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# Market Entry Strategies for Finnish ICT Company in Emerging Markets

Case: LeiaMedia Oy in Tanzania

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This thesis examines the selection of right distribution channel strategy for Finnish ITC company in emerging markets. The untapped potential of rapidly developing economies in Sub Saharan Africa present new market opportunities for companies in developing countries and LeiaMedia Oy wants to enter the market before it comes too saturated with competition. The research aims at understanding more deeply the prevailing conditions in Tanzania from the point of the case company and identifies the challenges the weak infrastructure and socio-economic conditions present.

The primary research was conducted via email questionnaire to survey the behavioural responses of potential buyers in Iringa region, Tanzania regarding Leia LivePaper. The study attempted to predict consumers' consumption habits and define if the market potential is sufficient to sustain continuous product manufacturing in China. The findings are contrasted against secondary research observations that discuss the theories of different market entry modes and implications the "bottom of the pyramid" concept has in acceptance of new technologies.

It became evident that any firm from developing countries entering emerging markets must rethink their ways of operating in host environment due to unfulfilled customer needs and rapid evolution of ICT industry. Coming up with new innovative offerings and business practices in order to succeed in the market entry is crucial to make the business venture profitable in the long run.

Keywords	Bottom of the pyramid, distribution channel strategy, emerging markets, e-reader, exporting, FDI, foreign market entry, ICT, JV, infrastructure, LeiaMedia, LivePaper, Sub Saharan Africa, Tanzania
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## Contents

List of Figures and Tables	ii
Abbreviations	iii
1 Introduction	1
2 Research methods	3
2.1 Objective, scope and limitations	3
2.2 Data collection and analysis	5
3 International market management in emerging markets	7
3.1 Global logistics environment	8
3.2 Export product and competitiveness	10
3.3 Inventory	11
3.4 Transportation and packaging	12
3.5 Customer service	12
4 Market entry strategies	14
4.1 Exporting	15
4.1.1 Indirect exporting	16
4.1.2 Direct exporting	18
4.2 Joint venturing	19
4.3 Direct investment	22
5 Foreign marketplace analysis	24
5.1 Operating environment	24
5.2 Political and legal	25
5.3 Economic	29
5.4 Sociocultural	30
5.5 Level of technology	32
5.6 Logistics environment	35
6 Results analysis and discussion	40
7 Conclusions	43
7.1 Recommendations	43

7.2 Further research	45
8 References	47

Appendix 1. Interview questions

Appendix 2. Interviewee profiles

### **List of Figures and Tables**

Figure 1. Global logistics environment	9
Figure 2. Leia LivePaper reading device	10
Figure 3. Market entry strategies	14
Figure 4. Indirect export model for LeiaMedia	17
Figure 5. Direct export model for LeiaMedia	18
Figure 6. Strategic Alliance Motivations	20
Figure 7. Postponed manufacturing model for LeiaMedia	22
Figure 8. Map of Tanzania	24
Figure 9. Corruption in Tanzania by institution	26
Figure 10. BOP spending on ICT	33
Figure 11. Country score card: Tanzania	37
Figure 12. Transport infrastructure in Tanzania	38
Figure 13. Entry mode comparison	43
Table 1. Global logistics performance indicator	36

## List of Abbreviations

3PL	Third Party Logistics Provider
AfDB	African Development Bank
B2B	Business-to-business
BOP	Bottom of the Pyramid
EAC	East African Community
EM	Emerging Market
FDI	Foreign Direct Investment
ICT	Information and Communications Technology
JV	Joint Venture
MTO	Make to Order
OECD	Organisation for Economic Co-operation and Development
PPP	Public Private Partnership
R&D	Research and Development
SME	Small and Medium Enterprise
SSA	Sub Saharan Africa

## 1 Introduction

Understanding the target market is the foundation for successfully entering global marketplace. Particularly unfamiliar business territory for firms in developing economies is Sub Saharan Africa (SSA), formerly highly dependent on development aid. Even though recently showing clear signs of its growth potential, many Finnish companies lack the knowledge and resources to thoroughly exploit the opportunities SSA presents. The challenges for entering SSA markets are different from other continents. Its size combined to relatively low population density, the lack of basic amenities in many areas, poor infrastructure and political conflicts cause great challenges for foreign market entrants.

One company aiming at Sub Saharan marketplace is Finnish ICT company LeiaMedia. LeiaMedia intends to distribute an e-reader they manufacture for the elementary schools in rural areas of Tanzania to support the local education projects. LeiaMedia Oy is a Finnish start-up company located in Espoo that was founded after a successful joint research project from Aalto University and Metropolia UAS. The company manufactures an e-reader, Leia LivePaper that properties are comparable to those of traditional paper but presented in a new digital format. The device can be utilized for example by media companies, educational institutes, and retail businesses when distributing relevant content to readers (LeiaMedia, 2013).

Leia LivePaper can serve as an alternative to the traditional printed newspaper or textbook. It is slightly smaller than A4 size sheet of paper and it can display still images and other reading content using colour electronic ink. The reading content is downloaded from a cloud server either using a mobile phone or computer, then distributed to LivePaper devices via Bluetooth. The device has an infinite usage time due to its capability of charging both indoors and outdoors and has high operating reliability even in the most challenging conditions (LeiaMedia, 2013).

The main objective of this research is to generate an overall market analysis of Tanzania for LeiaMedia and outline the main distribution challenges of the device in Tanzania hinterlands. The research is conducted to bridge the gap between theory and

practice and to familiarize the case company with the existing business environment of Tanzania. The findings of this research are expected to answer the question: "What macro environmental factors affect LeiaMedia's decision-making process when choosing the right market entry options and resolving the issues related to Leia LivePaper distribution in Tanzania?"

This research examines different international business market entry strategies for LeiaMedia in Tanzania. Findings from secondary research are presented in Chapters 3 and 4, where international market management and foreign market entry strategies are studied. Overcoming the existing barriers is critical for successful market entry in the destination country. An overview of Tanzanian business environment is presented in Chapter 5, where primary data acquired through email surveys will be discussed together with support from market specific secondary data. Results analysis and discussion take place in Chapter 6. Finally, conclusions are drawn in Chapter 7, followed by recommended action plan for the case company. Since this study is conducted to respond to specific organizational needs, the findings of the research are not to be generalized to apply to the whole ICT industry as such.



## 2 Research methods

The research method chosen for this study is exploratory with a purpose of acquiring a more coherent perspective of scattered information at hand. Qualitative evidence in this case better provides organization specific results, which further help the case company to better understand the prevailing conditions of foreign business environment and helps in indicating specific areas relevant to study further in-depth. For secondary data, the material available through public online databases and library e-resources were in a great role when acquiring information on the topic. Textbooks written on the topic are only used in defining a theoretical framework for the study. Due to limited research made of the topic at hand primary data acquired through email surveys complements the secondary research.

The theoretical framework for this particular research comes from foreign market entry strategies and their implementation in developing markets. This research consists of two parts: the first part focuses on secondary research consisting of relevant literature on international market management and market entry strategy theories. These theories support the gathering of objective evidence in second part of the research. The second part examines situational factors of Tanzania in attempt to better define the local business environment and give more insight in the study problem at hand. A brief look at C. K. Prahalad's 'Bottom of the Pyramid' (BOP) concept is taken and examined its relevance to Leia LivePaper acceptance in local markets. This information is collected from both primary and secondary sources.

### 2.1 Objective, scope and limitations

The objective of this research is to generate an overall analysis of Tanzanian business environment and distribution structure from the view of a Finnish ICT company. The research is conducted by using LeiaMedia Oy as a case company. The purpose of this study is to outline main internationalisation challenges for a small and medium enterprise (SME) as well as circumstances affecting the device distribution in Tanzania. The study aims at familiarizing the case company with the macro environmental factors

of Tanzania and providing better understanding to the underlying issues of going global.

The study focuses on the physical distribution of Leia LivePaper in its second phase of international market entry. It tries to clarify the possible risks and opportunities of the chosen foreign market entry mode. In this specific case there are two different distribution components: there is the global distribution of physical device and the local distribution of device contents. To narrow the focus, this study only concentrates on the physical distribution and ignores the distribution of contents. The critical factor for the case company is to obtain sufficient product volume in units sold. This is needed to be able to manufacture the device at projected target price. To achieve the desired manufacturing volume and obtain the scale of economies the firm needs to define the right distribution channel strategy that can support the uninterrupted production of the e-reader in China.

Currently LeiaMedia's market entry is planned to take place in two subsequent phases. The first step is to conduct a pilot phase that is carried out in cooperation with a strategic partner. To maintain a clear focus the first phase of the case company's market entry strategy is excluded from this research and the scope is narrowed to examining only the second phase of the market entry. Therefore, for this study, it is assumed that the first phase of market entry is conducted successfully with an appropriate partner and an adequate proof of concept has been obtained.

There are limitations that affect conducting this research. There are existing gaps in literature; relevant material regarding the specific topic area is scarce or non-existent. There is very little data available to conduct an exhaustive secondary research for the topic area is yet unexplored for the most part. It also needs to be taken into account that there are limitations from the researcher's side due to cultural conditions and little experiential knowledge. This all may contribute to the failure of recognising all relevant factors in regards to the market entry. As for primary data, the locale where the study is conducted affects the findings; there was a difficulty of reaching people who can provide sufficient information on the subject area. The geographic distance and possible language barriers may affect the reliability of information, especially when

conducting interviews. It can cause misunderstandings both when acquiring information and interpreting the results.

## 2.2 Data collection and analysis

Malhotra, Birks and Wills (2012: 1) define the role of marketing research and its contribution to firm's strategic objectives as following: "Researchers support decision-makers by collecting, analysing and interpreting information needed to identify and solve marketing problems". They continue by observing (2012: 21) that marketing research itself is not decision-making; even at its best it can only provide sound information and remove any uncertainties and lack of knowledge on problem at hand. Small organisations need information about the markets and competitors just like large firms do. Adding international aspect to the mix, the process gets more complex. Luckily, the improved technology nowadays allows an access to vast amounts of information from online resources. This makes it a lot easier to obtain information and to conduct overseas research even in a small start-up with small budgets and no prior experience (Kotler, Armstrong, Harris and Piercy 2013: 131).

The approach of the study is a problem-solving case study method with reference to relevant literature. As mentioned earlier (see page 3) the theoretical framework for the study comes from foreign market entry strategies. All country specific data collected is interpreted against this criterion. Secondary data for Tanzania is gathered from public databases as well as up-to-date online articles and publications. The data is retrieved mainly from external sources, such as several businesses, governmental and nongovernmental services. Part of the secondary data is collected from literature and online database research articles to form a comprehensive overview and generate quality observations. Secondary data serves as a foundation for gathering primary data and helps to validate research findings (Malhotra et al. 2012: 119).

Because of the limited access to secondary data, primary data acquired will complement the research. Data collection happens through semi-structured interviews conducted via email questionnaire. The sampling procedure chosen is nonprobability sampling, mostly due to cost and time limitations. Judgment sample as sampling technique is further used to select suitable interviewees that can provide adequate

information on the research question at hand. Sampling unit is limited to two persons with previous experience from Tanzanian rural area and the use of Leia LivePaper. This approach has its limitations, as John Webb (2002: 56) points out, for it does not allow the measurement of sampling error.

All information gathered is evaluated against the criteria of its relevance to managerial knowledge and future decision making process. As many different sources as possible are used to obtain comprehensive data of the research problem at hand. All data collected is analysed by looking for patterns in both primary and secondary sources, such as key words that frequently show up. The objective for which secondary data is gathered is evaluated carefully to ensure its dependability (Malhotra et al. 2012: 120). Therefore, the criteria for evaluating data are set high. Due to Tanzania's constantly evolving business environment a large proportion of relevant data gets dated relatively fast; therefore the topicality and reliability of information needs to be considered carefully.

### **3 International market management in emerging markets**

Modern businesses need to recognise that competition nowadays is not domestic only – the markets abroad and competitors therein cannot be overlooked when trying to enhance company's competitive position. The nature of ICT industry both enables and pushes enterprises to go global and influence in a foreign business environment. The decision to internationalise operations needs to be based on the business strategies of a company. Compared to domestic markets international market management is more complex and therefore requires special attention and profound planning. Screening the issues such as profitability of the market, adequacy of company resources and understanding the unique requirements of the customers in the destination country are fundamental regardless of the size of a company, as Scarborough notes (2012: 392-93). This does not only help in targeting firm's marketing efforts but also helps to forecast the industry development.

The development of global economics and the trends in the industry require companies to strategically assess the right entry mode and timing to market their product. Entering early in emerging markets (EM) LeiaMedia can benefit from the first-mover advantage, which means that a firm can gain access to certain resources easier because of the lack of competition. Kotler and Keller (2012: 334) affirm that early entrants are more likely to gain advantages that also LeiaMedia seeks after, such as establishing brand image and achieving scale economies. Early entry enables first-movers to gain large market shares faster and dominate the market in the absence of competition, as Cavusgil, Ghauri and Akcal state (2013: 250-3).

Another important aspect of the first-mover advantage is the better accessibility to important decision makers. Basic education is a societal issue strongly affiliated with national political decision-making. Usually in EMs the decision maker, financier and actor are different parties (Cavusgil et al. 2013: 250-3). This makes the eventual decision-making difficult and it can be overshadowed by lengthy procedures and corruption (Lindner 2014: 3). Even smallest changes in trade policies can undermine firm's ability to operate in the country. Therefore, to carve out those obstacles by establishing and managing stable connections with foreign government and local

network members is a major advantage that needs to be taken into account (Cavusgil et al. 2013: 251, 320).

### 3.1 Global logistics environment

Kotler et al. (2013: 370-1) observe that the importance of marketing logistics as firm's competitive advantage has increased lately as the focus has shifted from transportation and warehousing to more customer oriented approach. Customer satisfaction strongly depends on the levels of company's logistics management and its additional elements of physical distribution, such as information management and inventory. Logistics functions are interdependent and balance between different elements cannot be maintained unless these functions are strategically linked with corporate strategy. Any management decision affecting corporate strategic objectives has cost trade-offs in other areas of marketing logistics (Grant, Lambert, Stock and Ellram 2006: 387-91).

Identification of the right channel alternatives is a complex process for many factors needs to be considered. The degree of control over operations, investment required, amount of risk, and operating costs are all determining factors. There are also other variable elements in global logistics environment that affect a firm when it decides to go global. Grant et al. divide these elements in two different categories characterised by several factors, as presented in Figure 1. Together these controllable and uncontrollable situational factors affect the distribution strategies a company decides to implement and its capability to compete effectively (2006: 360, 390-3).

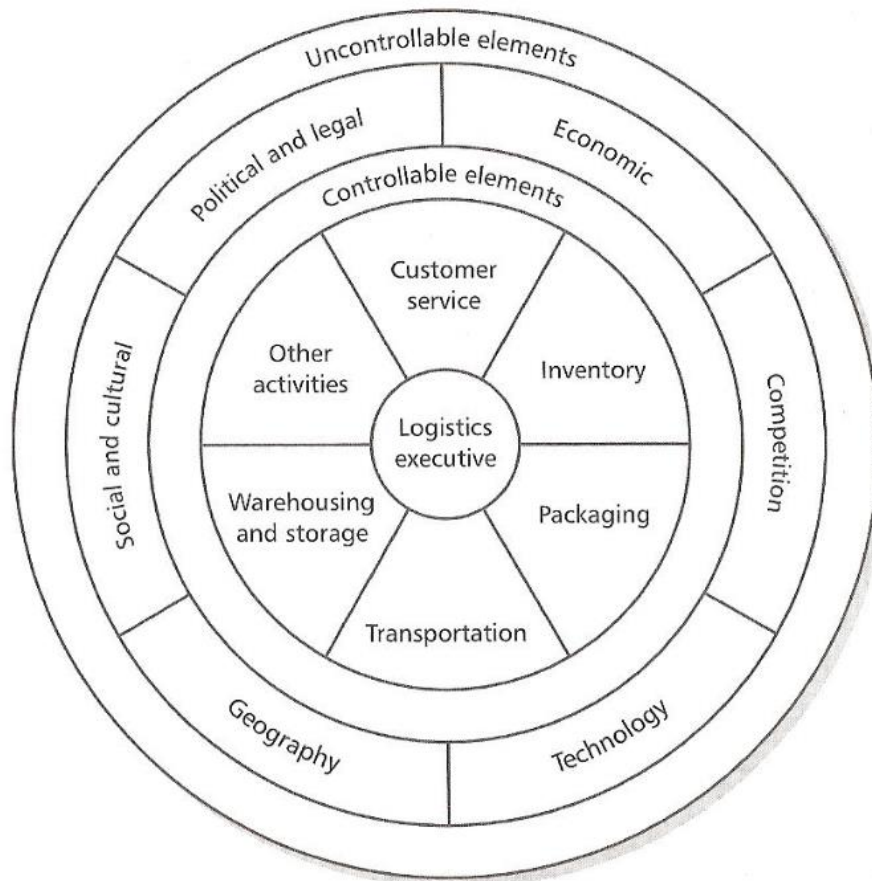


Figure 1. Global logistics environment

A thorough market analysis paves way to a proper strategic planning. As Albaum and Duerr (2011: 29) state, the macro environmental factors affect a great deal in the marketing management approach the company decides to adopt and implement. For this specific research the uncontrollable elements presented in Figure 1, also known as PESTLE factors, for Tanzania will be examined. The cultural characteristics that influence distribution channel strategies and international market management are: political, economic, social, technological, legal and geographic factors. The behavioural responses for the Leia LivePaper introduction in Tanzania can be predicted by analysing these existing factors (Kotler and Keller, 2012: 96). Together these forces shape the business environment and are later examined in more detail in Chapter 5.

As mentioned earlier (see page 7) market entry modes are critical for business success. Usually, international distribution of goods comprises of the mix of different service and cost variables. The main aim is to provide acceptable levels of service to customers at

minimum cost. Activities that induce costs are: inventory, packaging and containerisation, transportation, warehousing and storage, customer service, and other activities like sourcing (Grant et al. 2006: 360-3). These are the controllable elements illustrated in Figure 1. In following sections we will go over in more detail some of the major logistics functions of the case company applicable to this study.

### 3.2 Export product and competitiveness

To determine product suitability for foreign market LeiaMedia must look into certain product specific strengths. To have their product accepted by foreign buyers, there are several factors that should be considered. The most important ones that apply to the case company are discussed in this sub section (Cavusgil et al. 2013: 329-31).

LeiaMedia's e-reader, called LivePaper, is a unique offering with no exact competing product in the market. It is an e-reader fully powered by solar energy or ambient lighting, which makes it technologically advanced compared to other reading devices for it needs no grid electricity to charge. The device has an infinite usage time due to its capability of charging both indoors and outdoors and has high operating reliability even in the most challenging conditions. For this reason the climate in the destination country has little effect on the usability or reliability of the device. The device is 6 millimetres thick, weighs 440 grams and is made very durable. That makes it suitable for many different user groups (LeiaMedia, 2013). LivePaper is displayed in Figure 2.



Figure 2. Leia LivePaper reading device.



LeiaMedia is in a phase where it must seek new markets and users for its product. Firm is looking for growth through internationalisation and any logistics decision the firm makes must be based on the business strategies of the company. The marketing logistics strategy that LeiaMedia needs must be based on the appropriateness of chosen distribution channel being able to support demanded volume of devices and enable uninterrupted flow of goods without sacrificing customer service levels.

LeiaMedia has outsourced its production and uses contract manufacturer in China to manufacture LivePaper. The internationalisation in supply chain depends mainly on the cost requirements and production capabilities of a foreign manufacturer compared to domestic ones. By sourcing globally LeiaMedia can gain access to cheaper labour and components and focus on their core competency that is R&D (Cavusgil et al. 2013: 222-24).

### 3.3 Inventory

It is a balancing act to carry enough stock to fill customer orders on time and at the same time reduce the risk of the product becoming obsolete. Kotler and Keller state that inventory carrying costs can be up to 30 percent of inventory value (2012: 489), whereas Grant et al. claim it is 50 percent or even more in international marketing. This discrepancy most likely depends on conditions in foreign markets that are subject to review and variable inventory management systems. One thing adding to high costs is in-transit inventory, more precisely the part of the total product volume that is tied in transit. The pricier the product and the longer the distances in international transit the greater the inventory carrying costs are (2006: 362). This all affirms that a firm to be able to plan for capacity requires an awareness of different inventory strategies as well as uncontrollable elements of the global logistics environment (see page 9).

Anticipating consumption and matching it with production is a demanding task. LeiaMedia's aim is to execute manufacturing as orders are received. There is a lean manufacturing process that the firm wants to implement called make-to-order (MTO), where timely execution of the whole manufacturing process from design to delivery is planned according to customer specifications (Harrison and van Hoek 2011: 188-9). MTO helps to eliminate waste in production, materials and labour, thus improving

product quality and timeliness of delivery. Specific to MTO, compared to other demand management strategies in the logistics pipeline, is the aim to produce exact quantities and then directly ship the order to the customer, as Bowersocks, Closs and Cooper state (2010: 87-90).

### 3.4 Transportation and packaging

LeiaMedia's main office, production facilities, and customers are all in different locations. Because Leia LivePaper order sizes are yet unpredictable, that further creates uncertainty of the most suitable modal choice (Rushton, Croucher, and Baker, 2010: 335-6). This affects not only transporting costs but the levels of customer service as well. Transportation choices affect total cost of the product and therefore are an important element in marketing channel management. There are four main transportation modes: rail, air, water transportation, and road. Also intermodal transportation, where two or more modes are combined, is used to achieve the most convenient and cost-effective outcome (Kotler et al. 2013: 373-4).

Transportation mode contributes to the packaging decisions made. In international transport products need to be packed more carefully to avoid damage. Thoroughly thought-out packaging eases product handling, protects from climate, and prevents pilferage (Grant et al. 2006: 362). The advantage of Leia e-reader is that the product is not very bulky and is resistant to mishandle. It can withstand even harsh conditions, which reduces the need of protection during transport.

### 3.5 Customer service

Customer service is in central role in logistics processes; it aims at maximum levels of customer satisfaction at minimum cost. It can be the most important factor for a firm to gain strategic advantage over its competitors for it is difficult to imitate. A sufficient level of customer service is hard to define but it is an important objective because it prevents costs that result from lost sales. Maintaining customer satisfaction in international environment and especially in an EM can be a daunting task due to differences in infrastructure, culture, geographic distance, and more. However,

customer dissatisfaction can hamper future sales and hurt brand image if not handled with finesse (Grant et al. 2006: 17-19, 41-58).

There are different costs that accrue of servicing buyers that can be hidden. Porter (2004: 118) especially stresses the importance of doing a thorough study and cost calculations to ensure that the firm is capable of servicing their clients. Porter lists the following reasons for varying costs: order size, the selection between direct selling and intermediaries, lead time, steady order flow in order to plan operations and logistics, selected mode of transport, and the need for product customization and modification. Institutional voids and infrastructure inefficiencies in EMs further increase costs for foreign market entrants and affect market entry strategies a firm decides to adopt (Cavusgil et al. 2013: 63).

## 4 Market entry strategies

The physical movement of goods that transfer company's products from the manufacturer to the end user is called distribution channel or marketing channel, respectively. Different distribution systems sustain the transactions made between the seller and the buyer, ensuring production stability that is needed to control inventory levels, avoid redundancy and provide sufficient levels of customer service (Albaum and Duerr 2011: 392-4). These channel decisions are made domestically and internationally, depending on the objectives of a company. When international sales are important for a company they screen the potential foreign markets to enter and determine the right mode of entry into these markets (Kotler et al. 2013: 578).

[An entry mode is] a structural agreement that allows a firm to implement its product market strategy either by carrying out only the marketing operation (i.e. via export modes) or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly-owned operations) (Sharma and Erramilli cited in Albaum and Duerr 2011: 392).

The decision on how to enter the market is integral in order to successfully obtain company objectives and ensure future profits. The case company needs to decide on the most appropriate method to enter foreign markets. The crucial factor in LeiaMedia's decision making is to ensure that the chosen entry mode can support the uninterrupted flow of goods so the inventory will not become obsolete. To seek growth from emerging markets further affects the complexity of the situation for business environments in EMs are volatile and unpredictable (Cavusgil et al. 2013: 1). Highlighted by Kotler et al. (2013: 579), there are different modes of entry into a foreign market. These different channel strategies are illustrated in Figure 3.

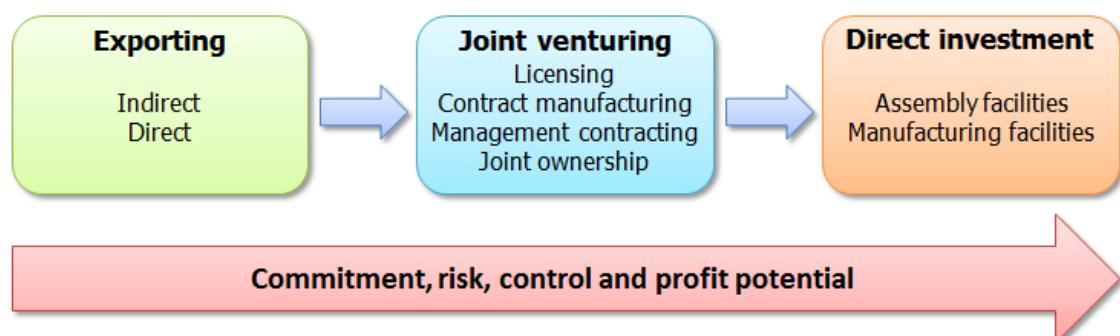


Figure 3. Market entry strategies.

Entering foreign markets is a long-term engagement and several reasons can prevent the entry: unrecognised brand name, insufficient internal resources, and inadequate distribution structure among others. Developing the right distribution strategy is essential to successfully enter international markets. LeiaMedia currently considers three different market entry modes: exporting, joint venturing (JV), and direct investment (FDI). All these options are discussed in more detail in following sections of this chapter. The potential opportunities and risk factors of each market entry option will be presented in Chapter 7.

#### 4.1 Exporting

When making a decision to enter new markets a firm must evaluate whether exporting creates value for the company and if the expected benefits are worth the cost. Daniels et al. suggest (2011: 524-25) that profit potential for exported products can be much higher abroad due to a different competitive landscape. One strategic advantage of exporting is that the reliance of domestic market reduces and the lack of price competition or threat of substitutes in target market allows exporting company to sell their product at a greater profit. The presence of a company in foreign markets needs to be evaluated against short term and long term attractiveness and compared their compatibility with company objectives.

Exporting is considered to be the easiest way to enter a foreign market for it requires very little or no modifications to an offering and involves the lowest level of risk and commitment (Kotler et al. 2013: 579). Many times it is the initial entry strategy for a firm to test product suitability and gain experience from a new market. This mode of entry allows for greater flexibility and a quick withdrawal from the market if the offering is not accepted or there is a change in market conditions, as Cavusgil et al. note (2013:209). Another advantage mentioned by Grant et al. (2006: 351) is the irrelevance of political uncertainties in the exporting country because the firm assets are not tied up to foreign direct investment (FDI).

However, as Grafers and Schlich (2005: 113) note, from the logistics perspective exporting is still a lot more complex situation compared to selling products in domestic market. For one, exporting is much more sensitive to currency fluctuations and import

tariff changes in the destination country, which expose the product to price escalation and, in the worst case, makes it unable to compete in export markets. Another downside of exporting is not having a presence in a foreign market so the business environment remains somewhat unfamiliar and firm's possibility to respond locally is hindered. Still, for many small firms in ICT industry internationalising their operations is not an option but a necessity in order to maintain their competitiveness (Doole and Lowe 2008: 241).

Due to resources required, a bigger company has more resources to support expansion into foreign markets. Especially SMEs, due to a lack of internal competence and sufficient resources, are among the firms that more often seek assistance from experienced export providers (Daniels et al. 2011: 521-2). Regardless of the size of a company, the selection of the right intermediary is crucial. Firm's representative in the destination country must be evaluated carefully because their reputation and actions in the foreign market are crucial to a firm's success (Cavusgil et al. 2013: 210).

There are two different exporting modes: indirect and direct. Indirect exporting involves a domestically contracted intermediary, whereas direct exporting happens through foreign agents or distributors (Cavusgil et al. 2013: 209). The activities that LeiaMedia performs are the same in both exporting modes studied: full assembly of the device, including file downloading, is done in China, making the product ready for use upon release to the end user. The following two sub sections evaluate the differences between indirect and direct exporting.

#### 4.1.1 Indirect exporting

The option requiring the least investment to target a specific foreign market is indirect exporting. It is also the least risky way to handle firm's business activities abroad (Grafers and Schlich 2006: 109). By acquiring services from a third party logistics provider (3PL) a company gets the advantage of constancy: a firm does not have to make changes in home organisation to handle export, because the export intermediaries bring on the needed knowledge, relationships and services (Kotler and Keller 2012: 625).

Sourcing, manufacturing and inventory management are the activities in the value chain that LeiaMedia conducts in China and a 3PL or an export trader is hired to manage the export activities and serve the customers in Tanzania. Figure 4 illustrates how the product movement in indirect exporting model for LeiaMedia is organised.

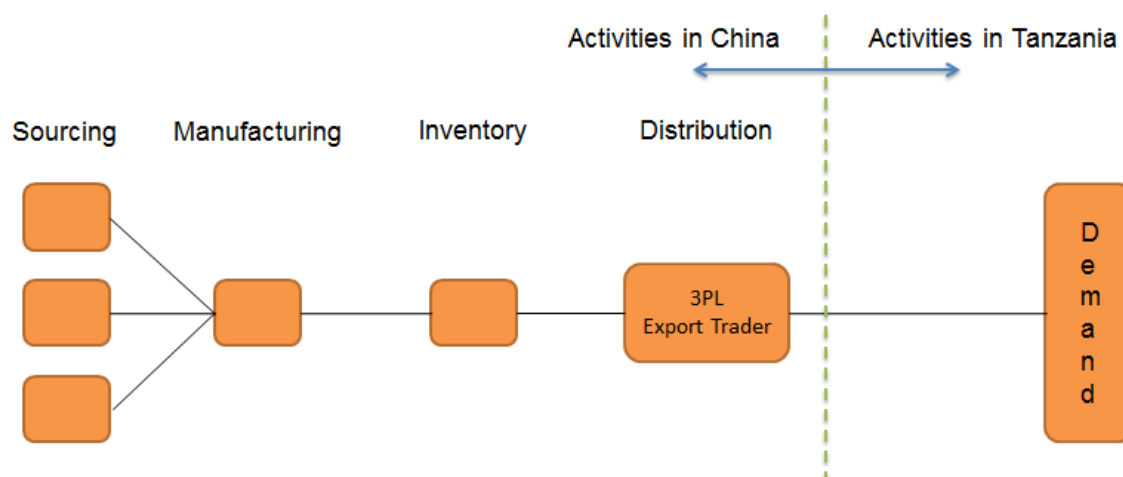


Figure 4. Indirect export model for LeiaMedia.<sup>1</sup>

Instead of contracting a 3PL or export trader, another mode of indirect export deserves a mention; “piggybacking”. As defined by Doole and Lowe (2008: 237), piggybacking means using the distribution network of another exporting company to enter strategic markets. This mode of entry is especially useful for young firms or SMEs to reduce costs occurring from distribution as well as sales and marketing activities. LeiaMedia could also benefit from scale economies of a bigger, established organisation. They would be able utilize the contacts of a reputable firm to get an easier access into the target market, which is especially important when trying to penetrate emerging markets.

One prospective form of piggybacking for LeiaMedia could be to ride on the back of a mobile network provider, because mobile phones are used to access the content that is downloaded in e-readers. This assumption is backed by Doole and Lowe (2008: 237) who state that, for a small company, piggybacking can prove successful if the company is providing services or other benefits for the company carrying it. However, it is not

<sup>1</sup> Source: adapted from Harrison and van Hoek, 2011: 135; Grafers and Schlich, 2005: 109

within the scope of this research to study the distribution of content for Leia LivePaper and therefore the issue is not addressed in further detail.

#### 4.1.2 Direct exporting

In comparison to indirect exporting, direct exporting requires more commitment and planning from the company. One of the biggest challenges is to plan and organise the physical distribution of goods in the destination market as well as ensure sufficient communication between the different parties. All this requires more resources, both financial and managerial. This market entry mode suits better for longer term export activities and makes it easier to respond to rivals' actions in the international marketplace (Doole and Lowe 2008: 239). The advantage of direct export is that the exporting firm has more control over the market development strategy and overall marketing policy compared to indirect export (Grafers and Schlich 2006: 23, 110). Direct exporting offers the seller quicker and better feedback from the export market (Cavusgil et al. 2013: 211) compared to indirect exporting. To achieve this seller is required to either build up their own export capacity or establish a business relationship with an intermediary in the target market. Figure 5 demonstrates the change in the role of distributor in direct exporting compared to indirect export model (see page 17).

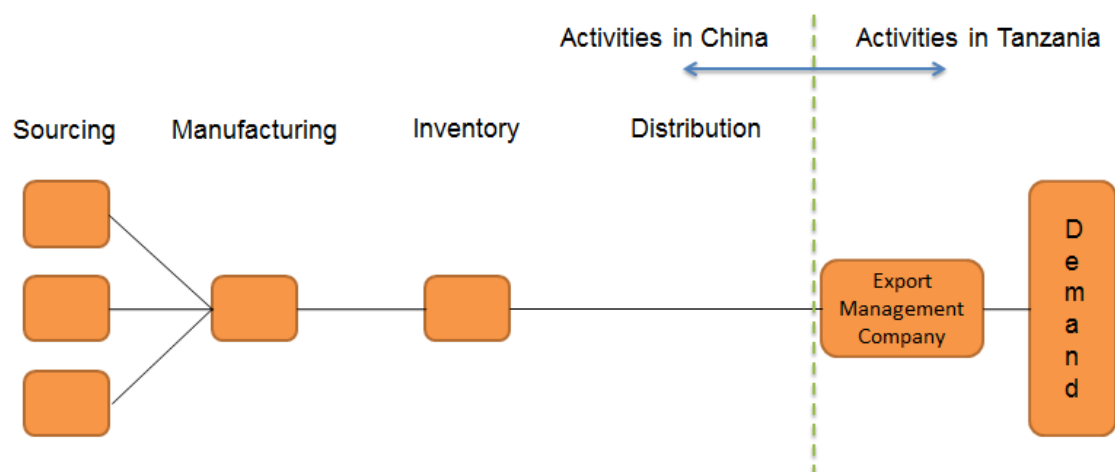


Figure 5. Direct export model for LeiaMedia.<sup>2</sup>

<sup>2</sup> Source: adapted from Harrison and van Hoek, 2011: 135; Grafers and Schlich, 2005: 109



Direct exporting requires the seller to be familiar with the payment and shipping procedures because the foreign partner has no responsibility in these transactions. Often, identifying a suitable intermediary in EMs and establishing business relation with distributors requires a visit in the target market. This is needed to assess the capabilities, experience and reputation of the distributor and build solid business relations. Obligations and expectations of both parties have to be agreed on mutually to establish a properly working relationship (Cavusgil et al. 2013: 2011-14).

#### 4.2 Joint venturing

As previously illustrated in Figure 3 (see page 14), JV can take many forms. LeiaMedia's main objective in forming an alliance with another company is to obtain scale economies. LeiaMedia is in the role of an upstream specialist who takes care of the R&D and production of the product, whereas the desired partner would take care of some of the downstream activities upon agreement, such as distribution, marketing, customer service, etc. The potential partner could help LeiaMedia to gain access on strategic markets and perhaps overcome trade barriers. Together these contractual partners can gain competitive advantage over their competitors and establish a strong foothold in international marketplace (Doole and Lowe 2008: 256).

Albaum and Duerr make a notion that the exact definition of JV is hard to come by because the term is used in variable collaborative situations (2011: 550). Based on this observation, the presumption made in this study is that any cooperation between LeiaMedia, the upstream specialist, and another company handling the downstream activities for longer term than one transaction, is considered a JV. Mutually beneficial strategic alliance, however, as noted by Aaker and McLoughlin (2010: 257-260), is a long-term commitment. It requires collaboration of two companies that have complementary key competencies that remedy the deficiencies of an individual firm. Clout in foreign markets is often much easier to obtain through JVs, as Scarborough (2012: 400) puts it.

Many times firms developing global strategies acknowledge the lack of certain internal strengths to make their offering successful on foreign markets. This realization leads to increased motivation for seeking a strategic alliance. The motivation for strategic

alliances is usually the desire to achieve benefits that a firm could not achieve on their own, often time and money. Many times the desired objective can be obtained faster and cheaper through establishing a partnership with another firm that's corporate culture and objectives are compatible. This way neither of the companies needs to stretch their assets too thin. JV can reduce the resources required to run foreign operations and aids home organisation to gain more control over local markets. It also distributes risks between the collaborating companies, making JV an attractive option. The reasons for many collaborative strategies are further highlighted in Figure 6.



Figure 6. Strategic Alliance Motivations.<sup>3</sup>

<sup>3</sup> Source: adapted from Aaker and McLoughlin 2010: 248, 258-9

Entering in a collaborative agreement with another company a firm can gain valuable information of the host country's business environment. Kotler and Keller's (2012: 627) view is that especially in markets that are still in developing phase JVs are more common. It is not always the most desirable option or considered to be the best strategic tool – it can be the only possible action due to regulations set for foreign companies to enter the market. This form of collaboration is riskier than exporting, but the control over foreign operations as well as profit potential are increased. Especially in a heavily regulated business environment JV is the best way to navigate through the government regulations (Scarborough 2012: 400-3).

Daniels et al. (2011: 578-86) say JVs require broad agreement on various issues and numerous things should be carefully weighed before entering into arrangements with other companies. Scarborough suggests considering the following points (2012: 403):

- Thorough understanding of the motives of a strategic partner to create synergy.
- Selecting a partner that's organisational culture and management style is compatible with one's own.
- Putting everything in written, starting from partners' responsibilities and decision-making authority to reduce risks.
- Selecting a partner that has complimentary key competences that are also compatible with one's own company.
- Preparing a proper contingency plan and an exit strategy in case of termination of the JV agreement.

The balance in contribution is hard to maintain in strategic alliances, however, and over time one of the companies may become unable to provide the asset that is needed to perform effectively. To maintain a mutually satisfactory JV is difficult; Daniels et al. (2011: 580) say about 50 per cent of all collaborative agreements eventually break down or will not be renewed after the contract period. The alliance is bound to break down eventually if short-term returns are expected instead of developing common competencies and assets in long-term.

### 4.3 Direct investment

Foreign direct investment (FDI) according to Daniels et al. is “transferring abroad financial, other tangible, [sic] or intangible assets” (2011: 567). As referred earlier in Figure 3 (see page 14), FDI is the most costly option of all market entry modes, requiring also the highest levels of commitment and acknowledging the greatest risks. In contrast the control over operations is greater, as is profit potential. In LeiaMedia’s case one of the suggested scenarios would be investing in and setting up a local hub in Tanzania, where the final assembly and customization of the product happens. This would mean building a company owned organisation in emerging markets. FDI as an entry strategy is examined against this criterion to determine whether it is a viable option for LeiaMedia. FDI as an entry mode is illustrated in Figure 7.

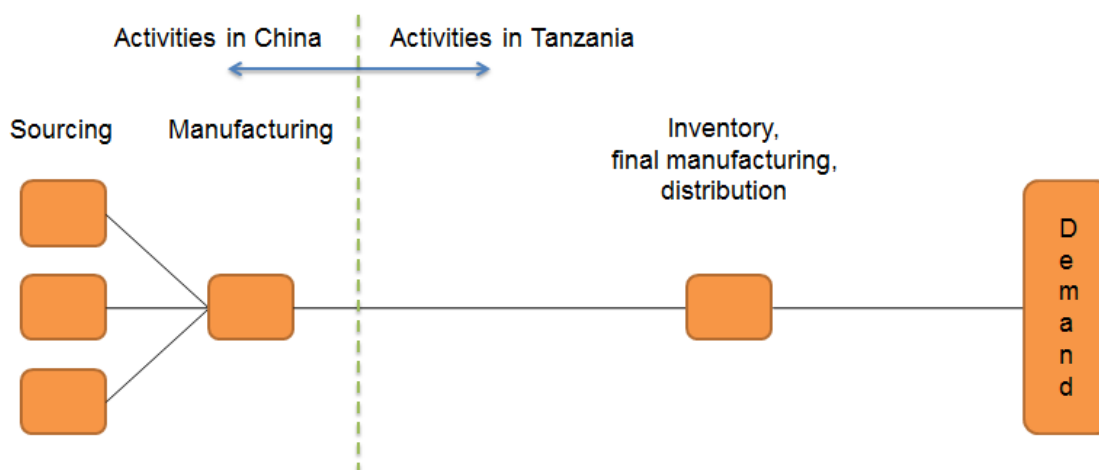


Figure 7. Postponed manufacturing model for LeiaMedia.<sup>4</sup>

Daniels et al. (2011: 567-8) further give two definitions for the different types of FDI projects; Turnkey and Greenfield investments. Former means acquiring an existing operation partially or fully, whereas the latter means building a new facility. The decision whether to take on a Turnkey or Greenfield project depends on situational factors in the destination country. Both Daniels et al. (2011: 567-8) and Kotler and Keller (2012: 627) list an array of benefits and disadvantages that a Turnkey project brings along. The advantages of seeking acquisitions include: increased profit potential and control over operations, rapid entry to markets for not having to build a new

<sup>4</sup> Source: adapted from Harrison and van Hoek, 2011: 135; Grafers and Schlich, 2005: 109

facility, immediate cash flow due to the lack of start-up inefficiencies, ease of finding local financing, gaining goodwill and building positive brand image through creating employment, and gaining better access and deeper knowledge of the target market through staff know-how.

The biggest disadvantages in Turnkey projects are mainly the financial risks; for example some countries require severance compensation for employees if operations need to be restructured or downsized. Sometimes, if the markets are not thoroughly studied, the acquired facility can be poorly located in relation to the markets it wants to serve thus constraining firm performance and earnings, as Cavusgil et al. (2013: 243) point out. Another major problem predicted is the difficulty of integrating two different national and management cultures. Engaging in Turnkey investment should also fit into firm's current operations and objectives to prevent efficiency constraints.

Motives for a Greenfield investment are several, as Daniels et al. further write (2011: 568). Firstly, there might not be suitable companies available for purchase so the only option left is to take on a construction project. There can be regulatory constraints where local governments may prevent acquisitions. This often comes from the fear of foreign firms taking over and dominating the local market landscape, or from the desire to encourage competition in the market by allowing more firms to enter. Financing may be more easily obtained because governments in developing countries favour FDI for it brings job opportunities and helps building infrastructure, as Cavusgil et al. state (2013: 244). Even if target market governments may offer incentives for foreign companies to invest, entering into Greenfield project requires a lot of resources, both financial and managerial.

All in all, engaging in any FDI project has advantages and disadvantages. The most suitable one depends on market entrant's capabilities to carry an FDI project and host country specific factors. The latter is thoroughly examined in following chapter 5.

## 5 Foreign marketplace analysis

This chapter will provide more detailed information on the macro environmental factors of Tanzania, where LeiaMedia's marketing efforts are targeted. These findings are contrasted against the global logistics environment described in Chapter 3 and theories about distribution channel strategies examined in Chapter 4. The two surveys conducted are the supporting data for this research and are presented and analysed in this chapter. All these factors combined contribute to the results analysis and discussion in Chapter 6 and final recommendation of suitable market entry strategy presented in Chapter 7.

### 5.1 Operating environment

Tanzania is situated in coastal East Africa, just south of the equator. The form of government is democratic republic since 1961 and the country is divided into 30 locally administrated regions (Tanzania Government Portal, 2013). Iringa region within Tanzania, highlighted in Figure 8, is one of the first areas where LeiaMedia is planning to target their marketing efforts.

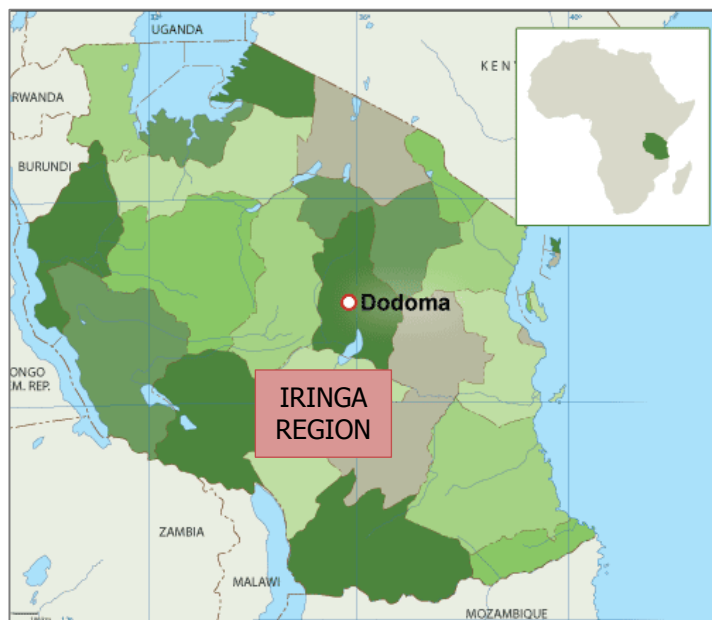


Figure 8. Map of Tanzania<sup>5</sup>

<sup>5</sup> African Development Bank, 2014b

Iringa region is located in inland Tanzania, about 500 kilometres from the coast. It is connected to other regions by air, railway and road. Iringa region has a very challenging operating environment from the point of an ICT provider. Rural areas have weak telecom infrastructure and estimated 94 percent of people are without grid electricity. Due to this, locals have extremely limited access to internet, let alone the devices needed – reasons mainly arising from low income levels. Even though mobile base stations are a common sight their performance and reliability is hindered by frequent power blackouts and rationing of electricity (Toivanen, Mutafulungwa, Hyvönen and Ngogo 2012: 19-20, 39-40, 50). These are all factors that are appealing to LeiaMedia for they see an untapped market potential for the type of product they are manufacturing (see page 10). With right strategy and persistent sales efforts they aim to transform the local ICT landscape and expedite Tanzanian government's development goals (TIC 2013: 15).

## 5.2 Political and legal

In this research political, legal and economic factors are discussed in different sections, even though it is very hard to differentiate the three for they are interdependent and change in one area can cause modification in the other. What is common to all, however, is their importance to market entrant's decision to enter the market and successfully conduct business in the long run. Managing risks in an EM requires greater effort than in developing markets, and thorough understanding of country specific risks helps to target the time and effort. Usually, in EMs, this means building personal relationships with local entities (Cavusgil et al. 2013: 42-3). This section focuses on studying the legal and geopolitical risks and examines the significance of possible trade restrictions, tariffs and non-tariff barriers to foreign entrants.

In EMs, institutional voids and corruption are often an issue a foreign market entrant cannot avoid (Cavusgil et al. 2013: 63). In recent years, Tanzania has consistently made an effort to facilitate modern policies in politics and economy. They have made structural reforms in private sector to fuel economic growth, encouraged public-private partnerships (PPP), offered investment incentives and removed trade barriers for more attractive business environment (TIC 2013: 13-14, 18-21). Despite the good course,

the research found some deficiencies in Tanzania's legislative and political infrastructure that require further attention.

Transparency International (TPI) frequently issues reports of public perceptions of public sector corruption in countries all over the world. In these reports, SSA countries in average score very low. Among 177 countries studied, Tanzania ranked 111th in 2013 (TPI, 2014). In Tanzania, 49 percent of all respondents have experiences of paying bribe to service providers; bureaucratic and legal entities, educational sector, medical services, and utilities. The most common reason was to expedite the undergoing processes. Over half of the respondents feel that government efforts to curb bribery are ineffective, and two thirds perceive the corruption has increased over the past three years' period. Figure 9 by Hardoon and Heinrich illustrates the several institutions in Tanzania the public views as the most corrupted (2012: 41-45).

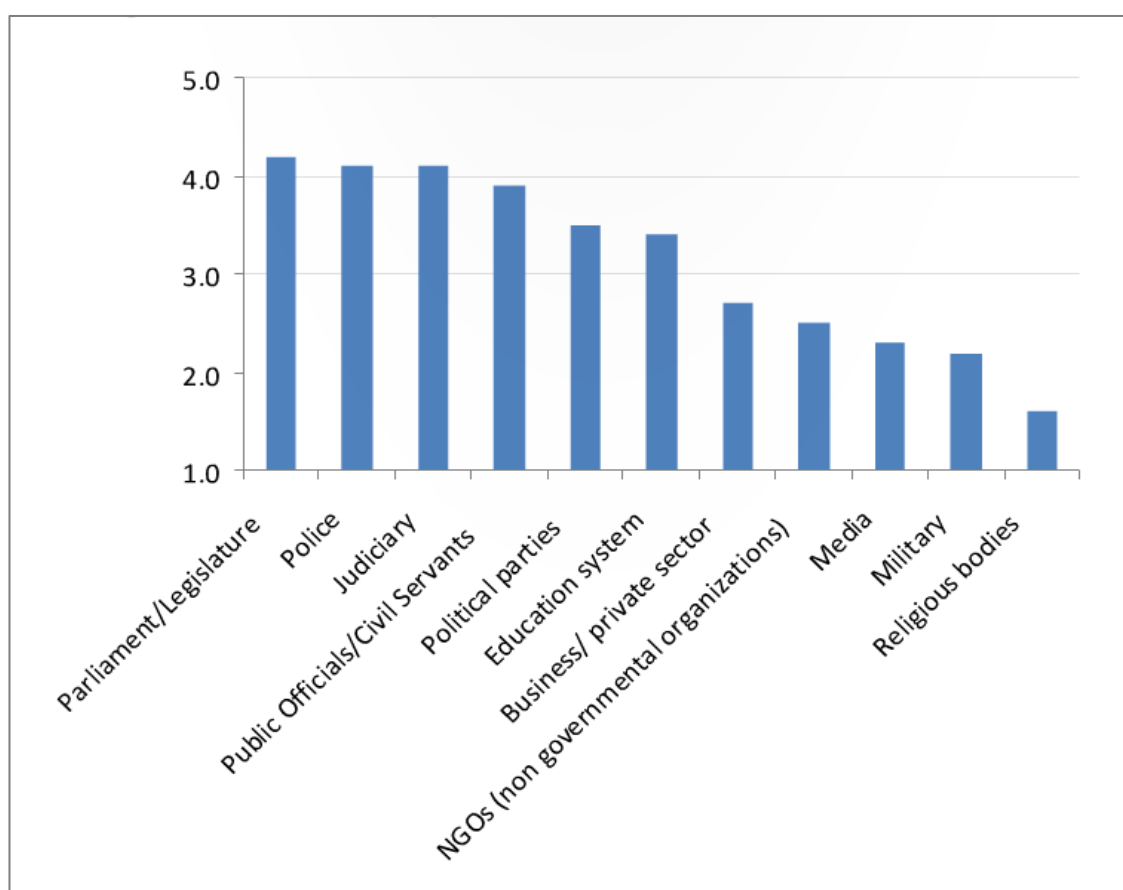


Figure 9. Corruption in Tanzania by institution.



Corruption often stems from institutional voids, such as lack of regulatory institutions or implementation thereof due to poor resources, deficient or complex laws, and personal or political affiliations between different entities. This further leads to poor compliance with law and can significantly hinder business practices. Lindner especially states the actions of Tanzanian Port Authority (TPA) as a main impediment for foreign market entrants (2014: 3). Alapartanen (2013: 171) refers to secondary researches that note foreign business leaders considering corruption as one of the biggest issues impeding business operations in Tanzania. Even though extractive industry is suffering the most from corruption, no industry can avoid it. Many foreign firms entering Tanzania engage in a JV with a local partner, exposing them at the same time to unfair risk-sharing mechanisms and ethical, compliance and reporting issues (Lindner 2014: 4-5).

Porter notes that the relationship with the host government is a key advantage that can either impede or accelerate firm's global operations (2004: 292). Government can intervene in foreign trade by imposing legislative changes in trade policies, as Grafers and Schlich state (2005: 158-160). One of these types of changes is the risk caused by government interrupting or restricting the currency exchange from local to foreign currency, or preventing the transfer of funds to creditors abroad. OECD's country risk classification for Tanzania as of October 17, 2014 is 6 on the scale from 0-7, zero being the lowest risk category and seven the greatest risk classification. This rating reflects the overall credit risk of the country, composing of both transfer and conversion risk. High credit risk increases the fees credit guarantee agencies charge from the companies applying for credit. Firms entering country with high risk classification must evaluate the critical risk limit they can accept if the payments are not received (OECD, 2014).

When studying legal frameworks for this research, we came across with Tanzanian Public Procurement Act that states special favouring margins for national businesses over foreign ones. However, when evaluating tenders, the procuring party is allowed to favour also associations formed by local and foreign firms, namely JVs. The favouring margin in tenders may be up to 10 percent (2013).

In the scope of this research we did not find any indication of trade restrictions for ICT devices in Tanzania. We searched several public databases, such as Tanzanian government portals, EAC reports, AfDB, and World Trade Organisation but did not come across with any protective tariffs, non-tariff barriers or quantity and price restrictions for the type of product LeiaMedia wants to import in Tanzania. We did not find any regulatory restrictions, either, such as local content requirements. Worth noting is, however, that local content policies are being considered in Tanzania in some industry sectors to create opportunities for local industries (Lindner 2014: 6).

In a search for recycling laws in Tanzania we became aware that there are no specific regulations in place for the type of product LeiaMedia manufactures. Koloseni and Shimba discuss the lack of e-waste policies in Tanzania (2012: 333), clarifying that e-waste describes the electronic products and ICT assets that are at the end of their life cycle and ready to be disposed. For the research, we also interviewed Christina Itkonen who has studied LeiaMedia's e-reader when comparing different options for content distribution. From the environmental perspective, she states the following:

It is my opinion that, should a manufacturer wish to take an item which cannot be safely burned or landfilled, to a country that has no recycling facilities, they absolutely must have a plan to collect and return those items to where they can be safely handled. Electronics "recycling" in much of the world is unsafe and perpetuates socioeconomic divisions. Finland is in a unique place; it's possible to bring recycling capabilities to market nations, establish a collection and return process, or decide not to take certain products to that market at all. All other outcomes are to dump electronics waste on Africa, which has been happening for decades and destroys the land and its people.

Both Itkonen and Koloseni & Shimba (2012: 346) agree on the problematic issue of the lack of cohesive environmental laws in place in Tanzania, or enforcement thereof. From the business point of view, collecting away the devices that are at the end of their use and arranging recycling would significantly increase costs that occur from selling LivePaper.

As BBC (2014) notes, despite of political upheavals in many African countries Tanzania has remained stable throughout its independency. Even today, no major geopolitical risks are anticipated from the part of Tanzania and the risks rather come from the surrounding areas. Piracy remains a major concern in East African marine area due to pirates in the Indian Ocean off the Somali coast. There are frequent armed robberies

against commercial ships and stolen cargo reported (CIA, 2014). This has caused an increase in the cost of shipping insurance, further leading to increased freight costs (Mbekeani and Ncube 2011).

### 5.3 Economic

Finnish companies have traditionally been involved in a number of development projects in SSA; however many of these countries, Tanzania among them, desire to break away from the past dependency on development aid and move on to a more modern era of economic relations (Markkanen, 2013; Alapartanen, 2013). Tanzania has entered in a bilateral investment treaty (BIT) with Finland, defining the fair treatment of foreign investors and protecting their capital from local government's expropriation or nationalisation (TIC 2014: 94). PPPs are encouraged by the Tanzanian government, also with foreign companies, because the development goals the Tanzanian government has cannot be attained without significant growth of the private sector (TIC 2014: 8-9).

FDI fuels the economic growth of Tanzania because local business activities suffer from weak infrastructure. To encourage FDI, Tanzania has eased the investment restrictions and launched investment incentives that foreign firms can take advantage of. In addition to BIT and PPPs Finnish companies can enjoy incentives such as double taxation treaties. Foreign companies can also invest under special economic zone schemes, such as Export Processing Zone (EPZ) and Special Economic Zone (SEZ) to get tax exemptions. SEZ requires investments of minimum 500 000 USD and an annual export turnover for over 5 million USD, also other requirements apply regarding machinery used and environmental protection. To invest under SEZ scheme requires the investment to be located in the SEZ areas that are specifically appointed locations. EPZ requirements do not apply in this particular case because they refer to goods exported from Tanzania (TIC 2013: 21, 40).

As TIC emphasises, Tanzania aims to be among the middle income countries by 2025. Tanzania's economy has steadily grown 7 percent annually for five subsequent years and the annual inflation is now around 9 percent (2013: 9, 13). The most recent figure of Tanzania's gross domestic product per capita (purchasing power parity adjusted) is

1700 USD (CIA, 2014). African Development Bank Group (AfDB) notes in its economic outlook that despite of Tanzania's efforts to alleviate poverty, it still remains quite high totalling 28.2 percent of the population. The urban residents have benefited the most from economic development while the majority of the poor still reside in rural areas, unable to reap the same benefits (2014).

Foreign-owned banks have gained foothold in Tanzanian financial sector, accounting for 48 per cent of total assets of financial institutions in the country. This has improved the performance of the financial sector, even though interest rates remain quite high. This, according to CIA (2014), can reflect a high risk of fraud. Therefore, a foreign market entrant should take some precautions to proactively neutralise risks. Evaluation of the economic risk caused by foreign customers, or any other party entering into agreement with, can be done by exploring what business practices they have had in the past and what tangible or intangible assets they possess. In EMs this can be difficult task because of the lack of data available. Often, there is no officially recorded data, especially of SMEs in foreign markets. Grafers and Schlich suggest visiting the foreign market and obtaining information through export credit agencies and banks. Credit risks can be also neutralised by asking bank to issue a letter of credit, or ask for a demand guarantee. Based on this, exporter must determine if the risk neutralisation is included in the selling price of the product (2005: 161-2, 166-7).

Tanzania is a member of both East African Community (EAC) and Southern African Development Community (SADC). EAC member states have agreed on common import duty for all goods imported to the country. The rate applicable for all finished final consumer goods is 25 percent and 10 percent for semi-finished goods. No duty is levied on raw materials, capital goods, and other products not applicable to this case study (TIC 2014: 93).

#### 5.4 Sociocultural

This section mainly focuses on predicting the acceptance of Leia LivePaper in Tanzania and local's attitudes towards companies and products from Finland. LeiaMedia wants to target the lower middle class in Tanzania in their marketing efforts. To be able to know exactly how to create demand in this income segment a thorough survey of local

attitudes and preferences is required. This does not fit in the framework of this study, but some general conclusions can be drawn from the primary data collected through the email surveys. We will heavily rely on the interviews in attempt to define the main features contributing to the acceptance of Leia LivePaper. We try to determine how to overcome any possible obstacles in buyers' attitudes that are culturally sensitive.

LeiaMedia especially feels their device is beneficial for education purposes and Tanzanian government is keen on investing in education and ICT projects. They firmly believe that the key factor to country's economic growth is the ability to utilize new technologies (TIC, 2013). For this reason we wanted to find out the best ways to connect companies providing the technology advancements with local decision makers. We also tried to discover if there are any attitudes towards products or companies from Finland. When asked about this Emma-Sofie Kukkonen, SunEdu project manager who has worked in Tanzania stated the following:

In Tanzania everything seems to work more or less top-down, so you need obey the usual conventions. It's good to have contacts to Finnish or Tanzanian people who are already situated in Dar es Salaam or elsewhere [in Tanzania]. Also collaborating with ongoing projects of Ministry of Foreign Affairs (MFA) is one way. Attitude towards LivePaper was in general positive and welcoming, mostly due to the low energy consumption and utilizing the solar power. Finland and Tanzania have long history in terms of collaboration and the attitude is also positive.

Toivanen et al. note that social norms play a great role whether new inventions are accepted. They suggest that by demonstrating the different possibilities that ICT can bring to school education, the attitudes change (2012: 50). We wanted to clarify what was the end users' reaction when first introduced to new technology. It proved that people were indifferent to the origin of the Leia LivePaper; country or brand image did not play any role in acceptance of the device. They were more interested in seeing if LivePaper was capable of fulfilling their unmet needs.

In our case the test users were local farmers from the rural village, and they did not really know much about the Finnish companies or products. I could say that the attitude was positive since it was not negative either, but I think this was not really relevant from their point of view.

We were also interested in hearing what benefits Itkonen and Kukkonen saw the e-reader brought in Tanzania and who they see as the main user groups for the device.

Kukkonen sees that Leia LivePaper would best support education projects, stating the following:

In Tanzanian context [LivePaper] as replacement of books for students would be the ideal use. The students would really benefit since receiving the updated information is so hard otherwise.

Whereas Itkonen sees the main user group a little differently, proving that the device has potential for fulfilling different needs:

Newspaper and magazine subscribers, avid readers who would get the most benefit from having their texts in a compact form.

Trying to define competition in host environment is more difficult. Kukkonen says that LivePaper's solar-power charging system is a unique feature no one else yet offers and when in Tanzania, she could not identify any direct competitors for the device. However, she pointed out the low-cost e-readers manufactured in China that one should keep an eye on. She continues by noting that more important than the device is the service that is linked to it. The device itself is only a platform that can deliver the desired benefits the end user is seeking.

## 5.5 Level of technology

In section 5.1 (see page 25) we briefly defined the ICT infrastructure and operating environment in Iringa region. In this section we will explain in little more detail what forms and levels of technology are prevalent in Tanzania and what are the local beliefs and attitudes against ICT. We will briefly take a look at Prahalad's 'Bottom of the Pyramid' (BOP) concept and draw market information from both primary and secondary data and try to bridge the gap between what is available and what is actually wanted by the consumers.

BOP is a definition to all adult consumers globally who belong to the lowest tier of the world's economic pyramid earning 3000 USD and less annually (in local purchasing power). There are estimated four billion people, 65 percent of world population, that belong to the lowest tier of wealth distribution pyramid. Majority of BOP households reside in Africa, Asia, Caribbean, Latin America and Eastern Europe. African and Asian

BOP population often lives in rural areas burdened by weak infrastructure and poor services, whereas other areas are mostly urban. Prahalad (2005: 12-13) claims that many companies make false assumptions thinking that, from the point of distribution management, BOP markets are hard to access when in fact the global trend of urbanization allows for more opportunities than ever before to reach these customers.

According to Prahalad, BOP consumers accept new technology advancements with ease which creates growth market opportunities for companies like LeiaMedia, who have a unique offering (2005: 14-16). LeiaMedia is marketing a product with specifications that are new to the market. Instead of penetrating to established markets that are saturated with competition they seek growth and profits from emerging markets by creating demand where it yet does not exist (Aaker and McLoughlin, 2010: 232). They aim at creating a business opportunity by serving the unmet needs of customers at the BOP (Cavusgil et al. 2013: 112).

Hammond et al. (2007: 43-4) have studied BOP markets' spending on ICT. In 2007 it was estimated 51.4 billion USD. Because no updated information is available, we take Hammond et al.'s assumption that since then the spending has increased due to exponential growth in mobile and internet services available to low and middle class consumers in BOP. Figure 10 illustrates how the 51.4 billion USD is divided between the four regions studied.

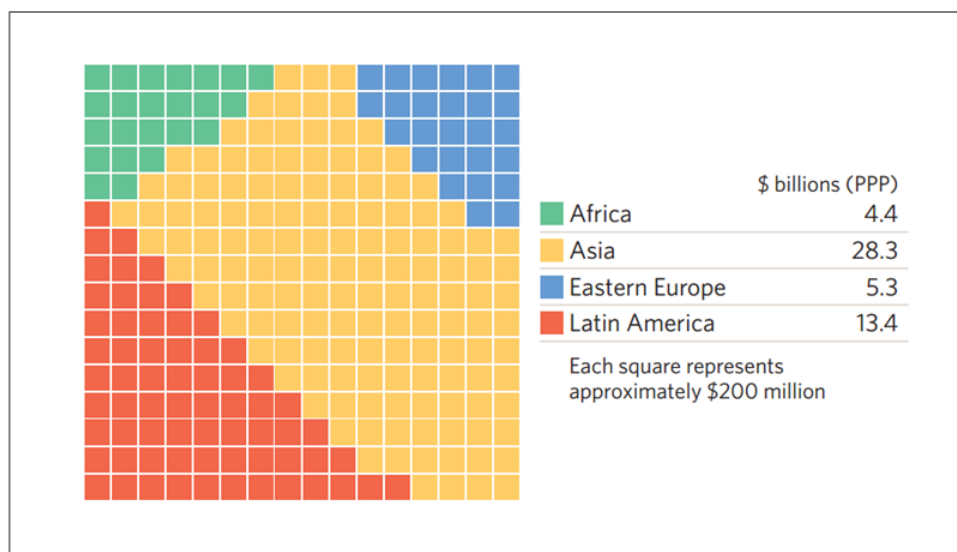


Figure 10. BOP spending on ICT.

The most successful entrants recently in BOP ICT marketplace have been mobile service providers. Especially banking services and access to information on livelihoods have been increasingly popular. Relying on Kukkonen's experience on local users' preferences we asked what aspects of LeiaMedia's e-reader were the most appealing to local users and partners. She stated the following:

For users definitely the learning and reading materials [were the most appealing aspects of LivePaper]. For the [project] partners more the technical qualities like the low energy consumption, solar power and the fact that so many books can be put to one device. Book publishers found the electronic format as an opportunity to cut the printing costs. So, simple this could be that way that for the users loved the benefits of the device and the partners were more interested in how to make business with the product, which is very natural.

In developing countries the focus in purchasing decisions made is on meeting the specific needs of the customer rather than the price of the offering. Especially important is to pay attention to the functionality of the product in local conditions and bear in mind that even though BOP customers willingly accept technology advancements, they are attracted to different features than customers in developed markets (Cavusgil et al. 2013: 111-16).

Hammond et al. (2007: 31-32) suggest a few strategies for businesses to succeed in BOP markets. First criterion is to determine the unique selling point that appeals to BOP customers; service, technology, or product. Second is involving locals in value creation. In LeiaMedia's case this can be done through partner selection of distributors, for example, or training locals to maintain the device. Third is making the offering accessible. Letting BOP consumers to buy more expensive items in instalments, for example, has been proven to be an important financial strategy benefiting both seller and buyer (Cavusgil et al. 2013: 114). The last suggestion from Hammond is to think new forms of partnerships from other fields of businesses, or with NGOs and governments to accommodate resources among all stakeholders.

The easy use of products is also very important in BOP market according to Prahalad (2005: 26). This is due to low skill levels of both consumers and workforces in EMs. When asked about test users' acceptance of LivePaper during the pilot testing and teaching them the product usage, Kukkonen noted that people in rural Iringa region were quick to learn the use of the e-reader and no extensive training was required.



The user interface of the Leia device was simple and people adapted it quickly. Many of the participants had clear motivation to use the device for learning. None of the participants had any attitudal [sic] problems towards the device; everyone welcomed it with great interest.

Lastly in this section we want stress the importance of the product offering being able to withstand harsh conditions; whether it is usage, transportation, or environment. All these aspects mentioned in this section are important factors for customer, business or consumer, when they make their buying decision and cannot be overlooked (Prahalad 2005: 26-7).

## 5.6 Logistics environment

This section takes a quick glance at Tanzanian business infrastructure. Building a distribution network in an EM is a great challenge, especially if inefficient logistics structures and limited availability of intermediaries are present. If a firm decides not to invest in their own distribution network, relationship building with local trade associations, non-profit organisations and political parties help in establishing a functioning business network. Relying on network means that more effective monitoring of business partners' activities is needed. This might require sending personnel from home office to foreign location. Often an attempt to overcome distribution channel inefficiencies in EMs is solved by forming JVs with local partners (Cavusgil et al. 2013: 67-68).

Logistics Performance Index (LPI) examines six different indicators of trade in comparison group of 160 countries and ranks them annually. The indicators studied are: the efficiency of customs, quality of transport infrastructure, ease of arranging shipments, quality of logistics services, tracking and tracing of consignments, and timeliness of deliveries. The contributors are logistics professionals who provide information on the countries they operate (World Bank 2014). This index can be used to determine the logistics environment and distributions structure in the destination market. Table 1 shows Tanzania's position among all 160 countries examined.

Table 1. Global logistics performance indicator<sup>6</sup>

Rank	Country
1	Germany
2	Netherlands
3	Belgium
24	Finland
34	South Africa
73	Malawi
138	Tanzania
160	Somalia

Several reference points were used to select the representative country sample in Table 1. We chose to compare Tanzania against the following criteria: top three global performers (Germany, Netherlands and Belgium), exporting company's home environment (Finland), geographic region (Sub Saharan Africa), and income group (low income). Also the last country in ranking, Somalia, was presented to provide a broader point of reference. Top logistics performer in Sub Saharan Region is South Africa, positioning remarkably higher than Tanzania, obtaining rank number 34. Top performer in low income group in 2014 is Malawi, placing number 73. This performance index clearly indicates how undeveloped Tanzanian logistics environment and distribution channels are relative to comparator countries, let alone compared to developed economies.

LPI is also recorded in domestic context, where logistics professionals evaluate the processes in their home environment. To even better illustrate Tanzania's logistics performance we have used a radar chart in Figure 12 where, on a scale 1-5, 1 is the lowest performance indicator while 5 is the highest.

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<sup>6</sup> The World Bank Group, 2014

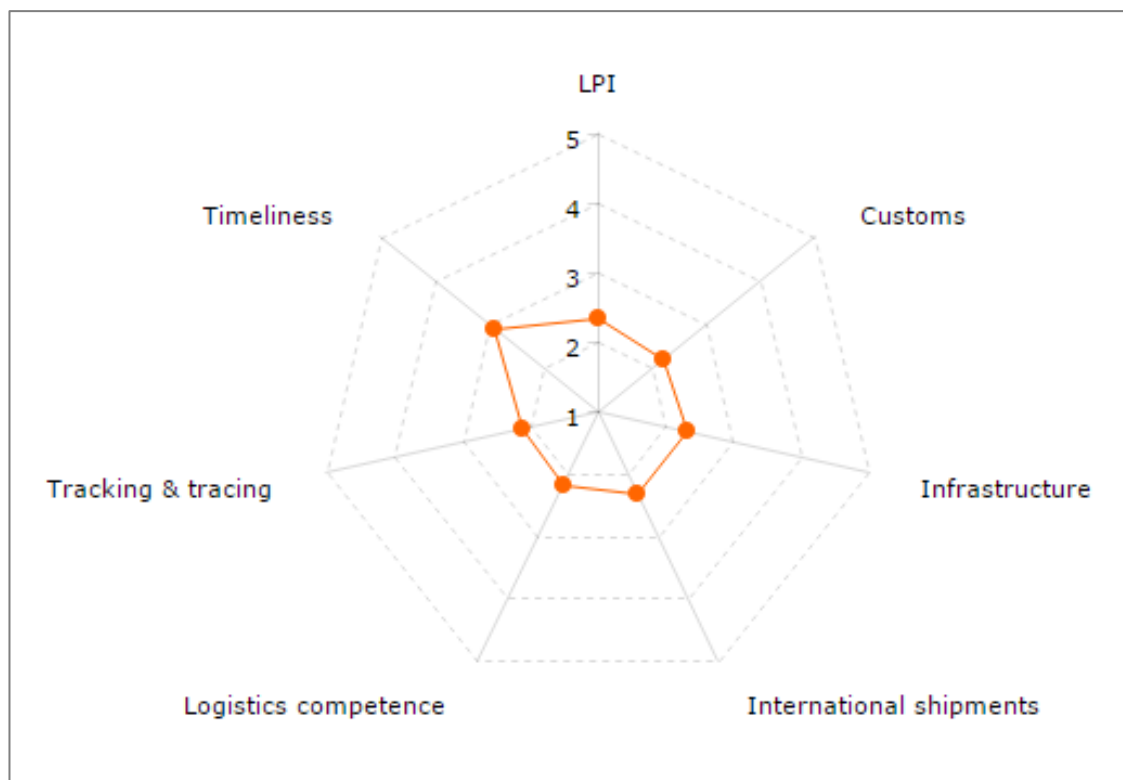


Figure 11. Country score card: Tanzania 2014<sup>7</sup>.

As Figure 11 shows, from all performance indicators examined Tanzania scored highest in timeliness of shipments. The respondents stated different reasons for delivery time constraints. In sea freight 100 percent faced delays often or nearly always. The same response rate was tracked for warehousing, inspecting pre-shipments, and experiencing criminal activities such as pilferage and stolen cargo. The weakest score obtained from tracking and tracing may be due to the inefficiency of processes, where transparency in custom clearance and other official procedures are only experienced by 50 percent of logistics professionals. Many improvements, nonetheless, have occurred since 2011. Half of the respondents stated that in Tanzania, overall, logistics regulations have eased, private logistics services have improved, and transport infrastructure is better. All respondents have experienced the improvement in IT and telecommunications infrastructure (World Bank Group, 2014).

The logistics performance is also reliant on the overall transport infrastructure. We will briefly go over the main issues concerning Tanzanian rail, road, air, and port

<sup>7</sup> The World Bank Group, 2014

infrastructure. In Figure 12 all the main routes and cargo shipping points are presented. Solid lines across the country are roads, dotted lines are railroads, and airplane symbols describe main airport locations.



Figure 12. Transport infrastructure in Tanzania<sup>8</sup>

The port of Dar es Salaam is the fourth biggest port in eastern Africa and not only important to Tanzania but for many landlocked neighbouring countries, too. 95 percent of all international trade in Tanzania is handled through the port (TPA, 2012). The biggest issue with the port is that it is increasingly inefficient and poorly connected to other transport connections leading to hinterland, having insufficient rail and road connectivity (Shrakatan 2010: 6). Jervings quotes World Bank, saying that there are additional monetary costs and delays at the port of Dar es Salaam that are equivalent to increased tariffs of 22 per cent on container imports, compared to neighbouring country Kenya's port of Mombasa (2013). The high port charges in Tanzania are

<sup>8</sup> AfDB, 2013

backed up by World Bank's LPI report (2014) where 100 per cent of respondents state port charges in Tanzania being high or very high.

Shrakatan notes that Tanzania has been able to significantly improve its road infrastructure in recent years and has made an effort to maintain it by allocating enough resources (2010: 6). The big impediments the foreign traders note are the many checking points where carriers are required to be weighed and inspected. Another issue is the institutional voids affecting the planning and implementation of road infrastructure projects. While road transport is an important part of the cargo system, railways in Tanzania are not used to their full potential. The main reason is the lack of sufficient funding to revitalize the commercial operations.

Airports, in turn, are an important part of Tanzania's carrier system. They are used for both domestic and international operations and are especially important way of reaching the distant rural areas. Tanzania has a total 368 airports, of which the biggest ones are illustrated in Figure 12. Mainly the small airports are privately owned by locally operating companies and lack commercial operations. What hinders the development of air transport is its high operating costs and a lack of service providers. Airports sector in Tanzania is in dire need of funds and safety improvements across the country (AfDB 2013: 9-12).

## 6 Results analysis and discussion

The goal of this thesis was to present LeiaMedia the right distribution channel strategy after evaluating the country specific characters of Tanzania that shape the marketing environment. Based on this research we were able to better determine what market entry mode best supports the device manufacturing process in China and helps the case company to obtain scale economies. The behavioural responses in Tanzania influence market entry and export management. It is evident that to function efficiently where infrastructural inefficiency is present is a major challenge for LeiaMedia. There are country risk factors that need to be identified and evaluated carefully that we will discuss in this chapter.

The political stability of Tanzania and its willingness to make economic progress does provide a good setting for business activities. Long-term, friendly bilateral relations between Finland and Tanzania enable easier access for a Finnish firm to local markets, as both primary and secondary data affirm. This, however, does not erase the challenges arising from Tanzanian operating environment and there are, without a doubt, negative phenomena that impede LeiaMedia's local operations. Piracy, the weakness of local soft and hard infrastructure, institutional voids, and corruption add risks and costs to operations. Regardless of the entry mode selected, factors mentioned set restraints on LeiaMedia's operative environment and company needs to thoroughly think their pricing strategy based on these findings so that product offering is accessible to BOP customers.

On the positive note, we concluded from the secondary research that price is not the only determining factor whether an offering is accepted, as Cavusgil et al. suggest. It is also important to identify and understand the functionality the buyer seeks after. Prahalad highlights the importance of technological advancements and scalable solutions to appeal to BOP customers whereas Cavusgil et al. stress the importance of familiarizing oneself with BOP customer tastes. Primary data from Kukkonen implies that the product qualities Leia LivePaper has are attractive to local users and prospect partners but, more importantly, the content that is distributed through the device is in a crucial role. Itkonen's interview further indicates diverse content creating potential for the device usage. Tanzania's physical environment and government's willingness to

invest in education projects is compatible with LeiaMedia's core strength, R&D, and LivePaper performance qualities. The recent exponential growth in Tanzanian mobile device usage, as Hammond concludes, provides opportunities for a company that uses mobile device for sharing content to the e-reader. However, LeiaMedia's capability to localize content so that it appeals to host market's buyers is unfortunately excluded from the study due to research constraints. Therefore, we cannot fully understand the unmet needs and wants of local customers based on this study only.

The findings of this research affirmed three main trends that can give LeiaMedia a competitive advantage in SSA markets: staying clean from corruption, customising device contents, and allowing customers to pay for the device in small instalments. Because local's attitudes against corruption are negative, customers may view transparency in foreign market entrant's business practices as positive. Together with customisation of e-reader content and adaptable pricing strategies, these factors can create strong brand image that is important for an early market entrant in BOP market.

We can reasonably conclude that the underlying message from all data studied is that emerging markets, even when maturing, do not necessarily turn out to be like the developed economies due to different cultural characteristics. Any company entering EMs must rethink their ways of operating and come up with new innovative offerings and business practices in order to succeed in their market entry and seeing the marketplace financially attractive in the long run. Especially important is to continuously screen the market trends, products and competitive landscape to be able to respond to developments in the industry and competitors' actions.

Tanzania is an emerging market with high level of indecision about technological development and market wants. This was problematic for the research scope definition; even after narrowing it down to concern physical distribution only, the topic area was very extensive and impossible to cover as much in detail as the researcher would have liked to. Another limiting factor was the lack of primary data. This topic would have definitely benefitted of field research to obtain more primary data and first-hand information relating to the country specific aspects of the study. For this specific research, to compensate the lack of primary data we could have allocated more time to finding more people to interview. This way we could have obtained a broader

perspective on the study. In regards to the research as a whole, it is possible that the research methods used were insufficient. Due to scope restraints, mostly time, location and inexperience of the researcher, we might have failed to recognise some key indicators for market entry barriers or LivePaper market potential.

We have diagnosed the distribution channel selection in the light of gained information and make the suggestion for the most suitable market entry mode in following chapter. The recommendations presented in Chapter 7 are more of a guideline than a rigid action plan to ensure that the most important factors of market entry modes have been considered. The exploratory approach chosen for the study allowed concentrating on specific information requirements of a small start-up firm that wants to enter global business marketplace. The findings are hoped to guide managerial decision toward long-run profitability and help to avoid some early stage pitfalls.



## 7 Conclusions

### 7.1 Recommendations

The thesis problem was to examine three different market entry modes the case company is currently considering to enter Tanzanian market: exporting the e-reader by using a local intermediary or 3PL, JV by forming a strategic alliance with a local partner, and FDI by investing in a company owned hub and own distribution structure. In Figure 13 we have gathered the risks and opportunities for each entry mode, which we compared against the local characteristics of Tanzania to give the final recommendations. The main benchmarks are: the institutions in Tanzania, skill level of workforce, infrastructure, and economic structure.

	Exporting	JV	FDI
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• Cost savings not having to invest in the market</li> <li>• Expertise through engaging 3PL providers</li> <li>• Low risk of losing know-how</li> <li>• Quick withdrawal from the market</li> <li>• Fast market entry</li> </ul>	<ul style="list-style-type: none"> <li>• Increased control over operation</li> <li>• Ability to benefit from partners' complimentary assets</li> <li>• Lower economic and political risks</li> <li>• Local know-how from the market</li> <li>• Benefitting from partner's network</li> </ul>	<ul style="list-style-type: none"> <li>• Full control over logistics strategies</li> <li>• Low cost labour</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>• Loss of control over distribution, pricing</li> <li>• Import duty affects the availability and price of the product</li> <li>• Issues with establishing and maintaining distribution networks</li> <li>• Little knowledge gained from local markets</li> </ul>	<ul style="list-style-type: none"> <li>• Less flexibility</li> <li>• Managerial issues due incompatible strategies and objectives</li> <li>• Selecting the wrong partners, conflicting objectives</li> <li>• Lack of transparency, compliance, ethics</li> <li>• Networking and relationship building is time consuming</li> </ul>	<ul style="list-style-type: none"> <li>• Vast knowledge of local markets is required</li> <li>• High levels of investment required</li> <li>• Sensitive to changes in political and economic conditions</li> <li>• Time consuming</li> <li>• Resource extensive</li> </ul>

Figure 13. Entry mode comparison

Based on what we have learned from opportunities and risks highlighted in Figure 14, we recommend LeiaMedia to consider forming a JV with a locally established partner in Tanzania. We firmly believe this is the best option of all three modes considered at this stage to gain entry to the market and fill in any existing gaps in case company's knowledge. For LeiaMedia, there lie several potential motivations for forming a strategic alliance. Local market knowledge and co-operation with local business partners and government is in great role. Network building and market entrant's capability on effective relationship marketing is crucial. Sensitivity is needed to respond to the unique requirements of foreign customers that are cultural-based.

Building better relations through partner networks with locally operating institutions, NGOs, and businesses will enable LeiaMedia to enjoy the ease of operations and gain better access to local logistics system. JV will provide better control over local operations and LeiaMedia can benefit from partner's complimentary assets and local market know-how compared to other entry modes studied. JV will make it easier to access strategic markets and reduce the investment required. By forming a JV LeiaMedia can benefit from the 10 percent favouring margin the Tanzanian Public Procurement Act allows, if targeting their marketing efforts to public institutions.

At this stage, keeping just one manufacturing location can help obtain greater economies of scale without having to compromise customer service levels, therefore FDI is not recommended. Vast knowledge of local markets is required in this channel strategy, having the need to send someone from home organisation to Tanzania to monitor the operations, stretching company resources even further. Another downside of FDI is that low skill levels of local work force can increase the total costs because staff needs training to be able to perform the final assembly of the device. If not executed properly, the device performance will suffer, making device unable to compete in local market.

As regards to Tanzania, Leia LivePaper brand promise and brand name alone is not recognisable enough when considering the customer's willingness to buy. If exporting, company image remains vague and little knowledge is gained from local markets, and import duties affect the availability and the price of the product. It can be anticipated that there are issues with after sales service if exporting, which is further affecting to

customer satisfaction in the long run and hampering sales. In addition, LeiaMedia needs to consider the effects of reverse logistics in relation to their pricing strategy for the long run: was Tanzania to enforce an e-waste management law sometime in the future, requiring seller to handle recycling or proper disposal of the e-reader at the end of its life cycle, LeiaMedia is required to think whether such costs are incorporated in the selling price of LivePaper. In that point it is easier to handle such situations with local status rather than organise disposal of e-waste from abroad.

## 7.2 Further research

This section provides the case company recommendations for further actions. Due to research constraints this study only concentrated on one aspect of the export marketing mix. Therefore, the final research outcome is not exhaustive. This study excluded industry and competition analysis and focused on situational analysis of the company and entry market only. Penetrating a market successfully depends on company's competitive position. By studying the direct competition and how they are servicing the market the company can try to project benefits of the chosen method. By identifying indirect competition LeiaMedia can predict the trends in ICT environment and adapt their offering accordingly. Understanding competitors' position will not only help LeiaMedia to assess their strengths and weaknesses but to predict future problems and plan ahead.

Based on this research we strongly urge LeiaMedia to look more into the "piggybacking" as an export mode. Since the distribution of content was excluded from this research, it left a significant gap to fully evaluate all entry modes because many prospect partners and fields of business had to be ruled out from the study. Despite of the distribution channel strategy chosen, we encourage case company spending more time in host location, or making several on-site visits to evaluate suitable partners and build their network. Entering a new market area always requires first-hand market knowledge; otherwise the information from local business environment will be too vague. Doing business in Tanzania requires local presence and relationship building and establishing business networks is of particular importance.

We urge LeiaMedia to look for partnerships in Tanzania that are unconventional. For example, partnering up with agriculture or health service providers who have comprehensive logistics network throughout the country can create awareness of LivePaper potential and show suitability for several uses. Content wise, LivePaper has capabilities to present real-time market information regards to prices, products and methods. Another suggestion is to market the e-reader more extensively for different education projects. For example, teacher training programmes in Tanzania could benefit many ways from LivePaper usage. This would help users to adapt to new ICT innovations and become educated with all the possibilities device presents, refuting any possible prejudice against the new market offering. This, even further, can accelerate expansion to other SSA countries, opening up new business opportunities.

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## Interview questions

### Background information

1. Name
2. Age
3. Occupation
4. Current location

### E-reader: Leia LivePaper

5. How did you become familiar with LeiaMedia's e-reader?
6. Who do you see as the main user group(s) for the e-reader?

### Foreign environment: Tanzania

7. How much time have you spent in Tanzania?
8. When was this?
9. Where in Tanzania did you stay?
10. What was the purpose of your stay?
11. How would you describe the attitude of local decision makers towards products or companies from Finland?
12. In your experience, what is the best way to approach local partners and decision makers?
13. How would you describe the test users' attitude towards products or companies from Finland?
14. What is your opinion on test users' acceptance of new technology?
15. What aspects of LeiaMedia's e-reader were the most appealing to local users and partners?
16. What were the downsides recorded?
17. What potential uses do you see for the e-reader based on your experience?
18. What products or companies do you see as competitors for the e-reader in Tanzania?
19. Any other opinions you would like to share?

## **Interviewee profiles**

### Interviewee 1:

Emma-Sofie Kukkonen is a 24 year old female, now residing in Helsinki. She is currently studying to obtain her master's degree. In the past she has worked as a user researcher in Metropolia University of Applied Sciences' R&D unit Electria, where she was a project manager for SunEdu project. The project was conducted in Iringa, Tanzania between September and December 2013, where LeiaMedia collaborated by providing e-readers for the pilot test in a local environment.

### Interviewee 2:

Christina Itkonen, age 29, is an environmental engineer having studied at Metropolia University of Applied Sciences. She currently lives in Houston, Texas, USA. She is familiar with Leia LivePaper through her work in Electria SunEdu project, where she performed a life cycle assessment and comparison of various options for content distribution, of which one was the LeiaMedia's e-reader.