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Industry Analyses for a case company

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Industry Analyses for a case company

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The thesis is investigating three countries from industry and market point of view by using various theoretical tools and data to complete the analysis. The purpose of the thesis is to find out what kind of sales methods should the case company apply to the selected countries and why, in order to increase sales and profit. In Italy and Spain the case company sees better sales potential than there currently is, and in Belgium the possibility of lower costs is high. The assessment has been conducted according to the case company's preferences and the outcome of each analysis is based on the case company only.

The research started with the selection of countries to be investigated and the analytical tools to be used. The country selection was based on the case company's need on better understanding the lack of sales in Italy and Spain. For Belgium there was a need of evaluating the possibility of using a distributor. The analytical tools were selected by their functions.

Chapter 3 discusses the case company's sales in general and works as a leading chapter for the next one, which is the actual investigative part of the thesis. The country analysis has been done in three parts, analyzing each country separately by using the applied theory and data acquired from different sources. After the three subchapters, competitor analysis generally discusses the case company's position in those countries with Porter's five forces - analysis.

The last chapter explains and concludes all the findings and includes suggestions and possible further steps for the case company. The suggestions are explained with the help of this thesis research and theory.

Keywords: Industry analysis, market strategies, direct sales, distribution, sales methods, country analysis

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Industry Analyses for a case company

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Tämä opinnäytetyö tutkii kolmea eri maata toimiala- sekä markkinanäkökulmasta. Työhön on sovellettu erilaisia teorioita ja dataa analyysien tuottamiseen. Tämän opinnäytetyön tarkoitus on selvittää, minkälaisia myyntimenetelmiä toimeksiantajayrityksen pitäisi soveltaa valituissa maissa ja miksi, kasvattaakseen myyntiä ja voittoa. Italiassa ja Espanjassa yritys näkee parempia mahdollisuuksia, kuin mitä maissa on tällä hetkellä. Belgiassa, mahdollisuus matalampiin kustannuksiin on korkea. Arvioinnit maista on suoritettu yrityksen valintojen ja mieltymysten pohjalta, joten jokainen analyysi pohjautuu vain toimeksiantajayritykseen.

Tutkielman ensiaskelilla esitellään maiden, sekä teoriatyökalujen valinta. Maiden valinta pohjautui toimeksiantajayrityksen tarpeeseen ymmärtää paremmin Italian ja Espanjan heikkoja myyntilukuja. Belgian kohdalla oli tarve arvioida jakelijakanavan käytön mahdollisuuksia. Analyysijä varten käytetyt teoriatyökalut valittiin niiden käytännöllisyyksien perusteella.

Kappale 3 käsittelee toimeksiantajayrityksen myyntiä yleisellä tasolla ja toimii johdantona seuraavalle kappaleelle, joka on opinnäytetyön tutkiva osa. Maa-analyysit on tehty kolmessa osassa, tutkien jokaista maata erikseen käyttämällä sovellettua teoriaa ja erilaisia tiedonlähteitä. Näiden kolmen alakohdan jälkeen, Porter's Five Forces -kilpailija-analyysi keskustelee yleistasolla toimeksiantajan asemaa kyseisissä maissa.

Viimeinen kappale selostaa ja antaa johtopäätökset kaikkiin opinnäytetyön tuloksiin ja sisältää ehdotuksia, sekä mahdollisia seuraavia askelia toimeksiantajayritykselle. Ehdotukset ovat selitetty tämän opinnäytetyön tutkimuksen sekä teorian tukemana.

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1 Introduction

An international company, having operations in different countries should acknowledge the full potential of a particular country from the sales and profit point of view. Knowing the dominating industries in these countries can help the company to create higher demand for better results. A simple comparison between the recent sales and the industry potential, a company can create an estimate of how much they should have sales in that particular country. But what then after finding out the underachievers that should have far more sales than they currently have? Many widely spread companies that also manufacture their own products tend to use distributors and resellers in targeted countries because of their domestic intellect and company contacts. But if these partners are the ones not satisfying the manufacturer's demands, how can the manufacturer improve their sales in that particular country? This thesis is investigating the risks and opportunities of specific countries, and the possible methods with certain analyses, of how a company can define the reasons of making adjustments for better profit.

1.1 The Case Company

The case company is an international company that has been growing its businesses and expanded overseas having nearly 30 offices around the Globe and having operations in all continents of the World. The case company is currently one of the leading companies in providing environmental and industrial equipment.

There are approximately 1600 employees in the case company from which majority works in the headquarters in Finland. The company had a turnover of approximately X Million Euros in 2014. The case company's business is based on providing the best tools, equipment and services in the industries they operate in.

The case company operates mainly two different industries, in which both, the case company is well known around the Globe. In this thesis I have investigated sales of one of the two segments in EMEA.

1.2 Distributors

Entering a new market requires good resources from the company. To expand the business and create new partnerships is often done by making business visits to the targeted countries, participating exhibitions, creating campaigns and using push strategy to contact potential distributors and end users. The aim is to create a supplier-end user relationship or finding a local partner that can be the intermediary between the manufacturer/entering company and the

potential end users in that specific country. These intermediaries are called distributors or resellers. (Daniels, Radebaugh and Sullivan, 2011)

A company can choose their methods of exporting and usually those are decided based on which method gives the best value. This thesis is investigating from both indirect and direct export, from which indirect export means distributors and direct export means direct sales without any intermediaries in between the process.

Distributor is a firm or an organization that has a close connection to a manufacturer. Generally distributors have in depth knowledge on the manufacturer's products and therefore do not always need an external help on specifying the details and options of a product. This is also something that is taken into consideration when searching new distributors. It is important to evaluate if the possibly new distributor is capable of selling and promoting your products. So expertise is an important factor. Distributors are normally operating in a similar business as their manufacturer or at least are covering some part of the industry.

One efficient way of locating highly potential distributors is finding companies that are currently selling products that are not a direct competition, but instead your products would support the other company's products. This kind of products can be called as complementary products that brings a lot greater value to a customer if it can applied to another good or service. For example the case company has a distributor that has a contract with another company that sells slightly different products. These products are not competing with the case company's products, but are closely related. This way it is convenient and profitable for the distributor to offer products from both manufacturers to their customers. Distributors can generally focus on sales and obtaining projects where to contribute and offer their other products together with the manufacturers. (Mr. P. 2015. Personal communication) (Investopedia 2015)

Distributors also purchase products in large quantities, not always with one order but with many. Distributors might send several orders during a day, which all are handled separately, in order to keep count on order intake.

With large quantities usually come higher discounts. Discounts are agreed and calculated by the company. Discount cannot be too small or too high, and it needs to be in correlation with the costs of goods sold and contribution margin. As an example, the case company used to have a different discount for each distributor and for each product. This method was time consuming for the distributors and therefore in early 2014 the case company made an agreement with all its' distributors of giving the same discount from all their purchases in controlled environment instruments but for Weather instruments the discount is agreed to be

less. The case company benefitted from this change and it actually increased the contribution margin and it is expected to be increasing also in 2015. With distributors the contribution margin is worse in general, but many times the purchase volume evens the differences by some amount and also it helps the case company's distributors to win big deals over their competitors. (Mr. P. 2015. Personal communication)

1.2.1 Responsibilities

When finding new distributors, there are some factors to which companies base their decisions whether to negotiate a partnership. In the case company according to Mr. P. the current methods of evaluating potential distributors are products and expertise, financial status, location and reliability.

And together with these criteria, there might also be other various reasons why to pursue further with a partnership. Important to note is that some countries might have costly limitations which affect the decision making. The case company is currently not trying to find new distributors in Russia and Iran, as these countries have several import and export limitations which cause lots of extra costs per products sold, making business unprofitable. From company point of view, it is important to also find all possible information about a company before making any further deals. Some companies might even be banned from international trade. (Mr. P. 2015. Personal communication)

According to Daniels, Radebaugh and Sullivan (2011) the following common criteria should usually be applied when assessing possible distributors: The company's financial strength, its good connections, other business commitments, image in relation to the product or service being sold and few others.

Financial strength is important to ensure that transactions will most likely be handled on time. Good connections are a big asset when entering foreign markets because a local distributor already has local customers, this will make the market entry much easier for the company. Business commitments can measure how well the distributors consider your products and how much they put effort to for example promote them. (Daniels, Radebaugh and Sullivan, 2011)

1.2.2 The case company's requirements

For each individual distributor, the case company has set different requirements or limitations. Some distributors have an area limitation, meaning that they can only make sales inside the given geographical area. This is often due to the fact that majority of the distributors

connections are in that specific area and this way the case company will have an opportunity to have another distributor to uncovered location. There can also be some other reasons for geographical limitations for example political issues can cause such issues, or a country is too big for one distributor to handle.

As general requirements for distributors the case company has set: Willingness to make demo unit purchases, attend product training, promote products and provide business or strategy plan.

The current annual sales expectation from each new distributor is X EUR, but this amount is not a direct requirement. Distributors can have good and bad years just as any company does, and it usually takes a couple years to build up and see whether a distributor is capable of satisfying the manufacturers need. (Mr. P. 2015. Personal communication)

“Companies must evaluate potential distributors, but distributors must choose which companies and products to represent and emphasize.” (Daniels, Radebaugh and Sullivan, 2011)

Even after finding a potential distributor, there might be some limitations on the distributor itself, for example they are already having several distributor contracts with other companies and are not capable of handling any more. An assessment will be then conducted by the distributor to measure which business is most profitable for them, and together with this and other terms that can affect the business decision are made. (Daniels, Radebaugh and Sullivan, 2011)

1.2.3 Resellers

Resellers on the other hand do not have discounts or might have small reseller discounts depending on the agreement. Reseller usually does not buy in large quantities and sells the purchased goods from the manufacturer directly to an end user. They also might not have in depth knowledge of the purchased items and therefore in the case company's case resellers tend to buy items that are not highly technical. It is important to know that a business that buys an item to use it in their own item or system and selling it forward, is not a reseller, but an end user.

These intermediaries are widely used especially by international manufacturing companies, as they are much more cost efficient and profitable than locating own personnel into a targeted country. And also the already-existing intellect of the target market is a great benefit.

1.3 Scope of the Thesis

In some of the EMEA region countries where the case company operates, the ratio between company sales and the country's industry is too low and far from the company's goal. This thesis will investigate how the case company could improve the ratio and acquire more profit from these underachieving countries. Especially in the countries that are specifically selected to be the key targets of this thesis.

First the thesis will discuss the situation in the whole EMEA region, and afterwards the selected three countries are investigated further. The selection is based on the case company's insights and interest. The in-depth investigation is conducted on European countries.

The following questions will act as guidelines to the investigation:

- Sales figures and the Sales/Industry ratio
- Industry potential of the countries
- Case company's current methods and operations in the country(ies)
- What are the methods to improve sales and gain better profit?
 - o Should the case company locate own sales personnel to the country
 - o Should the case company search for new distributors
 - o Other options?
 - o What is the best solution? Why?
- Should the case company have a distributor in a country where they only have end users?

1.4 Validity and Reliability

In this thesis I am using various statistics and data acquired from the case company to analyze the sales figures and other factors that affect the outcome. The information received from the case company is highly classified and also truly reliable as these figures are constantly analyzed also inside the company. I also used this information to support the theory applied to this thesis, and vice versa.

Together with the actual data I have interviewed sales manager Mr. P. and Head of Region Mr. K. Mr. P. has years of experience doing business with distributors and Mr. K. has recently been handling direct sales of the case company. His comments are supporting the aspect of direct sales whereas Mr. P.'s comments are supporting the investigation from the distributor point of view. I have quoted interviewees directly or reorganized without changing the meaning of the original comments or answers.

Theory and other informational sources applied to this thesis are carefully selected and are directly supporting the facts around the research. Books, articles and internet sources which I have referred to, are from reliable sources.

2 Theoretical Framework

In this thesis I have used four different tools to analyze the industry and market in the selected countries. GDP (Gross Domestic Product) analysis is to evaluate the countries on a general level. SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is to assess the micro environment and porter's five forces will evaluate the opposite; macro environment. And GAP analysis to assess the market potential.

2.1 GDP

In order to cover and understand the goals of this thesis, several theoretical matters are needed to be taken into consideration. When conducting research on a country's industry and its' potential to grow, GDP is the first measurement to be issued.

"Radical differences in prosperity and poverty from one nation to the next can be understood only if we begin with a clear awareness of what is being measured. And that measurement starts with GDP." (Miller and Benjamin, 2012)

The measurement of GDP is usually done within a certain period, usually a year. It is the total of value of final goods and services produced by an economy. This number divided by the population of the country, the GPD per person can be calculated. The higher the figure, the better and stable industry the economy has. (Krugman, Wells and Graddy, 2007)

GDP primarily measures the economic level of a country and its' standard of living. It can be used to compare productivity of different countries in great detail. With GDP, countries can assess their annual economic growth over a span of several years. (Investopedia 2015)

For the demand of the case company's products, GDP plays a general role in sense of technology. The better a country's GDP is, it becomes more likely that there is a greater demand for high-technology instruments. As GDP grows, it means the majority of the firms grows as well, and there is more purchasing power.

2.2 GAP Analysis

“Once a company is operating in a country and estimates that country’s market potential, it must calculate how well it is doing there. A useful tool in this respect is gap analysis, a method for estimating a company’s potential sales by identifying potential customers it is not serving adequately. When sales are lower than the estimated market potential for a given type of product, the company has potential for increased sales.” (Daniels, Radebaugh and Sullivan, 2011)

The actual gaps used in this analysis are usage, competitive, product line and distribution. These gaps are then compared together with company’s current sales in a country. Usage gaps are the first that needs to be set, as it is the estimate of potential demand for all competitors in that country. Usage gap is set for a relevant period of usually a few years and it is the total growth potential for all competitors in the market. The next assessment is estimating the total sales of competitors, and thirdly, company’s current sales. Between company’s sales and competitors sales come the competitive gap, product line gap and distribution gap.

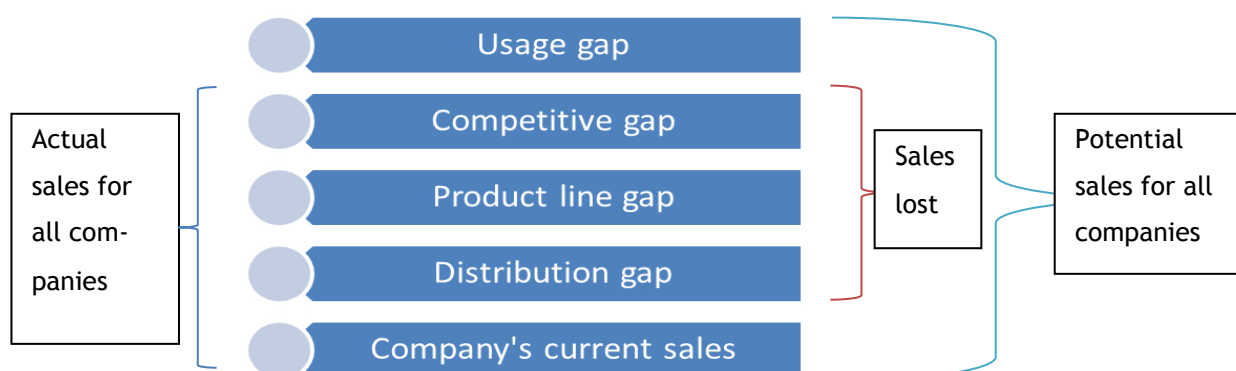


Illustration 1 GAP Analysis (Krugman, Wells and Graddy, 2007)

These gaps are filled with the estimated figures that are roughly direction giving. By the values in each gap we can estimate the situation in the target market. The values in the country analyses in chapter 4 are based on the interviews, case company’s internal data and early industry research.

2.3 SWOT Analysis

Whenever making greater changes in business it is good to acknowledge the strengths and weaknesses as well as opportunities and threats, because it can help the company to understand and note the true factors that can be the elements for success or failure. In this context SWOT can be created to evaluate each country from the industry point of view and also from the case company’s point of view.

In this thesis SWOT -analysis has been conducted for the selected countries. This is created in the manner of better understanding the facts about the particular countries and therefore to help decision making in what kind of action should be fulfilled to meet desired needs. According to Kotler, Armstrong, Wong and Saunders in their book: Principles of marketing, they are stating that SWOT-analysis is for the companies to understand where they should put focus into. For the case company this is an essential part of the whole analysis, because acknowledging opportunities, threats, weaknesses and strengths of those countries can be crucial when planning changes in the sales business. (Kotler, Armstrong, Wong and Saunders, 2008)

There are few different ways of making a SWOT analysis, from which a table filled with a list of the most important factors in each section being the most common. For this thesis I have created tables for each five countries and included discussion afterwards.

Strengths	Weaknesses
Opportunities	Threats

Illustration 2 SWOT Table

PESTLE or PESTEL (Political, Economic, Social, Technological, Legal, Environmental) analysis is also an option to replace SWOT analysis, but from the two I have decided to go with SWOT and apply some of the elements of PESTLE analysis into it. SWOT analysis is easier to keep consistent and concise, which makes it simpler when done multiple times as in this thesis.

PESTLE analysis is also for business assessment and it evaluates political, economic, social, technological, legal and environmental issues. It gives a wider analysis of a business than SWOT analysis. (Pestle Analysis 2016)

2.4 Porter's Five Forces - Analysis

Lastly, knowing the local competition and analyzing the possibilities for a successful entry into a country is essential for every business. This theory can be implied to the idea of the case company entering completely new markets or when placing own personnel in a country. To assess competition, Porter's five forces of competition have been applied to this thesis. With Porter's method a company can get a better understanding of the competition in a specific industry/country.

- Competitive Rivalry
 - Identifying competitors (current and potential)
 - The first step is to thoroughly examine and assess the competition in the industry or market where the company is aiming to enter. Knowing your competitors and their products comes in handy when planning on for example differentiation.
- Threat of new entrants
 - Potential new entrants? Why? And where? Likelihood?
 - It's important being aware of already existing competitors, which might also be interested in conquering the same market or industry as your company.
- Threat of substitute products or services
 - Alternative products/services available?
 - Acknowledging firms which are offering products that can act as a direct substitute to your product. Especially if the substitute brings better value for the customer in money.
- Bargaining power of buyers
 - What type of buyer? Organization or Individual?
 - Organization buyers tend to have more leverage on product pricing when it comes to available substitutes. Big firms usually have the power of making suppliers compete with prices in order to win the deal. Individuals, or in this context small scale firms may have several options to choose from but cannot affect pricing.
- Bargaining power of suppliers
 - Limited amount of suppliers in an industry
 - Being one of the very few suppliers of particular products may allow the firm to have free pricing for their products and services. (Capon, 2009)

3 Case company's Sales in EMEA

The case company's business is mainly divided into two parts. These both segments have their own operations but still do mutual business in many levels. One team is focusing on selling various measurement instruments and instrument based systems, whereas the other sales team is providing weather related products to the customers.

Some of the products provided in segment 1:

- Humidity and temperature

- Dew point
- Carbon dioxide

Whereas segment 2 of the business provides more complicated sets of stations for various purposes such as:

- Automatic weather stations
- Aviation weather systems
- Meteorological data management systems

Sales in EMEA region is done by the office in Finland and the offices in Germany, France, United Kingdom and Sweden. From which the office in Finland is focusing on domestic sales and rest of the world (ROW) sales. (Products, 2015)

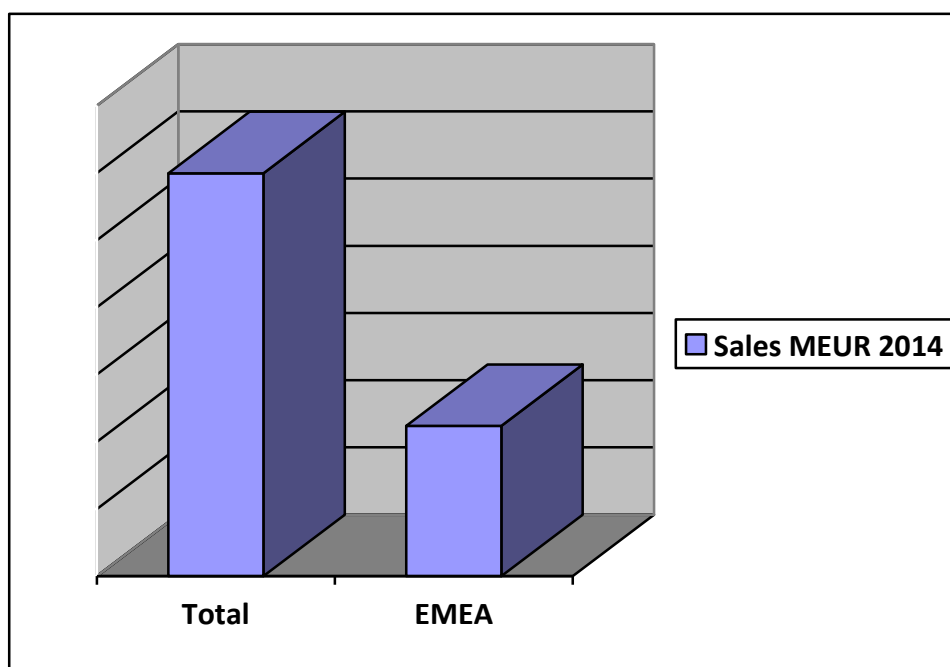


Figure 1 Case company Turnover 2014 (Annual Figures 2015)

Case company's total sales in 2014 were X Million Euros from which X Million came from EMEA region. Excluding Weather sales from this figure leaves a sales amount of X M Euros. This amount comes from distributor sales as well as direct sales.

3.1 Distributors

The case company has many distributors around in EMEA and APAC areas, with whom they do business very closely. Only in EMEA the case company currently has 27 active distributors and a big portion of the annual sales go through them. The case company is actively seeking for new distributors from potential countries which not always are new. As the case company has a large scale in different product categories, a single distributor cannot handle or does not

operate in all the industries. Therefore sometimes, especially in big markets, more distributors need to be found.

There are different factors that are followed when finding new distributors and according to sales manager Mr. P., most of the new distributors are found by simply searching companies with specific keywords in a search engine. Also other methods are various exhibitions and email contacts. (Mr. P. 2015. Personal communication)

Generally, the case company's distributors have succeeded well in recent years fulfilling expectations on general level, but some countries are expected to perform better as their industries are much higher compared to the actual sales that the case company does in those countries. In this thesis, I have taken Italy and Spain for further analysis. Head of region Mr. K. has calculated from 2014 the case company's sales percent compared to a country's potential. Also as Mr. P. said, these countries have big industries but the case company is not doing as well as they should in these countries. In Italy, there are three distributors and in Spain there are two. (Mr. P. 2015. Personal communication)

For this part I have used figures from the case company that indicates the amount of sales done by distributors compared to total sales, estimated sales for 2015 and the growth percent to 2014. This information has been used in the analyses done in the upcoming chapters.

From 2013 to 2014 the sales done by distributors increased and similar growth is expected to happen also in 2015. Despite the decrease in sales for some distributors the sales figures are still rather high enabling the case company to reach their goals. The ultimate goal of course is pull out the full potential from each country where the case company has distributors. This requires the case company to give full support to all distributors and also constantly update market strategy.

3.2 Direct Sales

The research and investigation of this thesis is also including the perspective of the case company's direct sales. Direct sales comprise sales that are done directly from the supplier to an end user, without any intermediaries in between. In EMEA region the case company is focusing on direct sales in Finland, Sweden, Germany, United Kingdom and France. In these countries the case company also has offices and personnel that are responsible for the domestic sales. From these countries Germany is performing the strongest and is an important industry for the case company. In Germany the sales amount is highest with majority of sales done directly and through a few distributors. (Mr. K. 2015. Personal communication)

Unlike with distributors, direct sales mainly uses pull technique when seeking new customers, but as there are some big scale companies pushing the sales will be applied. Recent addition to push sales has been after sales service; calibration packages. Still the emphasis of sales will still be on selling new products rather than focusing on after sales services. The case company is a widely known brand in its industry, and therefore if a customer makes a search to find equipment that the case company can offer, search engines will direct customers to the case company's website. Therefore the case company can rely on pull technique in direct sales. The definition of push and pull mix is that with a push technique a company will contact potential customers and with a pull technique a company will rely on its' brand and media channels. (Daniels, Radebaugh and Sullivan, 2011) (Mr. K. 2015. Personal communication)

Country	Growth %	Distributor?
Armenia		
Austria	X %	Yes
Azerbaijan	X %	No
Belgium	-X %	No
Bulgaria	X %	Yes
Croatia	-X %	No
Cyprus	-X%	No
Czech Rep.	X%	Yes
Denmark	-X%	Yes
Estonia	X%	No
Finland	-X%	Yes
France	X%	No
Georgia	-X%	No
Germany	X%	Yes
Great Britain	X%	No
Greece	-X%	No
Hungary	X%	No
Iceland	-X%	Yes
Ireland	X%	Yes
Italy	X%	Yes
Jersey	X%	No
Kazakhstan	-X%	No
Latvia	-X%	No
Lithuania	X%	No
Luxembourg	-X%	No
Macedonia	X%	No
Malta	X%	No
Moldova		No
Netherlands	X%	No
Norway	X%	Yes
Poland	X%	Yes
Portugal	X%	Yes

Romania	X%	No
Russia	X%	Yes
Serbia	X%	Yes
Slovakia	X%	Yes
Slovenia	X %	No
<u>Spain</u>	<u>X %</u>	<u>Yes</u>
Sweden	X %	No
Switzerland	X %	No
Ukraine	-X %	No

Table 1 List of Countries and Growth%

Note: Underlined countries are the targets for in depth analysis.

The above list of European countries and the case company's sales in those countries in 2014 and 2015 gives some insight on how sales have developed. Some of the red category countries have had domestic and international issues which may have a long term effect on the case company's sales. As big projects occur occasionally, decrease in some countries can be due to a big project obtained in 2014, but 2015 has been quieter in that section.

3.3 Countries of interest

According to the case company's own interests and to the statistics in the distributor sales and direct sales lists, the countries for thorough investigation are Italy, Spain and Belgium. In Spain and Italy, the industry and sales potential is currently much higher and the level should be around France's level. The growth has been positive compared to 2014, but growing way more in a short term with the current methods seems nearly impossible. As earlier mentioned, in Italy the case company has three distributors and in Spain there are two, and countries with one distributor, a smaller potential and smaller industries are doing almost the same profit annually. (Mr. P and K. 2015. Personal communication)

Belgium is currently a country where the case company is pushing sales directly. The target of analysis in Belgium is that should the case company find a local distributor?

All these countries are part of the European Union which is a benefit export wise. The exporting will be a lot easier and faster than anywhere else outside of EU.

"Generally, the more tightly controlled the distribution system, the more likely a company is to emphasize a push strategy to distributors, because it requires a greater effort to get them to handle a product. This is true, for example, in Belgium, where most distributors are small and highly fragmented, forcing companies to concentrate on making their goods available." (Daniels, Radebaugh and Sullivan, 2011)

4 Country Analysis

In this chapter the selected countries will be analyzed thoroughly, applying the theory explained in chapter 2. Also other issues that can affect the sales business in these countries will be taken into consideration. Important to notice in this chapter is that this conducted for the case company and may not apply to all industries. Country specific information is general but a big part of the outcomes are analyzed through the case company's figures.

4.1 Italy

As one of the two most interesting countries on the case company's perspective is Italy. The current sales in Italy are not satisfying compared to the actual sales potential the country has from industry point of view. The question for Italy as well as for Spain, is that what kind of methods the case company should apply in order to possibly increase sales in Italy. There is a possible increase in total for Italy, but the figures are still not satisfying, and do require further actions.

4.1.1 GDP

The current GDP in Italy is 2.144 Billion USD. And the growth from 2013 to 2014 has been negative of -0,4 which is not a big drop. To compare Italy for example with France, France's GDP current GDP is 2.829 Billion USD. (The World Bank Group 2015)

	GDP/BUSD	Industry, value added	Industrial GDP mUSD
Italy	2.144	23.4%	501.696
France	2.829	19.4%	548.826

Table 2 GDP Comparison Italy-France

Note: Actual sales and sales/industrial GDP columns are considered in the thesis outcome but are not shown.

Industry value added means GDP by industry and it "is the contribution of a private industry or government sector to overall GDP." It equals with industry inputs and outputs. (Bureau of Economic Analysis 2006)

Krugman, Wells and Graddy (2008) explain how value added figure is calculated for individual companies, but the same method applies to country's total calculation: "the difference between the value of company's sales and the value of the inputs company purchases from other businesses."

Industrial GDP has been calculated with the following formula:

$$\text{GDP} / 100 * \text{Industry value added} * 1000$$

By using the Sales/Industrial GDP reference number 8, set by the case company as a standard goal for countries. We can see from the table above that there is a big difference in sales between the two countries, even though the GDP difference is not that great. Partially the difference can arise from the fact that the case company has its own personnel and an office in France. Still, this is a good comparison as it can indicate the possible solution of having similar system in Italy as in France.

Based on only GDP and sales calculations, the case company's distributors are not doing enough sales or the case company should consider direct sales.

4.1.2 SWOT Analysis

From what we have discovered from the GDP differences is that there are some clear weaknesses that has not been turned into strengths. Or there are opportunities that the case company has not been able to take into their own practices.

Strengths are the key features in which the company is at its best, and weaknesses are the opposite. Strengths and weaknesses are not solid, but can change over time depending on the market changes. Opportunities and threats are things that might have an effect in the short or long run. These are something that company should embrace when assessing different markets. (Kotler, Armstrong, Wong and Saunders, 2008)

Strengths	Weaknesses
<ul style="list-style-type: none"> - Three distributors - Case company Brand 	<ul style="list-style-type: none"> - All distributors in one city - No direct sales - No sales control

Opportunities	Threats
<ul style="list-style-type: none"> - Increasing GDP - Sales increase annually - New products - Distributor to Southern Italy 	<ul style="list-style-type: none"> - Customer buying behavior

Table 3 SWOT Italy

The case company is a globally known brand in its' industries, which automatically brings direct value to its operations. Solid brand awareness can highly affect the customer buying behavior, because the customer knows the goods come from a trusted manufacturer.

As the case company already has three distributors operating in the market, it gives them some advantage, because of already existing large scale of customer contacts. Also they have steadily increased their sales every year, which is a sign of increasing business on their behalf as well as for the case company. But geographically there is also a weakness as all the distributors are in one city in the north, and therefore the southern areas of Italy are not fully covered. According to Mr. P., the case company is already actively searching for a potential distributor in the Southern Italy, but has not yet found one. (Mr. P. 2015. Personal communication)

According to World Bank Data, there has been annual GDP growth in Italy, which indicates to an increasing and more stable economy. The reason for GDP growth is an opportunity is that, according to Krugman, Wells and Graddy (2008) in their book Economics, they explain that instead of output increase, product and service prices might increase. This means that companies might not have increased sales. (The World Bank Group 2015)

Mr. P. has been aware of the purchase behavior of Italians that ultimately prefer local products and companies over foreign ones. But as earlier mentioned, the need for a distributor in the Southern Italy is present, and might partially solve the recent low sales from Italy. Or locating a new case company's unit into Southern Italy is also a possible solution, but first it's important to know the potential competitors and customers in that area.

4.1.3 GAP Analysis

For the potential sales of all companies in the industry in Italy, I will use the formulaic sales estimated by the case company. This will act as the top bar of the gap analysis. This figure is an estimate for the next three years.

The approximate figure of lost sales to competitors is the division of the potential sales to actual sales minus X mUSD from product line gap and X mUSD from competitive gap. In this case the number will be X mUSD, and this shall be called as point A. And the difference between the two figures is the usage gap which is available growth potential for the case company and competitors.

The case company's current sales shall act as point B. The gap between points A and B will then be divided into competitive gap, product line gap and distribution gap based on the estimates of each.

Using the figure from the book International Business:

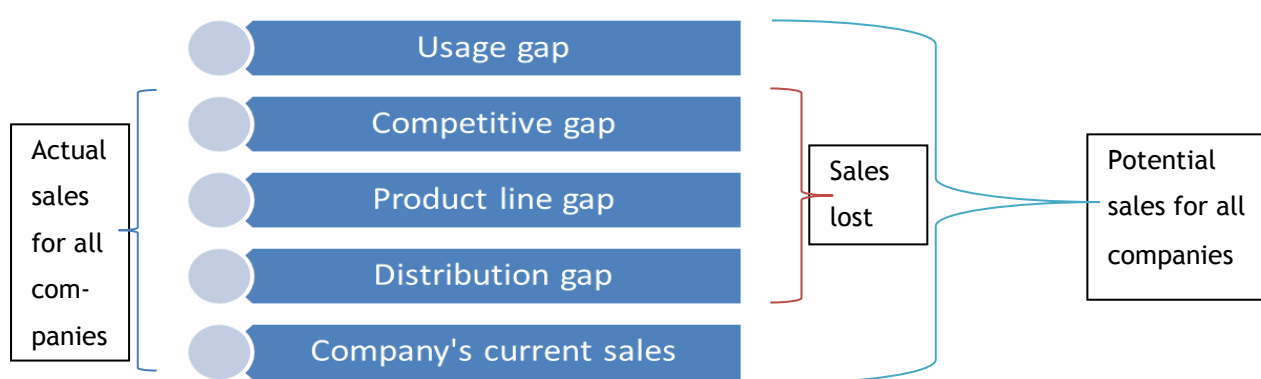


Figure 2 GAP Italy

The figures in the gap analysis table are full estimates that are based on the estimations of the amount of competitors and amount of substitute products available in the market. As stated by the case company, there are no other companies like them, but only local competitors in domestic markets that are specialized in specific products. (As an Investment 2015)

Distribution gap in Italy plays a big role due to the lack of distribution and sales in the Southern Italy. The case company's current distributors in Italy have some contacts also in the south, but still majority of the distribution is done in the Northern parts.

Product line gap is set as the lowest point for the reason that the case company's product categories have a huge variation to many competitors which give an advantage. Also the brand will have power over the customer buying behavior.

The competition gap mostly defines the unknown lost sales in the industry. In this case I have included the estimated lost sales of the case company's distributors and also the lack of distribution in the south to the total estimated lost sales.

As a short conclusion based on the investigated analysis's we can say that there's huge potential to have more sales from the Southern Italy. If we take into consideration the amount of sales acquired from three distributors in the North, there most likely will be at least a similar opportunity in the South as well. As Mr. P had said that it has been hard to find a distributor in the South, preferably from Rome, it might indicate the fact there are no companies that are capable of promoting the case company's instruments, but company itself. Keeping in mind the increasing GDP and the lack of sales, creating a test run in the Southern Italy, promoting the case company's instruments might give good results. Not to forget the consumer buying behavior in Italy, it is still essential to keep on searching potential distributors in the South because directly locating own personnel with a risk can lower the gained profit. (Mr. P. 2015. Personal communication)

4.2 Spain

In Spain there are two distributors, from which one of them has been more active in the sense of sales than the other. For these distributors the case company has set geographical boundaries for the reason that one operates in Barcelona and has majority of their customers in that area and also the other's customers are mostly in the capital area, Madrid. Despite the geographical boundaries the case company is enabling competition between the two, in hope of boosting the want of increasing sales.

4.2.1 GDP

For the GDP comparison for Spain, I have also used France as a reference.

	GDP/BUSD	Industry, value added	Industrial GDP mUSD
Spain	1.404	23.1%	324.324
France	2.829	19.4%	548.826

Table 4 GDP Spain

Note: Actual sales and sales/industrial GDP columns are considered in the thesis outcome but are not shown.

Although the difference in GDP is about half to France, we can still see that industrial GDP is not that far from France. But as the actual sales are very close to the industrial GDP, the division of the two gives an outcome that is over four times less than in France. This difference tells that there is room for improvement. Just as in Italy, Spain has had a steady growth in GDP for the last two years. (The World Bank Group 2015)

4.2.2 SWOT Analysis

For the case company, Spain have lots of opportunities to offer and less threats. Still the current status in Spain is similar to Italy's from sales perspective, which is not good. Below is the table of key elements in Spain:

Strengths <ul style="list-style-type: none"> - Strong areal sales in Barcelona/Madrid - Company Brand 	Weaknesses <ul style="list-style-type: none"> - Sales to sales potential - Big part of Spain uncovered - No sales control
Opportunities <ul style="list-style-type: none"> - New distributors - Recovering economy - Direct sales - Increasing industrial production 	Threats <ul style="list-style-type: none"> - Political

Table 5 SWOT Spain

Both distributors in Spain have been increasing their sales every year, which is promising for the future. But very much like in Italy, in Spain there is still room for great improvement. And also in Spain, the geographical limitations have some effect on the total sales. If we compare with France for example, in which the case company is covering the whole country, having a similar situation in the Spanish market can squeeze in more sales.

Spain's recovering economy is definitely one key point that needs to be monitored, as we know from 2008, the GDP in Spain was much higher than the current GDP, approximately 1.635bUSD. Also there has been continuous increase in industrial production according to tradingeconomics.com, which means that for example different manufacturers and mining firms are increasing their operations. (Trading Economics 2015)

There are always possible changes caused by the local politics, which can have some affect also in the case company's operations in the country. In Spain this is a relevant topic as they just recently have had an election for the new parliament for 2016. (McHugh 2015)

4.2.3 GAP Analysis

The formulaic sales in Spain are approximately X mUSD, which will be the total of all sales in the industry. The sales lost to competitors will the calculated in the same method as in Italy:

$X \text{ mUSD} - X \text{ mUSD} - 200 \text{ (deducted from product line)} - 100 \text{ (deducted from competition)} = X \text{ mUSD}$

The total sales lost to competitors will be divided between the competitive, product line and distribution gap. From which distribution gap is set as the highest gap because it can have the biggest effect on the case company's sales in Spain. As previously mentioned, both distributors that operate in Spain are very much geographically bounded to operate in near their own offices (because of customer locations), which leave a big portion of Spain outside of the distribution area. (Mr. P 2015. Personal communication)

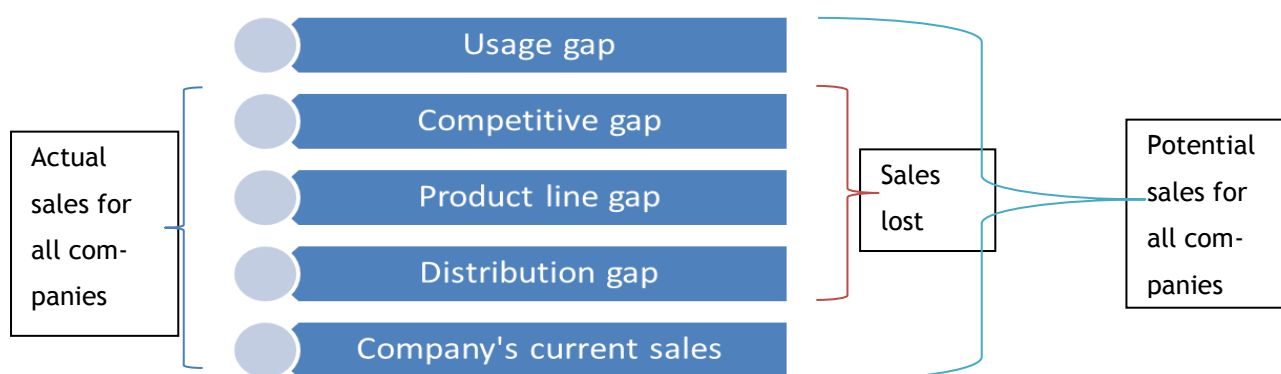


Figure 3 GAP Spain

As discussed earlier, the situation in Spain is similar to Italy, and therefore the estimates are set according to the case company's current status in the country and industry, GDP growth and SWOT Analysis. There are some differences on a general level that might sway the figures, but ultimately the both countries have geographical issues, both countries are recovering from the Great recession and also current distributors are covering their operations in their areas very well. But both countries have areas where the case company has the potential to make new sales.

(Wikipedia 2015)

4.3 Belgium

Unlike previously analyzed Italy and Spain, Belgium comes with an opposite interest to the case company. Belgium has currently been one of the major direct sales target for the case company, having great amount of sales every year; in 2014 in Belgium there were sales of X mUSD and in 2015 it is most likely going to be exceeded. This has raised a question of should the case company, instead of direct sales, apply and find a distributor in Belgium? This question will be analyzed using the same theoretical tools but from a different angle and also a brief analysis of the industries in which the case company operates in, will be conducted. This analysis will be a supporting assessment for the outcome of the complete country analysis.

4.3.1 GDP

For this evaluation I have selected Austria as a country of reference, because Austria has a similar status to Belgium in terms of GDP, industrial growth and case company's sales. Also, such facts that sales/industrial GDP in Austria is higher by one point and that in Austria, the case company has a very active distributor making most of the sales of that country. Therefore comparing these countries will give a better reasoning and support on whether the case company should try to find a Distributor in Belgium.

	GDP/BUSD	Industry, value added	Industrial GDP mUSD
Belgium	532	22.5%	119.588
Austria	437	28.4%	124.108

Table 6 GDP Belgium

Note: Actual sales and sales/industrial GDP columns are considered in the thesis outcome but are not shown.

The GDP growth has been very similar in both countries, but as we can see from the table with a smaller GDP Austria has been able create more profit for the case company, with only one distributor in the country and no direct sales. By only analyzing GDP figures we could say that there could be some potential for the case company to improve in terms of profit rather than sales. Here it is important to remember that the case company has been doing direct sales to Belgium which does not include any distributor discounts and therefore an assessment of expenses between the two methods needs to be made.

4.3.2 SWOT Analysis

The SWOT analysis for Belgium has to be created from a different perspective as the country is already performing really well. The analysis needs to include factors that might affect the sales and profit if the case company would leave Belgium in the hands of a distributor. After the SWOT analysis there is a short cost + profit/loss analysis to indicate the numerical loss/profit of the possible switch.

Strengths	Weaknesses
<ul style="list-style-type: none"> - Strong direct sales - Company Brand 	<ul style="list-style-type: none"> - No distributors - Limited growth capacity

Opportunities	Threats
<ul style="list-style-type: none"> - Additional sales channel (distributor) - Strong, slightly growing economy - Technology and Science oriented 	<ul style="list-style-type: none"> - Small and fragmented distributors - Decreasing sales due to possible distribution (higher price)

Table 7 SWOT Belgium

As stated in chapter 3.3, according to Daniels, Radebaugh and Sullivan (2008), in their book: International Business: Environments and Operations they state that Belgian distributors are generally small and fragmented. This can be a reason for many companies having direct sales in Belgium, as they have not found a solid and potential distributor to do sales.

On the other hand, the case company has strong direct sales in Belgium, and it has been growing annually. But when considering the growth in the industry, they could profit more on having a distributor together with the direct sales. Additionally a complete change from direct sales to distribution can also be a solution but should be done in small steps. When considering the threats of having unsure distribution handling the sales in a country can give poor results. Also the fact that Belgium is a fully developed country with steadily growing GDP can in some cases mean a limited potential of multiplying sales in the short run. (Trading Economics 2015)

Belgium has a lot of emphasis on science and technology, which comes as a potential opportunity for the case company. And as these industries grow, it is highly possible that sales will grow at the same pace. (Wikipedia 2013)

4.3.3 GAP Analysis

The calculated potential of total sales for the industry in Belgium is the formulaic sales of approximately X mUSD. And unlike the previous calculations the values for gaps will generated differently.

$X \text{ mUSD} - X \text{ mUSD} = X$ from which approximately 50% is the competitor sales (competitive gap, product line gap and distribution gap)

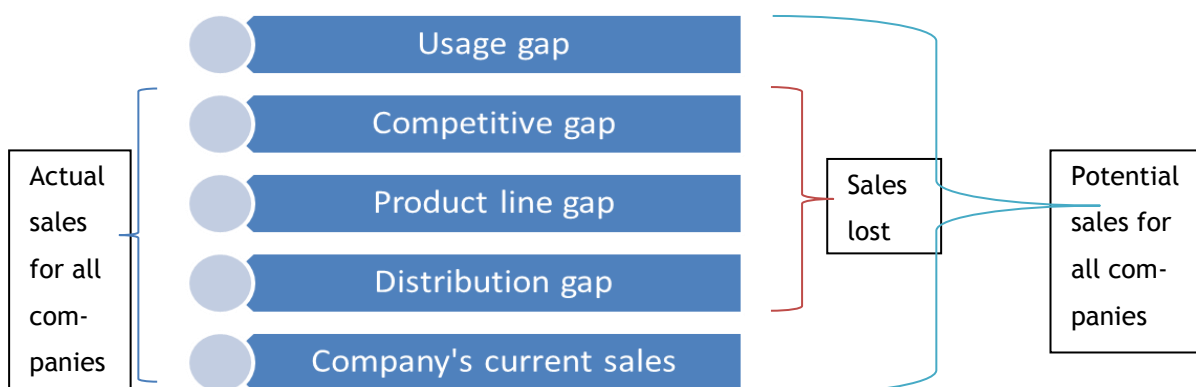


Figure 4 GAP Belgium

The distribution of the values to gaps can be explained with the conducted analyzes of GDP and SWOT. As mentioned earlier, the case company has strong direct sales in Belgium that covers the whole country. With dedicated salespersons the sales are reaching over half of the total formulaic sales in the industry, which means that the case company is generally holding the peak position in the market.

By estimation as in every EMEA country, the brand has a strong influence on customers which will not cause high losses on the product line gap. Also as direct sales are covering the whole country there is no major losses in distribution gap either, but for the analysis I have included some amount to balance the estimated figures.

Therefore as the case company is not making bigger losses on the two sectors, the remaining sales lost in the market stays unknown. When comparing the competitive gap to the case company's total sales, it can be assumed that this amount is taken by local competition which the case company should overcome.

Competitor analysis based on Porter's five forces analysis is conducted in the next chapter 4.4. The chapter is discussing the competition on a general level to better understand the competition in these countries. It will also support all the previously conducted analyses.

4.4 Porter's Five Forces analysis

To better understand an industry, it is important to evaluate competition and opportunities. This can be done with different methods from which I have used Porter's five forces analysis that analyses industry from five different perspectives. This method works well together with previously conducted SWOT analysis, as Investopedia.com explains that SWOT analysis is evaluating the micro environment whereas Porter's five forces analysis assesses macro environment. (Investopedia 2015)

4.4.1 Competitive Rivalry

The amount of competition in the investigated countries is not affecting as much on the case company sales as do the other forces. From what we have learned earlier is that in Italy and Spain the sales are on a good level on those areas where the case company's distributors are operating. The bigger issue is the lack of distribution in other parts of the countries. Also in

Belgium the sales are on good level. Therefore as a unique firm, with large product categories and decent sales on the specific areas of operation, the case company's suffer from industry rivalry is minimal.

4.4.2 Threat of new entrants

For Italy and Spain the threat for new entrants is greater, as the case company's distributors are not covering the whole country. This can lead to an issue when entering the uncovered areas. The case company has competitors that can provide similar items to consumers and therefore it is necessary to actively monitor the industry situation in Spain and Italy, before entering becomes even harder.

In Belgium there is little threat, because the case company has been covering the sales in the whole country for several years, and because the case company is a well-known brand the possible new entrants are not a direct threat. The case company is monitoring the market every day as it is one of the direct sales countries, where the results have been very positive.

4.4.3 Threat of Substitutes

The threat for substitutes for all three countries is very low. The case company's products are highly technical and are used for specific purposes. The only substitutes are products that come directly from the competitors. The case company has several local competitors in these countries that are capable of providing similar options to some extent, in some product categories. But as already mentioned a few times, also here it is fact that the case company is a globally known brand in these industries and therefore the quality and trust might become a key factor when it comes to threat of substitutes.

4.4.4 Bargaining Power of Buyers

The case company's distributors have some bargaining power, because in many cases they are the ones responsible for the sales in their domestic market. Distributors often have competition with other firms over various projects which will require the case company's distributors to also have some say in the competition. Usually the price is being negotiated so that the distributors can offer the best price/quality ratio. This is important to every supplier, but there must a certain limit, because these projects still need to be profitable for both parties; supplier and distributor.

End users usually don't have any bargaining power, unless it is an important and big customer. They may have several other firms to choose their products from, but price tends not to be negotiable for them, excluding exceptions. (Capon, 2009)

4.4.5 Bargaining Power of Suppliers

The case company as supplier and manufacturer of their own products can determine the prices for each product. As Claire Capon explains in his book: Understanding the business environment, in industries that have only few suppliers can they adjust pricing so that it makes a good profit and gives a better influence the outside. This applies to the case company because they have several competitors in total, and many of them can provide substitutes, therefore they cannot put all the prices as high as they want. Instead they need to be profitable, yet competitive as they currently are. (Capon, 2009)

5 Key Outcome and Conclusion

This chapter will conclude the whole thesis and discuss the key outcomes. The conclusion will include suggestions to the case company based on the analyses done in this chapter.

The purpose for using the selected analysis tools for assessment of each country was based on the facts that required further research, in order to understand the country better from the case company's perspective. The GDP analysis gives the general idea of how the economy in the country is developing. As Investopedia explains GDP, it measures the nation's total economic activity. By GDP only it can be estimated how well the country is going to perform, especially if there has been a great drop or increase compared to the previous year. (Investopedia 2015)

By putting everything into perspective and evaluating the difference in business between France-Italy and France-Spain, we know that in France, the case company has extremely active direct sales covering the whole nation. Local customers will get pre and after sales service in French, and therefore the outcome and profit from France is as high as possible. It is the same in every country where the case company has an office. In comparison to France; Italy and Spain, the sales are not covering the whole nation, only some control on the sales and some lack in product promotion. As the case company cannot control the actions of distributors as they want, the results can be as they are now. In addition to the analyses conducted in earlier chapters, we can say that in order to increase sales in both of these countries the product promotion and sales activity must be increased and spread geographically.

Moreover the geographical issue in Italy and Spain are the most critical ones that should be properly analyzed, because in Italy, as said before, all three distributors are in the North, and also the current potential fourth distributor is also from North. This does bring more competition to the North, but still the Southern areas are lacking the case company's contribution. Important to note is that Northern Italy is more industrial-oriented area than South and it could mean that there are more potential firms that could become distributors. The difference is still not so great that it would exclude the opportunities in the South. (Bertacche, Pasquale and Salzano 2015)

As a suggestion, the case company could draft an opportunity costs calculation and estimate the cost/profit ratio for placing, for example, fixed term direct sales to Southern Italy. As the search for a new distributor in the South has been difficult the only way in the short run is to apply direct sales or simply find a distributor with great amount of operations in the South as well. Rome is also a big city with a lot of technological background.

In Spain, the distributor in Madrid has been an active promoter of the case company's instruments and also the sales have been increasing annually. They are promoting other products as well and that decreases the efficiency received by the case company. The other distributor on the other hand has been less active for the past year and its' operations being in mainly in Barcelona, also causes a distribution gap that affects the total loss. Barcelona is also the second biggest city in Spain, and therefore the sales in this city should be much higher than they are now.

For further operations in Spain, the case company should monitor the development of the country and also see how well the distributors are doing for at least 6 months to a year. Upcoming political changes can affect any business in the industry.

Annually increasing sales is a positive sign, but in the short run a new distributor to the uncovered areas could improve the results in Spain on a quicker phase. Barcelona should be monitored, how their sales figures develop during the next couple years. As in Italy the possibility of using direct sales as an additional method can improve the annual sales, but the fact that the case company has a distributor in Madrid, which is very much in the Middle of Spain, the areas they are not covering and the opportunities in these areas should be further analyzed. A new distributor would be a better solution if the potential is comparable. With a new distributor there would be even more competition between the firms and it causes firms to increase their effort in business.

As for Belgium we know that the case company has strong direct sales and dedicated salespersons for Benelux countries altogether. From the analyses we learned that there are some

risks and factors that may affect the decision making in whether trying to locate a distributor in the country.

The case company is currently covering most of Belgium, and if the customers experience an increase in prices it might lead some of them to use the available substitutes. This although is a minor risk as previously discussed, but when applying the fact that distributors generally are fragile and small in Belgium, the chances of finding a working relationship with another firm can be a challenge. Businesses develop all the time and there still is an opportunity to find a distributor as a new channel to run sales, but the system should not require any reductions in the short run in direct sales, due to the risks and threats that circle around prices and the limited economy growth.

As compared with Austria, it is highly possible to have great amount of sales by just having a single distributor in a country. Taking into consideration the GAP analysis estimations, the amount of sales lost to competitors in the country is very small. The risk for losing customers due to a change to external distribution is low compared to the reduced costs, from which the case company would benefit.

For a better profit in Belgium, the case company should seek for a distributor and slightly reduce the direct effort to the country if the estimation for a needed profit from a distributor is fulfilled. As Mr. P has said, it takes a couple years for a distributor to reach its' full potential, and therefore the process for switching from direct sales to distributor has to be slow and properly monitored.

The case company as globally know brand in its industries and has great opportunities to increase business every year. Growth often requires changes in business methods and this thesis analyzed one very specific part of the business, and its' possible changes.

The results of the research were somewhat expected, as the case company has done some research on this matter already. But this thesis analyzed the theoretical thoughts even further. My suggestions to the case company are purely based on the research as a whole, including interviews and other resources.

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Appendix 1 Interview questions to Mr. P.

Interview questions to Mr. P, Sales Manager,

How the case company's distributors succeed in 2014 and 2015?

Finding new distributors:

- What requirements
- How does it affect the case company
- Distributor pricing, how does it affect?
- What kind of matters are considered when locating new distributors?

What actions are done in countries that perform poorly?

Located new distributors, applied direct sales?

Countries where the case company has both sales channels in use, are they affecting sales/profit negatively?

Distributors in 2016 - Expectations?

Countries of interest?

Appendix 2 Interview questions to Mr. K.

Leading questions for the interview with Mr. K.

Push and pull methods - which method direct sales use?

Which countries have emphasis on direct sales?

To which countries and what products should be promoted?

What kind of analyses has been used in the past when evaluating the businesses?

Countries of interest?