to reduce the labour costs. The other aspect that is the economics of scale to reduce the unit price of the production, or the purchasing of raw material can also be bundled. The cost leadership strategy targeting to attain two various spots of selling process as they can be applied differently. The first is that the products can be offered with cheaper price than the competitors, this in turn leads to gain a market share. Secondly, due to the low cost structure the profit margins are high so that the profit allows to invest more in modernization and automatization of the production process for future price competition in the market (David, F.,& David, F.,2015).

Differentiation strategy stands in the opposite side of cost leadership strategy, as the cost leadership strategy focus on price as selling point, differentiation strategy mainly focus on developing of unique product and services. In this regard, price is not a competing factor for such products due to their uniqueness provides additional value to the users so that they are willing to pay premium price. This strategy focus on generating low price elasticity for the products. The uniqueness may be in terms of technologi-

cal superiority, product design or the brand aspect of the products. In order to generate a unique selling proposition for the differentiation strategy, having access to the state of the art technologies or advanced research and development with highest communication skills to brand the products is highly required. Differentiation strategy either in the industry-wide or focused on a single segment takes advantage of the uniqueness of real or perceived elements such as design, after sales that makes unique from other competitors (Czinkota & Ronkainen, 2006).

A focus strategy is emphasized by defining a single industry segment with in which the target may be towards differentiation or low cost. These strategies can be applied both globally or regional bases to match the strategies as a function of market or product dimensions (Czinkota & Ronkainen, 2006). The application of this strategy mainly focus on a small segments with differentiating oneself from the competitors or with the aim of generating cost advantage. It has a positive side with the sense that customers are usually have a high degree of loyalty that binds the customers with the company. As the market is quite small, in comparison to the other two strategies, to generate high volume of sales might be a challenge. This in turn might have an adverse effect on the purchasing price as the distributors can able to dictate the selling price due to the low volume. In the other aspect, it may be possible to pass those additional costs to the customer as they are high loyal to the company. The overall advantage of this strategy is that using small market size with a specialized product, a company can be considered as a technological leader in a narrow market (David, F., & David, F., 2015).

Most of the global marketers mixes high differentiation with cost containment to expand market shares as well as enter a new market. “Flexible manufacturing systems using mostly standard components and total quality management measures that reduces the occurrence of defects are allowing marketers to customize an increasing amount of their production while at the same time saving on costs. Global activities will in themselves permit the exploitation of scale economies not only in production but also in marketing activities such as advertising” (Czinkota & Ronkainen, 2006). Porter further states that companies which are focusing on two strategies at the same time may not be competitive. The competitive edge is more successful if a company focus on one strategy and the resource of a company can be utilized efficiently. Mixing strategies will result to have a problem of resource splitting and the company will be “Stuck in the middle” and eventually fall behind competitors which adopts a clear and strategic approach (Porter, 2008).

Porter's Generic Strategies

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Figure 1. Porter's Generic Strategies (<http://www.quickmba.com>)

3.1.2 Country-market choice

Having a global strategy may not necessarily mean that the company is serving the entire world. The choices which are made in relation to the global strategy relates to the allocation of the companies resources among different countries and segments to be served (Czinkota & Ronkainen, 2006). The common approach of internationalization strategy is first to begin with the regions and further divide the analysis by country. Most global strategists use multiple levels of regional groupings based on the structural arrangement of the given company. To analyse the specific market a variety of models can be applied. The analysis mainly focus on the internal strength and the external attractiveness. The internal strength holds such variables relative market share, product fit, contribution margin and market presence with regard to the level of support by the constitutes and the allocation of the resources by the company. Whereas the country attractiveness can be measured using market size, market growth rate, number and type of competitors, and government regulations including the political and economic situation of a particular country(Czinkota & Ronkainen, 2006).

The country market choice need to focus beyond the market attractiveness and company position for an effective internationalization strategic decision making. The policy of market expansion determine the allocation of

resources among different markets. The underlying factors are the concentration strategy which focus on a small number of markets and the diversification strategy, which is mainly characterized by growth in large number of markets in a relative sense. The expansion strategy of the companies can be determined by the marketing mix and the company related factors which corresponds to the market and marketing variables (Czinkota & Ronkainen, 2006).

Factors affecting the choice between Concentration and Diversification Strategies in Multinational Marketing Adapted from Igal Ayal and Jehiel Zif 1979.

Table 1. Factors Affecting the choice of Concentration and Diversification Strategies

Factors Affecting the choice between Concentration and Diversification Strategies		
Factor	Diversification	Concentration
MARKET		
Market growth rate	Low	High
Sales Stability	Low	High
Sales response function	Decreasing	Increasing
Extent of constraints	Low	High
MARKETING		
Competitive lead time	Short	Long
Spill over effects	High	Low
Need for product adaptation	Low	High
Need for communication adaptation	Low	High
Economic control requirements	Low	High
Program control requirements	Low	High

Market - related factors may distinguishes the attractiveness of a given market considerably. If there is high and stable growth rates in a particular market, the company will likely go for a concentration strategy. However, if the demand for a particular product is strong worldwide, as in the case of most consumer goods, diversification strategy can be an attractive approach. If the response of the market for marketing effort is with an increasing rate, concentration occur, but if the cost of the market share points in any specific market is becoming high, internationalization strategists need to look for diversification opportunities (Czinkota & Ronkainen, 2006).

The expansion strategy of a company can also be influenced by the uniqueness of the product offerings with respect to the competition it has. If there is a considerable lead time on competition, the diversification strategy may not be done urgently. The spill over effect also plays a role in the choice of the strategies. Furthermore, the more the product offerings are standardized the greater the diversification strategy can be applied. Thus the economics of scale enhances savings for the marketing efforts for

the company. The objectives and policies of a company will also direct the how the decision making for expansion be going. If the interaction is extensive with clients and intermediaries, as the resource constraint is highly likely, the concentrated strategy will be implemented (Czinkota & Ronkainen, 2006).

“Therefore, for global marketers three factors should determine country selection: (1). the stand-alone attractiveness of a market (eg, China in consumer products due to its size), (2). Global strategic importance (eg. Finland in shipping due to its lead in technological development in vessel design), and (3) possible synergies (eg. entry into Latvia and Lithuania after success in the Estonian market, given the market similarities).” (Czinkota & Ronkainen, 2006).

3.1.3 Analysing of own business

Multinational companies need to evaluate their current situation of operational business more thoroughly, due to the fact that foreign market entry and internationalization may be risky if the home work is not done properly. Once the internationalization activity fails to achieve the desired objective there might be no second chance to do so as a result of management and financial constraints. Therefore, a well-planned and studied internationalization activity is important to attain success in first attempt. Depending on the MNEs strength and weakness, the current market position and the financial strength of the company need be evaluated in detail. Furthermore, the threats and opportunities which arise out of the internationalization activity of the company need to be assessed to evaluate the chance of success in new market environment. The evaluation criteria is basically referred to SWOT analysis. The company managers need to have a clear picture about their company’s weakness and strength, along with the opportunities and threats for the analysis of the company’s foreign market expansion activity in target market (Kotler, Keller, Brady, Goodman & Hansen, 2009).

In dealing with SWOT analysis, it is important to make a comparison between own company and competitor to better understand how to interpret data to reach on a right conclusion. There may be a case that the company may have high profit margin, however, when it compared with the industry average profit margin it may perform poorly. In order to have better picture of the global trend of the industry, benchmarking offer a chance to observe the current situation of the company and look for their future desire.

More information concerning the company’s performance can be achieved using benchmarking analysis. The strength and weakness relates to the internal factors of the business which are directly influencing as well as associated with the company operations. Companies can also evaluate secondary data of their competitors to find out about their performance in a number of ways. The annual reports of the companies and news streaming in relation to the company is very important source of information. Further-

more, creating a relationship with the customers and supplier will help to find more information about the competitor. Feedbacks and external opinions need to be regarded as very crucial to know more about the standing point of the company's current situation (Pilcher, 2004).

The evaluation of company's strength and weakness depends on the internal situations, whereas the opportunities and threats relates with the evaluation of the external situation that influence the business activity in the long run. In the analysis of the threats and opportunities corresponding to internationalization activities, companies need to take a considerable evaluation from the perspective of the target market where they want to peruse their activities to. In case the company lack knowledge and expertise to do so, such support from external source need to be taken in to consideration.

Once all the four factors of the SWOT model are thoroughly analysed, it will be possible to make an adjustment to the areas that need improvement to enhancing the current situation for foreign market success. Giving much emphasis for the threats and weakness at the early stage of internationalization activity will help to succeed as they are ready to make remedies for the problems in advance.

3.1.4 Market scanning

The choice of the market to enter plays a great role for the success of company's internationalization activities. The above mentioned steps of looking on areas of companies competitive advantage, as well as other techniques of analysing the market are a base lines for finding the appropriate market which might be worthy of entering. As the world is diversified various market opportunities provides different possibilities for the companies internationalization move. In order to gain a competitive advantage in the new market, companies need to collect different information regarding the target market and its potentials, the legal, cultural political, environmental, economical, and technological aspects need to take in to consideration. Then when these categories fit to the company, the competitive edge and products, the success of internationalization will be higher (Hollensen, 2008).

3.1.5 Market analysis

The market analysis provides information concerning the attractiveness of a particular market. It will be of much importance to evaluate the various markets in order to benchmark one another. The market which is considered to be suitable for the company's internationalization objective can be chosen among alternative markets. In this process a number of factors should be taken in to account in order to attain the objective of the company (Hollensen, 2008).

3.1.6 Market size

The size of the market is one of the very important aspects that helps to determine the sales volume of a particular product in the desired market. In determining this, it is important to consider beyond the total output of the country economy interns of GDP, and look on relevant data's about the sales of similar products in the market, the general industry in the specific product category, data of import and export along with the growth rates are among the determining factors that shows the market size of a given territory. This should be evaluated not only for current situation but also for the future trend of the business activity. In order to gather the required data's, companies can use a variety of techniques. The government data bases are one of the common and easily available resources. Furthermore the sales reports of the competing companies which are released for the general public can be good source of information. In order to further strengthen the information sources, a market survey in the particular market can be done to investigate the customer demands of particular products and to check if the demand and supply are met or not. If there is a gap in customer demand and supply, a positive signal for the company's internationalization activity is achieved (Russow & Okoroafo, 1996).

3.1.7 Market assessment

Multinational companies which wish to enter to a certain market can use a compressive macro-economic date in order to better determine the attractiveness of business opportunity using a specific evaluation criteria. The macro environmental factors along with the demand potential provide with a complete picture about the feasibility of the market weather it suits the companies specific objectives or not.

The gathering of the needed data mainly focus on three different categories. As stated by (Russow & Okoroafo, 1996) include, "Product- specific market size and growth, factors of production cost and availability and the level of economic development."

The product specific market size and growth determines the domestically produced products, in addition it takes the imports and export of those products in to consideration. In dealing with the import and export data of the countries, some countries are more export driven, which means that there exist a strong surplus in the export balance of those specific goods, their corresponding import is less than their export and this might indicate that the attractiveness of the business is minimal due to the fact that the export surplus may be caused by the domestic demand decline. Furthermore, looking beyond the absolute numbers is important as the relative numbers might tell more about the performance of the market (Esteves & Rua, 2013).

There may be possibility that the total domestic production of a given country is high, however, the external trade compared to domestic production might be relatively low. In such circumstances, the relative data

shows the exposure of domestic companies internationalization of their business is low, this might correspond to an idea that the local companies may not be competitive in the global market or, on the contrary, the domestic market might be performing so well that the domestic companies may not be forced to go to the international market yet, this enhances the market can be an attractive area for foreign companies internationalization to the new market.

The other issue which can determine the attractiveness of a market relates to the capital, labour and land. In reference to capital, the money supply has to be taken in to account. In other words, the amount of money which is provided by the central banks to the market to strengthen the economy. When the money supply is related to credit availability for companies and individual customers to finance their business operations. In addition, the gross and net fixed capital formation is another factor to be considered due to the fact that the accumulation can be made by the past investments, which may go hand in hand with the productivity and efficiency of a given company which may also influence the competitiveness of companies in specific market environment. In this regard, if the capital formation in relation to the GDP are higher, companies might face stronger, developed and state of the art competition as the formation of capital are made on investments (Brunsdale, Lodwick, Rohr & Newquist, 1991).

The production cost of a particular product can also be determined by the labour costs. As the price of labour depends on the demand and supply, the population growth, stagnation or shrinkage has also a direct impact on the cost of labour. For instance, if there exist a shrinkage on the working force, the companies are forced to increase wages and consequently fight for labour forces. However, if the population is increasing the supply of working force will be enough to satisfy the demand and supply. The population trend is not the only factor for labour cost determination as the employment condition has a huge impact on the labour cost. For example, if the unemployment rate is higher, the consumption of domestic would be lower due to lack of job security and low bargaining power from the employee's perspective. The choice of the company whether to sell its product in such markets or organizing production facility in order to reduce the labour cost, varies dramatically as such impacts determine market evaluation (Seputiene, 2011).

The market is shaped by the overall level of economic development. Those countries with high GDP output may not necessarily rich, to better analyse the wealth of a given society the GDP/GNP per capita are the most influencing factor for determination of the country's wealth. Moreover, the sectorial economy also be considered apart from the general economic development. Based on the economic development the relative strength of the countries primary, secondary and tertiary sector are different. For instance, in less developed countries, the GDP per capita is lower, the primary and secondary sector, however are dominant. Whereas in high-income countries, the tertiary sector is overwhelming important followed by the secondary sector although the primary sector is accounted for 1 to 3% of the country's total GDP (Albaum & Duerr, 2011).

3.1.8 Market Profitability

The market profitability helps to find out how much profit is generated from the sales volume in a given territory. The market profitability can be evaluated in a number of ways. The porter's five force model is chosen to see how a market is profitable using the factors barriers to entry, supplier power, buyer power, threats of substitute products and rivalry among firms in the industry. These factors in aggregate help to determine how profitable a given market is (Porter (E), 2008).

The Five Forces That Shape Industry Competition



Figure 2 . Porter's 5 Forces (<http://www.hbr.org>.)

The threat of new entrants are affected by a variety of factors. The attractiveness of the market is the first factor to be considered in relation to the absolute size, the growth rate of the market and profitability. These factors shows how attractive the market is for newly entering companies. However, there are also other factors which hinder the company's entry process, which are referred to entry barriers. In dealing with the market entry barriers, the market may be dominated by certain companies which play a crucial role in the industry, especially in markets where the economics of scale is influencing, the market entry process may be challenging due to the fact that the competitiveness will be affected by the size of the market. Besides, the capital requirements also influence the entry process. In capital intensive businesses, entering to the business without huge investments may be a difficult situation. For instance, in industries like airplane and railway capital is a crucial factor. Furthermore, the customers can also be considered as entry barriers, if they are resistant to change and unable to

switch from products they are familiar to. The government in different situation can also create entry barriers by putting tariffs on such imported products or allowing some kind of subsidizing incentives for local companies to sell their products with less price and enhances their competitiveness and profitability.

The threats of substitute is another aspect of factor which determine the profitability of the market. These substitute products can be found from the same market which can be of similar item or replace the existing product from different market having the same outcome. For instance, in car industry, if the price of petrol which is a complementary product to car increases, the consumption pattern and usage habit of the customer may shift to other alternatives such as to train. This shows that it is not only the price of the substitute product that affects, but other factors such as the price of the complementary goods determine the profitability of the given market. Furthermore, the quality of the substitute product also need to be evaluated if the customers get the same benefit or not. It is also important to consider the switching cost as the benefits the customers gets might be lower than the cost it incurred to shift to new product. Using the same example, if the person shifts to use the train, but the price of the tickets gets expensive, the person still want to keep using the train as the cost of switching is less than the overall cost he might spent on the car. In this simple example we can see that transportation is the market and the substitutes provide the same service in an alternative manner.

The number of buyers in comparison to the number of seller determine the buying power of the customers. It shows the influencing power of the customers in price negotiations. The availability of the various sources for the customers to buy from will increase the bargaining power, besides, the volume in which a given customers purchase at a single time enhances the bargaining power of the customer. There may be a tendency that a purchasing party dictate the market price. Such circumstances happen if there are a number of small sellers and only few or single buyer exists. This also leads to have a misbalanced bargaining power as the demand and supply mismatch widely. The buyer's power also determined by the switching cost. If sellers incur higher switching cost to different customers, they prefer to stay with the exiting purchasing party, though they may not as profitable as other parties in the market.

In dealing with the supplier power, it relates to the counterpart to power of the buyer, the product differentiation is very important. The bargaining power of the supplier will be higher if there are fewer suppliers who offer certain products. The supplier power also influenced by the customers, how diversified type of customers a give company have and their willingness to buy more products from the supplier enhances the bargaining power of the supplier. Suppliers can also increase their bargaining power if they are providing products which needs specializing so that they can reduce the availability of alternatives in their market.

In perusing to enter to new market, considering the rivalry inside an existing market is one of the important factor that needs considerations. The

profitability of the market may depend on the number and size of the competitors. For instance, if the number of dominant companies is fewer, the price for the items will be higher and the companies will have higher bargaining power, this leads to have a higher profit margin for the companies. The competitive situation of the market reduced with the growing of the market potential than the saturated markets. In growing markets, the fight to grow among companies is lower and their market shares usually stays constant and their turnover increases. The exit barriers also one factor for the rivalry among companies. The legal issues as well as contracts and service agreements for a longer period will affect companies not to leave the market.

The entry to new market by itself also creates an impact on profitability. The newly entering company will increase the industry rivalry, enhances buyer's power as there will be bigger choice and increases the power of the suppliers as it help to broaden their customer segments and provide a signal for other companies to go in to the market at a later stage. The new entry is helpful for the customers, however, will have a negative impact on profitability as the competition will be increased.

Analysing the profitability of the market is another very important aspect. Searching for supporting information to look for the profit of companies in the same field of industry will help to see the general picture of the market. Such analysis can be done using the annual reports of competing companies which are involving in the desired new market (Porter, 2008).

3.1.9 Political views and risks

The political activity of the target country may have either a positive or negative influence on the micro and macro-economic environment. Multinational companies need to understand and evaluate the political situation of the new market before internationalizing their business. Different political parties support various economic systems, in the evaluation of markets of interest, the key for success in the desired market is to evaluate and adapt to the existing local environment, both in terms of politics and culture of the country. Companies in a new business environment need to avoid involvements in political activity of the country. It may help the company for the moment, however in long run political majorities can change and result in negative effects (Albaum & Duerr, 2011).

The chance of growth and profitability of companies in a new business environment highly depend on the political risk of the country. In transitional economies such as China and Russia they have a long history of communism that shape the societies, though these countries opened their economies in recent decades, the political establishment still needs improvement especially in china. The political unrest in the country also affects the business activity of the company in the desired target market. The business life also influenced by the political majorities in the market, especially, if the extreme parties take the power of government, the political

unrest and loss of the civil order will have a negative consequence on the daily business activities. In recent years peaceful political changes and democratic movements took place in certain countries where as still in less developed countries the autocratic regimes results in devastating on the local economy. So, predicting the political system and evaluating the continuity plays a crucial role for the development of a sustainable business in the desired market for internationalization. The regional conflicts can also affects the business involvement for the companies. Political motivated terrorism also affects the business environment of the country and special attention in evaluating the political situation of the target market is highly needed (Morrison, 2011).

3.1.10 Crime and Corruption

The crime and corruption level of a country for internationalization of the business plays a critical role. Companies need to know several legal issues of the country in focus and understand the acceptance way of business doing in the environment. Having a deeper understanding of such factors in the target market help to know more and help to reduce the associated risk.

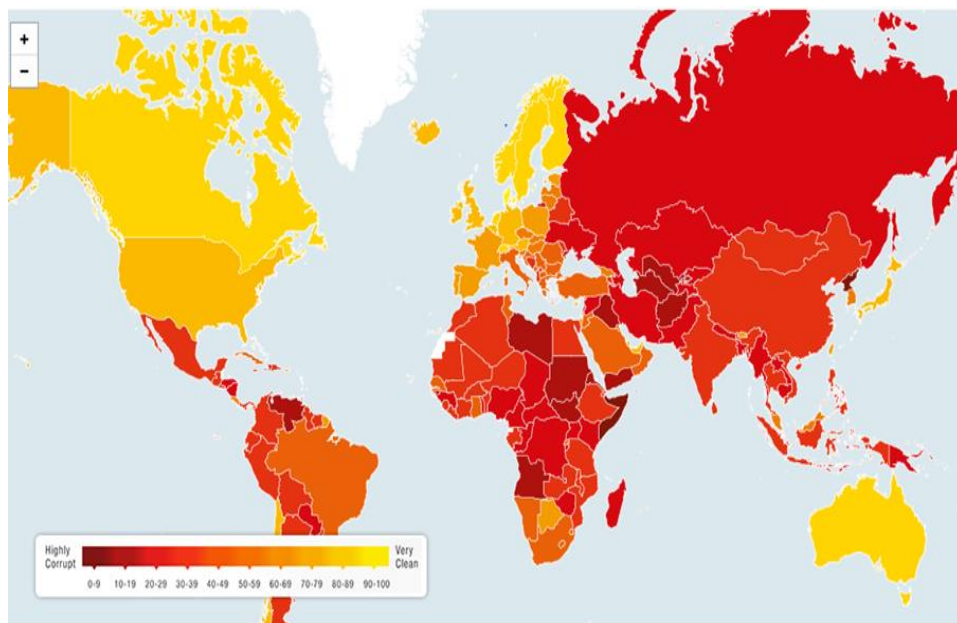


Figure 3. Country Corruption Index 2014 (Source Transparency International 2015)

The intensity of the corruption in business is mainly depend on the country where the business transaction happens. The perception and attitude of the societies in different part of the world varies and what is crime or illegal action varies considerably. This shows that the crime prevention and low enforcement on bribery or other similar actions may not be similar among different countries. It may be possible that in certain countries corruption and bribery may be considered as normal and a part of business life. How-

ever, the low enforcement towards corruption and crime activity increases and a strong regulations and low enforcement in most of the countries exercised in recent years. In 2014 and early 2015 several countries prepared national anti-corruption plans or strategies that foresee actions against foreign bribery (Finland, Russia and the United kingdom). (Helmann, Földes and Ooles, 2015). Furthermore the G20 adapted its Anti-Corruption Action plan for 2015-16, which reaffirms its commitment “to lead by example in combating bribery, including by active participation with Organization for Economic Co-operation and Development (OECD) working Groups on Bribery with a view to exploring possible adherences to the OECD Anti-bribery convention”. Sixteen of the G20 countries are parties to the Convention (Helmann et al. 2015).

Western societies have a common understanding concerning illegal actions towards business activities, however, in other countries especially in Africa, Asia and Latin America, the bribery and corruption are highly integrated with the business life. The bribing and corruption effect can be seen as a market distorting action that makes foreign companies less competitive in areas with high corruption indexes. It will be important to consider the law enforcement and related criminal actions are not related with the political system, for instance the United Arab Emirates as a monarchy is less corrupt in comparison to those democratic countries like India. The scandals are also associated with the degree of corruption in a given country (Albaum & Duerr, 2011).

3.2 The cultural aspects

In dealing with the new market environment, there are various aspects that should be considered. The local cultural setting of the new market environment plays a great role in determining how challenging entering to new market is as the society is shaped by own culture (Mejri & Umemto, 2009).

Cultural dimension theories are a group of frameworks which are created in a systematic approach to enable the society understand the cultural difference among nations as well as individuals more effectively by making a comparison on how people behave in different cross-cultural environments. As there are a variety of models, evaluating the cultural aspects uniformly and making a generalization is a problem. However, these various models would provide an illustration of a given cultural settings. Some of widely known and used models include Hofstede (1991), Trompanaars & Hampden-Turner (1998), Oksaar (1988), Hall (1989), GLOBE (2004) and Gesteland (1999). However, it is difficult to make a comparison on the result of these all measurements as the variables vary considerably. By taking the differences in to consideration, in these thesis two of the theories will be discussed in detail. The methods are chosen to see from the country perspective as well as from the individual point of view.

3.2.1 Hofstede's Cultural dimension

According to Hofstede culture is defined as “The collective programming of the mind distinguishing the members of one group or category of people from the others.”(Hofstede & Hofstede, 2005).The national culture of countries can be evaluated based on six dimensions which are identified by Hofstede. These factors show the relative comparison of different countries cultural settings. Accordingly, the Hofstede's cultural dimensions help to evaluate the difference in the cultural environment of the target market and the domestic one. These dimension will be discussed as follows.

A. Power distance

The power distances relates to having an unequally distributed power in the society and this is accepted by the people in the specific country. This dimension varies considerably from country to country. For instance, in countries like Scandinavian, the power distance is low and they try to establish a common ground for equality and power is shared among single individual where as in other countries such as United States of America the society accepts inequality with greater extent. Accordingly, a given society is influenced by the inequality among citizen, respect for older people, acceptance of an elite, the influence of wealthy people, and the degree to which people accept such issues will have an impact on the power distance. Actually, in every country, inequality is faced with some extent. The power and inequality corresponds each other and knowing how the society in a given country is influenced in their daily life will have a huge impact for companies which are aiming to go to new business market (Jandt, 2009).

B. Individualism vs. Collectivism

Individualism refers to the measure how the society is self-centred in a given country perspective. On the other hand, collectivism shows the opposite. In the collectivism context it refers to how people belong to the group. Those societies with high level of individualism measure the uniqueness as a positive trend. Hofstede states that on a relationship level individualistic societies, the ties among individuals are very loose whereas the relationship in a collectivism society is much more extended. People in individualistic culture, their identity is very personal and those in collectivistic environment, the identity of the society is highly influenced by the social network, families and of course with organizational setups. The working environment also influenced by the cultural aspects. In individualist cultures, personal success is significantly emphasized. Where as in collectivistic oriented cultural settings, the success as well as failure is share among the group and a sense of belonging and togetherness exists (Jandt, 2009).

C. Masculinity vs. Femininity

These cultural dimensions relates to the attitude of the society towards gender in a national culture. Feminine oriented cultures are considered as

caring, favoured equally and gender roles do not have a compelling factor whereas the masculine culture are status oriented and the competition among the society is higher. This dimension is reflected both on personal as well as on business environments. For example, in feminine cultures consensus and harmony are highly appreciated and the society provides equal opportunity for everybody, but the masculine societies due attention for competition, and the superiority, achievements, status and rank in the society are highly recognized (Hofstede & Hofstede 2005).

D. Uncertainty avoidance

The uncertainty avoidance dimension relates to the tendency that a given society is willing to take risk; the higher the uncertainty avoidance index corresponds to the attitude of the given society to avoid ambiguities and associated risks. In addition this index help to evaluate how societies react for unexpected situations. From the personal point of view, those people who live in a culture where by avoiding risk is higher, will highly likely prefer a stable working environments, they tend to be less entrepreneurial oriented and their innovation level is minimal due to the reason that the change they are making is easily associated with the risk of failure. However, those societies which are willing to accept risk are open to new ideas and favours changes in different circumstances. Those risk averse societies focus on themselves, and interact less with the outside world as the domestic market is familiar for them and they think that it bears less risk for them, besides as they give much security for a known environment, their personal mobility also be limited (Hofstede & Hofstede, 2005).

E. Long – term orientation Vs. Short -- term Orientation

According to this dimensions, the time horizon in which a future plan are executed will be explained. In long – term oriented cultural settings, planning is done for a longer period of time from years even to decades. The long term planning approach is a common phenomenon for societies in East Asia, while Western societies prefer the short- term planning which is usually a result of the shareholders system that is a common approach in most of the Western countries. A very low values for short term orientation is found in United States and United Kingdom, whereas Chinese are highly long-term oriented. The approach of the long term orientation has a direct relation with the saving of the nation and reduction on consumption to preserve resources for the coming generation as short term oriented societies tend to favour the consumption of things instantly (Jandt, 2009).

F. Indulgence Vs. restraint

This dimension relates to how a society determine its way of life. In a society where by indulgence is higher the attitude towards life is more of enjoying and they tend to be open for development ideas and working to improve the living standard of the society is higher. On the contrary, those societies which are restraint follow a strict social norms, they tend to be more of conservative and the rules of the society have an influential power

over the activity of the society. Those restrained societies are more of religious and following the rules are appreciated (Hofstede, 2015).

Due to its complexity, understanding a countries culture with these six dimension may not be sufficient. However, using these dimensions, companies can assesses and compare the national culture. It should be understood that these dimensions provide a general framework as to how the cultural setting of the domestic environment and the new culture be evaluated (Sakarya, Eckman, & Hyllegard 2007). In order to better understand and have a good insight about the new cultural environment, it is highly recommended that companies need to visit the actual settings. Furthermore, the knowledge and experience of people from the target market should be used for a better outcome of internationalization in a new market environment and achieve objectives to the desired level (Czinkota, Ronkainen & Moffett 2009).

3.2.2 Trompenaars and Hampden – Turner’s Cultural dimension

The cultural dimensions of Trompenaars and Hampden focus on seven factors which shows the cultural deference’s among nations of various cultures. They have conducted the research based on the values and preferences of individuals across different culture of the world. The research finding shows that “individuals from different cultures were not just sporadically different from one another; but that they were different in very unique or specific and even determinable ways” (Trompenaars & Hampden-Turner, 1998). They state that each culture had its own beliefs and values and preferences based on different factors. In addition, their finding prevails that there is no such a better or worse culture than another, however, people with different cultural backgrounds can make different choices and they can be distinguished based on their focus on their preferences. The seven dimensions will be discussed as follows,

1. Universalism versus Particularism

Universalism cultural dimension is highly characterized by individuals which place a high importance on rules, laws, obligations and values. These cultural dimensions are mainly found on countries such as U.S., the U. K., Canada, Scandinavians, Netherlands, New Zealand, Germany, Australia and Switzerland. Whereas people in particularism cultural dimensions believes that the relationships and circumstances indicates the laws which they are living. As an example such cultures are found in China, Russia, and the Latin America.

2. Individualism versus Communitarianism

The individualism cultural dimension shows people believe in self-achievement and personal freedom. Such cultures are highly seen in countries such as the U.K, New Zealand, Australia and Switzerland. On the other hand, communitarianism cultural dimensions shows people in such cultural setting believe that the group influence plays a great role and

dominates over individuals. Such countries include Africa, Japan and Latin-America.

3. Specific versus Diffuse

Individuals in a specific cultural dimension choose to keep the personal lives and work staff separately as they believe that the impact of relation on work objective is minimal. Such cultural settings are found in countries such as Germany, Switzerland and the Netherlands. On the other hand, people in diffused cultural settings there exist an overlap between their personal life and work. In such cultural settings people believe that creating good relationship is one factor to attain business objectives. Countries such as Argentina, Russian, Spain and China shows such cultural settings highly.

4. Neutral versus Emotional

The neutrally-cultural individuals highly control their emotions and give much emphasis for reasons and it influences their action more than their feelings as they are not expressing their thoughts and feelings. Such cultural settings are highly seen in Finland, Sweden and Germany. Whereas, in emotional cultural dimension, people tend to find a way out to show their emotion, in any circumstances. In such cultural settings expressing once emotion is considered as acceptable. Some of the example include, France, Italy and Spain.

5. Achievement versus Ascription

In the achievement cultural dimension, people believe that the worth of a particular person is a reflection of what he/ she does. In such culture, activities are highly depend on performance based. Countries such as Australia, Scandinavia and Canada are highly mentioned in this dimension. However, in the ascription cultural dimension, people believe that individuals need to be valued for who they are rather than what they do. The behaviour of the person is highly associate with power, title, and position. Such cultural settings are highly manifested in Japan, Saudi Arabia and Italy.

6. Sequential-time versus Synchronous-time

The sequential - time dimensions shows that people like events to happen in order. Accordingly, they place a high value for punctuality, planning and they do stay on schedule. These cultural settings are typical for U.S, Germany and the U.K. Where as in synchronous -time the society view the past, present and future as interwoven periods. They usually tend to work on different projects simultaneously and view schedules and commitments as flexible. Such cultural settings are typical for Mexico, Japan and Argentina.

7. Internal direction versus Outer direction

People in internal direction cultural dimension believe that they have the tendency to control nature or their environment to accomplish their objectives. These behaviour is also reflected in their working with their teams and organizations. Such cultural dimensions are typical for countries such as the U.S, Australia, Israel, New Zealand and the U.K. From the perspective of outer direction cultural dimensions people believe that every activity is controlled by the environment or nature with a great extent. The achievement of their activity is highly associated with their environment. Even in work or their personal relationships they focus their actions on others and they try to avoid conflict if arises. Such people often need a reassurance that they are doing a nice job. Such cultural settings are typical for countries in Saudi Arabia, Russia and China.

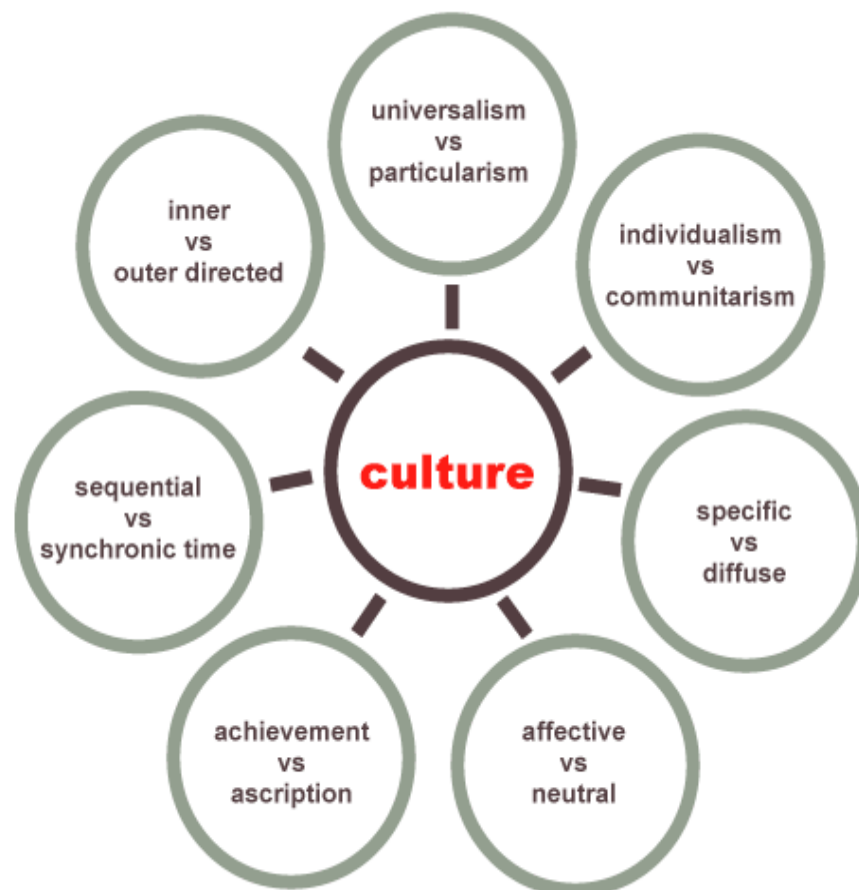


Figure 4. Trompenaars and Hampden - Turner Cultural model (<http://research-methodology.net>)

3.3 Selection of market entry modes

Once the company analyse and select the target market, choosing the type of market entry mode to the desired market is the next important factor to be considered. There are different approaches that can be applied based on the choice of the company and each advantage and disadvantage of the entry modes needs to be analysed before making the actual decision. The

various entry modes allow the possibility to choose the degree of risk that can be accepted to certain extent. For those MNCs it is very crucial to understand the fact that internationalization and expansion abroad always involves risk taking with some extent, and the risk from country to country can be varied considerably. The risk and profitability may go hand in hand. When the company prefer to take less risk, the associated profit might get lower. As each market is unique by its nature, there may not be a perfect way of entering. The accomplishment of market entry process is complex and selection of the modes also needs a thorough evaluation. Based on the company's resource both in terms of personal and financial the following modes of entry will be discussed to give a foundation for the future selection process (Root, 1994).

3.3.1 Exporting

Exporting is one of the means for expanding business in the international level. The approach can be done either directly or indirectly. For instance, if the company manufactures and sells its products by itself to the customers in different markets, it refers to direct exporting, where as if intermediaries are in the middle and the company sells its products through the intermediaries to overseas customers it refers to indirect exporting (Kotler & Keller, 2012).

Exporting provide the opportunity to penetrate the new market with minimum risk, in combination with less financial commitments. Furthermore, the economics of scale that is generated from the existing process will be enhanced as the production level increases and the exporting process do not affect the human resource planning, enterprise resource planning and similar functions. As the current structure of the company is not affected by the export, its impact on the organization level is minimal. In addition exporting benefits the company not to transfer the know-how to the new market environment (Root, 1994).

Although exporting has various advantages, there also some disadvantages which makes export more challenging and complicated. The export process varies from country to country as different country has its own export barriers to be considered. Some countries may impose high import tariffs to protect their domestic market and this intern leads to have a higher selling price on certain imported items in the overseas market and further reduce the competitiveness of the company's product in the new market. Furthermore, the nature of the product by itself may cause a problem. For instance, products related to nuclear energy and weapons, may not be exported freely as they may be prohibited for the sake of national security of the country and special permit from the government may be required. It is common that if the company is not able to handle the export activity by itself, external parties are involved to support the export activity of the company in a new business environment and such activities need to be coordinated properly. Furthermore, if the company is operating in a new business market without having its own sales or support office, problems in relation to service in customer support is highly challenging due to

the geographic gap between the parent company and the actual market setups. The currency is also another risky area in the export business. The appreciation and depreciation of currencies in different market environment will diminish the profitability of the company (Root, 1994).

3.3.2 Licensing

The other approach of entering a new market is through licensing. Licensing is a way of entering to new market based on an agreement between the licensor and the licensee using an international agreement, The licensor gives the right to manufacture products, along with related intellectual property rights, for an agreed period of time for a company in certain country and receive a royalty payment or a percentage of total sales in turn will be paid. The important aspect of the licensing is that companies can enter to a new market without investing too much as the licensee is held responsible for every activity from manufacturing, marketing and customer service in the new business environment. The licensor company gain income from the activity of the foreign company as the know-how is given for the production of the products. This approach is effective in the sense that the risk involved for the company is minimal as the same time the company may not be expected to invest lots of capital in a new market. Companies which are knowledge and know-how driven, expanding their business to a new market environment through licensing is a good approach (Hollensen, 2011).

The disadvantages which are associated with the licensing relate to the income level that will be generate from the license agreement in comparison to other means of entry option is minimal. Furthermore, the quality standards in correspondence to the licensee plays a great role. If the licensee produces a poor quality product, the image of the product in the market will be in danger. In addition, the licensee may turn to be a competitor for the licensor if a clear limitations on the contract is not made. The know-how also stays with the company after the contract terminates and in the long run the company may develop such similar products and reduce the competitiveness of the licensor. Having such issues in to account giving the license for companies that can be trust worthy help to minimize the risk involve in such issues (Kotler & Keller, 2012).

3.3.3 Franchising

The approach of franchising resembles with licensing agreement. The contractual agreement between the franchisor and the franchisee provide the right to use trademarks and products to the franchisee. The franchising agreement differ from licensing is that the franchising is based on border field, the right to use the franchisee's name is not included, however the franchisor provides a centralized marketing activities. Usually the time horizon on franchising agreement is longer or even unrestricted, due to the fact that the aim of the franchising agreement is to create a long lasting re-

relationship that will bring a mutual benefit for the contracting parties (Hollensen, 2011).

One of the advantage of the franchising is that the franchisee is responsible to run and control the business. As the process is standardized, the quality level will also be of the same standard. This is an inexpensive approach to expand the business to new market environments as the franchisee pays a huge amount for the centralized service rendered by the franchisor. It is another means of revenue for the franchisor out of the operation. Furthermore such approach can be helpful in circumstances where by export or foreign direct investment is restricted by countries and the restriction do not include capital transfer.

The franchising approach also has a disadvantage in relation to adhering to the quality standards set by the parent company and leads to harm the image of the franchisor. It is advisable for the franchisor to be aware not to share the centralized processes in relation to brand management, marketing, strategic planning as it bear the risk of creating a competitor in the same field of business environment in the future settings. Such approach may not be applicable in certain areas and also considered as another disadvantage (Hollensen, 2012).

3.3.4 Joint Ventures and Partnership

A joint venture is another means of foreign market entry mode in which two or more companies which have a desire to combine their knowledge and resources to form a new legal entity which is owned by a single parties. This in turn brings a minimized risk of entering to new market as the risk is shared among the different owners. In addition, the risk of failure can also be minimized as the local partners involved in the business and their market knowledge plays a great role for their business success. Based on the nature of the business and the company profile, joint venture, provides high possibility of profit generation as the company which has a desire to enter to a new market provides high technology whereas the partners form the local market contribute with capital, production facilities and a market knowledge which brings the highest profit (Kotler & Keller, 2012).

Joint venture allows to use partners from the target market which enhances valuable information, knowledge and capital for the advancement of internationalization in the new market. In countries such as china, where by direct market entry is restricted, Joint venture plays a great role. However, as the company is owned by more parties, the knowledge and technology will be shared among the companies and in the long run it may cause a problem. Once the joint venture agreement is terminated each company will have a competitive advantage in knowledge and know how so that it may cause a competition among those companies which had been working together.

In the other aspect, the cooperative arrangements include research and development partnership, cross - distribution agreements, cross- licensing agreements, cross- manufacturing agreements and joint-bidding consortia. Joint venture and cooperative arrangements are being used increasingly due to the fact that they allow companies to improve communications and networking, to globalize operation and to minimize risk. Joint venture and partnership are often used to pursue an opportunity that is too complex, uneconomical or risky for a single firm to internationalize alone. Such business creations also are used when archiving and sustaining competitive advantage when an industry requires a border range of competencies and know-how than any one firm can handles (David,F. David,F., 2015).

3.3.5 Foreign Direct Investment (FDI)

Foreign direct investment is one the most risky approach of internationalization. As a strategy a higher commitment is required from the company point of view than other means of entry modes due to the fact that a longer period of time for the planning phase before implementing FDI is highly required. Starting up the foreign direct investment also requires lots of procedure in comparison to other mean of entry modes. The company needs to handle different issues like the rules and regulation in the target market for better success. One of the main problem in the implementing of the FDI relates to the financial plan which deals with uncertainties and perceived losses that might occur during the first phase of the projects. Although there might be problems, FDI is one of the accepted and practiced approach of internationalization of business to new business environment as it offers the availability of full control of the operation on the target market. Furthermore, the service provided for the customers of moderate and it allows the minimization of transportation cost as a local suppliers are highly used. It is also important to adopt a local country labelling due to image reason such as for US market, made in USA (Kotler & Keller, 2012).

Cavusgil & Ghauri (1990), states that direct investment will bring about a better marketing advantage for example easier adaptation of products to local preferences and purchasing power. The resources devoted to marketing activity usually increases, as the manufacturer has more to lose from market failure than with direct exporting or licensing. Though direct investment requires relatively more capital, management and other company resources, this in turn brings more risk from political point of view. They further states that it is advisable for companies to gain experience from the target market through either approach such as exporting before implementing the direct investment. Such investment projects need to be evaluated from different contexts such as political, legal, social, economic and cultural environment in detail.

The other approach of FDI is an acquisition of a local company where by the purchasing company will get an instant access to the target country. This approach has an advantage with the sense that there will be an existing customers for the company and furthermore the market knowledge is

much more effective than other means of entry modes. As the company acquire the entire organization, the working forces including the management teams are continue to work, the product offering can be modified according to the needs and requirement of the acquiring company or switching from the already existing products to new products of the company or adding new product lines which can be suitable for the target market. One of the problem in relation to acquisition of a company relates to the integration of the new company in the existing company structure, the cultural difference among the two companies might hinder the smooth operation of the existing company performance. The question of power and autonomy also another challenging factor with this approach weather to leave the local managers in power or putting the company managers in key position is a critical issue for a better outcome (Hollenson, 2011).

Investing in the Greenfield also another approach of foreign direct investment in a foreign market by creating facilities such as factories and services in the target market. Based on the nature of investment the foreign company intends to invest, the government of the target market provides with incentives such as free land, tax reliefs and subsidies to support such an entry strategy to the new market environment. This approach has an advantage as the management and marketing activities are fully controlled by the company (Burca, 2004).

3.3.6 Contract Manufacturing

Contract manufacturing is an approach of market entry modes that lies between licensing and investment participation. In the implementation of a contract manufacturing, a host company gets a product or manufacturing process from another source which can base either in the local or foreign market. The product further marketed locally or exported to the international market. In comparison to foreign direct investment, contract manufacturing requires a small commitment in financial and management resources. It helps to quickly enter to a foreign market and also avoids ownership problem. Such approach is highly attractive in situations when the target market is small enough for investment entry, and entering through export is costly (Cavusgil & Ghauri, 1990).

3.3.7 Turnkey Projects

This is another form of business strategy to enter to a new market that might be applicable for certain areas. Those companies with high technological know-how need to consider such strategy in order to penetrate those markets with different restrictions for foreign business in certain fields.

Companies which have a specialization on design, construction, and start-up of turnkey projects are commonly involved in such activities. In a turnkey projects an agreement to handle every detail of the projects for the

foreign client will be made. The agreement usually includes the training of operational personnel and at the fulfilment of all the required agreed tasks the contractor will deliver the “Key” to the client in which the plant is ready to operation and the idea of turnkey is implemented this way. This is another approach of exporting technology to other countries. Such arrangements are commonly applied in chemical, pharmaceutical, metal refining, and petroleum refining where by all associate with complex and expensive technology driven outputs (Charles, W.L. Hill, 2009).

The nature of the projects and their associated huge size differentiate them from other form of international participation. Most of such projects are very huge and termed as “mega” which involves hundreds of millions of dollars. As the financial commitment requirements are very big, only limited number of companies are able to participate in such internationalization activities (Cavusgil & Ghauri, 1990).

3.3.8 Subsidiary Company

The last market entry mode that will be discussed in this thesis is using a subsidiary company as a market entry mode. A subsidiary company is referred as “a company that is partly or completely owned by another company that holds a controlling interest in the subsidiary company. If a parent company owns a foreign subsidiary, the company under which the subsidiary is incorporated must follow the laws of the country where the subsidiary operates, and the parent company still carries the foreign subsidiary's financials on its consolidated financial statements. For the purposes of liability, taxation and regulation, subsidiaries are distinct legal entities” (Investopedia).

Having a subsidiary as a market entry mode, multinational companies can further strengthen their international expansion by presenting themselves in the actual market environment and it will allow them to control most of the activities by themselves.

The subsidiary company plays a great role for the success of multinational companies. This companies face both external as well as intra MNC competition and further can develop to independent units which can engage in different business areas in their specific market environment (Birkinshaw, Hood & Young, 2005).

4 METHODOLOGY CHOICES

The methodological approach for this thesis were both quantitative and qualitative methods. By applying the two methods, information about the market and the demand for the products in the target market were assessed.

The company was intending to enter to the target market with automotive refinish solutions. The products focused for the market were the sanding and polishing machines, the paper based abrasives and natural based abrasives.

The main focus customers for the company products primarily were body shops which are performing after sales service in different levels and following that automotive manufacturers, wood sector and the construction sector will be targeted. Companies which were engaging in related business were a potential importers for the company products. Different information which was required and important to the company entry activity to Ethiopian market were assessed in detailed.

4.1 Quantitative study

Quantitative research method generally related with the positivism approach that is highly structured and applicable for predetermined data collection techniques. Quantitative research often associated with a deductive approach, when the target is on using data to test theory. It also incorporates an inductive approach where the data are applied for the development of theory (Sunders, Lewis & Thornhill, 2012).

Quantitative research method is characterized by its importance to examine relationship between variables that can be measured numerically and analysed using graphs and different statistical techniques. It also incorporates control to the validity of the data. As the data's are collected in a standard approach, they are understandable in the same way (Sunders et al, 2012).

4.1.1 Using secondary data

Secondary data refer to information which has already been collected for some other purpose which can be in the form of raw data or published summaries. This gathered data sources can be further analysed to get supporting information or different knowledge, interpretations or conclusions (Sunders et al, 2012). Recently with the advancement of technology, the availability of useful secondary data is increasing and its applicability to find out answers for the research questions is increasing.

The majority of organizations collect and store different set of data's to support their operation. Government departments also undertake surveys and publish official statistics for the public and researchers use the out-

come to investigate and analyse different phenomena's (Sunders et al, 2012).

Secondary data may include both quantitative which is numeric and qualitative a non-numeric data which can be applied both on descriptive and explanatory research. "The secondary data that can be analysed further can be a raw data, where there has been little if any processing, or compiled data that have received some form of selection or summarising" (Sunders et al, 2012).

The reliability and validity of the secondary data highly depend on the source of the information. Source data from large well known organization and survey data's from government organizations are highly likely to be reliable (Sunders et al, 2012).

In this research, the source of the secondary data was the government import data base. The five years import data from 2010 to 2014 of the selected products were filtered based on the products HS Code (Harmonized System Code) and summarized to get the desired research objectives. The products availability in the country, the source of the products, the demand of the products in the market and total volume that the country imports and similar important analysis were made. The gathered data was a row data which was compiled to record the import data of the items in monthly bases. The researcher extracted the required data from the data base in yearly bases and further analysed based on the research objectives and summarized the findings to support and gave insight for the company market entry process.

4.2 Qualitative Study

Qualitative study method is associated with an interpretive philosophy as it is subjective and the researcher needs to make constructed meanings for the activity which are being studied. Such type of researches are also associated with naturalistic as the researchers are involving in a natural settings or research contexts to make a strong relationship and trust to develop in-depth understanding (Sunders et al ,2012).

Qualitative research is related to the study of the participants' meanings and the relationships among them, in order to develop a conceptual framework a variety of data collection techniques and analysis procedures are applicable. As the data collection is not standardized questions and procedures might change and emerge while undertaking the research process which is both interactive and naturalistic. " The success of the researcher's role is dependent not only on gaining physical access to participants but also balding rapport and demonstrating sensitivity to gain cognitive access to their data" (Sunders et al ,2012).

4.2.1 Collecting primary data using interviews

The research interview is considered as a purposeful conversation between two or more people, which require the interviewer to make a rapport, ask precise and clear questions in which the interviewee is willing to reply and pay attention to the questions. Basically it is all about asking question carefully and listening attentively to explore the answers further. Using interviews help to gather valid and reliable data which are relevant to the research objectives (Sunders et al, 2012).

The research interview is a general term that can be applied in different ways. The nature of the interview need to be consistent with the research question and objectives, the purpose of the research and the research strategy that the researcher adopts. The scope of the interview can be of structured, semi-structured, in-depth or group interviews.

In this research a semi- structured interview approach was applied in order to find out the desired objectives. In a semi- structured interview the researcher will have a list of themes and possible some key questions to be covered, although their use may vary from interviews to interviews. The order of the question may vary depending on the flow of the conversation. Furthermore, additional questions based on the response of the respondent may be included this help to get an in-depth discussion for the desired questions (Sunders et al, 2012).

According to (Sunders et al, 2012), the recommended sample size for semi structure interview ranges from 5 - 25 sample sizes. In this research a total of ten (10) interviews were made. Six (6) interviews with importers of related items, and four (4) interviews with body shops which are direct users of the products. The interview questions were designed with the interest of the company and to make the interviews with the users and importers also required by the company. The specific questions that the company need to know before entering to the market were also included in the questions. The questions were designed separately for the importers and users. The questions were made open to have more discussions and let the respondents reply freely what they want to respond. The interviews were made both on the phone and some of the respondents wish to have it in question form and sent to them with email and replied their responses and for clarification needs a phone call was made.

The selection of the respondents was made based on their interest to participate on the interview. The request was made for the potential importers and body shops which were identified as a target customers for the company and those which were willing to participate on the interview were included.

5 MARKET ENTRY TO ETHIOPIAN MARKET CASE STUDY

5.1 Ethiopian Business Operating Environment (PESTEL Analysis)

The PESTEL analysis is one of the most comprehensive methods for a company to get the holistic view of the country before planning to start operating. Accordingly, the analysis from the Ethiopia point of view will be discussed as follows as in Figure 5.

The PESTEL analysis has six factors which can influence the business environment of a particular target market. These six influencing factors Political, Economic, Social, Technological, Environmental and Legal aspects with Ethiopian context are:

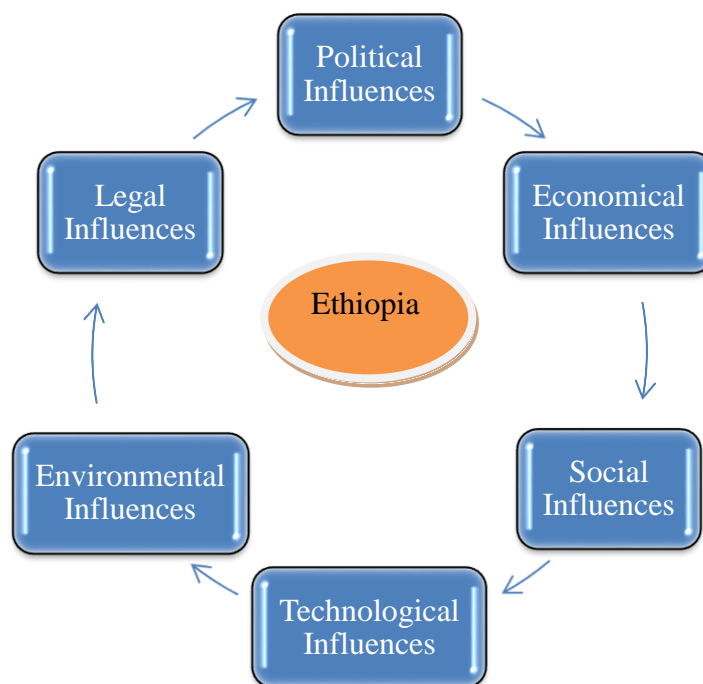


Figure 5. PESTEL Analysis in Ethiopian Context

1. **Political Influences** – The political situation of a given country plays a great role for the success of a business in a new business environment. It is very important to take in to consideration before heading to the new market.

Ethiopia is considered as one of the most stable countries in Africa. The constitution of the country has been adapted in 1995 and allows a multi political system. Elections are taking place every five years. The country has a parliamentary form of government which includes a house of people representative and the house of federation. The house of people's representative is the highest authority of the federal government. The power of the government is assumed by the political party or coalition of political parties that constitutes a majority in the

house of the peoples' representative. The executive power is vested in the Prime minister, which is elected among the members of the house of people's representative for the five years period (EIC, 2015)

The ruling party has been in power for the last 24 years. At this moment a new election was made in May 24, 2015 and the ruling party won and continue to rule the country for the next five years.

- 2. Economical influence** – The Ethiopian government had designed a five years growth and transformation plan to carry out the important strategic directions to maintain the fast growing economy in all sectors. The country has completed the five years plan and a new five year plan starting from 2015/2016 is set for the coming five years.

The Ethiopian economy was projected to grow an average rate of 11, 2 % annually with enormous efforts to made in key sector to achieve the millennium development goals. Due to the efforts made to strengthen the economy, the country ended the five years plan shows an average actual growth rate of 10.4 % on consecutive years (EIC, 2015).

The majority of the country's economy lies on agriculture, which accounts for more than 47% of the GDP and which correspond to 90% of foreign currency earning and 85 % employment (EIC, 2015). Coffee is one the country's largest export commodity. Other export items include gold, oil seeds, chat, flowers, pulses, live animals, leather and leather products, meat and meat products and fruit and vegetables. The remaining part of the GDP is shared by the service sector which accounted for 41.9% and the industry sector about 10.4% (CIA, 2014). Ethiopia in late 2014 issued its first sovereign bond, generating \$1 billion in revenue for a 10 year note. The country use Birr as a currency and it has an equivalent current value of 23.75 against Euro and 20.96 against USD.

- 3. The social influences** – The social influence has brooder concepts. In this context, the social factors include the culture and society, people, family, business protocols and the communication styles among people in the country as well as with foreigners. The general business etiquette in related to the country specific case also be discussed.

A) The people

Ethiopia is a country with multi-ethnic groups. Religion in the country has a major influence in the people life. The majority of the population belongs to the Ethiopian Orthodox Church which corresponds to 43.5% and Muslim 33.9%. The remaining people adhere to protestant 18.5%, traditional 2.7%, Catholic 0,7% and others 0,6% (CIA,2014).

The Ethiopian Orthodox church gives much emphasis for originality. The county embraces Christianity in the 4th century. The Epiphany ("Timket") is one of the largest festival of the year. The Or-

thodox Church dominates the cultural, political, and social life of the population. It was the official religion of the imperial court and the establishment unit the end of the Emperor Haile Selassie regime in 1974. The Muslim community also plays a great role in the business activity of the country (CIA, 2014).

B) The Family

In Ethiopia, the extended family remains the focus of the social system. Relatives on both side of the family as well as close friends are consider as a family members. It is common that parents live together with their kids when they get older to get proper take care. And also it is very common to live together with parents until getting married.

Individuals in the community achieve recognitions or social standings through their extended family. A family's honor may be influenced by the actions of the family members. The family responsibilities are taking the first stand in the society.

C) Business Protocol

Greetings in Ethiopian business environment are formal and courteous. Usually, the handshakes are somehow prolonged and not firm. Direct eye contact is very important when shaking hands. Greeting need not be rushed asking about the people's families, health, and work is very important to succeed in the business meeting. It is common to address the government officials as "Excellency" without mentioning their name. It is better to wait to be invited to move in to the first name basis with out their honorific titles. Usually business cards are given without rituals. However, as it is one of the cultural aspects to present and receive things in right hand or both hands, doing the same crates good first impression (CIA, 2014).

D) Communication Style

It is good approach to keep a fair distance when speaking with someone and is acceptable to have an eye contact with the person one is talking with. Avoidance of eye contact totally could be interpreted as a sign of hiding something in the country context. While talking it is good to speak in calm, soft and audible voice. Touching on the shoulder or on the arm when talking face to face with someone of the same sex is okay but touching or holding the opposite sex with some degree of intimacy and looking straight to the eye is not advisable. It will be considered as very rude if one is pointing fingers at someone or speaking in a loud and angry manner. High voice is considered a sign of anger or disappointment in Ethiopian context.

Kissing and hugging is part of the normal greetings in Ethiopia and is not, in anyway, an expression of sexual affection. It is common to see women kissing women, women kissing men, and men kissing men on the check in public including in the office. However, this does not mean Ethiopia hug and kiss a person whom they have never met before this situation will happen among people who have known before (CIL, 2009).

E) Business Meetings

The Business meetings may not be very rigid in Ethiopia. It may be common to discuss things which are not on the agenda. As creating good relationship is very important, meetings usually start with extended social pleasantries. Coffee or tea will be served before the meeting and some personal discussions might be taking place before the actual meeting.

Meetings in Ethiopia usually do not have scheduled ending time since much emphasis is given to the output of the meeting and completing it satisfactorily. The meeting will have a finalization when all the participants had said what is in their mind in relation to the meeting topic and when the senior official decide that all the issues have been discussed (MOFED, 2006). It will be advisable to allocate more time for meetings in Ethiopia as they may extend beyond the schedule.

F) Language

Ethiopia has many indigenous languages. According to the Ethnologue there are 84 languages which are registered as existing languages of the country. The new constitution of the country provides all ethnic groups the right to develop their language and establish educational system that allows students to attend their primary education with the mother tongue.

Different region of the country has its own working language and Amharic is the country official working language. However, as the secondary and university education is provided in English, English language is also a working language in most of the private companies and there will not be a problem to communicate in government offices in English too (CIA, 2014).

- 4. Technological Influence** – Technological factor also plays a great role for the success of a business. Ethiopian technological and ICT infrastructure is showing an improvement, but still there is a lot to be done. The government is trying to improve the networking and infrastructure recently. One of the problem in this area is that the telecommunication sector is monopolized by the government, so that it is not growing as expected to be. It is common to hear about networking problem in Ethiopian now and then due to infrastructure development projects. According to (CIA 2014), the total number of telephone fixed lines in

the country accounted for 820,000 and the country is found at 87 rank levels in comparison to the world. Whereas the number of mobile users is much more and there are 30.5 million mobile users in the country and the subscription by 100 people are 32 which give a rank of 42 out of the world. The internet usage also shows an improvement in the country and the number of internet users reach to 1.6 million with only 1.7% of the population coverage and the country stand 107 in the world.

5. Environmental Influence - In Ethiopia, like in other countries the concern for environmental issues are in practice. The government is putting different policies in relation to the environment protection. The Ethiopian Environment Protection Authority (EEPA) is the federal organ which is responsible for ensuring compliance with the provisions of the proclamation. The environmental issues are regulated by the Environmental Impact Assessment Proclamation (No. 299/2002) and other different environmental regulations, including directives which govern the investment environment nexus. The EEPA usually require investment projects which can potentially have a negative environmental impact to provide with the environment impact assessment (EIA) documents. The directive identifies the type of projects which needs the EIAs (MOFED, 2010).

6. Legal Influence – The Ethiopian constitution is the supreme law, which overrides all other legislation in the country. The legal system of the country is classified as civil, penal, civil procedure, penal procedure, and commercial and marine time codes. All the proclamation laws are published in the countries official gazettes called (“Negarit Gazeta”).

During justice administering, courts are directed by internationally accepted principles of justice including the laws of Ethiopia. The law practice is reserved for Ethiopians. However, foreign nationals also have the right to appear in courts as witnesses. During such cases, the foreigner is legally allowed to communicate through a court – appointed translator.

The Ethiopian commercial code of 1960 allows the legal framework for engaging in business activities in the country. The constitution, based on Article 40, provides the right for every citizen to own private property, along with acquiring, use and dispose of such property. According to the Investment Proclamation Code (769/2012), foreign investors are also allowed to own a dwelling house and other immovable property which are necessary for the investment activity (EIC, 2015).

The Ethiopian constitution also protects private properties. The investment proclamation provide with the investment guarantee against measures of expropriation and nationalization which may only occur for the interest of the public and in compliance with the requirement of law. In case such decisions are made, the government provide with an adequate compensation based on the corresponding market value of

the property and all the required payment will be paid in advance. The country is a member of multilateral investment guarantee agency that issues grantees agent's noncommercial risks for enterprises that invest in signatory countries. Furthermore, the country has concluded bilateral investment promotion and protection agreements with various countries (EIC, 2015).

5.2 Cultural dimensions between Ethiopia and Finland

The cultural comparison of the two countries will be evaluated based on the Geert Hofstede cultural dimensions to see how the culture influences the value people have at work. This model could be very useful for Mirka managers in order to relate and understand the people in Ethiopia whom they are communicating with.

As it was discussed previously, Hofstede has identified six major dimensions of national cultures that can influence the way people act at work. The comparison of the two countries cultural dimensions' is presented as follows in Figure 6.

In Figure 6, we can see that four of the dimensions measure for Ethiopian and Finland in common, the long term orientation and indulgence are not applicable for Ethiopia as of today. The highest difference between the two countries are found in the power distance and masculinity. This means that in Ethiopia the power distance is much higher than Finland, hierarchy levels are more accentuated, subordinates expects to be told what to do and have less initiative and centralization of power is popular. When it comes to the masculinity aspect it shows again Ethiopian are more masculine and Finland's are feminine. This shows that in Ethiopia the focus is more on work and the managers are expected to be decisive and assertive, the emphasis is on equity, competition and performance where as in Finland the dominant values in society are caring for others and quality of life and it is also considered as sign of success.

The other aspect is the individualism part with this aspect, Finland is highly individualistic and Ethiopia is highly collectivism. This shows that Ethiopian manifest in a close long – term commitment to the member group which can be a family, extended family, or extended relationship. Loyalty is one of the fundamentals and exist a strong relationship where everyone takes responsibility for fellow members in the group. People prefer team work to individual tasks, so that a manger is the management of the groups. And also the decision making is highly influenced by the team work so that it is expected to get long process for a particular activity to get done. Both countries has got almost similar result on Uncertainty avoidance aspect they seems both are able to manage uncertainties and cope up with it equally. The long term orientation and indulgence is not studied for Ethiopia so far.

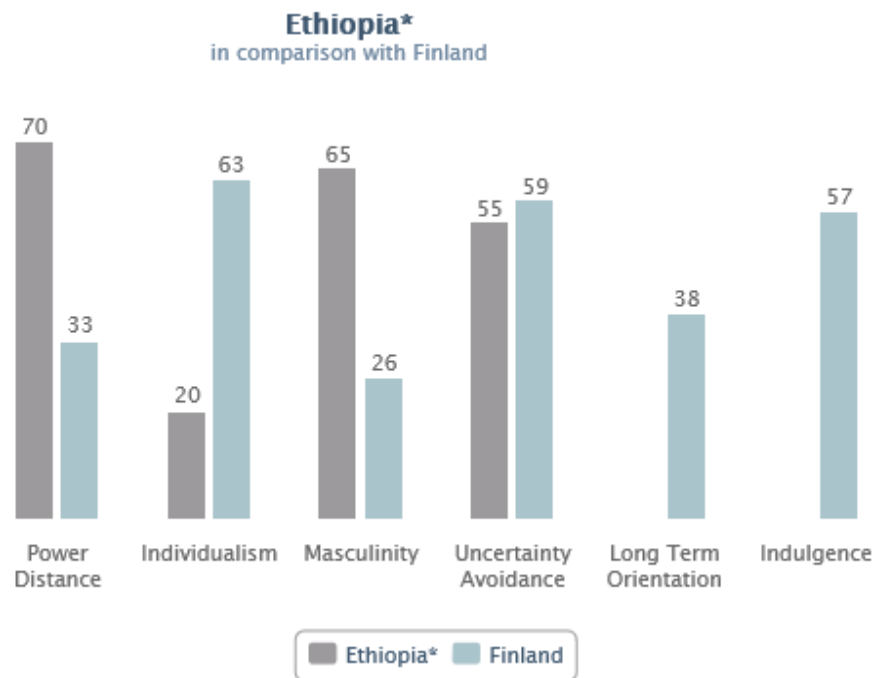


Figure 6. Cultural dimensions between Ethiopia and Finland

5.3 Business opportunities and challenges in Ethiopia

In order to ensure the achievement of economic progress, the Ethiopian government provides specific incentives and guidance and regulation concerning foreign investments. The country has different approaches and strategies to regulate the foreign direct investment. For instance, the country set up some restrictions for foreign investors as in Appendix 8. However, the manufacturing sector is fully opened for foreign investors without any restrictions all the possible investment opportunities for foreign investors will be found in the Appendix 9.

5.3.1 Business opportunities for foreign companies in Ethiopia

A) Economic and political partnerships

Ethiopia is among the member and profiteers of diverse economic and political partnerships. The country oriented the manufacturing industries benefit from the “AGOA”, which was enacted by the USA and other from the European Union which states “Everything-But-Arms” agreement. These two agreements provides a possibility of exporting much products to the USA and Europe markets without paying the import duties or quotas restrictions. Further to this two agreements, most of the products produced in Ethiopia underlines the United States of America’s “Generalized system of preferences”. This allows to have lower tariffs for products in comparison to other countries (EIA, 2015). In relation to the topic of foreign com-

pany's protection, a government assurance against exportation is in practice (World Bank, 2012).

The government of Ethiopia has economic partnership agreement with countries from Asia, Europe, Africa, South and North America that would be advantageous for the involvement of foreign manufacturing investors as they benefit from the economic agreements (EIA, 2015). Among the agreements, the Bilateral Investment Treaties (BITs) with 30 countries and Double Taxation Avoidance Treaties (DTTs) with 12 countries can be mentioned. Furthermore, Ethiopia is currently on the process to gain the membership of world trade organization (WTO) which will further strengthen the trade relations with many countries. Details about the treaties can be found in Appendix 11.

B). Population size and labor cost

Ethiopia is the second largest populated country in Africa. Furthermore the country annual population growth rate is expected to be 2, 89 percent. This would further results to have more people in the country in coming few years (CIA, 2014). Apart from large number of population in the country, the amount of potential labour is higher. The country has a cheap labour force that makes an interesting foreign company's destination in the manufacturing sector. The labour intensive manufacturing business will benefit and gain a competitive advantage over those markets where labour cost is higher. The country is expected to have 45, 65 million potential labour force in total and puts in the highest position (African development bank, 2011). Furthermore, the country has a very young population. The median age of the population is below 20 years (CIA, 2014).

C). Tax incentives

The other approach to attract foreign companies to Ethiopia is the arrangement of tax incentives for the manufacturing sectors. Those foreign companies which are investing in Ethiopia can benefit from the exemption of tax payment for specified years. In Ethiopia, foreign companies are entitled to have a tax exemption for three years and income tax benefits also set up for foreign manufacturers which export products and services, as they for example gain an additional exemption for two years. Furthermore, there is no export tax existing and for goods and raw materials purchased for the production of export goods are also imported duty free details is found in the Appendix 10. However, there is an export tax on semi-processed hides and skin from Ethiopia at the moment (EIC, 2015).

D). Industrial Zones and Export Processing Zones

The establishment of the industrial and export processing zones is one of the government plan in the country Growth and Transformation Plan (GTP). The government is currently establishing the first national governmental operated industrial zone which is located in Bole area and called Bole Lemi industrial zone. The other industry zone Eastern Industry zone has been established five years ago which is owned by a Chinese

company (Abebe, 2013). According to the Ethiopian Ministry of Industry, in this private owned industry zone, only Chinese companies which are specializing in different segments such as textile, apparel, building materials, mechanical manufacturing and agricultural processing are allowed to operate. In this industry zone one of the largest Chinese's shoe manufacturing company called Huajian is located and the company produces more than 2000 pairs of shoes each day for the international market (World Bank, 2012).

In the government owned Industrial zone, Bole Lemi is established with the intention of focusing on the export business, different companies already rented the place from different part of the world. The companies can benefit from the cheap renting rate of one dollar per square meter. The government is spending a lot on the industry zone and further expansion is still planned. In addition the country has a plan to set up several industry zone in its GTP after the operating for the first one (Abebe, 2013).

5.3.2 Business challenges for foreign companies in Ethiopia

A). Investment regulations

The Ethiopian government has different regulations in relation to investments but there is no minimum threshold of share on company in joint venture. However, there is a capital requirements that exist for foreign investors. Accordingly, to establish a joint venture in Ethiopia at least a minimum requirement is to invest 150,000 USD and if the investment is without a joint venture, the amount will expected to be 200,000 USD (EIC, 2015 & Federal Negarit Gazetta, 2012). The minimum entry capital required of a foreign investor investing in areas of architectural, engineering works or related technical consultancy services, technical testing and analysis and publishing work is US\$ 100,000 where the ownership is fully foreign owned. Where the investment is to be made jointly with domestic partner(s) the minimum capital required for the foreign investor is US\$ 50,000 (EIC, 2015). Furthermore, the high administrative task is considered as a burden for foreign investors investing in Ethiopia (World Bank, 2012).

B). Corruption and Criminality

Ethiopia is considered as a politically stable country in the content of Africa with a low rate of criminality and possess a high security level. The country is located in the horn of Africa, and also considered as a least uncorrupt countries among the sub Sharan African countries (EIC, 2015). As this information is provided by the Ethiopian Investment Commission which is a government owned institution, the actual country corruption index from the transparency international point of view which measure the corruption perception and corruption index of 175 countries and a score out of 100 for countries, Ethiopia, According to the 2014 transparency index stood 110 out of 175 countries with a corruption index of 33%. This figure is relatively smaller than among the least developed countries in-

dex. The overall corruption related issues needs improvement in the country. The government is also giving much attention for the issue and the Federal Ethics and Anti-Corruption Commission was established by law and measures against corruption activities are taking place to minimize the problem in the country.

C). Transportation costs

According to the Ethiopian Growth and Transformation plan, the country is planning to invest on the country's infrastructure and huge projects are also taking place at the moment (GTP, 2010). Having such infrastructure development is highly needed as the country is depending on the infrastructure connection with the neighbouring countries and their ports.

The country is the largest landlocked country in the world and due to the peaceful environment with the neighbouring countries access to the ocean is possible. The neighbouring countries which has a strategic partnership for the transportation include Kenya, Somalia, Djibouti and Sudan (CIA, 2014). The Ethiopian government is largely investing on infrastructure sector to solve the issues in relation to transport. As most of the countries import and export activities is taking place through the neighbouring countries, their contribution for the country economic development is significant. Furthermore, the government is working on the road and train infrastructure development projects to minimize the transportation related issues (EIC, 2015).

D). Lack of skilled workers

The other aspect which can be mentioned as a challenge could be the lack of skilled labour force that can fit in to the manufacturing sector. According to the World Bank 2015 report, the importance of developing a skilled labour force will help to support the countries plan to become a manufacturing powerhouse. Furthermore, the report states that the country did not make a significant progress in pulling labour out of agriculture in to more productive and industrial jobs and more than three-quarter of all workers are still employed in agriculture. The growth in the industrial sector is an essential part for sustainable long term growth and poverty reduction in the country. Hence, increasing the productivity level through skill development is highly required. Foreign company's may incur training and manpower development cost during the entry stage. However, in the long term, the cost of labour will get lower as the trained local personal take the key positions and this would further reduce the labour cost per item and lead to have a higher output (World Bank, 2012).

5.4 Performing market analyses

In this part, as the main concern of the company to enter to the Ethiopian market is with the automotive refinish solutions, factors in relation to the automotive sector which can support the companies market entry activity

will be analyzed to have the general picture of the market potential to the automotive refinish solutions that Mirka is aiming to export to the market.

5.4.1 Registered Vehicles in the market

The company has a need to know the number of vehicles which are found on the Ethiopian roads and the trend of the vehicle market in the country accordingly, as the number of vehicles in the country with each year trend was not gathered, a secondary data which summarizes the number of vehicles per regions until 2010 will be adapted from Addis Ababa University and own gathering of vehicles information from the Ethiopian customs' Authority data base year by year will be summarized to have the approximate number of vehicles in Ethiopian roads for the company understanding of the expected market situation in the automotive aftermarket.

From Table 2, it can be seen that the total number of vehicles which were register in the country in all regions until 2010 accounted for 306,620 vehicles. This number shows vehicles which are officially registered.

Table 2. Registered Vehicles Until 2010, Adapted from AAU, 2012

No.	Location (Addis Ababa and Region)	Total Number of Vehicles	
		Gasoline	Diesel
1	Addis Ababa	123654	68322
2	Amhara	3834	10268
3	Bneshangul Gumuz	469	334
4	Oromia	11140	17077
5	SNNPR- Debub	2888	5663
6	Tigray	1763	5515
7	ET	5631	42867
8	Dire Dawa	2386	1513
9	Somali	1153	2143
	Total	152918	153702
	Grand Total	306,620	

In order to have a complete approximate figure of the vehicles in the country, The import data of vehicles from year 2011 to August 2015 is gathered to determine the number of vehicles which are imported annually with their total import values will also be presented to see the growth of the industry.

Table 3, shows that the need for car is increasing from year to year and the industry is growing as a fastest rate. Within the last five year more than 192,000 cars have been imported to the country. The approximate summation of the vehicles in the Ethiopian road accounted for about 500,000.

Table 3. Five years vehicle import data with value own gathering (ERCA,2015)

Year	Number of Imported vehicles	Total value of the Imported Vehicles CIF in USD
2011	29,726	483,270,922
2012	52,507	616,433,617
2013	33,761	698,895,403
2014	35,794	680,457,060
2015 End of August	40,633	774,177,775
Total 2011- 2015	192,421	
Total until 2010 based on source	306,620	
Total Estimated Vehicles in Ethiopian Roads	499,041 Approximate to 500,000	
	Total Import value 2011 –August 2015	3,253,234,777
Note, The locally manufactured cars are also taken in to account in the approximation.		

The automotive sector in Ethiopia is growing as a fastest rate. As it was presented in the above tables, the demand for car is growing from year to year and importers are highly encouraged to work in the area due to a need for vehicles. The approximate number of cars in the country until the year 2010 was accounted for 306,620; however, during in recent years the number of cars in the country is growing rapidly. According to the gathered data from the year 2011 up to August 2015, about 192 421 vehicle were imported to the country which is more than half of the cars which had been until the year 2010.

Apart from the importing sector, there are different domestic as well as international companies which are engaging in car manufacturing as well as assembling. With the increasing population along with the fast economic growth in the country the demand for car is increasing from time to time which can be considered as a good opportunity for Mirka's internationalization activity to Ethiopian market. Detail contact information of the car assembling companies can be found in Appendix 3.

5.4.2 Car dealer chains

The car dealer chain in Ethiopia has a diversified approach. There are big companies which are an authorized dealers for different brands and others which are involved in different import business also imports both new and used cars to the country. As the need for car is increasing from time to time the exporters are also encouraged to engage themselves in the business. Apart from the official importing companies, other people who has a connection with the person with importing license also import different

used cars from Europe, Japan, and Middle East etc. to the market. Due to these and other factors, it will be difficult to put all importers of cars in categories. However, as the bigger market for Mirka products will be those companies which are officially dealers of various brands and those with modern after sales service facilities, the major dealers with the brands of cars they import is found in Appendix 4 as the company requires to have those information in to consideration.

5.4.3 Automotive after market

The automotive aftermarket in Ethiopia is both formal and informal in nature. There are quite many garages and service centres which are owned by individual owners and they work different types of service. Most of the service centres are providing a general service based on the need of the customer. Specialization on a specific service is not yet in practice. The automotive aftermarket focusing on the body works also can be done in any ordinary garages with less cost.

As the first target customers of the company are those service centres with a standardized equipment's and facilities, this body shops will be a potential customers for the Mirka products. The body centres which will be presented are also owned by car dealers so that they provide after sales service for their customers and they are fully equipped with modern machineries and they serve the higher and middle class customers. Those people which can afford to buy new cars will go to those high level services centres while the majority prefer to go to smaller places as they are relatively cheaper. The list of potential body shops will be found in Appendix 5.

5.4.4 Paint dealers

The company has a need to know active players in the paint business and the type of brands which are available in Ethiopian market. The paint for the car is both locally manufactured as well as imported. As there are many paint manufacturing companies in Ethiopia, most of the dealers are selling local brands. However, there are also paints which are imported to the market. Among the imported brands of paint in the market, PPG, Max-Mayer, Sherwin Williams, Sikkens, Akzonobel and Abro paint are included. As the company has a desire to strengthen the business relation with paint dealer companies to distribute its products through them, the detail information about both local paint manufacturers and importers is found in the Appendix 6.

5.4.5 Potential Distributors for Mirka

There are quite many importing companies in Ethiopia, due to a large number of importing companies in the country, the distribution networks for the products is not structured so that it will be difficult to identify the

potential distributors easily. Using the Addis Ababa chamber of commerce import directories companies were filtered based on their sector and those companies which are engaging in related import business were contacted and an email was sent out for about 200 importing companies to introduce Mirka and its aim to look for potential distributors in Ethiopian market for its products. Based on the response of the companies and their reputations and experience in related business in the country and using the researcher previous experience in the country business environment and the company's capacity and expertise, the researcher identified and recommended companies which can be a potential distributors of Mirka products if they are convinced and ready to import the products. The communication with the companies is already started and they are processing and studying the market to proceed to the business. Some samples products has been sent for one company and the products are at the introductory stage at the moment. As mentioned in the country introduction part such decisions are not made so easily so that it needs time to make a real business relationship. The overall response shows that the companies have an interest to work with Mirka. The detail information about the recommended potential companies and address will be found in the Appendix 7.

5.5 Products overview in the Ethiopian market

The products in Ethiopian market are imported from different part of the world. In order to see the general picture of the targeted products in Ethiopian market, the five years import data will be analysed based on product types and country of origin with the annual demand of the products in Ethiopian market. In addition the annual total CIF (Cost Insurance and Freight) value also will be presented for each product types. The overall analysis will help to see which types of products are actually in the market and the possible market share for the products and annual demand for products including the source of origin to adjust the company strategy for the target market and also enable to project the demand of the products in the future.

The data's were adapted from the Ethiopian Customs and Revenue Authority monthly import information about products in each HS code. Information about the selected products were filtered annually and summarized for the intended purpose and the required analysis to find out the general information about products overviews was made. The five years data starting from 2010 up to 2014 were analysed to summarize the important information required for the company's market entry process to the Ethiopian market. The finding of the results will be presented using graphs and an explanation will be made.

5.5.1 Abrasives paper products overview

Abrasives HS code 680520000 Paper products

The import related cost of the product in Ethiopia is as follows,

- Natural or artificial abrasive powder/ grain, on paper /paper board
 - Sur tax 10%
 - Duty tax 10%
 - VAT 15%
 - Withholding tax 3%
- (Source, ERCA, 2015)

According to the five years import data from 2010 to 2014 of the product, Ethiopian importers were importing from different part of the world. In order to see the origin of the products, the country of origin is considered for the evaluation of source of exporting countries and the estimated demand on the countries market.

As a source of origin for a paper based abrasives China, Germany, Italy, India, Korea, Turkey, UK, UAE, Portugal, France, Taiwan, Sweden, Israel, Finland, Japan, Pakistan, Romania, Sudan, Australia, Netherlands, USA, Switzerland, Canada, Kenya, Egypt, Mexico, South Africa, Ukraine, Czech Republic, Spain, Denmark, Singapore, and Belgium were mentioned.

From the Figure 7, it can be clearly seen that china is dominating the market with 63.31%, and with 30, 59% Germany is following, only 2.5% is taken by Italy and the remaining about 4% is taken by the other 29 countries which are mentioned as a country of origin.

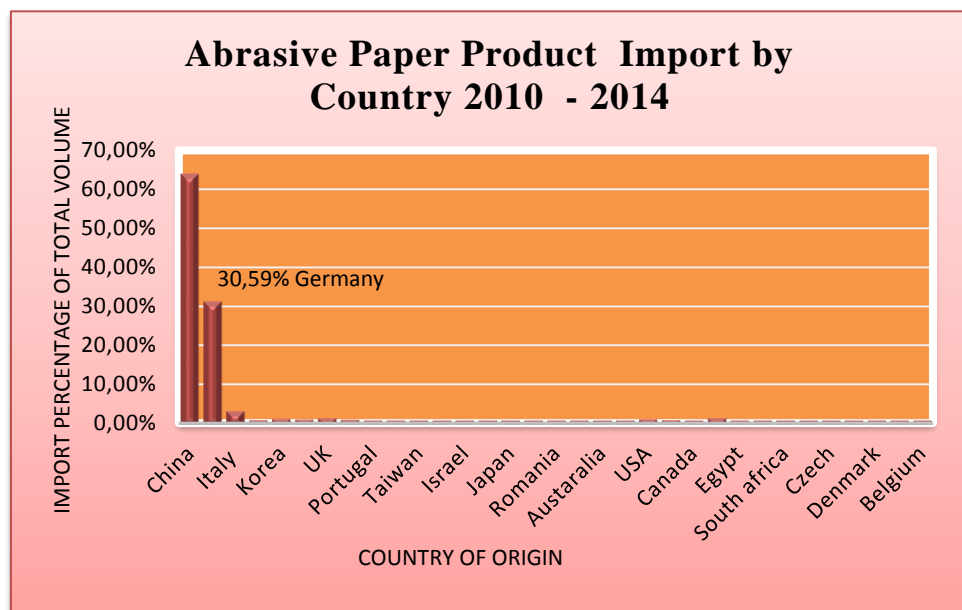


Figure 7. Abrasives paper product import by country of origin 2010 to 2014

The demand for paper based abrasives is increasing from year to year. Figure 8 shows that, in the year 2010, 11% of the total five years import volume was imported. In the year 2011 the amount reduced to 9% and the demand starts to increase in the consecutive years and reach to 37% in the year 2014. It can be possible to see the increasing demand for paper based abrasives in the coming years so that there will be a potential market for Mirka products.

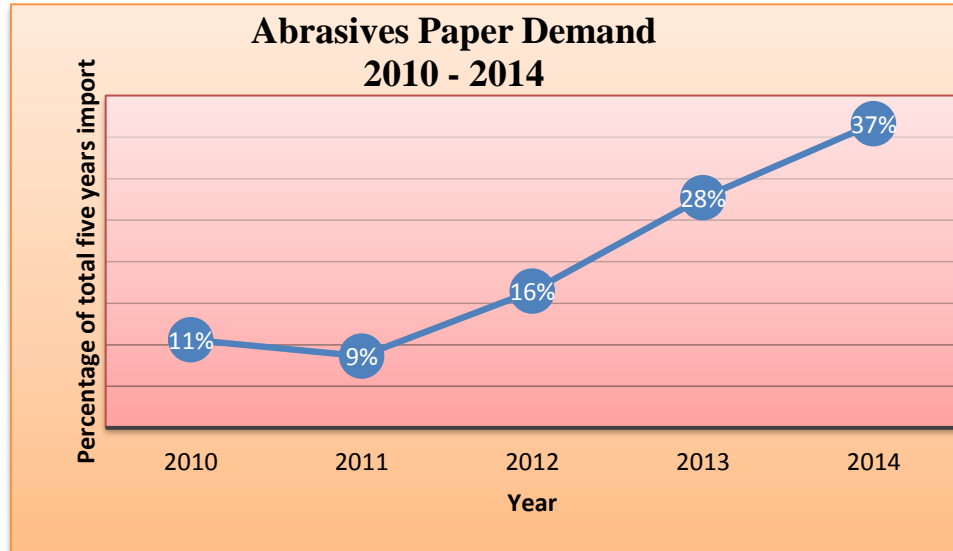


Figure 8. Abrasive paper type demand for five years

In order to see the actual importing volume, it will be presented in Figure 9. The actual annual import volume of paper based abrasives shows a progressive increase. In the year 2010, 97682,48 kg was imported and the demand is increasing and in 2014, 337447,4 kg of Paper based abrasives were imported to the country which is more than three times what it was four years before.

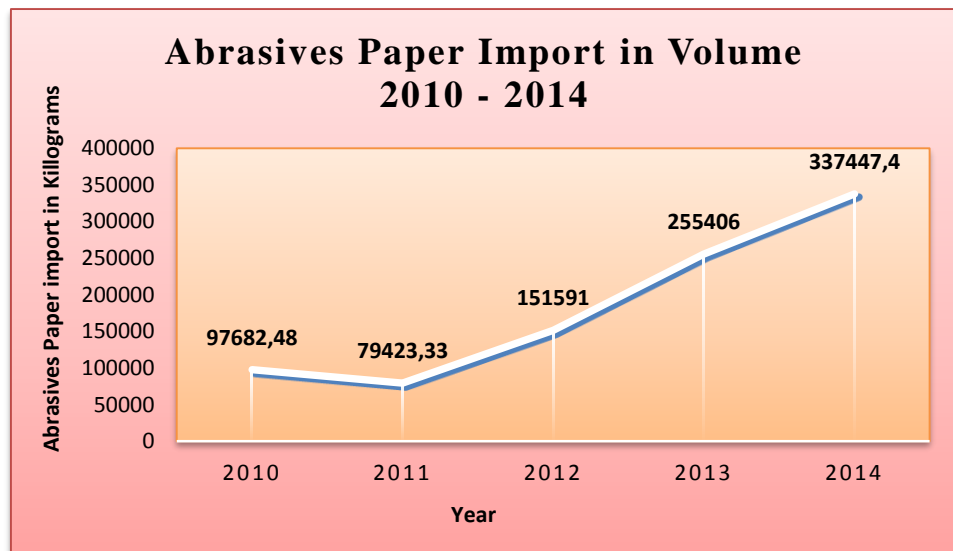


Figure 9. Abrasive paper product five years import volume

Furthermore, in order to see the actual market potential in terms of purchase value to determine the relative market share and to predict sales volume in the country, the total CIF value of the five years import data will be presented in Figure,10. Accordingly, the Ethiopian market had a huge potential for paper based abrasives with a total value of 2,838,711,64 UDS in five years and the value increases from year to year and reached to 903,368,52 UDS in the year 2014.

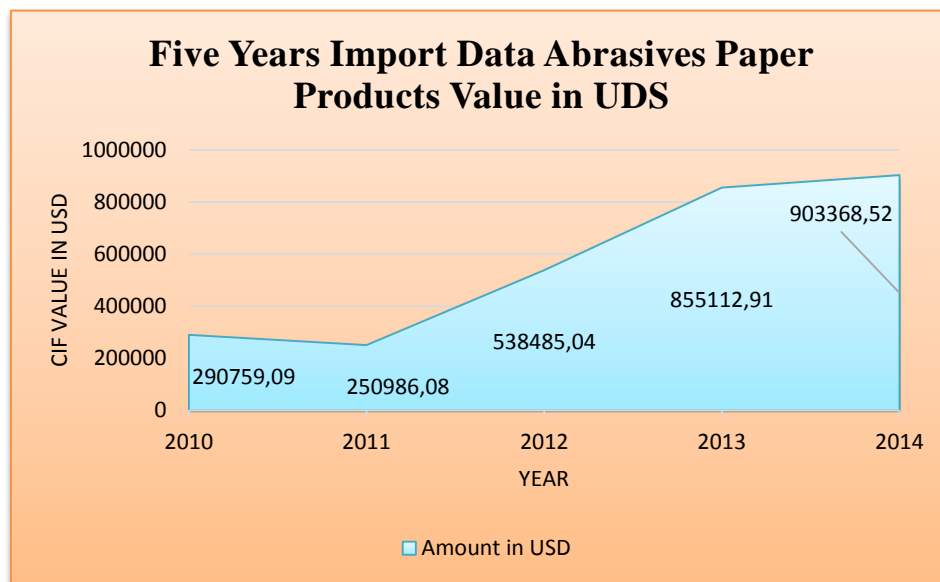


Figure 10. Paper based Abrasive five years import by value in USD

5.5.2 Abrasives Net products overview

Abrasives HS code 68053000 Net product

The import related cost of the product in Ethiopia is as follows,

- Natural or artificial abrasive powder/ grain, on a base of materials
 - Sur tax 10%
 - Duty tax 10%
 - VAT 15%
 - Withholding tax 3%
- (Source, ERCA, 2015)

The net product type abrasives are also imported from different part of the world. According the five years import data, the following countries were stated as county of origin for imported items. China, Italy, France, Korea, Thailand, Turkey, UK, UAE, Canada, Germany, Mexico, Switzerland, Egypt, India, Israel, Netherlands, Pakistan, Taiwan, USA, Japan, Spain, and Ukraine. Accordingly, the product overview will be analyses as follows.

From Figure 11, it can be clearly seen that the majority of the net abrasives products are imported from China it accounted for 71.9% of the total

amount which were imported in the past five years. Italy with 13.6% and Thailand with 9.3% take the second and third market share whereas all the other 18 countries are sharing the remaining about 5% of the market share with insignificant amounts.

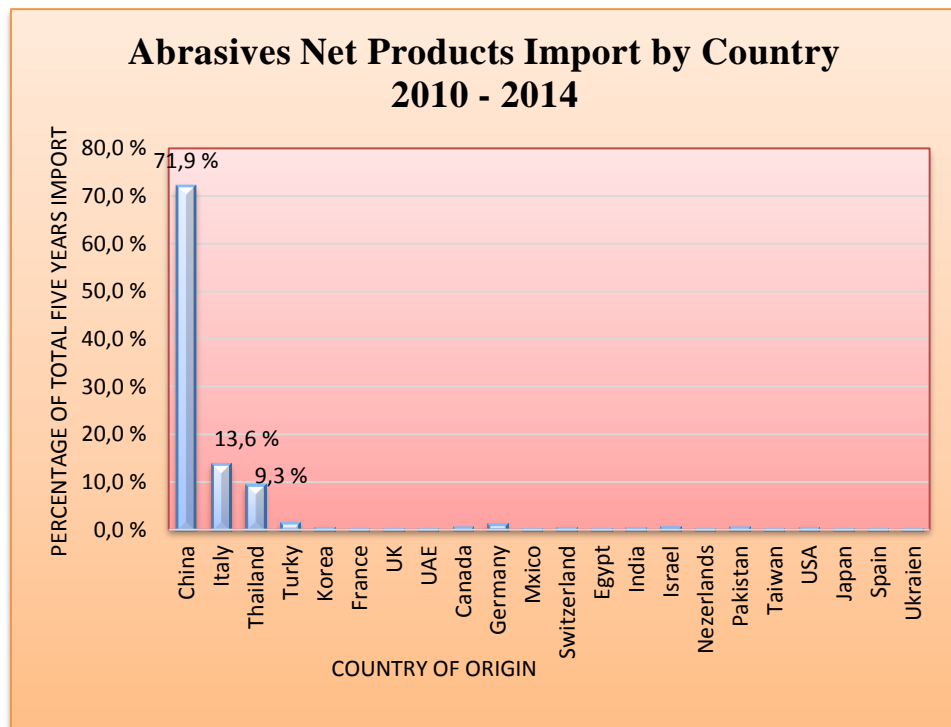


Figure 11. Abrasives Net products five years import by country of origin

The demand for net product abrasives in the Figure 12, shows that 16% of the total amount were imported during the year 2010 and the demand get slower for two consecutive years with 6% and 5% respectively, however, in the year 2013, the demand for net product abrasives shoot to 60% of the import volume and reduced to 12% in the year 2014. The demand for net product abrasives is fluctuating from year to year.



Figure 12. Abrasives Net Products five years demand

In order to see the volume of import of net products per year, Figure 13 will be presented. Accordingly it shows that the total volume of import in the year 2010 was 34716 kg of net product abrasives the amount showed a slight reduction in volume for two years and it climbed up to 131246 kg in the year 2013 and gets declined in the following year to 27077 kg.

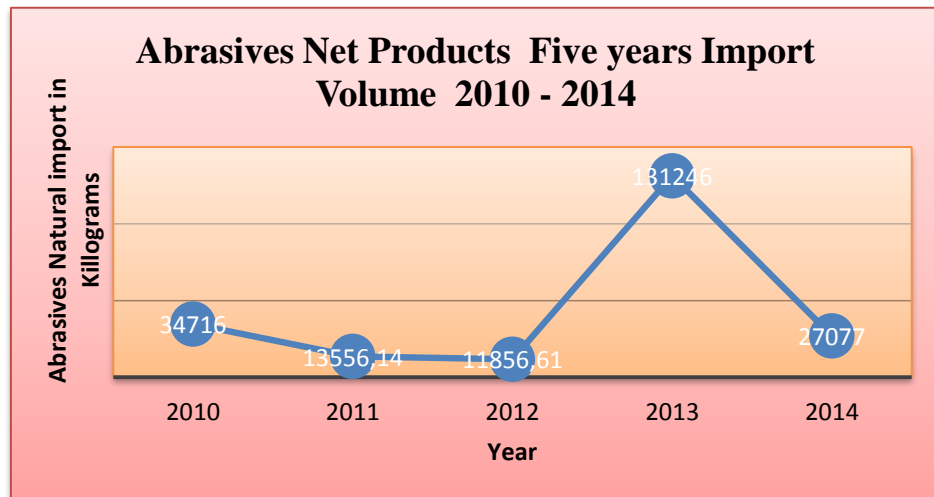


Figure 13. Abrasives Net Products five years import by volume

In order to see the total value of the net products import value with in the five year's period and the actual amount in each year will be presented in Figure 14 with CIF values in USD. This will help to project the estimated revenue that can be generated from the market with an estimated market share. Accordingly, during the period of five years a total value of 609,706,79 USD was imported to the country. The majority of the value was imported in the year 2013 amounted to 194,736,66 USD. The overall outlook shows that the potential for net product abrasives still there, but in comparison to the paper based abrasives the amount is lesser.

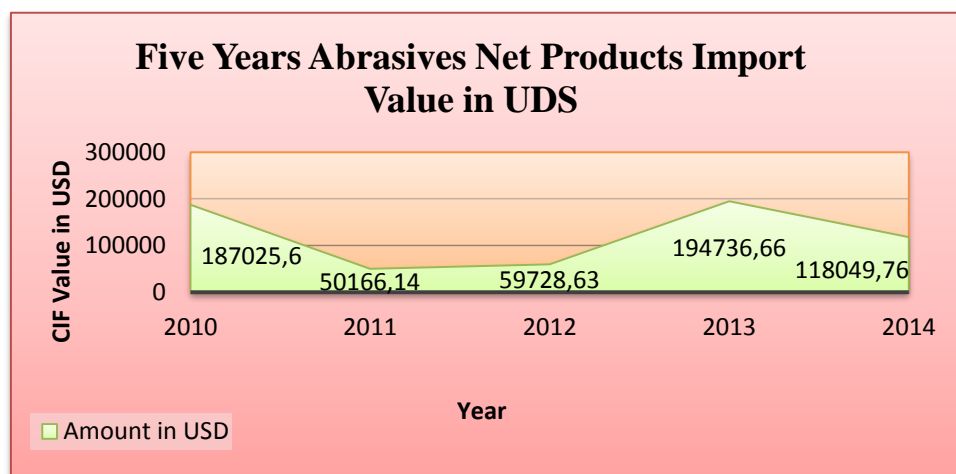


Figure 14 Five Years Net products import value in US

5.5.3 Sanding, grinding and polishing machines overview

Grinding, sanding or polishing HS code 84659300

The import related cost of the product in Ethiopia is as follows

- Grinding, sanding or polishing machines for working wood, metal.
 - Sur tax 10%
 - Duty tax 10%
 - VAT 15%
 - Withholding tax 3%
- (Source, ERCA, 2015)

The sanding, grinding and polishing machines are included under the same HS code. According to the five years import data, Ethiopian companies are importing the items from different part of the world. China, Italy, Japan, Greece, India, Czech, Malaysia, Turkey, UK, USA, Australia, Finland, Jordan, Switzerland, Netherlands, UAE, Sweden, South Africa, Thailand, Bulgaria, Pakistan, Taiwan, Germany, Korea, Spain, Ukraine, Vietnam and Canada are mentioned as country of origin.

From the Figure 15, it can be seen that the majority of the sanding machines are imported from China it accounted for 53.4% of the total volume of the five years' data. Italy with 30.5% takes the second position and about 14% of import is taken by Japan in the third position. The remaining 3% is divided among twenty five countries with insignificant volumes. Finland's share is 0.04% with 11 machines which was imported in 2011.

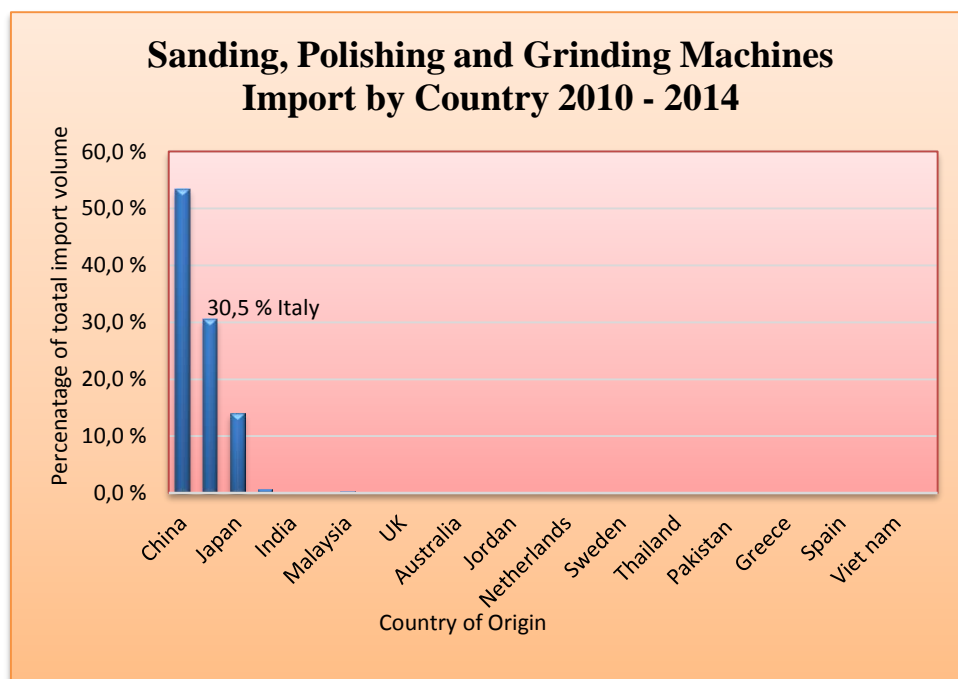


Figure 15. Sanding, Polishing and Grinding machines five years import by country

The demand for the sanding, polishing and grinding machines in Figure 16, shows that 35% of the total five years import were made in 2010. The demand drops to a very low point to 1% in the year 2011 and started to show a progressive demand increases for the remaining consecutive years and it reached to 29% in the year 2014.

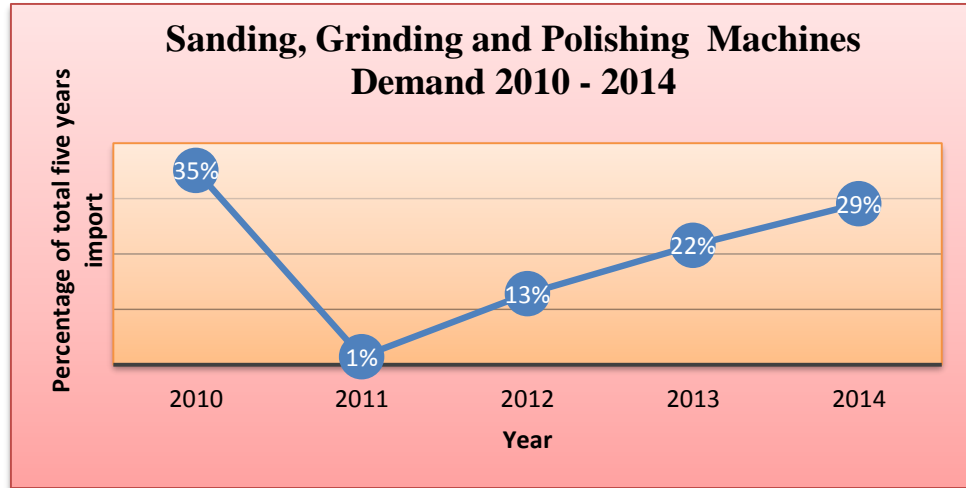


Figure 16. Sanding, Grinding and Polishing Machines annual demand

In order to see the volume increases from year to year Figure 17 will be presented. It is clearly seen that the volume of sanding, polishing and grinding machines import volume increases from year to year. The highest volume was recorded in the 2010 with 9344 units of machines and it reduced to 386 units in 2011 with a low point. Starting from year 2012 the import volume start to raise and reached to 7740 units in 2014.

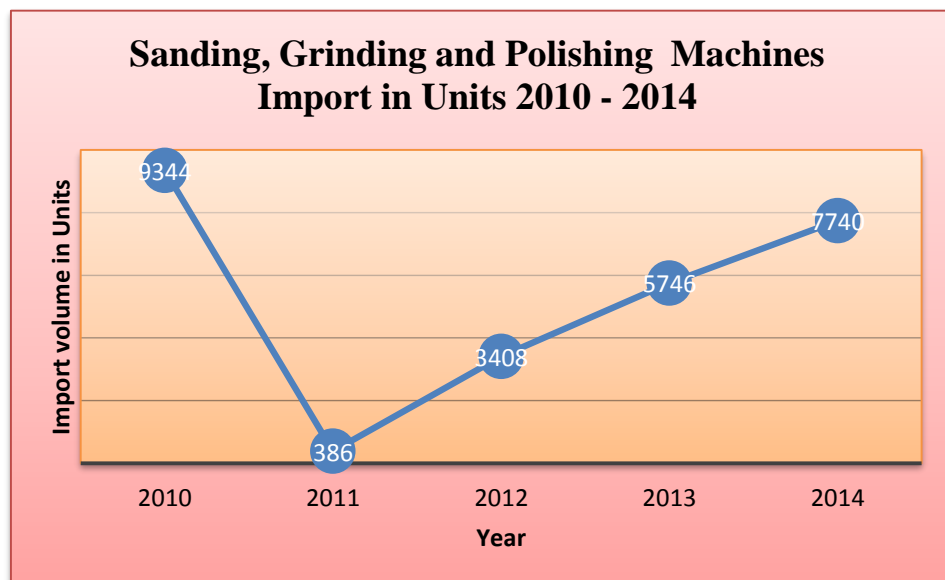


Figure 17. Sanding, Grinding and Polishing machines five years import in units

Furthermore, in order to evaluate the total amount of import in value during the five years period and the amount annually Figure 18 will be pre-

sented. Accordingly, it can be seen that the annual CIF value showed an increase until 2013 and drops in 2014 in value but the units of import was increased as it was discussed in the above graph. The decrease in value may associate to the price of the import items. The less priced items would result to have a lower import value. During the five years period a total value of 1,679,850.12 USD was imported to the country. Here again there will be a potential market share for Mirka products.

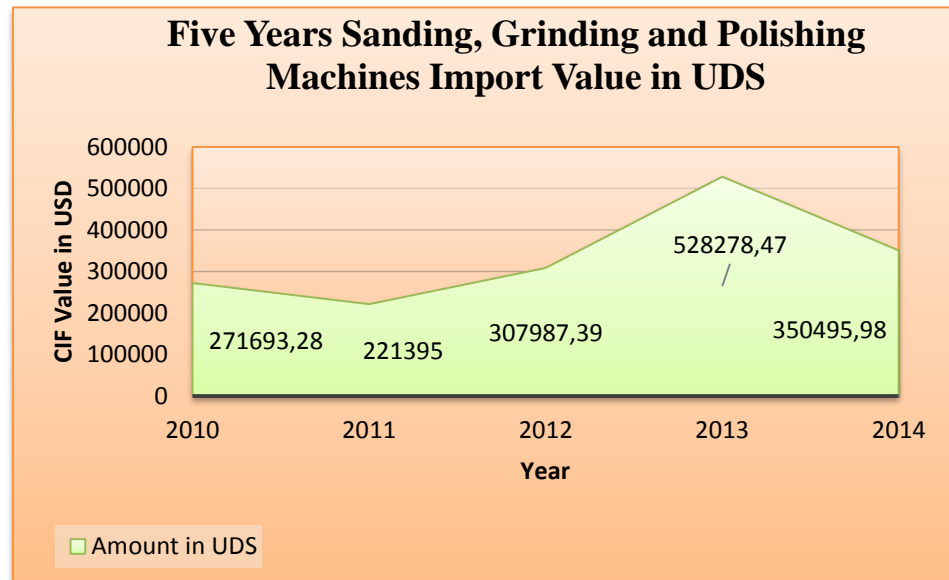


Figure 18. Sanding, Grinding and Polishing machines five years import in value

5.6 Analysis of the interview results

In this part of the thesis the interview findings from the respondents will be discussed. A total of ten interview had been made. In the interview importers and users of the products from body shops were included. In order to see the various responses, the main findings of the interview will be discussed one by one. Due to the respondent's confidentiality request, the name of the companies will not be disclosed.

5.6.1 Interviews summary with Importers

Importer 1.

The company is engaging in importing and distributing of various types of hand machines, construction equipment's and related items from different places. They are a general importers. The main source for their import is china. They have been in import business for more than ten years.

In relation to abrasives and sanding products, they hold various types of products from china which are low priced items. According to the respondent opinion, they like to have good and quality products but the customers wants a cheaper products as the same time it is easy for them to sell cheaper products than expensive European products. Furthermore, the number of customers who need such products are limited. Most of the work is done manually and traditionally.

They hold various brands of equipment's, however the source of origin is china. They fear that, they may not get customers for European products due to price sensitivity. He said that it is good to trade a genuine brand, we also get trust and credibility, but introducing new product and shifting the customers to the new products is a bit challenging. But if the price is competitive, we can compete with quality aspect. He thinks that a lot is expected to do with the company (Mirka), introducing the product and making promotion beforehand is very important aspect. He does not like to sell Chinese products, but it's the nature of the market that pushes him to keep holding the Chinese items. Chinese are dominating the market with cheap products.

Importer 2.

The company is importing and distributing various equipment's, hand tools, electric appliances, generators and similar construction items. There main source of import is china as well. They have been in import business for seven years however, they are not dealing with the abrasives products. He thinks that the market is dominated by cheap Chinese products. It may be difficult to compete with the existing products. Besides, the brand is not known in the market so that it is another challenge.

The counterfeit products problem is another challenging factor with introduction of branded European items. After we developed a nice reputations in the market, people will start to bring similar items but a counterfeited product from china and start to disrupt the market. Being exclusive agent for the products may solve such problems.

He recommends to visit the market and see how it looks like before approaching the importers, it will help to see how to approach the market and which area to focus. He said that, "As far as I know there is no complete abrasives solution in the market. Somebody imports some part and others do the same. The customers are buying different items from different importers. It is an advantage to provide a complete solution if you manage to compete the market quality vs price wise".

In order to succeed in the market, a huge marketing activity and participating in exhibitions and trade fairs are recommended. The customers need to know your products physically and should try and convinced with the quality of your products.

Importer 3.

The company is specializing in importing different garage equipment's and similar items to Ethiopian market from Different European countries and USA. It has been in import business for the last 23 years. According to the communication supervisor, they have a nice experience how to deal with expensive and durable European products to their customers. They are focusing on selected products for selected customers. They are not trading abrasives at the moment but, they are agents for a paint booth supplier from Europe.

The company has a good reputation in the market and the networking with body shops is also higher. As their products are more expensive than the ordinary products in the market, they target/ segment their customers with special needs. They suggest that introducing the product for the market is highly required. As the country is dominated by Chinese products, working with branded European product may not be easy for the first time. It will take time to get the attention of the customers. Once the product quality is known in the market, to develop the sales volume can be possible.

They have shown an interest to work Mirka, however, before the actual business relation they want to study the market and see the interest of their customers need. According to their suggestion there are various products in the market so that a huge marketing activity and adjusting the price level for the market is one of the best approach to enter to the market.

Importer 4.

They are engaging in importing various heavy machineries, cars, water pumps, generators and similar items to Ethiopian market. The company has been in import business for more than 58 years. According to their opinion the customers are becoming more price sensitive, so that it will be a difficult situation to shift the attitude of the customers. "Your product is more of luxurious dust free sanding, it is suitable for the higher class customers and the majority of the demand is from the low income levels from the individual garages." The market is filled with both Chinese as well as counterfeited European brands, they claim that, the EU brands in Ethiopian market are not genuine all the time they are mixed up with similar products. Importing genuine brand to the market and compete is a big problem, if the price is comparable that is one opportunity but from experience European brands are very expensive for the majority in Ethiopian market.

We recommend for your company to make product introduction beforehand either through exhibitions or visiting the country body shops and letting them use the product and see the difference, then after the customers will start to ask for the product. Otherwise breaking the existing trends is a bit problematic as you are dealing with new product for the market.

Importer 5.

They are importing paint and related items to the market. They have been in import business for about eight years. According to the information they provided at the moment they are dealing with Max-Mayer and PPG paint brands. They are not trading with abrasives products so that they are interested to work with Mirka. According to their suggestion the market is dominated by cheap Chinese and Turkish products. The respondent said that “As price is very sensitive issue and the customers are price sensitive Mirka need to consider this in advance.”

They further inform that the Matador from Germany is performing well in the market. The product was coming both from Germany and China market. But at the moment the company stops such items from China and only from Germany is imported. In order to succeed in the market they suggest that an intensive promotional campaign is very important to gain the attention of the customers. They recommend Mirka to attend trade fairs and target body shops to introduce the products to direct users. If the product introduced well in the market, they are interested to work with Mirka.

Importer and Business Agent

They are doing foreign trade business agent by looking for buyers in the market based on commission as service fee. According to the manager, they are interested with Mirka products and they are hoping that there will be a potential market in Ethiopia as the increasing demand for cars and increasing manufacturing sector.

He state that, your products are top quality and fine finishing materials which add the commercial value of the products in the market. Now in the country there are certain car manufacturing companies and growing in number from day to day. In construction sector also there are buildings with very good finishing as well as their furniture and household goods are to be quality and with good appearances. We believe that you can have good business here but the main problem of our market is the price beyond the origin of products. Because there are basic problems here for the fact:

- The European origin goods are expensive
- There are available the same colour, shape and size of products in the market the origin of China, India and etc. ... and their prices are very low.
- The user's want to buy the market popular brands (widely used products around them).

They recommend that, since you have interest in Ethiopian market, before all you should know the local business trend and take further assessment if you are capable and in condition to be part of it. They mention that in Ethiopia there are many European products in the market and some of them are for long time doing wealthy business. Based on this fact they believe that it is possible to do business in Ethiopia. So that to bring this

condition, they suggest that locally Mirka should organize promotional works and furnish materials (product samples, catalogues, brochures, video demonstrations in each sector) for better awareness. There must be also free samples to be used and taken a quality test by interested companies.

5.6.2 Interviews Summary with Users

Body shop 1.

The body shop is well organized and equipped with machineries. They prefer to use durable products with affordable price in their workshop. At the moment they are using Matador and Abro brand of abrasives products most of the time and got it from the local market. They use water proof products mostly and grit numbers 80,120,180,240, 340 and 600 are commonly applicable in their work.

They say that, they do not get the complete solutions for bodywork in the market. Some companies import one part and others import the other part. It is a recent phenomenon that sanding machines are introduced to the market. Most of the work was done manually due to this fact the majority of the bodywork is done with wet sanding applications. As they do not get a complete solutions in the market from one supplier, they are forced to look for products in different place.

Body shop 2.

They have a standardized workshops for their imported vehicles to provide aftersales service. According to their response and phone discussion with the light vehicles maintenance manager, they give much emphasis for quality products which are durable enough with competitive price and with a reliable supply.

They are using different abrasives products from the local dealers. They are also get complete abrasives solutions from the market. The problem in relation to this is that the products are found from different places. There are many local distributors which are specializing in certain product lines and some on another. It is very difficult to get distributors having a complete product lines. This cause to have consistency and reliability problems with the products they use. They use both manual and machines to maintain the body works. They may not use similar product all the time what they find in the market determines the type of brand or material to use. According to their suggestion it is a good opportunity for them if they can get the complete solution consistently from a reliable supplier with quality and affordable price.

Body shop 3.

They are one of the leading in body shop technology at the moment and specialized on body shop works. They have a modernized facilities with required equipment's and accessories. Quality products with affordable

price is the main characteristics in their body shop. The body work is done with machines as well as manually by hand when needed. They used different brands which are found in the market. Most of the time Abro and Matador products are used in their body shop.

According to the discussion with the manager, although they are not familiar with Mirka products, if the quality of the product is high and affordable they are interested to collaborate and create a business relations. They are also involving in paint business and at the moment they are working with PPG brand to use it in their body shops and distribute it to different customers.

According to their suggestion quality, affordable price and marketing is a key success factor in the market. As a complete solutions do not found in one place their will be an opportunity for Mirka to enter to the market. Once the products are widely marketed and known in the market, they will be interested to work with Mirka by holding the solutions in their body shops as well as distribute for their customers.

Body Shop 4.

The company is engaging both on importing of vehicles and providing maintenance service. They have body maintenance facilities with the required machineries and equipment's. The most important characteristics they expect from abrasives is quality and durability. According to their response they use Abro brand products from the local distributors. The common types of abrasives are paper that come in roll and pieces with different surface abrasion, such as 60,120, 220,340, 560, and 1200.

They state that there is a wide range of abrasives solutions and polishing compounds in the market. However, there is no specific supplier with all product ranges. They are collecting the items from different suppliers. Concerning the sanders, they are importing by themselves from Italy a brand name USAG. They also import and sell to customers based on request.

They recommend that as Mirka is a new brand in the market, promoting the product is highly required. It is difficult to shift the users from familiar brands. If the technicians like the products, it will be highly likely that the product can enter to the market so that providing free samples to the users in body shop and getting their feedback is an important approach to succeed.

5.7 Assessing internal Capabilities

Much of the company's decision on how to enter a new market whether to build, buy or partner is driven by an internal capabilities assessment. In this stage the company need to consider the core competencies, the sales

channel to enter the market, when to enter to the market and a summarized SWOT analysis based on the current competencies of the company state and the business environment of the target country need to consider.

The general products overviews in the Ethiopian market and the responses from the importers and users were discussed and a clear picture about the business environments challenges and opportunities were identified. This approach will provide valuable information for the company’s market entry activity to Ethiopian market. The company have different internal capabilities that makes it competitive in the target market and expand its operation to a new market once more.

Summary of the company internal capabilities that can support the internationalization process and the market entry process to Ethiopian market will be discussed in Table 4 as follows. As the Ethiopian business opportunities and challenges discussed in detail the company can form up a clear SWOT analysis by combining its internal attributes and harmful factors that hinder the internationalization activity of the company to Ethiopian market along with the external attributes of the environment as an opportunity to enter to the new market and the associated threats.

Table 4. Internal capability assessment of Mirka

Internal Capabilities of Mirka	
<ul style="list-style-type: none"> ➤ The Mirka way of doing things ➤ Cost awareness and sales before cost ➤ Establishing subsidiary based on sales ➤ Strong HRM and HRM development program ➤ Investing in R&D ➤ Producing highly innovative products ➤ Producing technology driven product ➤ Providing training and customer support programs ➤ Well prepared demos and presentations ➤ Well prepared training facility ➤ Have a long term plan and willing to create a long lasting relation with customers ➤ Strong collaboration with business units 	<ul style="list-style-type: none"> ➤ Financial capability to expand internationalization ➤ Well-developed international experience ➤ Good reputations among customers ➤ Regular new product development and introducing to the market ➤ Web bases sales support tool ➤ Fully automated manufacturing facility ➤ Close distribution centers to end users ➤ A winner of Quality (ISO9001), Environment (ISO 14001), Occupational Health and Safety (OHSAS 18001) ➤ Own patented and unique products

5.8 Business registration process in Ethiopia

The business registration process in Ethiopia is started with the submission of the registration form which are designed for the purpose. In addition to the application form the following supporting documents should be submitted together (EIC, 2015).

- The copy of registration certificate of the company.
- Copy of the memorandum of article of associations.
- An authenticated decision of the company's board of directors or similar authorized body to undertake business activities in Ethiopia. The decision should indicate the amount of capital allocated and the individual appointed by the company to act on its behalf.
- An authenticated power of attorney issued by an authorized organ of a company for the representative in Ethiopia.

5.9 How to build local site in Ethiopia

The formation of the local site in Ethiopia can be done in two ways based on the Ethiopian Investment Commission 2015 investment guide. These are a branch company and representative office. The formation of these forms will be presented as follows.

5.9.1 Branch Company

A branch company is an organizational unit of a foreign company. It has no legal personality. The parent company will be held liable along with its branch for all the activities and debts born by the later.

A foreign business organization wishing to establish a branch site in Ethiopia must be accompanied by the following documents for registration.

- A notarized copy of registration of parent company in the country of origin.
- Notarized document of the memorandum and article of association.
- Copy of registration certificate of parent company.
- An authenticated decision of the parent company's board of directors or similar authorized body for the establishment of branch in Ethiopia. The decisions should indicate the type of activities of the branch; the individual(s) appointed by the parent company to act on its behalf and the capital allocated for its operation.
- An authenticated power of attorney to the appointed agent in Ethiopia and the agent's two passport size photographs.
- Tax identification number of the agent (TIN number).
- An authenticated office lease agreement or title deed.
- Bank letter showing that minimum capital requirement has transferred to bank.

Once the above mentioned authenticated documents along with the properly filled investment application form is received, the investment permit and company registration certificate will be issued within 3 hours.

5.9.2 Representative office

The representative office is considered as pre - condition to embark on any investment by foreign investor. The activities of the representative office is restricted to advertisement of products and services of the parent company, carrying out project studies that will enable the parent company to undertake investment in the country, promoting Ethiopia's export product in the country of the parent company (EIC,2015).

The commercial representative, before starting operation, should be registered in the ministry of trade and industry and acquire a certificate of the commercial representation in his name and on behalf of the principal. The following documents are required with the application.

- A notarized and authenticated copy of registration certificate of the parent company.
- Where the applicant is a business organization, its memorandum and article of associations.
- A statement of expenditure allocated for its operation in Ethiopia which is signed by the appropriate organ of the principal.
- An authenticated mandate for the individual or individuals appointed to act as commercial representatives.

6 CONCLUSION

The thesis was developed to support the internationalization activity of a multinational companies in different part of the world. The pre requisites for internationalization and factors that should be considered in planning for internationalization of ones business to a new market and the associated market entry process were discussed in detail. As the thesis is developed as a case study to Mirka Oy to enter to Ethiopian market with the automotive refinish solutions, the general information about the country business environment and the selected product ranges for the market were analysed and the responses of the importers and users were discussed.

Based on the analysed five years import data of the products and the response of the importers and users a valuable information that can help the company's decision to enter to Ethiopian market along with the identification of potential distributors in the market were made.

The product overviews in Ethiopian market for the selected product ranges were analysed and the demand, the competition and growth of the market were discussed. The overall finding shows that the demand for products in the country is increasing from year to year and there is a possibility for Mirka market share in Ethiopia.

The company will have a competitive advantage in the market as the product offerings are not well structured and a complete solution is not found from one place. Companies do not provide a complete sanding solutions. One importer holds one item and others do the same so that customers are forced to buy different items from various places.

The nature of the market has a competitive advantage for Mirka to go with a complete solution packages. However, the main problem in the existing market is price. Most of the products are imported from China and sold with cheaper price. As it has been seen in the import data analysis, the biggest market share in different products were taken by Chinese.

There is no company which is specializing in such products alone. They hold such items with construction equipment and accessories. Most of the importers believe in quality products but, price is their issue. The majority of the products are imported from China which is a low priced and less quality products. The price related issues can be an obstacle for the market. If Mirka make it affordable they think that the problem might be solved.

The product awareness and introduction is another very important aspect. Marketing the products in Ethiopian market is one of a success factor as Ethiopian prefer something tangible. They believe in what they see and develop trust on the products. Furthermore, as the brand is new to the market, promotion and advertisement of the products is highly required.

6.1 Recommendations

I recommend that visiting the country and discussing with the companies as well as the end users and providing with sample products and training the users about products to show them the difference or unique features of Mirka products will help to achieve the desired objective in the market and can be a good first start to introduce Mirka in Ethiopian market. In addition, as the brand is not known at the moment in Ethiopian market, participating in trade shows and advertising the products in different channels will help to create awareness and introduce the brand more.

The majority of the vehicles body work is done manually so that focusing in selected related products to introduce the brand can be one of the approach to enter to the market, once the product quality is seen through few products, then after developing the other product ranges will be easier.

There is a gap that Mirka can fill up. The product offerings in the market is not consistent as well as a complete solutions is not available in a structured manner. By collaborating with the distributors the whole range of products can be in the market and the complete product offerings of the company can serve the market.

Allocating affordable price for the products is one of the success factor for the market. As the majority of the customers give much emphasis for the price issue and the market competition focus on price, adjusting the price level for the market to introduce the product is highly required. After the product quality and uniqueness is known the normal price level can be implemented.

As a market strategy first priority should be given to high class body shops to introduce the products with the unique product ranges and then after once the product is known looking for other users in the traditional body shops to market the common products is needed. Furthermore, after introducing the brand to the market, increasing the number of distributors to cover the large market through paint dealers and importers is also important.

The company need to look for business potential in the other sectors after introducing the automotive related products. Searching for wood, construction and other surface preparation area will increase the product presence in the Ethiopian market and enhances the company profitability.

Understanding the business environment and paying attention to the cultural issues is also an important factor for success in the international business. Understanding the cultural aspects of Ethiopian and behaving accordingly will help to get the desired result. Networking also need to be considered as a success factor. Creating good relationship with customer, agents and importers will facilitate the internationalization activity of Mirka to Ethiopian market.

The bureaucracy is one of the big problem in Ethiopian companies so that Mirka needs to understand the situation in the country. Decisions might

not be reached very urgently a group decisions and discussing for long time is a common phenomenon in Ethiopia companies. Most of the decisions are made at the highest managerial level so that it takes time. As it is a part of organization culture in Ethiopia, being patience is very important to get things done.

6.2 Development area

The company chosen a potential distributor in the market and the business relation has been started by sending out sample products, product catalogues and supporting documents. The chosen company shows interest to work with Mirka and the marketing activity with the target customers is already started and so far a positive feedback about the product quality is received. Further discussions and meetings with the company concerned management team as to how the business relation can be strengthened were made. Based on their request different sample products were delivered and the issue of price also further discussed.

As the product is new to the market introducing and convincing takes time, however, the first order will be received soon and after that a direct country visit to train the end users and promote more products for the market will be done. In the meantime the distributor will also be invited to get training in Finland for a better understanding of the products use and applications.

This thesis is a complete development project for the company internationalization and new market entry process. The market was studied, potential distributors were identified and the possible business relations has been started. Furthermore, the summarized and short version of separate market entry process named as “Mirka way of entering new market” was developed for the company internal consumption which can be applied by all subsidiaries to expand their territories. As the document is for the company internal use the Mirka way of entering new market is not included in this thesis part.

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INTERVIEW QUESTIONS FOR IMPORTERS

1. How long has your company been in import business?
2. Which product segments and ranges are you distributing nowadays?
3. Are you trading abrasives, Paints, Sanding machines and accessories?
4. What would be in your opinion the right way to enter to Ethiopian market for Mirka?
5. What do you think is the biggest challenge for Mirka in the Ethiopian Market?

INTERVIEW QUESTIONS FOR BODYSHOPS

1. What are the most important characteristics for the products in your body shops?
2. Which abrasive brands you use today and from where do you buy them?
3. Which are the product forms and dimensions you use in your body shops?
4. Do you get a complete abrasive solutions at your market (Abrasive paper and natural, polishing compounds, and sanders pneumatic and electrical)?

LIST OF CAR MANUFACTURERS AND ASSEMBLERS IN ETHIOPIA

Appendix 4

LIST OF CAR DEALERS WITH THEIR BRANDS IN ETHIOPIA

LIST OF POTENTIAL BODY SHOPS WITH ADDRESSES

LIST OF PAINT MANUFACTURERES AND IMPORTERS IN ETHIOPIA

LIST OF POTENTIAL MIRKA DISTRIBUTORS

INVESTMENT AREAS RESERVED FOR DOMESTIC INVESTORS

1. Areas exclusively reserved for the Government:

- Postal services except courier services;
- Transmission and supply of electrical energy through the Integrated National Grid System; and
- Passenger air transport services using aircraft with a capacity of more than 50 passengers.

2. Areas reserved for joint-venture investment with the government:

- Production of weapons and ammunition;
- Telecommunication services.

3. Areas exclusively reserved for domestic investors:

A. Trade

- Export of raw coffee, chat, oil seeds, pulses, precious minerals, natural forestry products, hides and skins bought from the market, and live sheep, goats, camel, equines and cattle not raised by the investor;
- Import trade (excluding LPG and bitumen); and
- Wholesale trade (excluding supply of petroleum and its by-products as well as wholesale trade by foreign investors of their locally produced products).

B. Others

- Manufacturing of ice crème and cakes;
- Finishing of fabrics, yarn, warp and weft, apparel and other textile products by bleaching, dyeing, shrinking, sanforizing, mercerizing or dressing;
- Tanning of hides and skins below finished level;
- Manufacture of cement;
- Manufacture of clay and cement products;
- Tour operation below grade 1;
- Construction, water well and mining exploration drilling companies below grade 1;
- Kindergarten, elementary and junior secondary education by constructing own building;
- Diagnostic center service by constructing own building;
- Clinical service by constructing own building;
- Capital goods leasing (this does not include leasing of motor vehicles); and
- Printing industries.
- Manufacturing of plastic shopping bags
- Manufacturing of corrugated metal sheet for roofing and nails

4. Areas exclusively reserved for Ethiopian nationals:

- Banking, insurance, micro-credit and saving services;
- Broadcasting and mass media services;
- Attorney and legal consultancy services;
- Preparation of indigenous traditional medicines;
- Advertisement, promotion and translation works;
- Domestic air transport services using aircraft with a seating capacity of up to 50 passengers; and Packaging, forwarding and shipping agency services.

INVESTMENT AREAS OPEN FOR FOREIGN INVESTORS

1. Manufacturing

- 1.1. Food industry
- 1.2. Beverage industry
- 1.3. Textiles and textiles products industry
- 1.4. Leather and leather products industry
- 1.5. Wood products industry
- 1.6. Paper and paper products industry
- 1.7. Chemical and chemical products industry
- 1.8. Basic pharmaceutical products and pharmaceutical preparations industry
- 1.9. Rubber and plastics products industry
- 1.10. Other non-metallic mineral products industry
- 1.11. Basic metal industry
- 1.12. Fabricated metal products industry
- 1.13. Computer, electronic and optical products industry
- 1.14. Electrical products industry
- 1.15. Machinery and equipment industry
- 1.16. Integrated manufacturing with agriculture
- 1.17. Vehicles, trailers, and semi-trailer industry
- 1.18. Manufacturing of office and household furniture
- 1.19. Manufacturing of other equipment (jewelers and related articles, musical instruments, Sports equipment, games and toys and similar products)

2. Agriculture

- 2.1. Crop production
- 2.2. Animal production
- 2.3. Mixed (crop and animal) farming
- 2.4. Forestry

3. ICT

4. Generation, off- grid transmission and supply of electrical energy

5. Hotel and tourism

- 5.1. Star designated hotels /including resort hotels/, motels, lodges and restaurant
- 5.2. Tour operation of grade 1

6. Grade 1 Construction contracting (including water well drilling and drilling for mineral exploration)

7. Real estate development

8. Education and training

- 8.1. Secondary and higher education by constructing own building
- 8.2. Technical and vocational training service including sport

9. Health services

- 9.1. Hospital service by constructing own building

10. Architectural and engineering works and related technical services, technical testing and analysis

11. Publishing

12. Import trade

- 12.1. Importation of LPG and bitumen

13. Export trade

- 13.1. Export trade excluding raw coffee, chat, oil seeds, pulses, and precious minerals, natural forestry products, hides and skins bought from the market, and live sheep, goats, camel, Equines and cattle not raised by the investor.

14. Whole sale trade

- 14.1. Supply of petroleum and its by-products as well as whole sale of own products

AREAS OF INVESTMENT ELIGIBLE FOR EXEMPTION OF CUSTOMS DUTY (APPLICABLE FOR FOREIGN INVESTORS)

The following areas of investment are eligible for exemption of capital goods and construction materials from customs duty.

1. Manufacturing

- Food industry
- Beverage industry
- Textiles and textiles products industry
- Leather and leather products industry
- Wood products industry
- Paper and paper products industry
- Chemical and chemical products industry
- Basic pharmaceutical products and pharmaceutical preparations industry
- Rubber and plastics products industry
- Other non-metallic mineral products industry
- Basic metal industry
- Fabricated metal products industry
- Computer, electronic and optical products industry
- Electrical products industry
- Machinery and equipment industry
- Integrated manufacturing with agriculture
- Vehicles, trailers, and semi-trailer industry
- Manufacturing of office and household furniture
- Manufacturing of other equipment

2. Agriculture

- Crop production
- Animal production
- Mixed (crop and animal) farming
- Forestry

3. ICT

4. Generation, transmission and supply of electrical energy

5. Hotel and tourism

- Star designated hotels including resort, motels, lodges and restaurants
- Tour operation of grade one

6. Construction contracting

- Grade 1 construction contracting, water well and mineral exploration drilling grade one

7. Education and training

- Secondary and higher education by constructing own building
- Technical and vocational training service including sport

8. Health services

- Hospital service by constructing own building

9. Architectural and engineering works and related technical services, technical testing and analysis

10. Import trade

- Importation of LPG and bitumen

LIST OF COUNTRIES WITH BILATERAL INVESTMENT AND DOUBLE TAXATION AVOIDANCE TREATIES

A) 30 Bilateral Investment Treaties (BITs)

COUNTRIES

- | | |
|--------------------------|--------------------|
| 1. Algeria | 16. Kuwait |
| 2. Austria | 17. Libya |
| 3. Belgium and Luxemburg | 18. Malaysia |
| 4. China | 19. Netherlands |
| 5. Denmark | 20. Russia |
| 6. Djibouti | 21. South Africa |
| 7. Egypt | 22. Spain |
| 8. Equatorial Guinea | 23. Sudan |
| 9. Finland | 24. Sweden |
| 10. France | 25. Switzerland |
| 11. Germany | 26. Tunisia |
| 12. India | 27. Turkey |
| 13. Iran | 28. United Kingdom |
| 14. Israel | 29. USA |
| 15. Italy | 30. Yemen |

B) 12 Double Taxation Avoidance Treaties (DTTs)

COUNTRIES

- | | |
|-------------------|------------------|
| 1. Algeria | 7. Romania |
| 2. Check Republic | 8. Russia |
| 3. France | 9. South African |
| 4. Israel | 10. Tunisia |
| 5. Italy | 11. Turkey |
| 6. Kuwait | 12. Yemen |

SOURCES OF FURTHER INFORMATION IN ETHIOPIA

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