

A Work Project, presented as part of the requirements for the Award of a Master's Degree in
Management from the Nova School of Business and Economics

INTERNATIONALISATION OF *FIRM F*: IN DEPT ANALYSIS OF SINGAPORE AND
LITERATURE REVIEW ON INDUSTRY-SPECIFIC INTERNATIONAL MARKET
SELECTION

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09/06/2023

Abstract

Firm F is a Portuguese SME operating in the furniture industry manufacturing furniture through in-house private collections, customer lines and custom projects. Using relevant literary framework and analyses, a strategic analysis of the company's situation will be conducted. This will enable the team to assess the health of the firm as well as its capabilities and weaknesses. Furthermore, market and industry analysis will aim to point Firm F into a prosperous direction, assessing the capacity for the firm to enter a market as well as the industrial factors. In order to strategise the international expansion of Firm F, an analysis of five potential countries was conducted, following this, a country selection process of five countries (Netherlands, Sweden, Luxembourg, Singapore and China) was executed using an amalgamation of variables and weights to identify the most suitable country to enter. This resulted in a marketing plan succeeded by financial forecasts for the project to be viable in every department.

The report also provides a comprehensive literature review on International Market Selection, Export vs FDI Modes, Industry-specific International Market Selection, International Market Selection for SMEs, International Entry Mode Selection and in-depth analysis of each of the five countries selected as potential markets.

Keywords: International business, internationalisation, furniture industry, SMEs, market selection, entry strategy, Netherlands, Portugal

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

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1. Introduction

Internationalisation is a business growth strategy that consists of the process of **tailoring a firm's offer to the international markets' demand**, with the ultimate objective of capturing a larger market share (Hayes 2021; THG Ingenuity 2021). Through this process, a company opens a whole new set of opportunities, allowing it to increase revenue and market share, manage risk, increase competitiveness, gain access to overseas investment opportunities as well as profound understanding of cultural nuances. Furthermore, internationalisation can be seen as a step towards the state of globalisation, as it promotes the financial and cross-border commerce and thus interconnection between countries (Hayes 2021).

Over the past years, the furniture industry has been transforming due to continuous changes in the economy, technology and consumer preferences. High degree of saturation in the domestic market and the need to expand its business has led small and medium-sized enterprises (SME) to explore opportunities to extend operations to foreign markets (Forbes 2015). Firm F, a Portuguese SME that focuses on premium wooden furniture to other businesses, is interested in further expanding its business abroad. In light of this, this work project aims to develop an internationalisation plan to guide the company throughout this process. The following project will be divided into three different sections: **strategic analysis of the company's situation, international market selection, entry strategy and implementation**.

The first section, **strategic analysis of the company's situation**, will comprise an overview of Firm F's business offer, structure and finances, external analysis of the furniture industry as well as a final diagnosis for the company's readiness to internationalise. In the second section, **international market selection**, a set of relevant variables will be defined and analysed in order to identify potential markets where Firm F could expand to. After reaching a final set of five potential countries (phase 1), an in-dept analysis of each market will be performed (phase 2). In the last section, **entry strategy and implementation**, the different entry mode options

will be analysed, leading to the selection of one option. Subsequently, an implementation plan will be designed covering marketing and financial scopes.

Complying to the firm's wish for anonymity, we will refer to the company as "Firm F".

2. Literature Review

2.1. Literature Review on Industry-Specific International Market Selection | Inês de Melo Gomes, 48024

International market selection is a process through which firms can narrow down and select the countries in which they desire to extend their operations (Papadopoulos, Denis 1988). In light of that, this process should include a thorough analysis of multiple factors namely, industry-specific factors. These can significantly impact the selection process as they consider one-off characteristics that industries may have and that can consequently affect the international market's attractiveness. The following literature review aims to examine the importance of industry-specific factors in the process of international market selection.

A firm's plan to internationalise its business starts with the selection of a set of foreign target markets (Papadopoulos, Denis 1988). To achieve that, a few steps should be taken - identification and selection of decision variables, assignment of weights to the selected criteria, data collection of the market's performance in regard to the relevant criteria, and finally, choice of the best target market option (Roberston and Wood 2001).

During the last few years, the international marketing literature has defined two distinct approaches to IMS - systematic and unsystematic. The first has a normative purpose and identifies as relevant criteria country-specific factors, such as macroeconomic matters, and market-specific indicators, such as competition, market size, and costs. The second one, instead, adopts a rather qualitative approach and it is ruled by the psychic distance procedure, which refers to factors that can potentially complicate the communication between the firm and the

market such as language, culture, country's level of development, and education (Andersen and Buvik 2002).

Then, Papadopoulos and Denis (1988) point out how there are 2 distinct types of the systematic approach to IMS - qualitative and quantitative. The first one focus on the collection and analysis of qualitative information, regarding one or a limited set of potential markets. In contrast, the second one, comprises an analysis of secondary statistical data for multiple if not all potential markets. The quantitative methods can consequently be divided into 2 more methods - market grouping, that cluster countries based on similarities, and market estimation, that is rather based on the market's potential.

The market estimation method defines relevant criteria and the potential markets that score the highest are selected. Furthermore, criteria defined will depend on the method but can often be industry-specific considering growth, competitions and access, for example (Papadopoulos and Denis 1988).

In accordance with previous studies on how to accurately frame and quantify opportunities in international markets, Cavusgill, Kiyak and Yeniyu (2004) agree that a market's attractiveness varies and depends on a multitude of factors such as economic, political, and behavioral. Furthermore, the authors express, also, their preference for adopting a systematic approach that combines both country ranking and country clustering. Similar to Papadopoulos and Denis's (1988) market estimation method, one of the most significant pros of the combination of both approaches is its flexibility as through that, managers are able to tailor their research to fit the industry and firm, in question (Cavusgill, Kiyak, and Yeniyu 2004).

Following Cavusgill, Kiyak and Yeniyu (2004), Gaston-Breton and Martín (2011) recognise the use of economic, political, and cultural variables in IMS studies, however, point out that they fail to consider consumer data, despite its perceived relevance. Accordingly, the authors propose a two-stage model. For the first stage, Gaston-Breton and Martín suggest using the

variables that Papadopoulos and Denis (1988) referred to as country-specific data, to identify potential target markets. For the second stage, they recommend using both macro and micro variables to identify and prioritize target segments within the selected markets. Despite the study adopting a more general approach, the authors acknowledge that industry-specific variables should be included in both phases, making it applicable to multiple industries (Cavusgill, Kiyak, and Yeniyu 2004; Gaston-Breton and Martín 2011).

All the above-mentioned literature suggests a systematic approach that comprises an initial screening phase to identify potential markets, followed by a segmentation phase that considers macro and micro criteria, including industry-specific factors to then identify and target potential markets.

3. Research Methods

Over the course of this project, a combination of quantitative and qualitative data was gathered to analyse the firm's situation and its industry which allowed the development of an optimal internationalisation plan for Firm F.

Primary data was gathered directly from the company through virtual meetings using Teams and regular communication via email. There was a total of two meetings in which the group updated the company about the progress of the project and addressed unclear topics. This constant communication with the business allowed the group to collect valuable information regarding the firm's strategy, financials, operations, internal processes, products and partners. As this data only pertained to the company itself, **secondary data** was collected from external sources like *World Bank*, *Passport*, *The Global Economy*, *Statista*, and *Orbis* to gain insights into the firm's external environment.

Quantitative inputs were analysed by conducting financial calculations on Excel and statistical analysis methods. Once the required data was collected, statistical analyses were employed for the purpose of determining the top five countries that exhibit the most significant

potential for Firm F. These analyses consist of five main parts. The first two steps (MCAR Test and Pearson Correlation) were performed with the statistical software SPSS, whereas the third step, Standardisation, Rescaling and Inversion, was implemented on Excel.

These steps were necessary to (1) prevent missing country data invalidating the analysis (2) examine correlations among the variables and (3) transform the dataset into a similar range to be able to compare the countries to each other. Subsequently, SPSS was utilised once again with the aim of clustering the countries into groups based on selected variables. Finally, the nations were ranked according to their potential using Excel.

Qualitative data was carefully examined through the application of frameworks and theories.

4. Strategic Analysis of the Company's Situation

4.1. Firm Overview and Project Background

4.1.1. Profile and Management

Founded in Portugal in 1968, Firm F operates in the **furniture industry** and focuses on offering wooden furniture in the premium segment. The enterprise acts in the **business to business (B2B) sector** as it solely sells its products to commercial retailers, architectural offices and interior decorators, rather than targeting the end-consumer. Since its establishment, the company has made substantial investments in a strong technical structure, outfitting itself with modern machinery that is specifically designed for the creation of furniture. The enterprise's mission is to “generate good sensations/emotions for customers by providing an excellent and customized service in the design, production and distribution of wooden furniture, contributing to their happiness” (Peixoto, email to author, March 1st, 2023).

The enterprise's mission is to “generate good sensations/emotions for customers by providing an excellent and customized service in the design, production and distribution of wooden furniture, contributing to their happiness” (Peixoto, email to author, March 1st, 2023).

It defines its main differentiator as “**combining handmade touch with the highest technologies**, innovative processes and materials” (Peixoto, email to author, March 1st, 2023).

In other words, Firm F focuses on the quality of services provided, which translates into product design, quality, and functionality, in order to fully meet customers' expectations. Furthermore, the firm prioritises increasing its environmental responsibility by using equipment with lower energy consumption, investing in solar energy panels and purchasing wood from sustainably managed forests.

In 2002, the firm started its expansion process abroad, in the course of which it nearly doubled the size of its production area and built a new finishing sector with cutting-edge technologies. Today, the company exports to 17 countries (Appendix 1), with 95% of its production manufactured for foreign markets. The company declared that the rationale behind penetrating those countries was attributed to the large demand for household goods in the middle-upper class segment that these nations demonstrated. Over the course of the last few years, the firm has experienced a few drawbacks as it attempted to enter the Russian, Chinese and UAE market, consequently having to withdraw from these countries due to a lack of sales. Most of the company's retail customers are located in Germany and France.

Regarding the management structure, the firm is owned by its CEO & managing partner, who represents the majority shareholder (Peixoto, email to author, March 1st, 2023). As of today, the company employs approximately 65 workers – qualifying as an SME – and it is organized in three main areas, which will be discussed further in chapter 4.1.3.

4.1.2. Product Portfolio

Firm F primarily provides furniture for residences, offices and hotels. Consequently, its portfolio includes dining tables, sideboards, tv units, coffee tables, high boards, modular pieces, bookcases, beds, bedside tables, desks and wardrobes. Its business activities can be divided into three areas: main collections, customer lines and custom projects. The **main collections** are

standardised collections designed by Firm F itself and can be sold to any furniture retailer. As of today, there is a total of 23 collections, and each collection focuses on different functionalities and designs. The **customer lines** are produced for specific retailers, whereby the retailers design the furniture themselves and Firm F solely manufactures the items. These lines are exclusively sold to the retail customer. The third business area consists of **custom projects** developed in collaboration with clients such as hotels, offices, public spaces and interior designers. In this context, Firm F has worked with clients all over the world.

It should be noted that Firm F represents the corporate brand, whereas the firm's products are being sold and marketed under the commercial brand "Brand Y" (Peixoto, email to author, March 1st, 2023). An overview of the main collections, most valuable retail customers and custom projects can be found in Appendix 2.

4.1.3. Operations, Positioning and Strategy

Operations - As mentioned previously, the company can be divided into three main divisions: commercial, industrial and administrative/financial (Appendix 3). The **commercial** department encompasses all activities from the first client contact to the design of different solutions for the customers as well as the shipping of products. Firm F transports its products mainly via lorry, however products with overseas destination are shipped by container ships, and the company instructs contractors for all transportation methods. It works with different shipping companies, depending on the country and region of the destination. However, when exporting to Germany, the company adopts a unique approach. It delivers its products to a warehouse partner located in Germany, who then ships the furniture to the final destination, i.e., the retailers' locations. Exporting via this intermediary relieves the firm by undertaking time-consuming logistic hassles such as finding a contractor for a new region. Firm F expressed its wish to partner with this type of distributor for all its operating countries.

The **industrial** division instead focuses on the actual manufacturing of items as it includes all technical, purchasing and production processes. Production can be subdivided into the following sectors: woodwork (cutting), finishing (edging and forming), assembly, painting, details, and packaging. All these processes are fully controlled by Firm F. The firm's production facility covers 9,000m² and is located in Lousada, Portugal, on the same grounds as the firm's corporate offices. Lastly, the **administrative/financial** division manages all topics related to finance and human resources management (Peixoto, email to author, March 1st, 2023).

When asked whether about the current status of production capacity, the business stated it is able to increase production by approximately 30%.

Positioning - This should highlight where a product stands in comparison to competitor's offering (Economic Times 2023). As indicated above, Firm F positions itself as a furniture manufacturer providing high-quality, personalised items as well as **outstanding services**. Thus, the firm differentiates itself from competitors through unique and above average quality products and services. This is emphasised by the firm's obtainment of the ISO 9001 certification, which guarantees consumers products and services of superior quality (ISO 2023). Regarding price positioning, it is evident that Firm F's price point lies in the premium range, with items starting at €2,520 retail price (Barros, email to author, 13th May 2023).

Strategy - The typical understanding of firm strategy is that it entails a set of actions aimed at assisting the firm in achieving its goals (Moloi Marwala 2021). Firm F strives to be a "reference company and leader in the wooden furniture sector recognised for the quality, proximity and positive differentiation in the services provided" (Peixoto, email to author, March 1st, 2023). The furniture manufacturer puts this into practice by offering each client the opportunity to customise their products, delivering attentive, polite and professional customer support, using state-of-the-art machinery in conjunction with traditional manual techniques and conducting ongoing quality evaluations of their products. Speaking of marketing strategy, the enterprise

acquires and retains customers by participating in international furniture fairs and by distributing newsletters to its current clients. Apart from that, Firm F is planning on launching social media marketing channels in the near future.

In terms of **growth strategy**, the business achieves growth by expanding into new countries. Firm F started its expansion process in 2002 and as of today, it is present in 17 countries. Firm F entered these markets mainly by direct export as their main objective was to increase sales, but there have also been two cases where Firm F formed joint ventures with interior designers. The company has stated one of its primary objectives is to enter the Brazilian market due to its favourable demand conditions. Additionally, Firm F sees Brazil as an attractive market due to the shared language with Portugal. Unfortunately, Firm F's entry barriers for these territories are high because of logistic and operational constraints. Operational impediments are generally speaking a substantial obstacle for the company's expansion, as transportation costs often amount to 10-20% of the order value, which heavily reduces the profit margin (Peixoto, email to author, March 1st, 2023).

4.1.4. Business Unit to be Internationalised

As illustrated above, the Portuguese firm is distinguished by three product lines: main collections, client lines and custom projects. The company expressed its preference to penetrate a new market by selling its **main collections**, as this range of products contains standardised items which allows the business to make use of economies of scale. Nonetheless, the firm's management did state its openness to enter a country by creating a new client line in collaboration with a retailer if that facilitates success in that country (Peixoto, Teams meeting, March 9th, 2023).

4.1.5. Financial Overview

To complete the overview and provide a complete depiction of the firm's situation, a 360-degree examination of its current financial status will be undertaken. Before starting with the

analysis, it should be mentioned that financial data for the year 2022 has not been made available yet, which is why data from 2017 to 2021 will be taken into account. The firm's balance sheet (Appendix 4) and income statement (Appendix 5) have been provided by the company.

Income Statement - To better understand the financial situation of the firm, some key aspects of the income statement over the last five years will be examined (Appendix 6). Considering the **revenues**, Firm F experienced large growth both in 2018 and 2019, followed by a drastic fall in 2020 (-24%), coinciding with the start of the Covid-19 pandemic. In 2021, the revenues started to grow again, increasing by +7%, which was mostly driven by foreign sales. However, this increase in revenue is not always followed by a concomitant increase in **gross profit**, as in 2021 it is three percentage points lower than in 2020. This is mostly attributable to higher costs of goods sold (COGS; +21%), as a result of the pandemic that drastically impacted the production of European companies due to extreme price increases and raw materials shortages (Brugnotto Group 2021). From 2017 to 2020, the proportion of cost of goods sold (COGS) in relation to revenues amounts to an average of 37%, while in 2021, this value rose to 44%, impacting not only the gross margin, but also other areas of the profit & loss statement (P&L). In fact, the increase in COGS, along with the increase in costs of employees, led to a decrease of both the earnings before interest, taxes, depreciation, and amortization (EBITDA; -5%) and earnings before interest and taxes (EBIT; -29%). Compared to the other operating costs that decreased over the last years, the spend on employee salaries grew steadily each year, reaching +13% in 2021, after the firm hired four new employees.

Lastly, as expected, the **net income** significantly decreased by 28% compared to the previous year, as a result of the significant decrease on EBIT. By looking at the previous year, there is a downward trend that began in 2017 and was only interrupted by 2019, which saw an exceptional growth.

Ratios - To follow, different ratios have been calculated to allow a more in-depth analysis of the firm's financial situation. The first set of financial ratios are the **liquidity ratios** that allow to evaluate the ability of a firm to pay its short-term obligations (J. Schmidt 2023). It is composed by the current ratio, quick ratio, cash ratio, and working capital (Appendix 7). The **current ratio** provides information on whether the firm can pay back all its due obligations within one year and, how well the firm can maximize its current assets to satisfy its current liabilities (Fernando 2023a). In this case, the ratio in 2021 is greater than one (2.57) meaning that the company has enough current assets to fulfil its short-term liabilities. Over the last five years, this ratio constantly increased, indicating that the firm improved its ability to pay back its short-term debts. The quick ratio and cash ratio are additional indicators used to measure the ability of a company to meet its short-term obligations. The first one solely takes into account the most liquid assets, whereas the second one regards cash and cash equivalent. As seen on Appendix 7, in 2021, the company had a **quick ratio** larger than one (1.88), the highest in the period considered, which means that it is fully capable of instantly liquidating its assets to pay off its current liabilities (Seth 2022). However, the company's **cash ratio** is lower than one (0.05), which indicates that cash or near-cash resources are not sufficient to repay all current assets. Nevertheless, this is not an alarming result considering the firm is still able to pay its debt using its current liabilities. Finally, the **working capital** (WC) shows the difference between current assets and liabilities of the firm. Over the five-year period, it grew consistently, meaning that the firm's capability to meet current obligations by using its current assets increased as well. Nonetheless, displaying such a high WC may suggest the firm is not properly investing its current assets into new opportunities, such as new ventures, upgrades, or expansions (Girardin 2022).

In conclusion, in 2021, Firm F's **liquidity capacity is strong**, and thus does not have problems to meet its short-term obligations. However, a further evaluation on the usage of its current

assets should be performed to make sure the company is not missing out on important investment opportunities.

The second set of financial ratios are the **profitability ratios** which may be utilized to assess how profitable a business is by comparing a company's revenue, operational expenses, balance sheet assets, and shareholders' equity over a certain period (Hayes 2022a). The following ratios will be highlighted: **return on sales, return on assets, and return on equity**. These three ratios have risen between 2017 and 2019, however then decreased from 2019 to 2021 as shown in Appendix 8. A decline in return on sales might indicate that the business is becoming less lucrative due to rising COGS. Furthermore, a decrease in return on assets may indicate that the firm is not making the best use of its assets, because of unfavourable capital allocation. For the diminishment in return on equity, this may be a sign that the business is not making as much revenue for every dollar of equity held by shareholders, which might affect shareholders' value. To conclude, a **fall in all three measures in the last three years** may indicate that the business is experiencing difficulties in the existing markets.

The third set of financial ratios are composed of **solvency ratios** which are an indicator of a company's financial health as they show whether its cashflow is sufficient to cover its long-term obligations (Hayes 2023). This set includes the debt-to-assets ratio, debt-to-equity ratio, and interest coverage ratio (Appendix 9). The debt-to-equity ratio calculates the amount of debt a business has incurred in relation to the value of its asset's net liabilities. In Firm F's case, the **debt-to-equity** ratio diminished between 2017 and 2020 from 1.39 to 0.99. It implies that the company is relying more on equity and less debt. This ratio grew from 0.99 in 2020 to 1.08 in 2021 which may mean that the business has taken on more debt than equity. This rise can indicate that the business is depending increasingly on borrowed money to support its operations or future growth and improve its financial leverage. The **debt-to-asset ratio** shows how much of the firm is supported by debt as opposed to assets, and consequently, how much

of its debt can be repaid using its available assets. In Firm F's case, it increased from 40% to 44% between 2020 and 2021 after being stable in the period 2017-2020 (Hayes 2023). This might indicate that the business is also increasingly depending on borrowed money to finance its assets, such as inventories or real estate and equipment. The **interest coverage ratio**, which helps measuring a company's margin of safety for fulfilling interest payments on its debt during a specific timeframe, has significantly increased between December 2017 and 2019 (Hayes 2023). This may mean that the business is now in a better position to pay its interest commitments. Investors may find this encouraging since it demonstrates that the business is generating enough revenue to easily meet its interest expenses. Following the increase, this ratio has dramatically fallen in the period between 2019 and 2021 due to a notable decrease in operating income in that time frame, which makes it more challenging for the firm to pay its interest payments.

Furthermore, it is also extremely important to assess Firm F's **efficiency ratios**, which measure the company's capacity to efficiently employ its resources and control its liabilities in the short or current term. These ratios are comparable in that they measure how long it takes to get money from a client or liquidate inventory (Nickolas 2021). By looking at Appendix 10, we can see the **average collection period**, which is the time taken to collect payments from clients, increased from 104 days in 2019 to 120 days in 2021 after having a declining trend between 2017 and 2019. Customers may be paying their bills later than usual or there may be a rise in debt as an outcome. The **credit period**, which is the interval of time within which consumers can pay their invoice, has decreased from 60 to 39 days between 2017 and 2021. This decrease might imply that the company's credit rules have been tightened in response to the increase in the average collection period. Moreover, the **inventory turnover ratio** analyses how many times a company has sold and replaced its inventory in a specific period. It considers the COGS relative to its average inventory. For Firm F, the inventory turnover ratio equals 2 in 2021, and

in comparison, the industry turnover ratio amounts to 5 (Ready Ratios 2021). This shows that, compared to Firm F, the industry manages its inventories more efficiently. This low turnover ratio may be a sign that the company is retaining too much inventory, which can tie up cash and raise storage, maintenance, and obsolete expenses. Especially in Firm F's case a low turnover ratio may raise storage costs as furniture items tend to be very large and bulky. The company may lose turnover and market share if its goods do not leave the warehouses as quickly as they should.

The last set of financial ratios are the **risk ratios** which consider a company's financial stability and are used to assist in conducting investment choices (Hayes 2022b). Starting with the **degree of operating leverage** (DoOL), this ratio assesses how much a company's operating income will fluctuate as a result of a variation in sales (Hayes 2022c). As shown in Appendix 11, there was a decline in the DoOL between 2017 and 2019. Afterward, the DoOL of Firm F has considerably grown from 6.02 in 2019 to 70.82 in 2021. This increase implies that the company's operating risk has grown and that it is now more vulnerable to fluctuations in sales revenue. This rise in DoOL does imply a higher level of operating risk. Moreover, the **margin of safety** (MoS) multiplied from 3.5% to 13.6% between 2017 and 2019. After that, there was a decrease in the MoS from 13.6% in 2019 to 0.9% in 2021 (Appendix 11). This decline could be a sign that the business is struggling to remain profitable because of stronger competition, growing expenses, or other issues. Overall, Firm F is now more subject to operating risk and more sensitive to changes in sales volume or revenue.

To conclude, an overview of Firm F's financial state is presented in Appendix 12. As it shows, the firm is experiencing some **difficulties in terms of profitability** due to a general increase in operating costs making its business riskier. However, the **other ratios highlight an advantageous position for the firm**, which remains solid in terms of liquidity and solvency.

Therefore, Firm F should focus on improving its profitability by taking new opportunities and entering new markets in order to foster its sales and increase its net income.

4.2. Market/Industry Analysis

The furniture industry entails all types of furniture and can, among others, be segmented by product type (e.g., wardrobes, tables, etc.), materials (e.g., primarily wood, metal, plastic), as well as by end-user (e.g., mainly residences, offices, hotels & restaurants) (Fortune Business Insights 2023b). The furniture industry entails all types of furniture and can, among others, be segmented by product type (e.g., wardrobes, tables, etc.), materials (e.g., primarily wood, metal, plastic), as well as by end-user (e.g., mainly residences, offices, hotels & restaurants) (Fortune Business Insights 2023b). The market is dominated by SMEs and microenterprises, with European furniture manufacturers accounting for 25% of furniture production and consumption all over the world (EFIC 2022). The market is dominated by SMEs and microenterprises, with European furniture manufacturers accounting for 25% of furniture production and consumption all over the world (EFIC 2022). In the following, an analysis of this market will be performed by conducting a PESTEL and Porter's Five Forces analyses, as well as give insights into trends, forecasts, success factors and country specific advantages of the furniture industry.

4.2.1. PESTEL

In the following, a PESTEL analysis will be conducted in order to identify external factors and macro-trends that affect Firm F. Since the furniture company is present in several countries, the six dimensions will be assessed from a global point of view rather than concentrating on Portugal only.

Political - Firm F operates in 17 countries, causing the firm to be exposed to a high number of political threats. The Portuguese firm exports to European countries, but also operates in overseas territories, signifying it encounters a vast amount of import taxes on raw materials as well as export duties for finished products, which is a consequence of trade and protectionists

measures (European Commission n.d.a). However, Portugal being part of the European Union eases doing business with nations all across the world thanks to the European Union having formed trade agreements with 87 markets as of 2023 (European Union n.d.a).

Economic - When generally looking at the economy, a slowed economic growth can be observed as a result of high inflation and uncertainty, with gross domestic product (GDP) growth projected to shrink from 3.4% in 2022 to 0.5% in 2023 (European Central Bank 2023). This is definitely a factor that influences Firm F's operations as slow economic growth has a negative impact on consumer spending (Maverick 2022).

Another economic topic that affects Firm F is the current global energy crisis, as this caused natural gas, electricity and oil prices to drastically increase, which not only results in a surge in Firm F's manufacturing and transportation costs, but also causes consumer spending to decrease due to lower confidence and purchasing power (European Central Bank 2023; International Energy Agency 2023). Furthermore, the Covid-19-induced shortage (tripled delivery times) and consequential rise in prices (10-50% increase) for raw materials have been heavily affecting the wooden industry (Brugnotto Group 2021).

Social - Various social factors like consumer trends play a part in the furniture sector as these have an impact on the demand for furniture. The rising amount of environmentally concerned consumers creates a good opportunity for Firm F to build on this sociocultural megatrend as consumers want to purchase products that are durable, resistant and sustainable which is certainly the case for wooden furniture (European Commission n.d.b; Grassler 2021; Deloitte 2023). A further social factor that is important for Firm F is the demographic change, as this transition is associated with an ageing workforce and the challenge to attract young workers, meaning that the enterprise may face difficulties in hiring staff with the necessary skills in craftsmanship (European Commission n.d.b).

Technological - As in any industry nowadays, technological innovation plays a role in the designing, manufacturing and selling of furniture products, and the speed of technological disruption in the furniture sector is high. Advancements that influence this field are artificial intelligence (AI) as well as augmented reality (AR). AI can help in the process of designing furniture, for example by developing design iterations. AR allows placing furniture in real environments or can support in the assembly of furniture (Souza 2020). Since one of Firm F's unique selling proposition's (USP) is the use of cutting-edge technologies, it is advisable that the company monitors these progresses and tries to adopt these new technologies in order not to lose their credibility in terms of their USP.

Legal - Intellectual property (IP) rights are a legal factor that matters for firms such as Firm F, as this sector relies on the protection of its innovations. Unfortunately, it can be noted that the present industry is displaying weak protection of IP rights due to growing digitalisation and global trade (European Commission n.d.b). Moreover, furniture producers in the EU must follow several regulations and safety standards to comply with EU measures (Shen 2022).

Environmental - As for the environmental dimension, climate change represents a threat to forests as their condition is impacted negatively by changing climatic conditions. As Firm F relies on wood as a primary source of raw material, the potential diminishment of forests poses a risk for the wood manufacturer (PEFC 2023). Another implication of climate change is the enforcement of an increasing number of environmental laws, such as the European Green Deal. To mitigate this, Firm F should strive for sustainability to align itself with regulations and be prepared for stricter rules in sourcing, manufacturing and transportation.

To summarise, it can be said that there is a significant number of externalities that act on the furniture business. Firm F should be conscious of these factors influencing their business in order to respond to changes on time and thus remain competitive.

4.2.2. Porter's Five Forces

To further understand the furniture industry and analyse its intensity of competition, a Porter's Five Forces analysis will be conducted. This framework examines five different competitive forces, with the ultimate goal of advising companies on how to effectively position themselves in the market. The five forces will be ranked from highest to lowest, one being the lowest, and five the highest. An overview of this framework can be found in the Appendix 13.

Rivalry among the industry competitors (high) - The first force is mainly determined by the number and size of competitors, their diversity as well as growth and volatility of demand (Investopedia 2023). The furniture industry is mainly dominated by SMEs and micro firms, however, a few large international players such as *Ashley Furniture*, *IKEA*, *Nitori*, *Oppein Home*, *Restoration Hardware*, *Rooms to Go*, *Wayfair* and *Williams-Sonoma* play a significant role as well (Statista n.d.a; Porter Analysis 2020; European Commission n.d.b). When it comes to differentiation, despite most firms using wood as their primary source of material, they still have the ability to differentiate themselves through their product portfolio, innovative manufacturing techniques, technologies, designs and customization services (Fortune Business Insights 2023b).

As mentioned before, the furniture industry has been following a somewhat steady upwards trend, however, when analysing the demand's volatility, that is not the case. Overall, the furniture industry's volatility can be affected by multiple factors, namely consumers preferences and economic conditions. Even though furniture pieces are viewed as a necessity for most people, implying a relatively constant demand, the ever-changing consumer trends can easily cause sudden shifts in the demand, thus increasing its volatility. Furthermore, economic factors such as the consumer confidence index – which measures how pessimistic or optimistic consumers are regarding their financial situation – can be heavily impacted whenever there is a crisis, such as the Covid-19 pandemic (Akhilesh 2023). In this particular case, the consequent

need for people to stay home lead the industry's growth to follow an upwards trend until 2022, when the reduction of Covid-19 restrictions, rising inflation and energy prices put a slight pressure on the market, constraining the growth of demand and increasing its volatility (Statista n.d.a). Due to this pressure, firms started to compete to cut costs, increase profits and maintain market share driving up the rivalry between them. To summarise, despite the moderately high level of differentiation observed in the industry, the high concentration level along with the expected market growth and high volatility indicate a high level of rivalry.

Buyer power (high) - The second force refers to the power a buyer has over the industry's products and prices. A buyer's bargaining power is influenced by multiple factors such as the number of available firms, buyers and products, the volume of their orders as well as the availability of potential substitutes (Investopedia 2023). The large quantity and size of the players in this industry not only is able to cater most consumers, as furniture can be considered a necessity, but also allows buyers to easily compare prices and quality across a very wide range of products. Accordingly, consumers are given the chance to go for the product that has the best price-quality relationship and that better fulfils their needs.

Another important factor to consider is that furniture has overall a high price point and is often bought in bulk, especially by commercial buyers, giving them a higher bargaining power.

Furthermore, as it will be discussed later, the off-the-market industry, despite not having reached its full potential yet, unlocks a whole new set of substitute products that the consumers, depending on their budget and lifestyle, might opt for, giving them more power to negotiate prices with suppliers.

In conclusion, the buyer power in the furniture industry tends to be high as the level of competition, the consumer's price sensitivity and availability of substitutes are also relatively high. That being said, companies should be mindful of the consumers' preferences and tailor their business accordingly.

Supplier power (moderate-high) - This force refers to the bargaining power suppliers have (Porter Analysis 2020). As previously mentioned, wood is the primary source of raw materials in furniture production and its availability is at stake (Fortune Business Insights 2023b). On the one hand, the limited availability and high demand for raw materials not only for furniture production (wood), but also for packaging (cardboard) leads to suppliers having more bargaining power as they may easily charge higher prices without losing customers.

On the other hand, given the abundant pool of existing wood suppliers and the minimal effort required to locate and engage a new one, furniture manufacturers are facing low switching costs which reduces the suppliers' bargaining power (BizVibe n.d.). Another relevant factor which has an impact on supplier power is the probability of suppliers' forward integration. As it will be further discussed in the fifth force, there are significant entry barriers in the industry so it is unlikely that suppliers would endorse in furniture production, thus reducing their bargaining power. All things considered we can conclude that suppliers have a moderate to high bargaining power.

Threat of substitutes (moderate) - The fourth force stems from the availability of alternative products that could potentially substitute the firm's products, thus decreasing its profitability. (Quick MBA 2021). There are two main substitutes for the furniture industry, namely second-hand furniture and furniture rental services. Pre-owned furniture might be an alternative for consumers that have less purchase power or that are seeking sustainable options. As for furniture rental services, this may also be a suitable option for individuals with limited budget who do not wish to commit to purchasing a piece of furniture. Overall, the furniture rental service market is a market projected to grow from €67.92 billion in 2022 to €129.04 billion by 2029 (Fortune Business Insights 2023b). To conclude, both second-hand furniture and furniture rental services can be considered threats of substitution since consumers may find products with similar functionality, quality and design for a lower competitive price. However, due the fact

that the off-the-shelf market is still expanding these threats might not have reached their full potential as of yet, which is why we can classify the threat of substitutes as moderate (Straits Research 2022).

Threat of new entrants (moderate-low) - Finally, the fifth force is affected by the entry barriers that allow the industry's incumbent firms to make above-average profits and that restrict the entry of new firms in the industry (Hayes 2022e). In this particular case, three main barriers can be highlighted – the requirement for qualified and experienced workforce, the necessity for substantial investments in machinery, and the presence of strong and established players in the furniture industry.

As noted in the PESTEL analysis, the aging of the workforce and lack of interest from younger generations to work in the industry not only fails to pass on savoir-faire gathered throughout generations, but also restricts the industry's access to a very limited pool of workers, which may deter potential competitors from entering the market (Pinto 2022).

When it comes to investments, the need for high-technology machinery and corresponding maintenance costs, embody a level of investment that not all companies may be able to afford in their early stages. Moreover, companies may incur in rather high transportation costs, taxes and duties, and fluctuations in order volume may drive up the overall costs of the company.

Finally, since there is a significant number of well-established furniture brands, brand recognition is also an important factor to consider. Having competitors with a large market share as well as an established positioning, strategy and brand image makes it more challenging for new entrants to be successful in the market. All the above-mentioned factors embody significant entry barriers in this industry, resulting in a moderate-low threat of new entrants.

After analysing the five Porter's Forces of the furniture industry it can be concluded that it is characterized by a high degree of rivalry amongst players as well as significant barriers to entry.

Nonetheless, there is still space for companies to differentiate themselves and maintain its competitiveness through innovation, technology and design.

4.2.3. Consumer Trends and Forecasts

As previously mentioned in the PESTEL analysis, the furniture industry is subject to ever-changing consumer trends and industry forces. One of the main trends that can be observed is a **growth in online sales**. The shift towards purchasing furniture items online was accelerated through Covid-19 since consumers were not able to shop in brick-and-mortar stores (S. Schmidt 2021). Another reason for the rising amount of E-commerce sales can be attributed to the fact that the majority of furniture consumers consists of so called “millennials”, which is a generation that primarily purchases online (Cadesign 2023). In addition to that, the introduction of AR features on websites facilitates selling furniture on the web. However, the prospective development of online sales should be closely monitored as this trend might diminish as a result of Covid-19 regulations easing (Vidojevic 2022).

The afore-mentioned focus on **sustainability** is another trend which will shape the future of this sector. Shoppers are showing interest in recycled materials as well as environmentally friendly woods such as bamboo (S. Schmidt 2021). On top of that, an increasing demand for second-hand furniture can be observed (Fortune Business Insights 2023b).

A further trend which has also been discussed above is the use of technology in the furniture market. Apart from employing AI and AR in the design, production and sale of items, innovation is also driven by the demand for **smart furniture**, as consumers are looking for solutions to facilitate their daily life. Apart from that, the importance of **personalised products and services** has now penetrated the furniture market, as consumers are seeking for custom solutions that fulfill their needs and perfectly fit into their homes (Cadesign 2023).

During the Covid-19 pandemic (2019-2022), the industry experienced a global upsurge in sales as people were striving to optimise their homes and make them as comfortable as possible.

Even though experts are foreseeing inflation, rising energy prices and easing of Covid-19 restrictions to be a damper on this augmentation, they still anticipate a **continuous annual growth** of almost 5% compound annual growth rate (CAGR) over the next five years and project the revenue in this sector to amount to €751 billion in 2023. This constant growth can among others be attributed to the great number of millennials which will be buying or renting their first property in the upcoming years. To elaborate further, the United States is home to the largest furniture market worldwide, however, the Asia Pacific region is forecasted to gain significant importance in the near future (Statista n.d.a; Fortune Business Insights 2023b).

Considering the different segments of the furniture market, wooden furniture is projected to continue leading the market. Moreover, the residential segment currently holds the largest market share and further growth can be expected. The office sector represents the second largest part of the furniture industry and future growth will be fuelled by the increasing demand for home office furniture. The third major consumer segment are hotels & restaurants, and a rising demand from this consumer group can also be anticipated due to the ascending number of hotels and restaurants worldwide (Fortune Business Insights 2023b).

4.2.4. Key Industry Success Factors

There are a few considerations to take into account to guarantee long-term performance as a strong competitor in this industry.

In the furniture industry, **fulfilling customer expectations** is of utmost importance. When selling B2B there is an expectation that the product must have a homogenous level of quality and reliability especially when targeting hotels, office spaces, new apartment projects, etc. The customisable aspect of Firm F allows the demands of various clients to be met with the upmost precision and thus builds a concrete reputation as a base for future clients (Novibelo 2022). This ties into the design aspect of the product. Since the market is so competitive, it is important for SMEs to differentiate themselves from competitors by offering unique designs and robust

products to appeal to desired customers tastes. Fortunately, Firm F has solidified this as one of their main competitive advantages, integrating a customisable foundation for customer retailers to achieve their desired end-product. This sets an important benchmark for the industry.

Looking at **efficiency of supply chain management** in an era of digitalisation is another vital aspect to consider. Other competitors are already venturing into this field, thereby limiting the potential for optimisation. Post-Covid-19, rising inflation and an energy crisis to top off the barriers that are being set for SMEs in the furniture industry encouraged alternative thought processes. The UK furniture industry has seen a huge demand for customisation of interior products driven by lockdown just like Portugal (Furniture Production 2022). Although these are different markets, the growth rate of around 3% is similar as well as the demand and number of SMEs. Therefore, initiatives such as the 'Made Smarter' program have been created to incentivise digitalisation to streamline and optimise supply chains in the furniture industry. 'Made Smarter' is a company that offers the service to capitalise on changing trends, increase productivity, sustainable growth and create new high-value jobs supported by matched funding (Furniture Production 2022). This is an enticing motive to reduce costs optimising Firm F's supply chain in coalition with the business plan to go global. It is also a proven initiative incentive that has not yet been proposed in Portugal.

A significant aspect as a success factor is the **sustainable** side of the industry. Many consumers hold a firm belief in the sustainability of production in this day and age, making it more of a prerequisite for many companies to produce in this fashion. This industry has already developed an important part of sustainable development strategy, seeing 47.7% of the sector being at a Sustainable Product and Service Design Level. This entails methods and solutions to reduce energy consumption and environmental impact for the product and its cycle (IPP 2022). As an SME, it would be crucial for Firm F to acquire an international supplier with great production etiquette and a solid base for sustainability. This makes the association to a common goal much

simpler. Feeding back into the consumer side of sustainability, there is an important market of environmentally conscious customers who are willing to pay a premium for eco-friendly products (Sun and Yoon 2022). Even more generally, it is the future of raw material production and heavy industries to reduce waste, pollution and use renewable materials.

In terms of policies and political adherence, Firm F would do well to implement serious sustainable practice to keep in line with European policies of achieving climate neutrality by 2050 (Portugal.EU 2023). The incentives are clear and important, opening a market to sell to, reducing negative environmental impacts and optimising waste reduction during production.

One critical aspect to develop is **transportation**, where Firm F needs an efficient supply chain when distributing their product. Alternative vehicles for transportations should be considered for the future. Especially looking at arching around the sustainable branding for the company, sustainable transportation either in-house or a cheaper external alternative are an important consideration to make. Creating a network across the globe could streamline exports especially Firm F's target territories in the Brazilian and US markets.

4.2.5. Country Specific Advantages (Porter's Diamond)

When assessing a firm's fit within an industry, we must tie in an analysis of the competitiveness of a country's industries. Using Porter's National Diamond as a framework, a more in-depth take can be made on the country specific advantage (CSA) of the furniture industry in this case. The framework predominantly follows four key elements: factor conditions, demand conditions, related and supporting industries, structure and rivalry (Appendix 14).

Factor Conditions - The primary, and most important determining factor according to Porter's theory, is the factor conditions (Investopedia 2022). This refers to the resources and infrastructure available in Portugal that contribute to the competitiveness of, in this case, its furniture industry. Portugal has a long history of woodworking and furniture manufacturing due to its vast natural forests. Today, 40% of Portugal's land mass is covered by forest creating an

abundance of supply for the furniture industry (The Forest Time 2018). European Parliament data states that Portugal is the sole country in the EU to harvest a surplus from its own wood sector, showing the strength and tact of wood supply for the industry (The Forest Time 2018). The predominant factor condition remains the relatively low-cost and highly skilled labour force Portugal holds. Portugal's current wages and salaries in 2021 stands at €12.90 (total) compared to the EU's gross average held at €21.90 (Trading Economics 2023a). As a rule of thumb, the labour cost is lower than most of its European counterparts, despite the statistic being a record high for Portugal.

Demand conditions - Demand conditions relate to the level and nature of demand for a product of a country (Investopedia 2022). Portugal has a relatively small domestic market for furniture, which means companies in this industry must be competitive in order to export to bigger markets to succeed. Previously mentioned in 'Consumer Trends and Forecasts', 2021 saw a significant growth due to Covid-19 restrictions. This reflected in a changing buying power where people desired to make their home working and living situations more comfortably, thus contributing to an important increase in sales. Since Firm F sells from B2B and not B2C, its selling channels were relatively unaffected as it does not hold any brick-and-mortar shops and therefore does not encounter any physical customers in a store. Even though it does sell to retailers with those shops that require foot-traffic for an important part of their sales, Firm F does not rely on this specific distribution channel.

The current revenue in the Portuguese furniture market is at €2.57 billion in 2023 with an expected CAGR of 3.24% for 2023-2027, boding well for the future of the industry (Statista n.d.b). After enjoying these sales in 2021, 2022 came swiftly to exacerbate demand with rising inflation, soaring energy prices and the easing of Covid-19 restrictions bringing normality back to the demand for the market (Statista n.d.b). This being said, a critical part of the future of the furniture industry for Portugal will be the millions of millennials as a commanding market

driver who are expecting to buy their first homes. If retailers in Portugal want to fight the stunt of domestic growth for the furniture industry, they may want to pay attention to their own millennials as well as the wealth of opportunity in this consumer group the EU provides (Statista n.d.b). To conclude, the demand conditions in Portugal share that of recovering economies in the EU. Positive signs show furniture growth has not stunted as much as other industries. The future clients the furniture will enjoy is key to maintaining growth in the industry, suggesting strong demand conditions domestically.

Related and supporting industries - This part will examine how related and supporting industries contribute to supporting competitiveness of the furniture industry in Portugal (Investopedia 2022). It is important to analyse how the furniture industry works in tandem with its related industries. These industries include wood processing suppliers, commercial retailers and logistics. Each of these industries contribute to the value of the furniture industry. Portugal's strong level of craftsmanship allows Firm F and many others to create a quality product with local resources.

The textile industry is huge supporting factor for the furniture industry as one of the most important sectors for the Portuguese economy. It employs over 138,000 people and represents 10% of the country's total exports (Ministry of Foreign Affairs of Denmark 2020). Supplying fabrics, leather, foam and other components, furniture is dependent on this industry. The availability and quality of wood in Portugal is significant as previously mentioned. Portugal is among 55 national members producing PEFC-certified wood sourced from forests managed in line with the strictest environmental, social and economic conditions (PEFC 2023b). Offering this integration within the product comes hand in hand with the sustainable aspect of branding which is ever crucial in this day and age. It is not only an attractive image for a company but critically it contributes to the ecosystem of the furniture industry and will become a benchmark for production sooner than later.

In terms of retailers, Portugal has a strong hand of popular commercial retailers that dominate the furniture industry such as Ikea, holding 82% of consumer saying it is the most popular in Portugal (Statista 2022a). As mentioned previously, it is indeed an industry controlled by a dominant few such as *Conforama*, *Casa*, *Hôma* and *Pollux* making it difficult for SMEs to shine through in the domestic market. However, because of this, it is arguably positive for SMEs to be pushed to internationalise. Creating new opportunity in the extensive markets the EU provides and bringing Portuguese expertise can herald increased sales activity and expansion.

Firm strategy, structure and rivalry - The firm strategy, structure and rivalry will be looking at the competitiveness of the furniture industry's firms and the level of that competition within the industry. Firm F's integration of machinery such as cutting and moulding machinery as well as a computerized numerical control (CNC) machine gave it equal standing to compete in quality production. The aforementioned large competitors are out of scope in terms of rivalry. Therefore, it is tough for Firm F to access economies of scale and access to capital and in terms of SMEs the competition is fierce for Firm F. There over 5,200 companies in this sector, most of them being SMEs (BusinessScoop 2022). There is no lacking in competition within this industry, making it imperative for Firm F to implement modernisation within machinery and develop a *savoir faire* unique to their name. Since these values are the company's differentiating factors (experience in the area and strong knowledge of furniture through generational craftsmanship), honing this in can create a serious competitive advantage outside of Portugal. The high-quality customization aspect is also something an industry pioneer such as Ikea does not do, allowing for some breathing room in the domestic market for Firm F to tap into.

Overall, Portugal's furniture industry has some strengths that could help it become competitive in international markets. It does need domestic development in innovative technologies and to assemble to fragmented nature of the industry through scaling. Investing in new tech and digitalisation as well as building partnerships between complimentary industries could have an

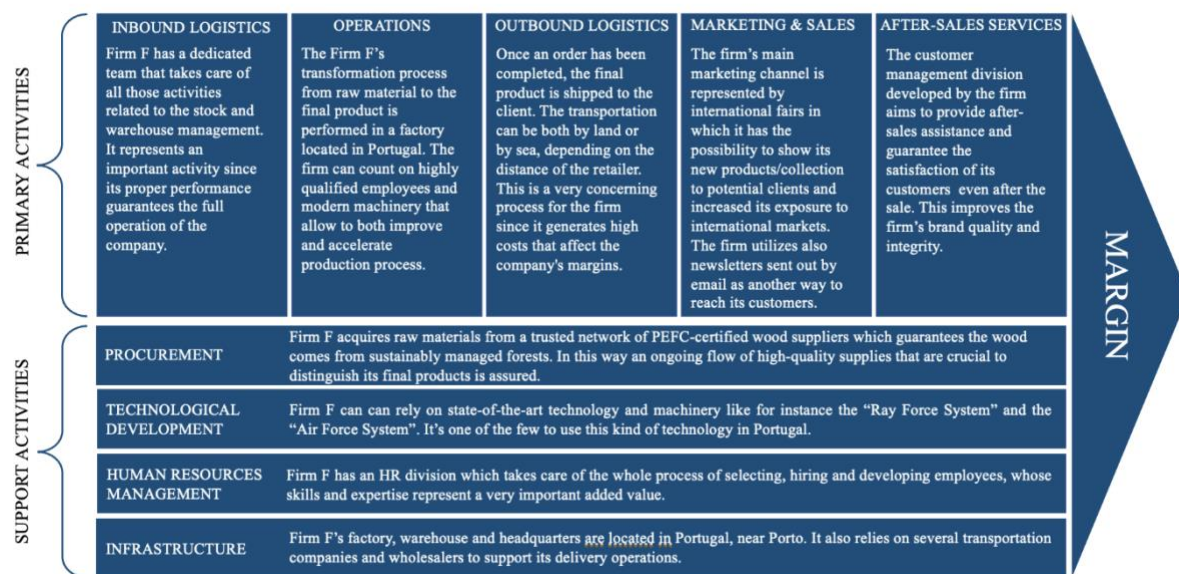
imperative impact on an SME such as Firm F. Having said this, focusing on producing high-quality, sustainable products and specialising in this niche market, SMEs in Portugal's furniture industry could find success in the global market.

4.3. Firm Specific Advantages

4.3.1. Resources, Competences and Value Chain

Resources and capabilities are important aspects to consider when analysing the firm's specific advantages (FSA). They are pivotal to differentiate the firm in both home and foreign markets, and therefore they must be managed carefully. A **value chain analysis** shows how the firm adds value to its customers by performing its different business activities (Stobierski 2020).

Figure 1 - Firm F's Value Chain



First, the resources represent the assets used by the company to carry out its daily processes and activities. As shown in Figure 1. in its **procurement**, Firm F acquires raw materials from a trusted and highly qualified network of suppliers. By doing so, the firm assures that all its products are of perfect quality, which is one of the competences that sets it apart in the market. Furthermore, another important resource lies on cutting-edge machinery and technologies used in its production process. This allows the company to create bespoke products for its customers

as well as to accelerate processes such as cutting and moulding (Peixoto, email to author, March 1st, 2023). Specifically, Firm F is one of the few companies in Portugal to use Biesse fusion edge systems for production that allows to achieve a “zero joint”. Indeed, the firm can rely on the "Air Force System" in the edge machine and the "Rai Force System" in the CNC process (Peixoto, email to author, March 31st, 2023). Finally, the Firm F’s primary resource is its **highly qualified human capital**. The know-how acquired by the employees over the years is crucial for the firm not only in the production process, but also in order to develop and create new furniture lines as well as to customize products for its customers. Over the years, the firm’s employees have collected a pool of experience and skills in the furniture industry, making them an essential asset for the firm’s success. In other words, its know-how is perhaps its greatest strength when it comes to competing in the global market, since it can provide additional details and information that machines do not have. Indeed, they add that handmade touch that makes each piece of furniture unique (Peixoto, email to author, March 31st, 2023).

Competencies, on the other hand, show how a business allocates and employs its resources. Particularly in industries where resources are mostly interchangeable, they are the primary source of difference. As partially mentioned above, the ability to manufacture high-quality products represents an important competence for the firm. As a matter of fact, it constitutes an important element of differentiation in the markets, made possible by a trusted and selected network of suppliers and partners the firm can rely on in order to maintain the good functionality of the firm’s operations (Peixoto, email to author, March 1st, 2023). On the other side, customized products also constitute a crucial competence for the firm. Thanks to the combination of modern machinery and highly qualified workforce, as mentioned above, the firm has the ability to deliver unique pieces that answer its customers’ desires of design and personalization. In this way, the firm guarantees the satisfaction of its customers, which

represents another important competence for the company (Peixoto, email to author, March 1st, 2023).

Regarding customer support processes, the company provides a team that takes care of the entire customer journey, from the simple consultation to the creation of products especially designed for the clients, and to the entire after-sales part for further assistance (Peixoto, email to author, March 1st, 2023). By using this approach, the firm may ensure quality and the integrity of its brand while also increasing consumer happiness.

In conclusion, the company has the skills and resources to adapt to customer tastes in terms of design and quality through an excellent customer support, which are all successful factors for the furniture industry, as previously mentioned.

4.3.2. Firm Sustainable Competitive Advantage (VRIO)

After evaluating the company's resources and competencies, it is important to evaluate the firm's ability to sustain its competitive advantage in the future. A firm has a sustainable competitive advantage when it is implementing a value-creating strategy that is not concurrently being executed by any present or potential competitors and when these other firms are unable to replicate the advantages of this approach (Barney 1991).

Figure 2 - VRIO Framework

		V	R	I	O	
Capabilities	Resources	Is it valuable?	Is it rare?	Is it hard to imitate?	Is the firm organized to?	Value creation
Customized products	Cutting-edge machinery and technologies	Yes	Yes	No	No	Temporary Competitive Advantage
	Human capital expertise	Yes	Yes	No	No	Temporary Competitive Advantage
High quality products	Network of suppliers & partners	Yes	No	No	No	Competitive Parity
Customer support	Dedicated customer management team	Yes	No	No	No	Competitive Parity

As shown in Figure 2, the VRIO framework was used to analyse the above-mentioned resources in four different aspects: value, rarity, imitability and organization (Cascade 2022). Based on this analysis, Firm F doesn't have any long-term competitive advantage but only temporary competitive advantages. In fact, modern technology and machinery as well as the competence

of human capital and their know-how represent a key advantage for Firm F but just in the short-term. If its competitors do not display this kind of expertise at the moment, it is likely that they will be able to recover it in the future, making this current advantage a point of parity. Therefore, company F should think of something else to develop new advantages (Startup Sloth 2021).

4.4. Diagnosis for Internationalisation

4.4.1. SWOT Matrix

A SWOT matrix may be used to assess the chances for a company's international expansion success by analysing its strengths and weaknesses in relation to global expansion, as well as opportunities and threats in the worldwide market Appendix 15^(OBJ)). The ability to produce high-end furniture, create exceptional and personalised designs are some of the company's **strengths**. The small distribution network, a lack of familiarity with foreign laws and EU regulations that a company working in the furniture industry must adhere to are some of the company's **weaknesses**^(OBJ). In addition to that, poor brand identity can also be considered as a weakness. In fact, Firm F might not have invested a lot in marketing, so their brand is not well known. This could make it challenging to set its products apart from rivals and build a devoted consumer base. Furthermore, the production of personalised furniture leads to a lack of economies of scale.

On the **opportunity** front, the business can exploit possibilities in other markets, as well as rising customer preference for online shopping and rising demand for high-quality furnishings (S. Schmidt 2021). Furthermore, Firm F could seize the above-mentioned sustainability trend by promoting its sustainability-friendly practices such as the use of wood (in contrary to plastic or other materials) or investment in solar energy. As of the present moment, the company is indeed adopting environmentally friendly production methods, but it is not communicating these efforts to the customer. By investing in marketing these activities, Firm F will be able to

enhance the brand reputation as well as attract new customers seeking sustainably produced furniture.

However, factors including fierce competition from well-known worldwide furniture companies, and currency changes pose possible challenges to the company's globalization strategy. The high transportation costs that the company may incur when operating in new markets represent another **threat** to the business. Besides, climate change and the previously mentioned shortage of wood could also represent a threat to Firm F as it may disrupt the company's supply chain. As discussed in the PESTEL analysis, the global economy is currently experiencing a slowed economic growth, which portrays another significant threat to the firm as this increases competition and lowers demand. The company must adapt to these challenges by finding new ways to reach customers and minimise production costs.

Firm F may pursue its internationalisation goal by utilizing this SWOT matrix to help decide on how to best build on its strengths, solve its weaknesses, seize opportunities, and reduce threats.

4.4.2. FSA-CSA Matrix and Porter's Generic

FSA-CSA Matrix - When looking at the FSA-CSA matrix (Appendix 16), it is clear that Firm F does **not display a sustainable firm-specific advantage** regardless of its focus on high-quality products. However, there is a case to be made for some qualities that have been well incorporated. The integration of innovative technology such as cutting-edge technologies and machinery in addition to human capital expertise are some examples of some promising starts to a potential firm-specific advantage that could be developed in the future.

Portugal has a **medium to strong CSA** attributed to cheap cost of labour and a strong textile industry, which could help support the development of its furniture industry. Portugal's abundance of raw materials for Firm F's product does give it a strong advantage in terms of accessibility to materials with multiple certified distributors.

Porter's Generic - Porter's identifies two crucial competitive dimensions that determine a firm's business strategy. The first dimension considers the source of competitive advantage, which can either derive from minimising costs or providing a unique offering. The second dimension is related to a business' operational scope and whether it intends to target a broad customer base or focuses on a specific customer segment.

As analysed in the context of Firm F's positioning, the company offers unique quality and services, thus it achieves competitive advantage through differentiation rather than cost. Furthermore, the firm targets a rather broad segment of customers as it sells its products to large retailers that attract the mass-market. In summary, we can thus state the firm follows a “**differentiation**” approach, meaning the enterprise is pursuing strategic differentiation within a broad market (Appendix 17) (Pressbooks 2023; Emeral Works Limited 2022).

4.4.3. Motives for Internationalization

According to Dunning (2008), motives for internationalisation can be categorised into four types: resource-, asset-, efficiency- and market-seeking motives (Dunning Lundan 2008). Firm F's management clearly expressed **market-seeking objectives** as its motive, meaning the reason for expansion is to gain access to new markets and consequently maximise sales and revenue (Peixoto, teams meeting, March 9th, 2023). As established in the analysis of Portugal's CSAs, the country has a relatively small domestic furniture market, which emphasises the necessity to exploit opportunities in foreign nations. In addition to that, European as well as Asian-Pacific markets are demonstrating a growing demand for premium as well as wooden furniture (Fortune Business Insights 2023b). Since this demand corresponds precisely to the company's product offering, it becomes even more evident that expanding horizons to further markets represent the ideal chance for Firm F to grow its business.

4.4.4. Global Readiness

Examining Firm F's readiness for internationalisation is essential before moving forward with an expansion. Indeed, company F will encounter comparable markets when it expands internationally and will offer the same products and contribute to global readiness by focusing on the same end users in the home market. As explained in the previous paragraphs, the firm possesses all the sources and abilities to produce its furniture for its international customers too, representing an important asset for the firm. The technology it uses as well as the employees' competences will ensure its ability to respond to demand from non-domestic markets. Also, its customer support processes, which are already being applied to the firm's remaining operating countries, will be expanded to all new markets. Financially speaking and as previously analysed, Firm F has a quite stable position, with a moderate debt-to-equity ratio. This means that the company has the resources to undertake new international opportunities. Lastly, the firm already operates in several international markets. These past experiences represent an important source of knowledge for future expansions. On the other side, high transportation costs represent Firm F's main weakness (see the SWOT). Without its own fleet, the company has to outsource transportation to each country to which it exports, and this represents a significant cost, especially when order quantities are small. Therefore, to grow successfully, company F must increase its demand to compensate for shipping costs and create a more extensive transportation network to facilitate reaching more customers. Nevertheless, all of the company's prior assessments, including the SWOT analysis, indicate **Firm F is ready to enter** new markets. However, to achieve a successful expansion, the procedure should be carefully examined with special emphasis paid to the country selection.

5. International Market Selection – Phase 1

In order to narrow down the pool of potential countries, the first market selection phase aims at identifying the highest potential countries for Firm F to expand to. This selection process

comprises different statistical analyses, ultimately leading to the clustering and ranking of countries. Through the application of these methods, a set of five countries will be selected which will then undergo a detailed analysis in phase two.

5.1. Country Selection Criteria

As a basis for the first phase of market selection, data from 193 nations were gathered from a number of trustworthy international sources, including *Statista*, *World Bank*, *Passport*, *Hofstede*, among others. As previously mentioned, Firm F has attempted to enter the Russian, Chinese and UAE market in the past. When asked whether we should factor in these territories regardless, Firm F stated it wishes to rule out Russia but include China and the UAE as a market for re-entry. Based on this, we excluded Russia from the selection of potential countries.

A wide range of variables was selected from seven distinct domains to conduct a comprehensive analysis of each country. These domains encompass data on various aspects such as market potential, economics, industry-specific factors, infrastructure and geography, legal indicators, ease of doing business, and cultural characteristics.

A total of **31 variables** were initially chosen, and an overview of them and their sources as well as definition and rationale behind choosing these indicators can be found in Appendix 18 and Appendix 19. After doing so, two variables (Business Regulatory Environment Rating and Time Spent Dealing with Requirements of Government Regulations) were eliminated as these were missing more than 80 country values, which we deemed would be a high proportion of missing data to be suitably addressed by imputation of missing data with SPSS. This resulted in **29 variables** for the analysis.

Before moving to the clustering and ranking analysis, the decision of which countries to consider in the dataset was made based on four criteria. The first one was the lack of data which led the original number of countries to be reduced to 120. Indeed, the underline assumption here was that a significant number of missing values for some nations could bias the final

decision of the country selection (Madley-Dowd, 2019). Therefore, those countries with a percentage of missing values greater than about 15% have been disqualified for later investigations. Successively, the intersection of two other metrics, Ease of Doing Business and Trading Across Borders have been used to further narrow the database. The nations with scores below 55 or 60 for each variable, correspondingly, were rejected since countries under these levels were believed to be unattractive for Firm F. The first metric offers a comprehensive assessment of the market circumstances by assessing “*the absolute level of regulatory performance over time*” (The World Bank 2021a). The second one, instead, assesses the logistical time and expense of both exporting and importing goods for a country (The World Bank 2019a). The combination of the two allowed to better understand how Firm’s F business in potential countries could be affected in terms of regulatory and logistical frameworks. Under these conditions, another 30 countries were removed for further consideration.

Lastly, the quality of port infrastructure was taken into account as last criteria since Firm F’s main transportation method for overseas countries is by sea. In addition, shipment costs represent a huge constraint for the firm that aims to cushion them. Therefore, this index could not be ignored and the countries with this value under approximately 3.5 points were excluded. Overall, the selection process outlined above resulted in reducing the initial 193 countries to **88 countries**. This new dataset will be used in the next sections for further testing before moving on to the clustering and ranking analysis.

5.2. MCAR Test

Once having the country selection criteria established, the next step is to address existing missing value in the database. The main variables for which data collection was challenging were the Consumer Confidence Index, Cost of Import/Border Compliance and Container Port Traffic. In fact, compared to the other variables which had only a few missing values, these three had a much higher number. Nevertheless, given their relevance for the market selection,

they could not simply be eliminated. Therefore, a Missing Completely at Random (MCAR) test was performed in order to make sure the missing data did not invalidate the entire analysis. The data are said to be fully missing at random if the likelihood of being missing is the same in all circumstances. This means that the reasons for the missing data are unrelated to the data itself (Buuren 2017). Therefore, a lot of the complexity that result from missing data may be overlooked as a result. For this analysis the chi-square test was used to verify if the missing data is random or not. Indeed, if the p-value of the MCAR test is not significant, data can be assumed to be randomly missing (Hayes 2022d). SPSS was used to carry out the test which resulted in a p-value of 0.129. Thus, the null hypothesis (H_0) “the missing data is random”, cannot be reject for a level of confidence of 0.05 or higher, meaning the **missing data is completely random** (Appendix 20). Further analysis showed how the missing data represent only the 3.8% of the entire dataset (Appendix 21 and Appendix 22). Nevertheless, **missing value imputation** has been performed through SPSS in order to have a more significant base for the analysis. Therefore, missing values were computed for a total of 29 variables obtaining a complete dataset which will be used for the next steps of the analysis.

5.3. Pearson Correlation

In this section, a Person Correlation was performed in order to determine the strength of linear correlation the variables used for analysis. Indeed, after creating a complete dataset and deciding which variables consider, the relation between these ones was another important aspect to tackle before moving forward with the analysis. In other words, the multicollinearity phenomenon that occurs when variables show a high level of correlation can make the analyses more difficult to interpret as well as generate an overfitting problem leading to deceptive results (Wu 2020). To address this problem, the correlation analysis was performed in SPSS, for which 0.75 was defined as the threshold to determine variables that display high correlation (Statology 2020). The results of the correlation test are presented in Appendix 23. Finally, Appendix 24

provides a summary of variables that exhibit a strong correlation and have been excluded from the dataset to prevent their influence on the subsequent clustering and ranking analysis.

5.4. Standardisation, Rescaling, and Inversion

The dataset must be transformed into a similar range before using the various procedures to choose the five potential markets. The variables were converted into z-scores to minimize the effects of scale. Thus, the results were normalized by using the z-score formula on Excel.

A z-score of zero means the data points' score is the same as the mean score. Z-scores can be either positive or negative, with a positive number signifying a score above the mean and a negative value meaning a score below the mean (Nevil 2022).

In our dataset a positive z-score refers to a better potential than the average of all countries and a negative one depicting lower values than the average. All the scores are between -3 and 3.

The next phase, rescaling. With this technique, the previous scale, which varied from -3 to 3, will be changed into a new scale from 0 to 100. The new measurement will facilitate the ability to evaluate a country's rating as negative numbers will be removed.

The inversion of factors that have a detrimental influence on the analysis is a further crucial step. By applying this procedure, we can ensure that all the variables follow a scale from 0 to 100, with 0 representing the poorest performance and 100 representing the greatest. All these three phases were performed in excel and the formulas used can be found in Appendix 25.

5.5. Country Clustering

After completing these initial three steps, the next phase involves assigning countries to clusters based on similarities in economic, legal and cultural variables. This process aims to provide marketers with insights into the structural similarities between markets that serve as the foundation for creating a synergistic global marketing strategy. Grouping nations based on their likenesses and differences along significant dimensions may produce innovative discoveries (Cavusgil, Kiyak and Yeniyurt 2003).

The variables that were perceived as the most important parameters for Firm F were taken into consideration. In order to maintain a ratio of 1:10 between variables and countries, a total of eight variables were considered (Appendix 26).

The first variable chosen is **Percentage of Urban Population**, as urbanisation is known to be one of the drivers of the furniture industry (Mordor Intelligence 2022a). Countries having higher degree of urbanisation thus indicate higher market potential. The second criteria, **gross domestic product (GDP) per Capita PPP**, measures economic health of a country, which is a relevant indicator for businesses as GDP growth usually results in increased profits (Kramer 2022). This particular variable was chosen over other GDP indicators due to its inclusion of living expenses, which can exhibit substantial variations across nations.

Referring to previous chapters, the main challenge Firm F faces when entering new markets is its struggle to find suitable and affordable ways of transportation due to the bulkiness of its goods. Because of this, **Logistic Performance**, **Cost to Import/Border Compliance** and **Distance to Portugal** were perceived as substantial indicators. Logistic Performance was included as it assesses a nation's infrastructure quality and reliability (The World Bank 2023b). To consider the cost and speed of exporting to a certain country, Cost to Import/Border Compliance was selected. Distance to Portugal was selected as the distance from the new country to Firm F's home base Portugal impacts the costs and complexity of transportation.

Moreover, **Ease of Doing Business** was considered as an important factor because it assesses the level of difficulty or ease in entering a particular country and evaluates the extent to which a nation's bureaucracy facilitates the establishment of new businesses (The World Bank 2020d).

Cultural Distance is another crucial factor since it determines whether values in Portugal differ from standards in another nation (Hofstede Insights n.d.). Thus, Firm F could benefit from cultural similarities as it will ease dealing with clients and partners in that country. Finally, **Consumer Confidence** was chosen as it is an indicator of expected consumption and

expenditure that takes into account how people perceive their personal financial status and their capacity to save (OECD 2023). In fact, Firm F should prioritise nations who possess higher Consumer Confidence due to their stronger financial stability and ability to purchase their products.

After choosing the variables, SPSS was used to carry out the country clustering. A hierarchical clustering approach was chosen since the number of clusters and their seed points are not known a priori (Cavusgil, Kiyak Yenyurt 2003). In hierarchical clustering, each group/node relates to two or more consecutive groups in a cluster tree (dendrogram) used to display the data. The groupings are nested and arranged in a tree-like structure, which creates a useful categorization system (Glen 2021). The dendrogram resulting from our analysis is displayed in Appendix 27. This process led to the formation of ten clusters, which are presented in Appendix 28.

It should be noted that industry-specific characteristics were not included in this clustering of countries, as literature such as Cavusgil, Kiyak and Yenyurt (2003) recommends not doing so. To compensate this and enhance the market selection process even further, a ranking of countries was performed in the following chapter.

5.6. Country Ranking

Ranking nations based on certain useful market potential indicators is the second main strategy for selecting target markets (Cavusgil, Kiyak Yenyurt 2003). In light of the chosen factors and their corresponding weights, this procedure allows to determine which nations display the greatest potential. To implement this strategy, weights were assigned to each variable, and the criteria were divided into seven subcategories.

The **Market Potential** of a country, which comprises the factors Population Growth, Percentage of Urban Population and Number of Households, was determined to account for 9%.

Industry-specific aspects, namely Furniture Market Revenue, Furniture Market Revenue Growth and Projected Furniture Market Revenue Growth contribute 21% to the overall score. 25% was assigned to the **Economics** subcategory which includes GDP Per Capita, Consumer Confidence, Total Tax and Contribution Rate, Cost to Import and Inflation. In terms of **Infrastructure and Geography**, a weight of 20% was assigned, encompassing factors such as Density of Road Network, Port infrastructure Quality, Logistic Performance and Distance to Portugal.

Regarding the **Legal** subset, 2% was allotted for Start-up Procedures to Start a Business. 19% was attributed to the subcategory of **Easy of Doing Business**, and distributed across the factors Trading Across Borders, Short-Term Political Risk, Economic Freedom, Time Required to Start a Business as well as Ease of Doing Business. Finally, for the **Cultural** variable, a weight of 4% was assigned to each country's Cultural Distance to Portugal. Details about the assigned weights and rationale behind choosing them can be found in Appendix 19.

Through the use of the previously mentioned criteria, a better understanding of how the various countries compared to one another was acquired. A result of the country ranking can be found in Appendix 29.

5.7. Selection of the Five Highest Potential Markets

The final step is to combine the results from both the country clustering and country ranking. While the first one groups the countries based on their similarities, the second one instead points out the most tempting markets based on firm/industry characteristics (Cavusgil, Kiyak Yenyurt 2003). Based on these assumptions, we decided to **consider only Cluster 5 and 8** since these displayed the highest number of countries in which the firm already successfully operates. The reason behind this choice lies on the fact that the company can take advantage of the structural similarities among countries in the same cluster, facilitating the market entrance. Moreover, Cluster 5 and 8 include France and Germany, which are the most profitable international

markets for Firm F so far. Despite not being part of the aforementioned clusters, the decision was made to pick the **Netherlands** as it was ranked first. Having chosen the Netherlands as a first country for further analysis, it was then proceeded to select the four remaining countries. This led to the selection of **Singapore, Luxembourg, Sweden** and **China**, since these portray the remaining top four nations in Cluster 5 and 8 (Figure 3). After discussion with Firm F, its management agreed on this final selection. Therefore, the second market selection phase will analyse these countries in-depth to identify potential opportunities and challenges that have not yet been addressed during the first phase (Appendix 30). Finally, the most suitable of the five countries analysed will be selected to develop an internationalisation plan for the company.

Figure 3 - Combination of Country Clustering and Ranking

Cluster 3	Rank	Cluster 5	Rank	Cluster 8	Rank
Australia	60	Belgium	8	Denmark	21
Austria	20	China	12	Germany	25
Canada	5	Czech Republic	31	Ireland	16
Japan	27	Finland	26	Norway	23
Malaysia	37	France	19	Singapore	4
Netherlands	1	Hungary	24	Sweden	11
		Iceland	46	Switzerland	13
		Israel	17	United Kingdom	36
		Italy	35	United States	2
		Luxembourg	3		
		Qatar	43		
		South Korea	39		
		Spain	14		
		United Arab Emirate	44		

Selected countries
 Operating countries

6. International Market Selection – Phase 2

6.1. In-depth Market Analysis of Singapore | Inês de Melo Gomes, 48024

Singapore is a highly urbanized island located in Southeast Asia (Kennard et al. 2023). With a population of approximately 5.64 million people, the city-state offers a dynamic business hub, a comprehensive transport network covering the whole island, exceptional infrastructures, and an extremely diverse culture influenced by its four major communities – Chinese, Malay, Indian and Eurasian (Statista 2023e; Kennard et al. 2023). Accordingly, the city is known not only for the easiness of living in terms of accommodation, transportation, business opportunities and government system but also for the easiness to start a business, being ranked as the second-best

place to run and do business by *The World Bank*, right after New Zealand (Ministry of Foreign Affairs 2023; Gov.uk 2023a).

The former British colony conquered its independence firstly from the UK, as part of Malaysia in 1963 and, only two years after, from Malaysia itself. Since then, Singapore has adopted a parliamentary democracy system and has been considered one of the most politically stable countries of Southeast Asia (Gov.uk 2023a; Kennard et al. 2023).

With a GPD per capita over USD 70,000 in 2021, the leading financial and trade city-state presents itself as one of the wealthiest economies in the world. Furthermore, it was ranked as the world's top financial centres after New York and London. As the open and trade-driven economy that it is, Singapore, is a strong supporter of the World Trade Organization (WTO) and has over 25 FTAs in place (Gov.uk 2023). In 2023, the country is expected to grow between 0.5% and 2.5% as opposed to last year where it grew at a pace 3.6%. This slowed down growth might be explained by multiple factors such as the 1% increase in the goods and services tax implemented in the beginning of the year and energy prices (CNBC 2023). To further illustrate the country's macro environment, a PESTEL analysis can be found in Appendix 31.

6.1.1. Contacts

As it was mentioned before, Firm F has expressed its preference in piercing new markets by selling its main collections as the fact that products are standardized facilitates economies of scale. Due the limited connections that Firm F currently has in the APAC region, it is crucial to establish a strong network of contacts in the region by analysing potential banks, agents, distributors, associations and organizations as well as government agencies.

Banks - As it is necessary to set up a business bank account when expanding a business to Singapore, banks are definitely contacts that should be taken into consideration. Currently, Firm F works with Banco BPI, Banco BIC and Crédito Agrícola, however none of them operates in Singapore. In order to establish a more seamless link between the core business in Portugal and

potential clients in Singapore, resourcing to an international bank would be ideal. That being said, BNP Paribas, Citibank, Deutsche Bank AG, Credit Suisse, Barclays, Santander, Bank of China, EFG Bank could be interesting options as all of them operate in both countries (TheBanks.eu n.d.; The Association of Banks in Singapore n.d.).

Agents - As stated in the first chapter of the work project, Firm F acts in the B2B sector and its main clients are commercial retailers, architectural offices and interior decorators.

In a beginning stage of the internationalisation process, it might be interesting for Firm F to reach out to clients with whom they have worked in past and investigate the possibility of escalating the projects to other locations. For example, having previously worked with **Philip Morris** and **Accenture** and knowing that both companies have 2 different locations in Singapore the feasibility of this project should be investigated (Accenture n.d.; PMI n.d.). The same could be replicated with **Vodafone** as they have one office location in the island (Vodafone 2010). Out of the agents that Firm has done projects with the Hotel Sahara Star in India is only that is in the APAC region. Aside from that, in 2019 the internationally renowned business hub already comprised a total of 4,200 business headquarters and 424 hotels and similar establishments, which also embody potential business opportunities (Bin Eng and Li Yun 2019; Statista 2022g). Including, the international hotel chains - **Hilton**, **Hyatt** and **Marriott** and biggest companies in the country – DBS Group, OCBC Bank, UOB, Sea (Garena) and Singtel (Reservations.com 2023; Statista 2022h).

Distributors - As previously mentioned, Firm F aims to ship and store its goods through a warehouse system for all countries it operates in. Despite the firm's preference for road transportation, the distance between the countries will naturally force Firm F to consider air and ocean freight as options, making the company incur in higher costs.

DHL, FedEx, UPS, Kerry Logistics, Singamas Container Holdings, CWT Logistics, YCH Group and JNE Logistics are the most renowned logistics companies in Singapore (Kar 2022).

Accordingly, **DHL**, **FedEx**, **UPS** can be highlighted as they offer warehousing, air freight and ocean freight and operate in both countries (DHL n.d; FedEx n.d.; UPS Supply Chain Solutions n.d.).

Associations & Organizations - Associations and organizations have a big role in guiding companies in expanding their business abroad. In Singapore, the **Singapore Furniture Industries Council (SFIC)** and **Singapore Furniture Association (SFA)** can be highlighted as they continuously put efforts into internationalisation, business innovation and growth. Furthermore, Firm F mentioned multiple times on the course of our meetings that international fairs are their main marketing channel (Singapore Furniture n.d.; Singapore Furniture Association n.d.). Thus, the **International Furniture Fair Singapore (IFFS)** organized by SFIC, **FIND** by Design Fair Asia and **Asia Pacific Furniture Fair (APFF)** by SFA are relevant to mention. A more detailed analysis of associations and fairs in Singapore can be found in Appendix 32 and Appendix 33.

Government Agencies - Government agencies are also extremely valuable contacts. The **Singapore Economic Development Board (EDB)** is a government agency responsible for improving and further establishing Singapore's position as a renowned business, innovation and talent hub. Accordingly, the agency assists companies by evaluating their feasibility of expanding the business there, looking for potential incentives from the government and by widening the firm's network of clients (EDB n.d.a). Furthermore, the **Honorary Consulate of the Republic of Singapore in Lisbon** and the **Embaixada de Portugal em Singapura** can also be considered valuable contacts as they bridge and strengthen the connection between the two countries.

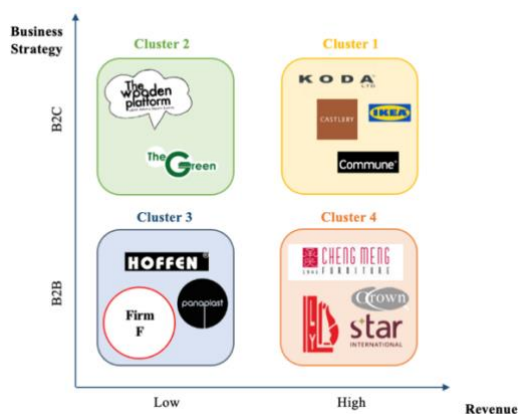
6.1.2. Competition

Overall, the furniture industry in the APAC region comprises a combination of big and well-established firms and small to mid-size competitors, indicating some fragmentation (Stellar MR

2020). After carefully looking into the active companies that play in the household furniture sector in Singapore, it can be deduced that, even though in a smaller scale, the country's competitive landscape is structured in a similar way as this segment of the industry comprises a combination of a few big players with a significant number of smaller players.

To illustrate the furniture industry's competitive landscape, a strategic analysis map was created (Figure 4). Due to Singapore's size, this map will cover the household furniture segment as a whole. Accordingly, Firm F's potential competitors will be segmented by revenue – High or Low - and business strategy – B2C or B2B, resulting into 4 different clusters as it can be seen below.

Figure 4- Competitors Map for Singapore



Firm F fits in the first quadrant as it operates in the B2B segment and has a low revenue, therefore all companies in that same cluster can be considered direct competitors. As it can be inferred from the map, overall, there is higher number of companies operating in the B2B sector of the market, which,

unfortunately, poses a bigger threat for Firm F's internationalisation process. A comprehensive analysis of each competitor in the strategic map can be found in Appendix 34.

6.1.3. Overall Market Sales Potential and Company Sales Potential

In order to better understand the extent of the Singaporean market's potential, an analysis of the overall market sales potential will be performed. This analysis will evaluate the following subsets of the market – total addressable market (TAM), serviceable addressable market (SAM) and serviceable obtainable market (SOM) – and, as Firm F only operates in these, the analysis will be limited to the following segments of the industry – bedroom, home office, kitchen & dining, and living room furniture.

Firstly, the **TAM** subset of the market evaluates the revenue opportunity that Firm F would face if it had entirety of the market share and, considering only the above-mentioned segments of the market, the worldwide furniture industry's revenue is estimated to reach a total of **€488.96 billion** in 2023 (Antler Academy 2022).

Secondly, the **SAM** subset of the market assesses what segment will be targeted, out of the whole market (the TAM). In this specific case, the segmentation will be geographically based, and Singapore will be the focus (Antler Academy 2022).

The furniture industry in Singapore is recognized by its outstanding quality and solutions designed for high-density urban environments. During the past few years, the industry has been following a relatively steady upwards trend, being estimated to reach in 2023 a revenue of €993.14 millions which corresponds to approximately 0.2% of the worldwide revenue. Overall, this growth trend observed in the Singaporean furniture industry seems to be maintained throughout the next few years, being estimated to have an annual growth rate that ranges from **4.05%** to **3.74%** between 2024 and 2027, as it can be seen in the table below (Statista n.d.a; Statista n.d.g).

Table 1 - Forecasted Furniture Industry Growth in Singapore

	2023	2024	2025	2026	2027
Adjusted Est. Revenue Industry in Singapore (2023)	€ 993,140,000	€ 1,035,040,000	€ 1,075,510,000	€ 1,118,400,000	€ 1,161,840,000
Est. Annual Growth %		4.05%	3.76%	3.83%	3.74%

Finally, the SOM represents the proportion of the SAM that is indeed being catered by Firm F. To estimate this value, three countries where Firm F operates in were selected, each representing one of three scenarios – best case, base case and worst case. More specifically, France represented the best scenario, Germany the base and Belgium the worst. Then, Firm F's market shares for each of those countries were computed and used as benchmarks to then assess the firm's potential market share in Singapore.

Table 2 - Estimated Sales in Singapore

	Est. Industry Revenue (2023)	Adjusted Est. Industry Revenue (2023)	Firm F Revenue (2022)	Market Share
France	€ 17,640,000,000	€ 17,640,000,000	€ 1,583,248	0.0090%
Germany	€ 35,900,000,000	€ 35,900,000,000	€ 420,326	0.0012%
Belgium	€ 3,910,000,000	€ 3,910,000,000	€ 22,583	0.0006%
Singapore*	€ 993,140,000	€ 993,140,000	€ -	?

	Best Scenario: 0,0090%	Base Scenario: 0,0012%	Worst Scenario: 0,0006%
Firm F Est. Revenue in Singapore	€ 89,138	€ 11,628	€ 5,736

As it can be observed in the Table 2, Firm F's revenue is expected to range between **€5,736** and **€89,138**, which in comparison with the other potential markets analysed can be considered as low. Therefore, when it comes to overall sales potential Singapore might not be the ideal choice.

6.1.4. Market Entry Conditions

After carefully investigating potential contacts, competitors and sales of the Singaporean market it is crucial to examine the overall market entry conditions. In light of that, this section will go through the country's tariff barriers, standards and regulations, registrations to start a business, availability and sophistication of distribution channels, transportation, payment methods and finally, language and culture.

Tariff Barriers - In 2019, a Free Trade Agreement (EUSFTA) between the EU and the Republic of Singapore was put into place removing any custom duties and bureaucracies that European companies could encounter when exporting to Singapore. Consequently, Singapore is obligated to apply duty free access to all European goods. Moreover, non-dutiable goods incur in the Good and Service Tax (GST) which equals a total of 8% of the cost, insurance and freight value (Singapore Customs n.d.a).

Standards and Regulations - The Consumer Goods Safety Requirements (CGSR) was created with the ultimate goal of guaranteeing consumer's protection from unsafe consumer goods such recreation products, furniture, mattresses and bedding and DIY tools. Accordingly, these goods need to then meet multiple international safety standards - International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), European Committee

for Standardisation and ASTM International (Consumer Product Safety Office 2023). Furthermore, the CGSR states that all imported good need to provide a label in the English language as well as proper warnings and information for the consumers, ideally covering the product's country of origin, the manufacturer's contact, a warning label, if necessary, the product instructions and finally, a traceability label (Cheng 2020).

Registrations to Start a Business - As of 2023, the average number of days to start a business in Singapore is 1.56 (Statista 2023f). Generally, this process entails three major steps – defining a business structure, registering the business or open a representative office and finally, managing it (EDB 2023). However, this process is highly dependent on what entry mode business desires to undertake. If Firm F decides to only export, the firm will need to register for a Singaporean unique entity number and activate its custom account, check if the goods at cause are controlled, apply for an Inter-bank GIRO, provide security, obtain a custom import permit, have ready the documents for cargo clearance and lastly, save them (Singapore Customs n.d.b).

Transportation - As it was mentioned before, Singapore is a highly attractive destination for businesses not only due to it being the largest and busiest port in Southeast Asia, but also due to its outstanding transportation network, which can be illustrated by it being ranked as the country with the highest Logistic Performance Index in 2023 (The International Bank for Reconstruction and Development/The World Bank 2023; Théaud n.d.).

Firm F's preferred method of transportation is road shipments, however, due to the distance between the countries, the company should consider sea or air freight. Singapore's seaport is connected to 600 ports around the world, Sines and Lisbon being 2 of them, taking approximately 27 and 32 days to arrive, respectively. As per air freight, despite being significantly faster, taking less than 24 hours to ship, it is more costly which might impose barrier for the firm (Fluent Cargo n.d.).

Payment and Financing Methods - Singapore offers a wide range of payment methods however, shipments specifically are usually made under letters of credit or bills of exchange (ITA n.d.b).

Language and Culture - As previously stated, English is the official language for all administration and business matters and, it is the main language of instruction in schools, resulting in 80% of the total Singaporean population speaking the language. This clearly facilitates the communication between Firm F and its potential new business partners (World Population Review 2023b; Kennard et al. 2023). Culturally speaking, in business environments, Singaporeans tend to be more formal, reserved, slow moving and relationship oriented, having a tendency to foster close partnership as opposed to quick and impersonal deals (Cultural Atlas n.d.). Despite, the physical distance between the two countries, the culture in business environments seems to be somewhat aligned indicating a potentially seamless and easy communication between them.

6.2. Selection of Target Market

In order to determine which country would be the best fit for Firm F's internationalisation project, a comprehensive analysis was performed for the top five potential countries – **The Netherlands, Singapore, Luxembourg, Sweden and China**. To complement the already gathered information from the cluster and ranking analyses, each in-dept analysis thoroughly examined the countries' **contacts, competition, market sales potential** and, finally, **market entry conditions**.

To reach a final decision, weights to the above-mentioned areas of the markets were attributed, depending on the perceived impact each had on the firm's expansion success. Afterwards, each team member evaluated and classified the performance of their assigned country using a scale of one to five for each dimension. Finally, considering the attributed weights and classifications, a final score for each country was computed as depicted in the table below.

Table 3 - Firm F's Potential Markets for Internationalisation

Rank	Countries	Contacts	Competition	Sales Potential	Entry Conditions	Score
1	Netherlands	4,5	2,5	4	5	4,1
2	Sweden	5	3	2,5	4	3,7
3	China	4	2	4	3	3,2
4	Luxembourg	4	3	1	4,5	3,3
5	Singapore	3,5	2,5	2	3	2,8
Weights		25%	25%	20%	30%	100%

Firstly, a weight of 25% was attributed to the **contact's** dimension. Collecting a strong and trustworthy network of contacts is the base for a successful business and, in Firm F's case, a way to attenuate or potentially overcome some of its key business limitations, consequently mitigating some risk. As referred to previous sections, transportation is one of the main obstacles that the company faces. Thus, ensuring good transportation contacts is crucial as it will help in finding cost-efficient options and gathering relevant insights on regulatory compliance. Furthermore, since Firm F does not have a strong marketing plan in place, looking for contacts in the host country might help to gather insights for market research, find potential new clients and enhance customer experience. For this dimension, Sweden stood out, closely followed by the Netherlands, which can be explained by the strong ties between the countries and Portugal, and the high level of information available.

Secondly, 25% were assigned to the **competition**. Logically, when considering exporting to a foreign country, the competitive landscape of the country needs to be thoroughly analysed. For this dimension specifically, the scores were attributed depending on how the competition would affect the attractiveness of the market. As a result, markets with a high number of competitors scored lower as it is harmful for the country's overall potential. In this section, the scores were relatively close to each other. Nonetheless, Sweden and Luxembourg scored the highest indicating a lower competition level and thus more potential.

Thirdly, the **market sales potential** accounts for 20% of the overall score. Generally, the market sales potential is a valuable indicator as it quantifies the size of the opportunity, helps to evaluate risks and assesses the resources required to expand the business. However, due to

the lack of information available, this variable was estimated based on assumptions and proxies, potentially incurring in the probability of it not being fully accurate, thus the weight attributed to this dimension was the lowest. Nonetheless, the Netherlands and China clearly stood out, with both achieving a score of 4 out of 5. It's not unexpected that China and the Netherlands scored highly since they are the second and eleventh highest revenue-generating countries for the industry on a global scale (Statista n.d.a).

Finally, the **market entry conditions** correspond to a total of 30%, being the dimension with the highest attributed weight. This dimension assesses any barriers that Firm F might encounter when expanding its business to one of these markets. Clearly, the fact that some of the potential markets are part of the EU facilitates the whole process as these nations follow the same regulatory frameworks, have lower to non-existing trade barriers and display potential access to EU funding. The countries that are part of the EU score noticeably higher than the others, with the Netherlands once again being the highest-scoring country.

To conclude, after carefully evaluating all the scores for each of the potential markets, the **Netherlands**, with a score of 4.1, undoubtedly stands out as the **best potential market for Firm F** to expand to.

6.3. International Entry Strategy

6.3.1. Selection Criteria

The previous chapter was dedicated to finding the optimal market for Firm F's international expansion. This section will explore the different entry modes that will be most viable for Firm F's internationalisation strategy. To accomplish this, four requisite factors need to be evaluated that impact this commitment: Internal, External, Transaction Specific and Desire Mode-Characteristics. To that end, finding Firm F's most adequate entry mode will require an evaluation of the aforementioned factors. Firm F has no preferred mode of entry; however, it wishes to keep its independence and in-house culture (Peixoto, email to author, March 1st,

2023). The subsequent will evaluate if developing towards an internationalisation expansion, internalization, externalisation, or an intermediate level mode is most viable for the firm. On the one hand, an internalisation expansion involves high costs, high risks, low flexibility, and high control. On the other hand, an externalization entails low costs, low risk, high flexibility, and low control, a more modest approach (Elango and Pangarkar 2021).

Commencing with **Internal Factors**, the first factor to be examined is **company size**. Firm F is a Portuguese SME with €3.736 million in revenue in 2021. Although sales have increased since 2020, Firm F does find itself with low financial stability influenced by high fixed costs. Due to its debt-to-equity ratio declining, COGS rising and a high WC (suggesting Firm F is not investing their money properly into new opportunities), there are constraints on its ability to onboard large investments. Considering this, Firm F's situation indicates an externalisation would be wise. The reason for this thought process is Firm F would not have to make substantial investments or pay large sums such as employ costs, which has grown steadily +13% in 2021 compared to other operating costs. The firm's **international experience** is also another variable that can ease the entry into a new international market due to similarities in previous experience that can be applied to present strategies. Firm F operates in 17 countries, whereas its highest volume of sales is concentrated in four countries (Germany, France, Portugal and Spain). After failing to generate sales in the UAE, China and Russia, steps made towards global expansion indicate that the European market is more suited to Firm F's strategy. This confirms the choice of selecting the Netherlands for international expansion due to its implementation being more viable. The entry mode employed by Firm F for almost all past expansions was exportation, since the firm does not need to create personal links with customers and the country itself. Therefore, the learnings it can take from this experience from its past interactions with clients are mainly from an arm's length, meaning they are not personally involved on the ground of each country suggesting an externalisation entry would be adequate. In terms of **product**

complexity, Firm F is at intermediate to high due to the production chain being severely time-consuming as well as producing a complicated product. The high quality of the product and in-house nature which is why the firm can create highly adapted furniture according to a customer's specificities. This also leads to product complexity due to the complex production process being time consuming and arduous. However, the in-house production is also a time-consuming process as a result of the complicated essence of the product. An exporting entry mode for this factor would allow an easier integration into the Netherlands to retain control over the product. All the while, this would grant utilising local contacts to assimilate the goods into the new market seamlessly. For the **competitive strategy**, Firm F expressed its preference in the first phase to implement the standardised main collection allowing for economies of scale. Firm F is also open to entering a country with a new line in collaboration with a retailer if it facilitates success in that market. To achieve this, an exporting mode is suitable for this factor as it ensures flexibility and will allow Firm F to ease into the market and test it to gain more knowledge before releasing its customizable collections.

Addressing the **External factors**, they are split into 5 factors: Sociocultural Distance, Demand Uncertainty, Trade Barriers, Intensity of Competition and Relevant Intermediaries. Referring to **Sociocultural Distance**, being able to appreciate the local business culture is crucial to succeed (Manuel 2022). Firm F indicated it would most likely use a similar strategy to entering Germany in this new market, therefore Germany will be made use of as a benchmark in the appropriate analyses. Using Hofstede, a country comparison shows Germany shares significant parallels with the Netherlands in terms of "Individualism" and "Long Term Orientation" with high scores whereas Portugal's are relatively lower. These insights suggest that Germany and Netherlands are more individualistic and pragmatic in their orientation, while Portugal gives more priority to a group over an individual and is more normative suggesting more conformity than the former countries. Considering these scores, Portugal has found success in the German

market and shouldn't face issues with a country like Netherlands, who's sociocultural values are close to its neighbour's (Hofstede Insights n.d.). It can therefore be deduced that Firm F could be open to an intermediary to ease entry as well as an externalization plan if they prefer entering on their own. The experience from the German market and working with an agent also furthers the point for Firm F considering this factor. In terms of **Market Size and Growth**, the Dutch furniture industry holds a solid revenue attributed to the SAM estimated at €7.04 billion for 2023 (Statista n.d.c). Based on the in-depth analysis and assumptions, Firm F's sales would generate €673.724 in revenue showing a solid revenue and market potential. This is an appealing exposure and the forecasted growth rate between 2024-2027 stands between 4% and 4.9%. Attractive potential of the market suggests Firm F would be motivated to hold onto control of its operations and growth for themselves. Thus, an externalization path should be followed in light of this factor analysis. Addressing **Trade Barriers**, the Netherlands being inside the EU, Portugal can trade goods freely in absence of custom duties (European Commission n.d.f.). This a great benefit contrarily to choosing to trade with a non-EU country. There is however the common VAT tax standing at 21% in the Netherlands but is not a destructive factor in the internationalisation plan (Avalara 2023). Since Firm F has acquired experience trading in the EU, they are aware of the standards and regulations that must be met to uphold legal trading and product standards. Furthermore, the Netherlands have straightforward business registration, requiring following a checklist and filling a few forms. Taking an FDI or intermediate strategy would accrue more steps and difficulties to trade, it would also save Firm F time and money thus furthering the argument for an externalization expansion mode. Furthermore, Firm F could save time and money opting for this mode instead of taking on heavy investment. Moving on to **Intensity of Competition**, it is a double-edged sword that Firm F must wield carefully. High competitiveness can shrink the market share and consumer base of a firm, and the reaction to stay competitive is often reducing the price of the

product (Gartenstein 2018). Although the in-depth analysis of the Netherlands yields results of highly competitive rivalry, that being said Firm F operates in a B2B model thus decreasing some of the threat of competition. Additionally, their B2C competitors should also be viewed as potential clients to retail Firm F's product. The highly competitive landscape does indicate an exportation entry mode would be most fitting so that Firm F have less resource commitment in the case of worst-case scenario. Considering this, exporting is preferable, and we must be aware that Firm F's preferred strategy would be to keep production and development in-house for the sake of their independence and culture. In closing, we must consider the **Relevant Intermediaries** from distribution agents, transportation and other aiding institutions. Fortunately, Firm F has solid contacts for suitable potential retailers from previous contracts as well as there being a solid base for furniture fairs, critical for customer acquisition. In terms of transportation, there are options ranging from a forwarding company taking care of all regulatory work and another not taking care of the compliance work, yet still a solid transportation company. These indicators show Firm F should lean towards an intermediate entry mode as it allows the firm to focus on its internal operations domestically without tangible involvement.

Furthermore, another factor to explore is the **Transaction Specific Factor**, beginning with the **Tacit Nature of Know-How**. Firm F holds strongly in its savoir-faire and cutting-edge machinery as a consolidated competitive advantage with their customizable edge. However, these are as previously mentioned, only temporary advantages through differentiation. In the long-run Firm F has no competitive advantages and should aim to develop this part of their business model. Since the opening product for the market will be standardised, it is not an immediate threat, but it does not set the firm apart from its competitors as does the customizable products. It is more advisable for Firm F to look at temporarily externalizing its standardised products to keep their custom projects internally sound. Concerning **Opportunistic Behaviour**,

Firm F holds some vulnerability due to the replicable nature of their product, especially standardised sets. Consequently, an internalization entry mode may be safer since Firm F wishes to keep its independence, thus minimizing the risk of opportunism disclosing information in contractual agreements (Narula and Asmussen 2019).

To conclude, the **Desired Mode Characteristics** including the degrees of **risk**, **control** and **flexibility** are also influential in deciding the entry mode for Firm F. In terms of **risk**, the financial overview conducted suggests Firm F is subject to operating risk and vulnerable to undulations in sales revenue. However, there are positive signs in terms of liquidity and solvency where the current ratio in 2021 is greater than one and a debt-to-asset increasing from 40% to 44% between 2020-2021. Although these numbers are solid, internationalising does comprise risk which could de-stabilize the financial stability of the firm. Therefore, an externalisation option is more favourable as a more risk-averse strategy. Regarding the **control** factor deciding how much control a firm wishes to have over the foreign operations, Firm F is clear in its ambitions. Firm F is strongly set on holding control over its operations, domestic as well as foreign in terms of business activity. Adhering to this, an externalising entry mode would be idyllic for the firm. Lastly, in terms of **flexibility**, Firm F need a high amount of flexibility due to the relatively delicate state of their financial outlook. The ability for Firm F to pull out of the Netherlands in case they are financially bleeding is crucial. Therefore, an externalisation plan should be deemed most suitable so that the operational commitment is mitigated in a worst-case scenario.

Overall, the above analysis (Appendix 35) indicates Firm F should follow an externalisation entry mode in order to satisfy high control and flexibility, low resource commitment, higher revenue and to mediate risk as a strategy to enter the Dutch market. As such, further analysis on the most suitable entry mode will be conducted in line with exporting and externalising.

6.3.2. Analysis of Alternative Entry Modes

Concerning alternative types of entry modes, we must firstly rule out some of the courses of actions that do not fit in line with Firm F's expansion strategy. At the end of the selection criteria section, it was deduced that an externalised entry mode strategy overruled that of intermediate or internalised. Although intermediate did fit into some of the criteria, it would compromise Firm F's independence and may carry too much risk. As far as intermediate strategies: joint ventures, licensing, franchising and management contracting, Firm F's business model does not fit these strategies (Appendix 36).

Export internationalisation will be analysed both directly and indirectly. To assess these internationalisation strategies, the important variables will be control, risk, resource commitment, flexibility and financial costs. Exporting is a common form of internationalisation strategy due to the low requirements for risk and commitment, yet it yields high flexibility for a firm (Siawsurat 2011). These are important factors for SME's entering a new competitive landscape as a new entrant. Therefore, non-equity strategies give the best potential outlook to fit the variables for the entry mode. Exporting entails, the sale of products and goods to foreign countries having been sourced from the domestic country (Mariadoss 2018). Comparing both direct and indirect exporting, there are intricacies differentiating the two. Firstly, looking at indirect exporting, an intermediary takes care of the abroad marketing, paperwork, permits and shipping (Elango and Pangarkar 2021). Therefore, there would be mediators between Firm F and their customers facilitating business. Indirect exports are associated with low fixed costs but high variable costs, the lower fixed costs are associated with gaining economies of scale and scope. The high variable costs are linked with having to pay fees to the third-party intermediary used (Elango and Pangarkar 2021). Direct exports are different as they entail selling straight to the customer, in this case including retailers and wholesalers to redistribute the product to the end consumer. The use of direct exports means that Firm F would be more

independent incorporating its activities into the international market. Therefore, it would enjoy lower variable costs but endure higher fixed costs (Elango and Pangarkar 2021). Both strategies pose lower risk towards Firm F due to minimal resource commitment as their physical presence is not required in Netherlands. This is advantageous in tight situation where Firm F would be able to withdraw having less on the line. They will have the ability to focus on ameliorating their business activities from home without the cost of abroad operations.

It is also important to explore a potential **intermediate** entry mode through **contract manufacturing**. It must be acknowledged that Firm F's savoir-faire is critical to the product, however it is important to consider an alternative production method. To make some cost-savings in terms of transportation and to allow Firm F to be more focused, they may choose to manufacture their standardised collections in the Netherlands. This could help Firm F establish themselves within the market with local know-how, reduced logistical headaches and a steady flow of business as economies of scale can be achieved. A contract with a manufacturer will expire at a point, Firm F could decide when they are ready to manufacture themselves (maybe test the market with standardised collection, then with information enter with customizable collections) or continue. Furthermore, it allows for faster market entry and implementation with reduced commitment. Nevertheless, there are disadvantages to contract manufacturing. Firm F will have to manage relationships from afar, control over the product and potential responsiveness to disruptions in the supply chain. If this entry mode is an option, it must be deeply vetted and accurately executed (Mariadoss 2018).

6.3.3. Entry Mode Selection

Considering the above criteria and alternative modes analyses conducted as well as consulting, it was deduced that **exporting** would be the best choice of entry mode. More specifically, **direct exporting** has been chosen as the most suitable internationalisation plan. Firm F lacks the necessary capacity for risk, financial commitment and experience to be able to devote its

attention to an internalisation or intermediate mode of entry for the meanwhile. Although this entre strategy is most appropriate for this country, Firm F may have the capability to adapt to one of the alternative entry modes in the future. Even so, the current strategy remains directly exporting to the country.

Concerning the choice to directly export, Firm F could replicate its unique strategy it has instilled in Germany already. This strategy adopts an intermediary warehouse partner whose job is to undertake time-consuming logistical inconveniences such as finding transporting contractors for new regions. This eases pressure on Firm F's operational arm, instead leaving the dull task to an exterior warehouse distributor. Firm F would still have to get the product to Germany, however, not have to deal with exiting orders to customers.

In terms of the steps to take for Firm F to initiate official transactions with distributor clients, it must establish formalities. Drafting a **contract** is an essential step to make to bind terms of agreement for transactions. Firstly, payment methods when entering the Netherlands, the most prominent methods include open accounts, payment on delivery, letters of credit, bank guarantees and documentary collections (ITA n.d.a). Firm F have said its **terms of sale** are on commission depending on the volume, delivery times, receipts and penalties (Peixoto, email to author, March 24th 2023). The company should aim to construct a solid means of transactional contracting to avoid financial penalties, mistakes and delays that could affect their operational efficiency.

7. Marketing Plan

For Firm F to establish a successful and profitable entry and long-term presence in the Dutch market, it is of utmost importance to devise a marketing plan. In doing so, the methods and advertising strategies the company should employ to sell its goods will be defined (Chen 2023b). Since Firm F sells its goods to businesses rather than to the end-consumer, this marketing plan will be outlined from the B2B perspective. It should also, once again, be pointed

out that Firm F is selling its goods under the commercial “Brand Y”, which implies that all marketing efforts should be put into practice for this brand.

Prior to developing the marketing plan, it should be noted that Firm F’s current marketing strategy is significantly underdeveloped. In fact, there is a lack of a predefined marketing objectives and activities. As of today, the firm solely relies on furniture fairs and newsletters to promote its brand and maximise sales. Apart from that, the management is in the process of planning a social media presence on Instagram and LinkedIn. The motive for establishing an online presence is to achieve a greater reach and create a story to keep people involved with the brand (Peixoto, email to author, March 24th 2023). The following will focus on overcoming the neglect of marketing by providing marketing strategies for the Netherlands which may then also be applied to other countries.

7.1. Marketing Objectives

To start off, the properties of marketing objectives should be specific, measurable, actionable, relevant, and time bound (Chaffey 2022). The objectives pointed out below aim at fulfilling these criteria, setting more realistic and suitable goals. Furthermore, the below will propose both short- (up to one year) and long-term (one to five years) objectives. Taking into consideration the timing, it should be emphasised that we recommend entering (as in exporting the goods) the Dutch market in the beginning of 2024. This is because by the finalisation of this internationalisation plan (June 2023), Firm F may need to invest time to build a network of customers and partners and set up contracts in the Netherlands. “Year One” thus stands for the year 2024. As we know, the primary reason for Firm F’s further internationalisation is to amplify profit and penetrate new markets. Keeping that in mind, the two main marketing objectives for entry in the Netherlands are **increasing sales** and **acquiring new customers**, as this fundamentally facilitates boosting sales.

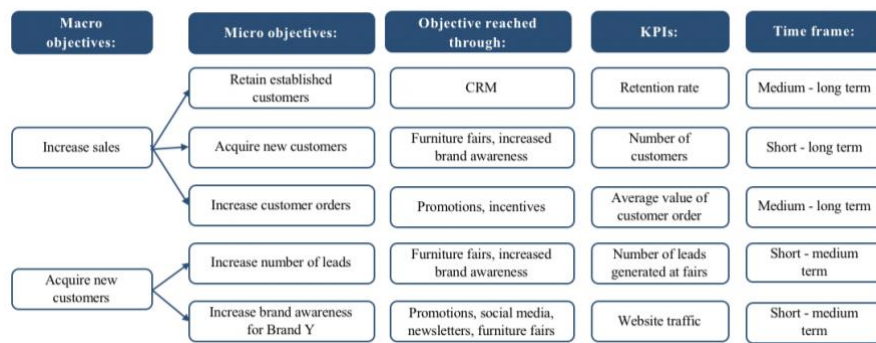
To estimate a realistic target regarding customer acquisition, we shall look at Firm F's past performance in foreign markets. In its present operating countries, Firm F displays a varying number of customers per country, with France having the highest number of customers (100), followed by Germany (20), Spain (five) and smaller markets such as Israel, Switzerland, and Angola (one customer each). Based on this and upon consultation with Firm F, it is realistic to set an objective of a minimum of **five Dutch clients within the first year**. In the long-run, Firm F should strive to increase its number of clients, with the number of clients at least quadrupling to **20 clients at the end of year five**. In order to achieve this objective, the furniture manufacturer must make efforts in **retaining** its existing customers as well as **generating leads** that can and should be converted into customers at a later stage. According to Firm F, its lead generation and customer acquisition have been primarily taking place through the company's participation in furniture fairs. As this approach has proven success, it should be followed in the Netherlands as well. This means that Firm F should at least attend both fairs mentioned in (Appendix 37), heightening the likelihood of attaining new customers. Additionally, the enterprise can attract and acquire customers by increasing its brand awareness as this builds the base for gaining new customers (Bmediagroup 2019). As of client retention, Firm F should maximise this by investing in customer relationship management (CRM) and ensuring maximum customer satisfaction.

Regarding sales, Firm F has stated that, generally, it aims for €250,000 of annual minimum sales in each market. As the Netherlands portray a new market in which the firm is not established yet and compared to Firm F's sales in other new markets, a minimum of **€100,000 in sales** of Firm F's main collections is a realistic objective for the **first year**. For year **two and three**, the company's sales should then amount to a minimum of **€250.000** per year. Moreover, it is desirable that Firm F's annual sales increase even further in the following years and ideally reach **€400,000 minimum in year five**. These sales objectives can be reached through client

solicitation (mentioned above) and/or by augmenting the average value of customer orders. Potential approaches on how to implement this will be discussed below.

Figure 10 summarises the above-mentioned objectives and approaches to accomplish them, which we will further elaborate on later.

Figure 5 - Marketing Objectives



7.2. Segmentation & Targeting

Following the definition of objectives, we shall now apply the STP (segmentation, targeting, positioning) model which will act as a decision-making basis when developing the optimal marketing mix for Firm F. The three STP steps will identify segments with similar characteristics in the B2B furniture industry and select the ones most suitable for Firm F with the end goal of developing the ideal positioning for those chosen segments (Hanlon 2022).

Segmentation - The segmentation criteria that have been applied for the B2B furniture market are of firmographic, need-based as well as behavioural nature. Firmographic data will build the foundation of the segmentation process. One can differentiate between customers depending on their industry, size and location (Figure 11). As firmographic segmentation tends to be a rather superficial approach with a lack of details, additional segmentation criteria will be applied. Need-based segmentation is an accurate method, since it groups customers based on their needs in a product (Becker 2019). Figure 11 displays the different customer groups that are formed when conducting need-based segmentation. Furthermore, behaviour-based segmentation considers how customers act towards one's product (Becker 2019). For the B2B-sector specifically, we can analyse businesses' purchasing behaviour (Figure 11).

Targeting - Having gained a comprehensive understanding of the various segments present in the market, the next step is to determine the segments that should be targeted by Firm F, based on their level of attractiveness. Regarding firmographics, Firm F's product offering is the most suitable for retailers, hotels, restaurants, architects, corporate firms and real estate/home staging firms. However, for the sake of economies of scale and maximising revenue, we advise the company to target customers that purchase furniture on a frequent basis, which is unlikely for hotels, restaurants, architects, corporate and real estate/home managing firms, as these customers usually arrange their establishments once every few years. Once Firm F has achieved stable revenue streams in the country, it can be considered to sell goods to the above-mentioned target groups, but short to medium term, we believe it is best to focus on targeting furniture retailers, as this will ensure constant order volumes.

Moreover, serving enterprises in these industries that are medium or large corporations would be of advantage because the larger a company, the higher the probability of large order quantities. Large order quantities are favourable as, again, these increase economies of scale. Multinational companies, on the other hand, may not be a feasible option for an SME like Firm F, due to their restricted production capacities which may not allow them to fulfil the order needs of firms this large. Furthermore, we determined the location of potential customers plays no significant role since the chosen country is relatively small.

Customers have differing expectations and needs regarding the products they buy. The most common customer needs in the B2B furniture industry were identified and are listed in the figure below. Investigating Firm F's offering and capabilities, we can assert that clients in need of high qualitative products with a handmade touch, outstanding customer service and durable furniture should be targeted by Firm F, as these exactly correspond to the needs that Firm F covers with its items. Technically, Firm F also serves the need for personalised goods,

nevertheless, the aim is to enter the Dutch territory with its standardised main collections, which is why the segment for customised furniture will not be regarded in this specific case.

The chosen segments are highlighted in green in Figure 11.

Figure 6 - Segmentation and Targeting in Netherlands



7.3. Positioning

7.3.1. Value Proposition & Positioning Statement

Positioning is the process through which a firm can build competitive advantage and communicate its unique value proposition to the desired target consumer, with the ultimate goal of establishing a valuable place in the consumer's mind (Entrepreneur 2020). Accordingly, its definition considers three major aspects – the company's target, competitive set and unique value proposition.

Target - This answers the question "For whom?". As defined in the targeting section, this marketing strategy will focus on medium to large furniture retailers, located in either urban or rural areas and being particularly price sensitive. Furthermore, those are frequent buyers which are usually looking for high quality products already assembled and expect an outstanding customer service.

Competitive Set - Secondly, the competitive set focuses on the question "Relative to whom?". To properly define a marketing strategy, a firm needs to have a clear idea of the context of the market it plans on penetrating. This can be achieved by defining the frame of reference, meaning understanding how the market as whole and consumers perceive a product in comparison with products of a similar type (Master Class 2021). Accordingly, Firm F should

keep the Home Office, Living Room, Bedroom and Kitchen & Dining furniture segments as its frame of reference for the expansion to the Dutch market. However, Firm F could consider giving more emphasis on the Living Room furniture segment as it is currently the segment of the market that drives the most revenue in the Netherlands (Statista n.d.c).

Unique Value Proposition - Thirdly, the unique value proposition must answer the question “What sets the firm apart from its competitors?”. This aspect of the positioning should be **relevant, different** and **credible** as well as fulfil two more dimensions – **points of parity** and **points of difference**. As it was mentioned in the first chapters, Firm F sells its products under the “Brand Y”, however, their current “unique” value proposition seems to significantly lack in the different success criteria. Moreover, some of the characteristics that the company perceives as being points of difference might just be points of parity in the context of the Dutch market, thus, those should be adjusted.

Accordingly, the firm’s **points of parity** are industry-specific characteristics that a product or service must have in order to be considered competitive. More specifically, it refers to vertical differentiation as it allows consumers to rank products based on measurable and objective features such as price or quality in the frame of reference (Kopp, Carol 2021). Dutch consumers in general expect nicely designed and high-quality products as well as an excellent post-purchase experience (ITS 2022). Therefore, characteristics that Firm F currently perceives as differentiation factors such as high quality, durability and functionality, efficient customer service and combination of handmade and high technology processes should instead be considered as points of parity, as they embody basic requirements to be competitive, however, not enough to have a solid competitive advantage.

In contrast, **points of difference** refer to horizontal differentiation as consumers base their decisions in the unique attributes or benefits that they perceive a brand has, as opposed to other brands (Kopp 2021). As previously referred, Firm F does not seem to have any clear

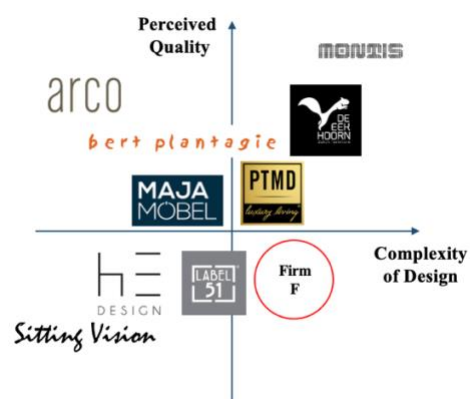
differentiation factor in the context of the Dutch market, therefore it may be interesting to develop a more impactful brand identity in the long run. As for now, the company should start by showcasing and pushing the production of pieces with more complex designs.

Positioning Statement - Finally, taking all this into consideration, a positioning statement that accurately captures the essence of the company can be developed. In light of this, keeping the aforementioned target of medium to large furniture retailers, located in either urban or rural areas and that are not particularly price sensitive and that operate in the segment of the Home Office, Living Room, Bedroom and Kitchen & Dining furniture industry, in mind, Firm F could opt for the following positioning statement – “For any retailers looking to provide their customers high quality pieces, Firm F offers a unique set of furniture options designed with a combination of cutting-edge technologies and innovative materials all while maintaining the Portuguese tradition.”

7.3.2. Positioning Map

In order to further understand and illustrate where Firm F’s products stand in the competitive landscape of the market, track trends and potential market gaps, a positioning map will be created. In the competitor section of The Netherlands’ in-dept market analysis, a variety of competitors were highlighted and the ones practicing the B2B business model were selected for the purpose of the positioning map. Furthermore, the map will feature two different variables – **complexity of design** and **perceived quality**.

Figure 7 - Positioning Map



As seen in the map (Figure 12), the fourth quadrant represents a clear gap in the market. The segment of high complexity designs and low to medium perceived quality is not being addressed – at least in the B2B sector– which presents an opportunity for Firm F. Other than that, the

firms seem to evenly spread out across the market, giving consumer's multiple options to choose from.

7.4. Marketing Mix

As aforementioned, the core of the marketing strategy lies on the definition of the STP process. Once the segmentation, targeting and positioning steps are done, a set of actions should be defined in order to finally materialise the STP. This set of actions is named Marketing Mix and it traditionally covers four different aspects: **product, price, place, promotion**, however for the sake of the plan we will also consider the aspect **people** (The Economic Times 2023).

Product - Firm F expressed its interest in internationalising only the main collections as its standardisation will potentially facilitate economies of scale. The firm currently has 23 main collections available, covering all types of furniture pieces as it referred in previous sections. In order to potentially fill the gap observed in the market, the firm could focus on products that have a more intricate design considering lines such as Kapta, Visa, Lousada and Looping.

Price - Price is one of the most important aspects of the Marketing Mix as it has an active role on the firm's positioning and is the only aspect that is revenue-oriented instead of cost-oriented (Oxford College of Marketing n.d.). Given the fact that Firm F is operating in the B2B segment, the purchase motivations no longer rely on emotions but rather on logical and financial incentives, meaning that establishing a proper pricing strategy is crucial (Hubspot 2023).

Currently, Firm F positions itself as premium company and accordingly, practices above-average prices. However, due to its low brand awareness in the Netherlands, the company should set their prices according to the competition and overall, adopt a **competitive pricing strategy** to not create any barriers throughout the internationalisation process.

When it comes to payment methods, letters of credit might be the most advisable option. These are considered the most reliable since it allows the company to discuss the conditions of the agreement with the clients, covering the moment of payment, collateral costs and potential risks

for the buyer and the supplier. It is also important to mention that this payment method tends to be costly, thus being used for larger transactions (KVK n.d.b). To potentially fix this issue and incentive clients into buying in larger quantities, the company could offer bundle discounts.

Place - This aspect refers to where the purchase is effectively made (Oxford College of Marketing n.d.). Due to the distance and increasing growth in E-commerce observed during the last few years, it would be interesting for Firm F to develop a website where it could display its products for direct purchase (Morgan Stanley 2023). However, due to the firm's limited budget for marketing, this initiative would be difficult to implement. Aside from that, the firm should maintain its efforts into establishing a presence in international furniture fairs as they usually gather a significant pool of potential contacts and clients, thus embodying a space ideal for networking and closing deals.

Promotion - The promotion aspect of the marketing mix aims to establish a connection with the firm's clients regardless of their current stage of the customer decision journey (Oxford College of Marketing n.d.). Due to the lack of brand awareness that the company faces, Firm F should put the majority of its resources towards this point.

Firstly, the firm should establish a more meaningful **social media presence** by showcasing and educating consumers regarding the firm's products, providing customer service support, and actively interacting with its audience. Furthermore, through being present on social media, Firm F would be exposed to new insights about its audience, being able to track and further understand their needs, demographics and habits.

Secondly, the company should adopt a more **customer-centric approach** focused on **growing** and **acquiring customers**. For the first goal, Firm F could foster a closer relationship with its clients by collaborating with them in **organising promotions** for their own customers which can then be communicated through a monthly newsletter. This **newsletter** could communicate not only the upcoming promotions but also new collections that might come out and even

company updates to keep Firm F's clients informed. To further deepen the relationship, once again, Firm F should put efforts in supporting its customers through an efficient, informative and agile customer service. For the second goal, the firm could implement **referral programs** where current clients would pay a discounted price for every additional deal closed on their behalf. This an efficient way of awarding its current clients while being able to connect with new and trustworthy clients.

In general, the **discounts practiced should focus on higher priced items** as one of the marketing objectives is to increase the average order value.

People - This aspect refers to any individual directly or indirectly involved in the business side of the firm (Hurree 2022). To better connect with the Dutch market, the firm should either hire or train someone already in the company to be the sales representative of this market. Ideally, this job position would be fulfilled by someone fluent in both English and Dutch so it could address any customer, however, since most of the Dutch population is fluent in English, one language should be enough. Accordingly, Firm F should provide resources to guarantee the employee's training on Firm F's workflow, portfolio and processes to ensure a smooth, knowledgeable and efficient communication between the company and the client.

This employee is expected to be able to negotiate prices, coordinate logistics, beware of new market trends in the country and overall provide support to Firm F's local clients, to flawlessly bridge the business between Portugal and the Netherlands.

To conclude, the marketing mix is a crucial tool to shape a firm's success and competitiveness. In Firm F's case most efforts should be put towards the promotion aspect of the mix, as upper funnel matters such as brand awareness need to be developed. Nonetheless, the other aspects of the mix cannot be neglected as ensuring that each complement and reinforce the others results in the creation of synergies thus in an effective marketing strategy.

8. Financial Forecast

In order to concretise the internationalisation plan of Firm F, this chapter will examine financial forecasts on the **future profitability** of the project, based on various assumptions that will be discussed below. In addition, a series of financial analyses will then be carried out to fully understand the **economic feasibility** of the plan itself.

8.1. Market Size and Market Share Estimation

To calculate the **market size** of the Dutch market, the same approach previously adopted while estimating market sales potential was used. **The estimated revenues** for the furniture industry in the Netherlands from 2024 till 2028 were analysed. A weight of 33% was assigned for the three scenarios (base, best, and worst) and based on this, the market share in 2023 was calculated by computing the **average of these three scenarios**. After doing so, this market share was multiplied by its corresponding growth rate to determine the market share for the following years. To estimate the market share for 2028, the average of the growth rates of previous years was computed, and then this rate was multiplied by the estimated furniture market revenue for 2027 to obtain the missing value for this year. The estimated market shares are depicted in the table below.

Table 4 - Firm F's Estimated Market in Netherlands

Dutch Market					
Year	2024	2025	2026	2027	2028
Est.Revenue in Netherlands (ind)	€ 7,320,000,000	€ 7,740,000,000	€ 8,140,000,000	€ 8,540,000,000	€ 8,962,664,695
Est.Growth rate (industry)	4.0%	5.7%	5.2%	4.9%	4.95%
Firm F's Expected Market Share	0.00372%	0.00393%	0.00414%	0.00434%	0.00455%

8.2. Operational Plan

8.2.1. Assumptions

Firm F provided several valuable information to create the P&L statement. Among others, the management disclosed that transportation costs are expected to amount to 10%-15% of the merchandise value. An average of these two values was used for the calculations.

8.2.2. Revenue Estimation

Firm F's estimated revenue from 2024 to 2028 was computed by multiplying the estimated market share of the company with the estimated overall revenue of the furniture industry in the Netherlands (Table 5).

Table 5 - Estimated Revenues in Netherlands

Year	2024	2025	2026	2027	2028
Firm F's Revenue estimation	€ 272,225	€ 304,360	€ 336,631	€ 370,528	€ 408,113
Firm F's Revenues Growth rate	-	11.80%	10.60%	10.07%	10.14%

8.2.3. Cost Estimation

In order to estimate the **costs of goods sold**, the COGS/revenue ratio of 2021 (43.5%) was taken as the basis for the calculation of subsequent years. This ratio was applied to the estimated revenues for each year of the project multiplied by the expected inflation rate for that year, respectively, to have a more accurate cost estimate. In terms of **marketing costs**, €30,000 was assumed to be spent each year by the company to establish its brand name within the Netherlands by participating in furniture fairs and events. Furthermore, this forecast should consider **agency costs**, as Firm F hires a dedicated agent for each new country. The agent's role is to support the enterprise in distributing its goods to customers all over the country. This agent also eases conducting business by speaking the local language. To estimate the budget allocated for this agent, Firm F's yearly revenues were multiplied by 8,5%. According to Firm F, this is the average salary the company pays for its agents (Barros, email to author, May 13th, 2023). Finally, regarding **transportation costs**, Company F will then have to rely on a local company specialising in logistics & warehousing services, as is already the case in Germany. Therefore, the costs were estimated to 12.5% of the COGS, as stated by the company itself. (Peixoto, email to author, April 25th, 2023).

8.2.4. P&L Statement

To prepare the income statement (Appendix 38) we started by calculating the gross profit. In this case, COGS were deducted from the estimated revenues. To compute the **EBIT**, transportation, marketing and agency costs were deducted. Next, the **tax rate** was applied to the EBIT to determine the **net income**. The Portuguese tax rate (21%) was then applied (PWC 2023). Firm F is subject to its home country's tax rate because it is only exporting to the Netherlands, and its legal headquarters and main operations are remaining in Portugal.

8.2.5. Operational Risk Analysis

This chapter highlights operational risks of this internationalisation plan in light of the market's volatility and potential inaccuracy of this project's predictions. While performing this analysis, a risk key performance indicator using probability and impact was mapped (Appendix 41). The first identified risk is **failing to reach the target market share** which could be due to a fiercer competition than expected or a missed growth target. This risk has a high probability of happening and could highly affect the business. To mitigate this, the company must ensure the effectiveness of its marketing strategy by regularly measuring its success using the key performance indicators mentioned above.

The second risk is **high transportation cost** which would lower Firm F's profit margin, especially if it fails to reach its sales target. To avoid this, conducting thorough research before selecting the most suitable transportation partner that fits Firm F's budget is crucial in minimising the risk of paying more than competitors do.

Lastly, picking an **unsuitable entry mode strategy** could also negatively impact the company. Legal and regulatory requirements differ for each entry option. Hence, operational challenges, legal implications, and reputational harm may occur if Firm F fails to comply with these regulations. Unexpected operational issues might result from a lack of knowledge of local laws or improper planning. To avoid this risk, Firm F should conduct extensive research on the legal

and regulatory requirements of the Netherlands. To do so, Firm F may engage legal professionals to handle compliance concerns, get required permissions and licenses and build trustworthiness with regional authorities to ensure efficient operations. For Firm F to proactively identify, analyse, and manage risks that may have an impact on its operations, considering the above discussed operational risk analysis is essential. By doing so, it can anticipate interruptions, maintain business continuity, adhere to laws, and make decisions that will lead to long-term success in the Netherlands.

8.3. Investment Plan

8.3.1. Capital Expenditure

In terms of capital expenditure (CAPEX), it was assumed that one new machine will be acquired, as this is the only investment Firm F usually makes when entering a new country (Barros, email to author, May 13th, 2023). A CNC machine's price varies between €5,000 and €300,000 (Jacobs 2022). In the present case, a price of €100,000 was assumed for the new machine acquired in 2023. Additionally, it was decided that the salvage value would be zero because this new asset will be kept for longer than the duration of the project.

8.4. Financing Plan

The financing plan of a new project is an essential part of the internationalisation plan as it outlines the project's expected expenses, revenues, profitability, as well as an indicates how it will be financed (Faster Capital 2023).

In this case, since Firm F is advised to directly export, **no great expenditures are required**. Indeed, the main costs Firm F will have to bear have already been discussed in chapter 8.2.3. Moreover, the firm expressed its intention to use its **own resources** to finance this internationalisation (Peixoto, email to author, April 25th, 2023). For this reason, the company will finance the project **without requiring external financial aid**, which means that no financing plan is necessary. In fact, the main expense that the company will have to bear only

Moreover, as analysed in chapter 4.1.5, the company's financial situation suggests that it is financially stable. In fact, even though the company has been severely affected by the pandemic and the resulting increase in raw material costs, its sales have nevertheless grown in comparison to previous years, recording a more than positive profit. Additionally, using a low-resource entry strategy confirms Firm F's **ability to pursue its internationalisation plan** relying on its own financial resources.

8.5. Financial Viability

Financial viability is the ability for a firm to sustainably achieve its operational objectives and fulfil its mission from a financial point of view (Hydro Sustainability n.d.). Several profitability measures were used to assess Firm F's ability to generate earnings over time. Firstly, gross profit margin, operating profit margin and net profit margin have been computed to receive a detailed financial breakdown of the firm (Table 6). Firstly, by looking at the **gross profit margin**, it is expected to steadily increase from 54.69% in 2024 to 55.29% in 2028. That is a very encouraging projection since it indicates the firm will generate great profit that is net of COGS, demonstrating solid financial viability. Regarding **operating profit margin**, it will also grow from 29.50% in 2024 to 33.85% in 2028, with an overall growth of 15% for the period considered. Finally, **net profit margin** will follow a similar path, increasing from 23.31% in 2024 to 24.74% in 2028. Note that ratios like return on equity and dupont identity were left out because **the chosen entry mode does not require the use of equity**.

Table 6 - Financial Ratios

FINANCIAL RATIOS	2024	2025	2026	2027	2028
Gross Profit Margin	54.69%	55.08%	55.21%	55.27%	55.29%
Operating Profit Margin	29.50%	31.11%	32.20%	33.08%	33.85%
Net Profit Margin	23.31%	24.58%	25.44%	26.14%	26.74%

Subsequently, the cost of debt and cost of equity were determined in order to calculate the WACC. The **cost of debt** was calculated by considering the historical cost of debt of Firm F. An average of the values from 2017 to 2021 was considered and the final cost of debt was

estimated at 0.82%. On the other hand, the calculation of the cost of capital primarily takes into account the **risk-free rate**, considered in this case as the Dutch 10-year government bond. It has a value of 2.68% in 2023 (World Government Bonds 2023). Moreover, the **unlevered beta** is expected to amount to 0.71, which is the average unlevered beta of the furniture industry in Europe (Damodaran 2023). Firm F's capital structure, along with the Portuguese tax rate, were then employed to calculate the **beta levered**, which achieved a value of 1.54. Lastly, the market risk premium was expected to amount to 6.20% in the Netherlands (Statista 2022i). The **cost of equity** calculated comes to 12.2%.

Finally, a 5.34% **WACC** was attained by using both cost of equity and debt as well as Firm F's capital structure and Portuguese tax rate (Appendix 39).

8.6. Profitability Ratios

8.6.1. NPV

The first profitability ratio is the **net present values** (NPV) which is calculated by discounting future cash flows of a project by a proper discount rate. Only those projects with a positive NPV should be accepted and carried out (Fernando 2023b).

As previously presented in 8.3.1, the CAPEX for this plan only encompasses the cost of a new CNC machine in order to increase Firm F's productivity. With regard to NWC and salvage value instead, they were estimated to zero since this new asset is expected to remain in the company for more than the duration of the project. Under these preconditions, the **free cash flows** (FCF) were calculated for each project year (Appendix 40). With the exception of the first year, where the FCF was equal to the CAPEX, it is equivalent to the net income of the subsequent years. Finally, the NPV was computed discounting the FCFs for the WACC previously calculated. The **NPV of the project is positive** and amounts to **€179,576**.

8.6.2. IRR and Profitability Index

The internal rate of return (IRR), on the other hand, is the discount rate which, in a discounted cash flow analysis, reduces the NPV of all cash flows to zero (Fernando 2023c). The IRR was calculated starting from the NPV formula and came to 69.94%, meaning, together with NPV, that the project has a **solid feasibility**.

The **profitability index** was also computed with a value of 4.30. This suggests that the project represents a good and attractive investment, being greater than one (Chen 2023a).

8.6.3. Payback Period

Finally, the **payback period** measures the time necessary to recover the initial cost of an investment (Kagan 2023). Based on the FCFs previously calculated, Firm F will recover the initial investment in year two. This can be attributed to the fact that the entry mode used for the expansion does not require much capital outlay.

Overall, the profitability ratios presented are positive, suggesting that **the project should be accepted and carried out**.

8.7. Sensitivity and Scenario Analysis

In this chapter, both a sensitivity and scenario analysis were performed to assess the internationalisation plan's robustness. These two analyses, in fact, make it possible to evaluate the best possible investments by varying the existing variables or inputs (CFI 2023).

Firstly, the **sensitivity analysis** allows to understand how changes in multiple inputs affect a decision's outcome (CFI 2023). Therefore, three sensitivity analyses were carried out and are shown in Table 15. In the first sensitivity analysis, the **cost of equity** and the **cost of debt** were considered together to assess their impact on NPV. It is evident from the analysis that both variables have a negative impact on NPV as their values increase. In the event of a worst-case scenario where the cost of equity reaches 18.24% and the cost of debt is 1.70%, the project's net present value (NPV) would experience a 12% decrease, resulting in a reduction to €160,911.

The second sensitivity test considered the **corporate tax rate** and the **weight of COGS on net revenues**. The results show a similar conclusion to the previous analysis. Indeed, for both factors, a higher value exacerbates their negative impact on the NPV. The only difference is that in this case the impact is stronger, which means that an increase of both factors will lead to a drastic reduction of the NPV but, at the same time, their decrease will have a very positive effect. Finally, the last sensitivity analysis considers the **furniture industry growth in the Netherlands** along with the **percentage of transportation costs on revenues**. As expected, the first factor has a positive effect on the NPV of the project, since the stronger the growth, the greater the increase in revenues generated by company F. On the other side, the greater the transportation costs, the lower the NPV. In fact, considering an **optimistic** scenario in which the furniture industry grows by about 7% and the transportation costs are low at 5%, the NPV would be €286,557.

Table 15 – Sensitivity Analysis

Sensitivity Analysis 1	NPV	Cost of Debt							
	€ 179,576	0.20%	0.45%	0.70%	0.82%	1.20%	1.45%	1.70%	
Cost of Equity	6.24%	€ 199,428	€ 198,524	€ 197,625	€ 197,216	€ 195,838	€ 194,950	€ 194,067	
	8.24%	€ 193,290	€ 192,415	€ 191,543	€ 191,148	€ 189,813	€ 188,954	€ 188,098	
	10.24%	€ 187,346	€ 186,498	€ 185,654	€ 185,270	€ 183,977	€ 183,145	€ 182,316	
	12.24%	€ 181,587	€ 180,766	€ 179,948	€ 179,576	€ 178,323	€ 177,517	€ 176,714	
	14.24%	€ 176,007	€ 175,211	€ 174,418	€ 174,058	€ 172,843	€ 172,061	€ 171,283	
	16.24%	€ 170,598	€ 169,826	€ 169,058	€ 168,708	€ 167,531	€ 166,773	€ 166,018	
	18.24%	€ 165,353	€ 164,605	€ 163,860	€ 163,521	€ 162,379	€ 161,644	€ 160,911	

Sensitivity Analysis 2	NPV	COGS/NR%							
	€ 179,576	19.85%	27.85%	35.85%	43.85%	51.85%	59.85%	67.85%	
Corporate Tax Rate	6.00%	€ 418,737	€ 337,947	€ 257,157	€ 176,368	€ 95,578	€ 14,789	€ (66,001)	
	11.00%	€ 420,714	€ 339,619	€ 258,525	€ 177,431	€ 96,337	€ 15,242	€ (65,852)	
	16.00%	€ 422,702	€ 341,302	€ 259,901	€ 178,500	€ 97,100	€ 15,699	€ (65,702)	
	21.00%	€ 424,703	€ 342,994	€ 261,285	€ 179,576	€ 97,867	€ 16,158	€ (65,551)	
	26.00%	€ 426,716	€ 344,697	€ 262,678	€ 180,659	€ 98,640	€ 16,621	€ (65,398)	
	31.00%	€ 428,741	€ 346,410	€ 264,079	€ 181,748	€ 99,417	€ 17,086	€ (65,245)	
	36.00%	€ 430,778	€ 348,133	€ 265,488	€ 182,843	€ 100,198	€ 17,554	€ (65,091)	

Sensitivity Analysis 3	NPV	Transportation							
	€ 179,576	5.00%	7.50%	10.00%	12.50%	15.00%	17.50%	20.00%	
Dutch Furniture Market Growth	0.98%	€ 145,185	€ 136,854	€ 128,523	€ 120,192	€ 111,860	€ 103,529	€ 95,198	
	1.98%	€ 165,304	€ 156,465	€ 147,626	€ 138,787	€ 129,949	€ 121,110	€ 112,271	
	2.98%	€ 186,694	€ 177,316	€ 167,937	€ 158,559	€ 149,180	€ 139,802	€ 130,423	
	3.98%	€ 209,432	€ 199,480	€ 189,528	€ 179,576	€ 169,624	€ 159,672	€ 149,720	
	4.98%	€ 233,598	€ 223,037	€ 212,475	€ 201,914	€ 191,352	€ 180,791	€ 170,229	
	5.98%	€ 259,277	€ 248,068	€ 236,859	€ 225,650	€ 214,441	€ 203,232	€ 192,023	
	6.98%	€ 286,557	€ 274,660	€ 262,763	€ 250,866	€ 238,970	€ 227,073	€ 215,176	

On the other hand, a **scenario analysis** (Table 16) shows how changes in current factors under different market conditions influence the future value of a project (CFI 2023). For the following analysis, it was decided to use **two scenarios reflecting the positive and negative impact on revenues and costs**. Therefore, best- and worst-case scenarios were considered. The variables considered are the growth of the furniture market, the corporate tax rate and transport costs (Table 16).

Table 16 - Scenario Analysis

SCENARIO ANALYSIS			
Variables	Current Scenario	Best Scenario	Worst Scenario
Dutch Furniture Market Growth	3.98%	7.95%	0.00%
Corporate Tax Rate	21.00%	10.50%	31.50%
Transportation Costs	12.50%	6.30%	18.75%

Considering the best scenario, the furniture market growth in the Netherlands, which is the main driver of revenues, is projected to increase by 100%, reaching a growth of 7.95%. On the other hand, the corporate tax rate and transport costs are expected to halve to 10.50% and 6.30% respectively. For the worst-case scenario, on the other hand, the furniture industry's growth is expected to decrease to zero, while the corporate tax rate and transport costs will increase by half, totalling at 31.50% and 18.75%. Under these assumptions, the NPVs of each of the two scenarios, together with the current situation, are presented in Table 17. The NPV for the optimistic scenario is expected to be €304,844 and for the pessimistic one €114,547.

Table 17 - Scenario Summary

Scenario Summary		Current Values		Best Scenario	Worst Scenario
Changing Cells:					
	Dutch Furniture Market Growth		3.98%	7.95%	0.00%
	Corporate Tax Rate		21.00%	10.50%	31.50%
	Transportation Costs		12.50%	6.30%	9.40%
Result Cells:					
	NPV	€	179,576	€	304,844
	IRR		69.94%		96.92%
	PI		4.30		6.73

9. Overall Conclusions and Recommendations

All parts considered, this internationalisation project paints a depiction of the realities and challenges SMEs face when expanding into uncharted markets while attempting to compete. Firm F will experience barriers of extreme competition and will be confronted with this when entering a new and exciting market. Firm F will undeniably have to push for a quick acclimatization to their strategy to create space for potential growth. Its significant **lack in product differentiation and uniqueness** in their value proposition is a good start for Firm F's future aspirations to create a competitive advantage. The firm needs financial and technological development to create a commanding product. This is not to say Firm F does not have the facilities and capabilities to achieve this feat, however there are internal developments to sort out on the operational front and on the distribution side of its product.

Firm F's long-standing history of 55 years represents a strong network, deep-seated experience and in-house product development throughout massive cultural changes. It has had to keep pace with market fluctuations wherever it operates during this lengthy time frame suggesting it has the propensity to deal with challenging scenarios. However, Firm F is faced with the same imperative for change, necessitating its ability to adapt and make critical decisions in order to meet market demands. The plan to internationalise is therefore another opportunity for the firm to take that step to differentiate themselves in an interesting market. This market, although sharing similar characteristics with the markets in which it already operates, will never be exactly the same. A critical step for Firm F to take is to tackle their financial viability, which is why the decision to **export** with an intermediary warehousing partner is as a reassuringly low risk strategy. Cautious optimism in our financial plan pointed out to important cuts in transportation costs and high projected furniture market growth in the Netherlands as the strong drivers to incur a solid NPV. Market conditions unmistakably control these projections, nevertheless, they are promising for Firm F.

Considering the internationalisation project, our group has made some recommendations that are to be welcomed. Leveraging the existing customer networks, as highlighted in the in-depth analysis, can potentially serve as a valuable foundation for Firm F when venturing into a new market. It is important to note that while it should not be solely relied upon, establishing stability in a new market can significantly contribute to long-term success. Furthermore, Firm F's low brand awareness is not in line with its positioning as a premium company. It is understandable that the firm does not have a vast budget for marketing and their B2B model creates difficulty for visibility, however, showing a strong presence in fairs could cement a concrete presence for it. In light of this, **brand development** should be on the radar for Firm F. For example, modernising the website imagery will help to match the quality of the firm with a more modern image and making information accessible for customers to associate the premium nature of the brand with an image. Furthermore, Firm F should prudently adopt more **competitive pricing** to ensure that its value is also accounted for. In doing so, the company gives itself the opportunity to differentiate itself from its competitors. In the fullness of time, Firm F must mitigate the overwhelming nature of the competition it will face. By working in unison on their products to create an imperious brand with high profit margins, the full potential of the firm could be reached with this being a strong start.

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Appendix 1 - Company's Export Markets

Germany | Angola | Belgium | Canada | Chile | Spain | France | India | England | Israel |

Morocco | Mexico | Nigeria | Portugal | Russia | Switzerland | USA



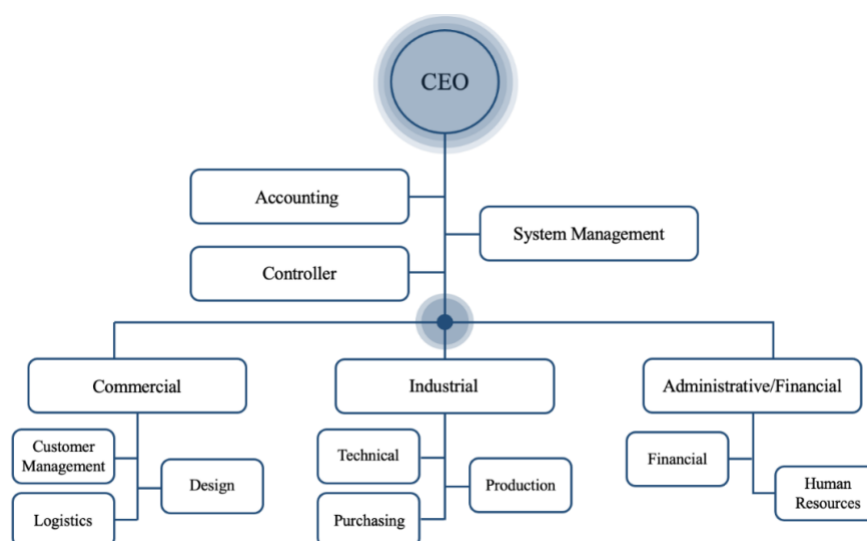
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Appendix 2 - Main Collections, Clients, Custom projects

Main Collections	Kapta, Visa, Wardrobes, Faro, Lousada, Ametis,, Looping, Induss, Voile, Pyraa, Mikado, Cover, Sidney, Reverso , Corfu, Zigzaa, Virgula, Swaa, Goyaa, Siao, Porto, Naturaa, Angulaa, Umano
Main Clients	XXL Maison, Le Géant du Meuble , Côté Meubles, Logial, Monsieur Meuble , Crozatier, Story, Groupe Maxiam , Wohnidee, Segmüller, Möebel Bernd, Möbel Hesse, Kichechef, Hauschopp
Custom Projects	Hotels: Hotel Friedland, Edgar Suites, Six Senses , Lee Parisis, Gatzara, Grums Hotel & Spa, Sahara Star, Vita Student, Westin La Quinta Resort Offices and Public Spaces: Accenture, Vodafone, Philip Morris, United Nations, Triwool, Tediber Interior Designers: Jean Nouvel Design, Karim Rashid

Back to Product Portfolio; Peixoto, email to author, March 1st, 2023

Appendix 3 - Organization Chart



Appendix 4 - Balance Sheet

**This Balance Sheet was provided by the company.*

Assets	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Intangible fixed assets	48,575	72,755	95,335	58,770	91,967
Tangible fixed assets	1,808,275	2,098,312	2,302,333	1,758,339	1,823,906
Other fixed assets	8,725	7,393	5,279	2,902	1,797
Non Current Assets	1,865,575	2,178,459	2,402,947	1,820,012	1,917,670
State and other public entities	46,497	50,588	75,802	65,395	77,870
Other Receivables	959,337	1,047,437	1,049,366	848,809	841,397
Advances to suppliers					6,464
Deferrals	8,900	8,134	6,078	1,288,609	1,285,393
Financial assets held for negotiation					8,900
Inventory	855,878	692,022	515,522	359,975	385,769
Receivables	1,250,635	982,445	1,345,029	1,245,259	1,203,816
Cash & cash equivalent	58,347	47,940	407,525	18,700	128,820
Current Assets	3,179,593	2,828,566	3,399,323	3,826,748	3,938,427
TOTAL ASSETS	5,045,169	5,007,025	5,802,271	5,646,760	5,856,097

Liabilities & Equity	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Capital	299,279	299,279	299,279	299,279	299,279
Other shareholders funds	1,742,380	1,730,601	1,691,061	1,349,056	1,324,847
<i>Other equity instruments</i>	<i>713,852</i>	<i>713,852</i>	<i>713,852</i>	<i>713,852</i>	<i>713,852</i>
<i>Legal reserves</i>	<i>41,079</i>	<i>15,575</i>	<i>15,575</i>	<i>15,575</i>	<i>15,575</i>
<i>Other reserves</i>	<i>135,000</i>	<i>135,000</i>	<i>135,000</i>	<i>208,393</i>	<i>208,393</i>
<i>Retained earnings</i>	<i>826,633</i>	<i>826,633</i>	<i>396,544</i>	<i>292,427</i>	<i>261,778</i>
<i>Adjustments / other changes in equity</i>	<i>7,508</i>	<i>14,037</i>	<i>0</i>	<i>67,861</i>	<i>67,861</i>
<i>Net profit for the period</i>	<i>18,308</i>	<i>25,504</i>	<i>430,090</i>	<i>50,948</i>	<i>57,387</i>
Shareholders funds	2,041,659	2,029,880	1,990,340	1,648,335	1,624,126
Long term debt	1,756,851	1,737,517	1,184,366	974,956	408,746
Other non current liabilities	11,050	11,050	11,050	0	0
Non-current liabilities	1,767,901	1,748,567	1,195,416	974,956	408,746
Suppliers	403,334	504,854	773,314	580,984	685,784
State and other public entities	33,259	22,516	78,900	28,788	18,510
Loans	458,113	268,280	1,052,050	1,294,909	1,850,814
Deferrals	70,948	131,265	229,351	0	0
Shareholders / Partners	0	0	0	84,239	144,689
Advances from customers	0	0	0	707	76,699
Other current liabilities	269,955	301,663	482,900	1,068,590	1,046,728
Current liabilities	1,235,609	1,228,578	2,616,515	3,058,217	3,823,225
TOTAL LIABILITIES & EQUITY	5,045,169	5,007,025	5,802,271	5,681,508	5,856,097

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Appendix 5 - Income Statement

**This Income Statement was provided by the company.*

Income Statement	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Revenues	3,736,873	3,507,730	4,641,211	3,330,208	2,739,900
Material costs	1,638,529	1,355,604	1,486,735	1,281,697	1,084,288
Gross Profit	2,098,344	2,152,126	3,154,476	2,048,511	1,655,613
Costs of employees	911,345	806,895	892,751	748,189	547,480
External supplies and services	720,384	779,989	1,092,159	930,562	777,217
Impairment of debts receivable	-12,397	48,847	166,275	11,677	23,054
Other costs and losses	61,809	76,802	116,536	32,568	17,400
EBITDA	417,203	439,593	886,755	325,515	290,461
Depreciation & Amortization	387,574	397,741	363,132	223,503	191,503
EBIT	29,629	41,853	523,623	102,011	98,958
Interest paid	9,611	14,276	42,820	48,883	40,362
Interest and similar income received	0	0	0	31	67
EBT	20,018	27,576	480,802	53,159	58,663
Taxation	1,710	2,072	50,713	2,211	1,276
Net Income	18,308	25,504	430,090	50,948	57,387

Appendix 6 - Important Indicators

INDICATORS	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Revenues	3,736,873	3,507,730	4,641,211	3,330,208	2,739,900
COGS	1,638,529	1,355,604	1,486,735	1,281,697	1,084,288
Revenue Growth Rate	7%	-24%	39%	22%	-6%
COGS/Revenue	44%	39%	32%	38%	40%
Gross Profit	2,098,344	2,152,126	3,154,476	2,048,511	1,655,613
EBIT	29,629	41,853	523,623	102,011	98,958
Net Income	18,308	25,504	430,090	50,948	57,387

Appendix 7 - Liquidity Ratios

LIQUIDITY RATIOS	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Current Ratio	2.57	2.30	1.30	1.25	1.03
Quick Ratio	1.88	1.74	1.10	1.13	0.93
Cash Ratio	0.05	0.04	0.16	0.01	0.03
Working Capital	1,943,984	1,599,988	782,808	768,531	115,202

Appendix 8 - Profitability Ratios

PROFITABILITY RATIOS	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Return on Sales	0.79%	1.19%	11.28%	3.06%	3.61%
Return on Assets	0.36%	0.51%	7.41%	0.90%	0.98%
Return on Equity	0.90%	1.26%	21.61%	3.09%	3.53%

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Appendix 9 - Solvency Ratios

SOLVENCY RATIOS	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Debt to Assets Ratio	44%	40%	39%	40%	39%
Debt to Equity Ratio	1.08	0.99	1.12	1.38	1.39
Interest Coverage Ratio	3.08	2.93	12.23	2.09	2.45
Net Debt to EBITDA	5.17	4.45	2.06	6.92	7.34

Appendix 10 - Efficiency Ratios

EFFICIENCY RATIOS	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Assets Turnover	0.74	0.70	0.80	0.59	0.47
Collection period (days)	120	101	104	135	158
Credit period (days)	39	52	60	63	90
Inventory turnover	2	2	3	4	3

Appendix 11 - Risk Ratios

RISK RATIOS	31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Break-Even point	3,704,269	3,466,161	4,008,416	3,247,433	2,645,040
Margin of Safety	0.9%	1.2%	13.6%	2.5%	3.5%
Degree of Operating Leverage	70.82	51.42	6.02	20.08	16.73

Appendix 12 - Firm F's Financial Situation Overview

Liquidity Ratio	Profitability Ratio	Solvency Ratio	Efficiency Ratio	Risk Ratio
Current Ratio 	ROS 	DtoA Ratio 	Collection Period 	BEP 
Quick Ratio 	ROA 	DtoE Ratio 	Credit Period 	MoS 
Cash Ratio 	ROE 	IC Ratio 	Inventory Turnover 	DoOL 
NWC 				
Overall Positive	Overall Negative	Overall Positive	Overall Negative	Overall Negative

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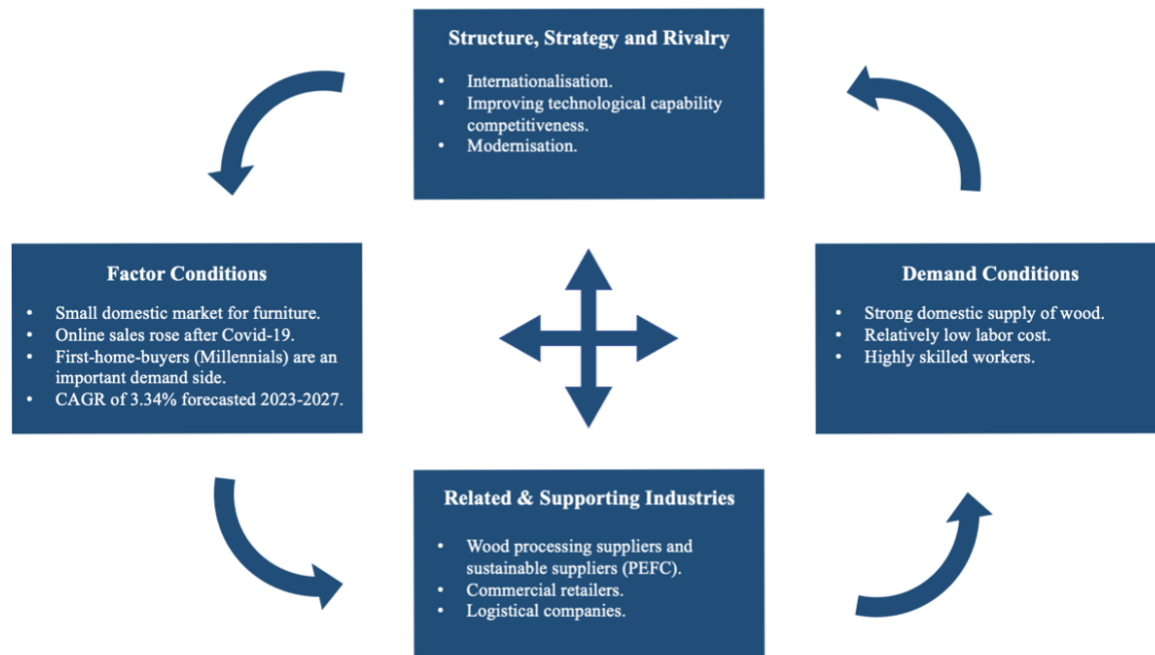
Appendix 13 - Porter's 5 Forces

RIVALRY	BUYER POWER	SUPPLIER POWER	THREAT OF SUBSTITUTES	THREAT OF NEW ENTRANTS
Number/Size of Competitors (5)	Number of Customers (5)	Number of Suppliers (5)	Availability of Substitutes (3)	Differentiation (3)
Differentiation (3)	Price Sensitivity (5)	Availability of Inputs (5)	Perceived Price – Quality (2)	Capital Requirements (1)
Market Growth (5)	Availability of Substitutes (3)	Probability of Forward Integration (1)	Perceived Level of Differentiation (2)	Number/Size of Competitors (5)
Volatility of Demand (5)	Switching Costs (5)	Switching Costs (4)	Switching Costs (4)	Available Workforce (1)
HIGH (5)	HIGH (5)	MODERATE – HIGH (4)	MODERATE (3)	MODERATE-LOW (2)

**The values were given to the variables depending on how they affect each force (E.g.: capital requirements are high causing the barriers to entry to be high and consequently the threat of new entrants to be lower. Therefore, since capital requirements end up decreasing the threat of new entrants, they have a low score).*

Back to Porter's Five Forces

Appendix 14 - Porter's Diamond



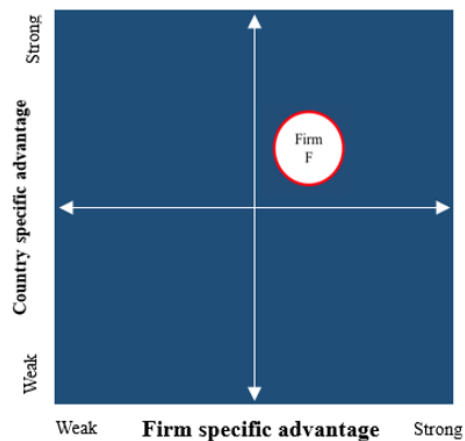
Back to Country Specific Advantages (Porter's Diamond)

Appendix 15 - SWOT Analysis

Internal		External	
Strengths	Weakness	Opportunities	Threats
Production of high-end furniture Personalised designs	Lack of economies of scale Small distribution network Lack of investment in marketing	Expand to other markets Rising demand for online shopping Enhance brand reputation as it is a company adopting sustainable practices	High transportation costs Slowed economic growth globally

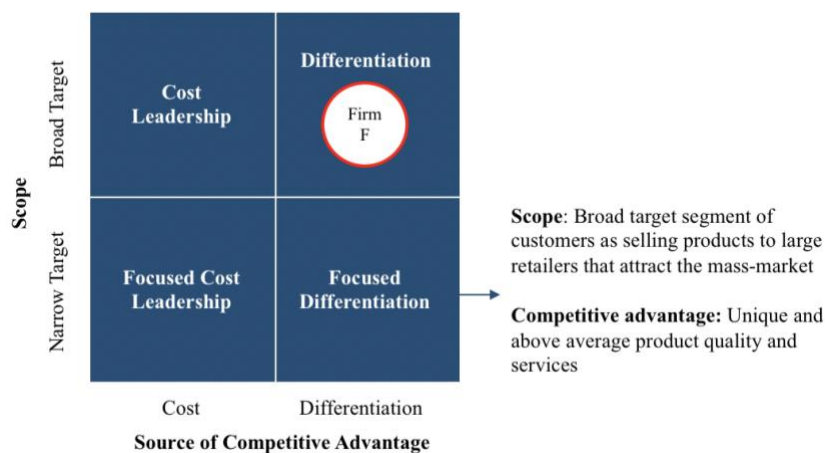
[Back to SWOT Matrix](#)

Appendix 16 - FSA-CSA matrix



[Back to FSA-CSA Matrix and Porter's Generic](#)

Appendix 17 - Porter's Generic Strategies



[Back to FSA-CSA Matrix and Porter's Generic](#)

Appendix 18 - Overview of Variables

Name	Unit	Year	Source
Market Potential			
Population Total	Number	2021	World Bank
Population Growth 15-65	%	2021	Self Computed with Input from World Bank
Percentage of Urban Population	% of Total Population	2021	World Bank
Number of Households	Number	2021	Passport
Economics			
GDP	Number	2021	World Bank
GDP per Capita, PPP	Number	2021	World Bank
GDP per Capita Growth	Annual %	2021	World Bank
Consumer Confidence	Number	2021	Passport
Total Tax and Contribution Rate	%	2019	World Bank
Adjusted Net National Income per Capita	US\$	2020	World Bank
Cost to Import, Border Compliance	US\$	2019	World Bank
Inflation, Consumer Prices	%	2021	World Bank
Industry-Specific			
Furniture Market Revenue	Billion €	2022	Statista
Furniture Market Revenue Growth	%	2018-2022	Self-Computed with Input from Statista
Projected Furniture Market Revenue Grov	%	2023-2027	Self-Computed with Input from Statista
Infrastructure & Geography			
Density of Road Networks	Kilometres per km2 of Land	2022	Passport
Port Infrastructure Quality	Scale from 1 (low) - 7 (high)	2019	Global Economy
Container Port Traffic	TEU: 20 Foot Equivalent Units	2020	World Bank
Logistic Performance Index	Scale from 1 - 4,5	2028	World Bank
Distance to Portugal	km	-	Distance From To
Legal			
Start-Up Procedures to Start a Business	Number	2019	World Bank
Government Effectiveness Index	cale from -2.5 (weak) to 2.5 (strong)	2021	World Bank
Business Regulatory Environment Rating	Scale from 1 to 6	2021	World Bank
Ease of Doing Business			
Ease of Doing Business	Scale from 0 to 100	2020	World Bank
Trading Across Borders	Scale from 0 to 100	2019	World Bank
Short-Term Political Risk	Scale from 1 to 7	2023	Credendo
Long-Term Political Risk	Scale from 1 to 7	2023	Credendo
Economic Freedom Index	Scale from 1 to 100	2022	The Heritage Foundation
Time Required to Start a Business	Days	2019	World Bank
Time Spent Dealing with Requirements of Government Regulations	% of Senior Management Time	2021	World Bank
Cultural			
Cultural Distance to Portugal	Score	2021	Hofstede

Back to Country Selection Criteria

Appendix 19 - Definition and Rationale Behind Using Variables

Name	Definition	Rationale Behind Using This Variable	Weight
Market Potential			
Population Total	The total number of residents in a determined country regardless of their legal status or citizenship (The World Bank 2021b).	The total population of a country helps assessing the size of the market and the number of potential customers.	Eliminated (high correlation)
Population Growth 15-65	The annual growth in percentage of the total number of residents in a determined country, within 15 to 65 years old, regardless of their legal status or citizenship (The World Bank 2020c).	Using this variable, one can evaluate the future market potential. Population under the age of 15 were excluded as they are less likely to purchase furniture.	2%
Percentage of Urban Population	The percentage of people living in urban areas, out of the total population. Urban areas are defined as areas with a density of 300 inhabitants per km ² and a minimum population of 5,000 (The World Bank 2021c).	The percentage of urban population allows for an entering business to gauge the geographic population density. The more urbanisation, the higher the demand for furniture will be. Therefore higher degree of urbanisation can indicate higher market potential.	4%
Number of Households	Number of households occupied by a determined group of people in a determined region or country. The member of the household don't have to be related by blood or marriage. (Passport n.d.).	The higher the number of primary households, the higher the demand for furniture, as more apartments/houses will require furniture.	3%
Economics			
GDP	The total value of all finished goods and services produced in a certain country during a specific period of time (Jason 2023d).	GDP is the most used indicator of economic performance that gives information about a nation's economic health. A business trying to enter a country can assess whether that country may be entering a recession or is enjoying economic growth, giving an important indication to the potential performance of a company in that country.	Eliminated (high correlation)
GDP per Capita Growth	Annual percentage growth of the total value of all finished goods and services produced in a certain country during a specific period of time, divided by the total population (The World Bank 2021d).	Allows to compare how the economy is expanding along with its population. In contrary to GDP, this indicator can be used to compare nations that have different population sizes.	4%
GDP per Capita at Purchasing Power Parity (PPP)	The total value of all finished goods and services produced in a certain country during a specific period of time, taking into account the differences in cost of living of each country (The World Bank 2021e).	This variable was chosen in addition to GDP and GDP per capita growth as it takes into account a country's living costs, which can heavily differ from one country to another.	5%
Consumer Confidence	Indicator of expectations on consumption and spending, taking into consideration people's perception of their own financial situation as well as the general economic situation, unemployment and ability to save. An index above 100 means a country is optimistic. An index below 100 indicates it is pessimistic (OECD 2023).	Consumer confidence influences consumer's spending behaviours. High consumer confidence is favourable, as it is likely consumers will spend more as they are more certain about their financial situation.	6%
Total Tax and Contribution Rate	Quantifies the proportion of commercial profits that businesses need to pay in taxes and compulsory contributions, after taking into account any permissible deductions and exemptions. It does not include taxes that are retained (like personal income tax) or those that are paid to tax authorities (such as VAT) (The World Bank n.d.b.).	This is important to assess a business' financial situation, to measure the cost of business in a certain country. There are more forgiving tax and contribution rate situations in other countries that have more benefits when conducting business, especially abroad.	2%

Adjusted Net National Income per Capita	Gross national income minus consumption of fixed capital and natural resources depletion (The World Bank n.d.c.).	Here we can assess the economic well-being of a country to measure the standard of living of a population. It can be used to study policies, taxes and changes that impact a population to react differently economically.	Eliminated (high correlation)
Cost to Import, Border Compliance	The cost and duration linked to conforming with customs rules and other mandatory assessments required for a shipment to pass the country's border (referring customs clearance and examination activities) (The World Bank n.d.d.).	These factors can majorly affect the speed, cost and streamlining of conducting business. Time constraints, fines and cargo loss could occur if border compliance is not met. Cost to import is a deciding factor, as Firm F showed losing 10%-20% of order value on transportation costs.	7%
Inflation, Consumer Prices	Consumer prices refer to the basket of goods and services that a household usually consumes. Consumer price inflation is the rate at which these baskets change in a given period of time (The World Bank 2022).	Inflation has a major impact on profit margins especially as it influences consumer spending, therefore impacting businesses who see less sales. Inflation and consumer price are correlated as they also impact interest rates given by banks.	1%
Industry-Specific			
Furniture Market Revenue	Revenue per year in billion US\$.	Here a business can assess the market size and potential, a big indicator on whether a country is a good fit to internationalize into.	7%
Furniture Market Revenue Growth	Past revenue growth from 2018 to 2022 in % was computed by taking the 2022 revenue value and subtracting it from the 2018 value. This result was then divided by the 2018 value and multiplied by 100.	Revenue growth of a market helps identifying an industry's current life cycle stage. This not only helps understanding a market's potential, but it can also help in analysing the competitive landscape, pricing, or competitor's strategies.	7%
Projected Furniture Market Revenue Growth	Projected revenue growth from 2023 to 2027 in % was computed by taking the 2027 revenue value and subtracting it from the 2023 value. This result was then divided by the 2023 value and multiplied by 100.	Just like the market revenue and its growth, this criteria assesses industry size and potential, but focuses on estimates for the upcoming years, rather than actual revenue numbers from past years.	7%
Infrastructure & Geography			
Density of Road Networks	The ratio between the country's roadway network over the country's surface area (The World Bank n.d.e.).	Density of Road Networks can help a business assess the speed of the trip time for deliveries to consumers and retailers, so choosing a country with a more or less dense road networks could mean less time is lost.	4%
Quality of Port Infrastructure	Index that measures a country's perception of its port efficiency, reliability and effectiveness. This value ranges from 1 to 7, the highest indicating better port quality (The World Bank n.d.f.).	Assessing port efficiency, reliability and effectiveness is critical to the optimisation of the supply chain. Making sure cargo is not lost or damaged in ports plays also an important role to minimise losses on transportation.	4%
Container Port Traffic	Measures the transportation of 20ft TEUs containers from port to sea, and the other way around (The World Bank n.d.g.).	This reflects the volume of goods entering and leaving a specific port or region. This can give insight into the economic growth, supply chain management, logistical and environmental activity going on.	Eliminated (high correlation)
Logistic Performance Index	Portrays the perception of a country's logistics taking in to account custom clearance process efficiency, trade/transport infrastructures quality, overall logistic service's quality, ability to practice competitively priced shipments, to track consignments and the frequency in which shipments reach the collector according to schedule. The index ranges from 1 to 5, 5 indicating better performance (The World Bank 2023b).	Logistic performance of a market has a major influence on a company's ability to fulfill orders and stay reliable to their customers. A top performing country can save time, money and protect the image of a firm. Moreover, since Firm F has stated it struggles with finding suitable transportation contractors, it is in favour to them to operate in a country with good infrastructure quality.	7%

Distance to Portugal	Distance from a certain country to Portugal in km (Distance From To n.d.).	The further away a country is from Firm F's homebase, the longer, more costly and complicated it will be to ship items (if Firm F does export).	5%
Legal			
Start-Up Procedures to Register Business	This refers to the necessary steps to initiate a business, such as acquiring the required licenses and permits, fulfilling registrations, verifications, and notifications for commencing operations (The World Bank n.d.b.).	The procedures of starting a business can cost time and become a major issue sorting out legal aspects to start operating. A more accessible country to start a company is attractive.	2%
Government Effectiveness Index	Index that portrays the perception that certain country has of the quality of public and civil services and of policy formulation and implementation, in their own country (The World Bank n.d.i.).	The quality and efficiency of a government is crucial to examine its impact on the country's economic growth, democracy and implementation of public services as well as goods. It is also a good indicator on how tax is redistributed in the country.	Eliminated (high correlation)
Business Regulatory Environment Rating	The extent to which the legal, regulatory and governmental conditions of a country benefit private firms in investing and being overall more productive. It goes from 1 to 6, 6 indicating a higher ranking (The World Bank n.d.j.).	Regulatory comparisons can be made to other countries. The higher the rating, the better for Firm F.	Eliminated (not enough data)
Ease of Doing Business			
Ease of Doing Business	Measures how the bureaucratic conditions of a certain country help in the implementation of a new local firm. The ranking goes from 1 to 190, 190 indicating more ease in doing business (The World Bank 2020d).	Legal obligations have a huge impact on a company's ease to integrate into a new economic climate. Taking this into account gives an important overview on whether the barriers to set up in a country are tough.	5%
Trading Across Borders	The duration and expenses linked to the process of importing and exporting merchandise (not including tariffs) linked with three categories of processes - documentary compliance, border compliance, and domestic transport - during the complete cycle of importing or exporting a shipment of goods (The World Bank 2019a).	Similar to the cost to import variable, this variable can be interesting for Firm F as it gives an idea of ease and costs of importing goods to that country.	5%
Short-Term Political Risk Index	Measures the likeliness of a risk caused by a political event affect an investment's climate stability, within a short timeframe of up to 2 years. The index ranges from 1 to 7, 7 indicating a higher risk (Fitch Solutions 2020).	Risky political actions can directly impact firms. An example could be new initiatives for sustainability that drastically increase the spending for a firm's environmental responsibility.	3%
Long-Term Political Risk Index	Measures the likeliness of a risk caused by a political event affect an investment's climate stability, within a longer timeframe of over 1 year. The index ranges from 1 to 7, 7 indicating a higher risk (Fitch Solutions 2020).	Political risk can lead to political instability leading to reduced investing and economic activity. Uncertainty can hike borrowing costs as well. Furthermore, cross-national relations could be affected reducing trade.	Eliminated (high correlation)
Economic Freedom Index	Assesses the ability of an individual to have control over their work and property. This takes into account 4 different pillars: rule of law, government size, regulatory efficiency and open markets. The index ranges from 1 to 100, 100 a higher economic freedom (The Heritage Foundation 2023).	Taking into account sub-variables such as freedom to trade, GDP per capita, government structure and the legal system to name a few can indicate the constraints a Firm could be liable to. A business starting in a new country does not want to be blocked from enacting its business strategy to its maximum potential.	4%
Time Required to Start a Business	Number of days required to complete all the legal procedure in order to be able to start a business (The World Bank 2019b).	The faster a company is able to start a their business activities, the less opportunities they may miss out on.	2%

Time Spent Dealing with Requirements of Government Regulations	The percentage of a senior management time spent managing the obligations enforced by government regulations, including handling taxes, customs, labor regulations, licensing and registration, engaging with officials, and filling out forms (The World Bank n.d.k.).	An SME may spend a significant amount of time and resources on these tasks which can be challenging and time/resource consuming. These regulations are subject to change therefore keeping up to date may need consulting with legal and regulatory experts.	Eliminated (not enough data)
Cultural			
Cultural Distance to Portugal	The extent to which a country's norms and values diverge from the other. This index takes into account 6 different dimensions: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation and indulgence (Hofstede Distance n.d.).	High cultural similarity will ease business operations in the new market, as the more similar two cultures are, the less product and marketing adaptations need to be made for the new market. Additionally, business relations are easier to manage when two cultures are similar.	4%

Appendix 20 - Little's MCAR Test

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Appendix 21 - Missing Value Analysis

	Univariate Statistics						
	N	Mean	Std. Deviation	Missing Count	Missing Percent	No. of Extremes ^a	
						Low	High
EconomicFreedomIndex	161	59.729	11.8441	32	16.6	3	0
TimeRequiredtoStartaBusiness	175	19.702	26.4941	18	9.3	0	17
TimeSpentDealingwithRequirementsofGovernmentRegulations	5	14.240	4.7205	188	97.4	0	0
CulturalDistancetoPortugal	113	1.60144934	1.02718005	80	41.5	0	4
GovernmentEffectivenessIndex	183	-.034703407	1.02096757	10	5.2	0	0
BusinessRegulatoryEnvironmentRating	61	3.000	.6455	132	68.4	1	0
EaseofDoingBusiness	174	63.061	14.1458	19	9.8	2	0
TradingAcrossBorders	173	72.379	21.2014	20	10.4	2	0
ContainerPortTraffic	106	7271647.74	24775162.6	87	45.1	0	11
LogisticPerformanceIndex	153	2.86491593	.566050180	40	20.7	0	0
DistancetoPortugal	191	5631.529	3083.9467	2	1.0	0	1
PopulationTOT	185	42299485.8	151406734	8	4.1	0	19
Population1565Growth	185	0.4165%	0.33381%	8	4.1	0	6
ofUrbanPopulation	185	60.6096%	22.81032%	8	4.1	0	0
NumberofHouseholds	182	12456648.9	46865334.3	11	5.7	0	25
GDP	171	4.6870E+11	1.9676E+12	22	11.4	0	20
GDPpercapitaPPP	168	20126.1264	20659.6890	25	13.0	0	5
GDPpercapitaGrowthannual	171	6.3210%	5.26440%	22	11.4	0	9
ConsumerConfidenceIndex	61	43.4049180	30.0430420	132	68.4	0	0
TotalTaxandContributionRate	174	40.6586%	20.65600%	19	9.8	0	5
AdjustedNetNationalIncomepercapita	160	9117.50575	12692.7757	33	17.1	0	21
CosttoImportBorderCompliance	145	469.401516	354.357168	48	24.9	0	8
InflationConsumerPrices	146	9.6482%	35.03275%	47	24.4	0	14
FurnitureMarketRevenue	145	4505931034	2.0071E+10	48	24.9	0	26
FurnitureMarketRevenueGrowth	127	27.0575%	20.11227%	66	34.2	0	4
ProjectedFurnitureMarketRevenueGrowth	135	28.0078%	23.49972%	58	30.1	0	5
DensityofRoadNetwork	159	1.171	3.3656	34	17.6	0	10
PortInfrastructureQuality	193			0	.0		
StartupProceduretoStartaBusiness	175			18	9.3		
ShortTermPoliticalRisk	192			1	.5		
LongTermPoliticalRisk	192			1	.5		

a. Number of cases outside the range (Q1 - 1.5*IQR, Q3 + 1.5*IQR).

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Appendix 24 – Excluded variables due to high correlation

Variable 1	Variable 2	Person Correlation
Number of Households	Population TOT	0.958
Number of Households	Container Port Traffic	0.862
Furniture Market Revenue	GDP	0.942
GDP per capita PPP	Adjusted Net National Income per capita	0.903
GDP per capita PPP	Government Effectiveness Index	0.798
Logistic Performance Index	Adjusted Net National Income per capita	0.777
Government Effectiveness Index	Adjusted Net National Income per capita	0.845
Logistic Performance Index	Government Effectiveness Index	0.769
Government Effectiveness Index	Long Term Political Risk	-0.759
Economic Freedom Index	Government Effectiveness Index	0.815
Economic Freedom Index	Long Term Political Risk	-0.781
Short Term Political Risk	Long Term Political Risk	0.875
JUSTIFICATION FOR EXCLUSION		
Population total	Population total was excluded due to its high correlation with number of households that provides similar information and only the second variable was considered.	
Container Port Traffic	Container port traffic was also highly correlation with number of households thus it was excluded.	
GDP	GDP was excluded due to its high correlation with Furniture Market Revenue that provides similar information and therefore only the second variable was considered.	
Adjusted Net National Income per capita	Adjusted Net National Income per capita was excluded since it was highly correlated with more than one variable.	
Government Effectiveness Index	Government Effectiveness Index was excluded since it was highly correlated with more than one variable.	
Long Term Political Risk	Long Term Political Index was excluded since it was highly correlated with more than one variable.	

Back to Pearson Correlation

Appendix 25 - Standardization, Rescaling, Inversion

Steps	Formulas
Standarization(z-score)	$\frac{X_{ij} - \bar{X}_j}{\sigma_j}$ Where, X represents the observed value; $\bar{X}_j$ is average score of country j on dimension I; σ_j is the standard deviation of country j on dimension i.
Rescaling	$\left[\frac{X_{ij} - \min_i}{R_i} (99) \right] + 1$ Where, X_{ij} is average score of country j on dimension I; $\min_i$ is the minimum value for dimension I; R_i is the range of dimension i.
Inversion	$\left[\frac{\max_i - X}{\max_i - \min_i} (99) \right]$ Where, X represents the observed value; $\min_i$ is the minimum value observed for the dimension I; and $\max_i$ is the maximum value observed for the variable.

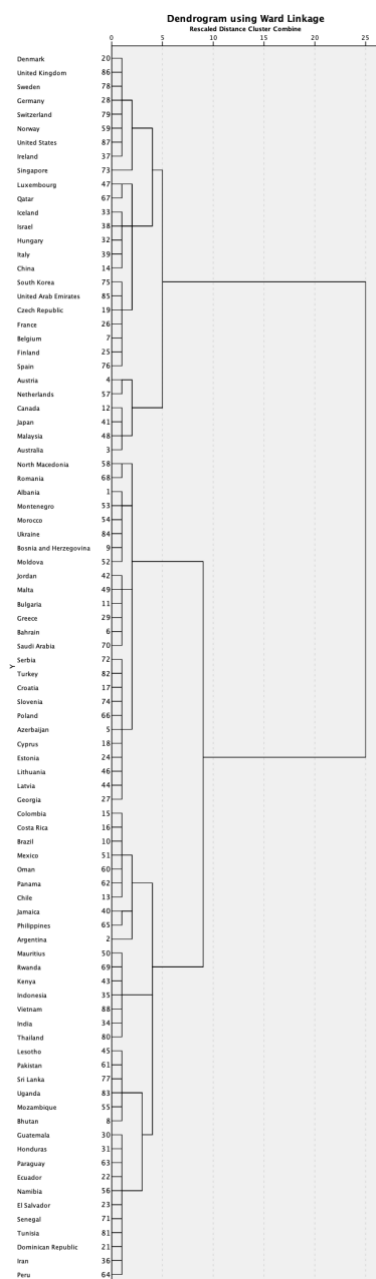
Back to Standardisation, Rescaling, and Inversion; Cavusgil, Kiyak and Yeniyurt 2003

Appendix 26 - Variables Used for the Cluster Analysis

Market Potential	% of Urban Population
Economic	GDP per Capita PPP Cost to Import, Border Compliance Consumer Confidence
Infrastructure & Geography	Logistic Performance Distance to Portugal
Cultural	Cultural Distance
Ease of Doing Business	Ease of Doing Business

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Appendix 27 - Dendrogram from Cluster Analysis



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Appendix 28 - Country Clusters

Cluster 1	Cluster 2	Cluster 3	Cluster 4
Albania	Argentina	Australia	Azerbaijan
Bosnia and Herzegovina	Jamaica	Austria	Bahrain
Moldova	Philippines	Canada	Bulgaria
Montenegro	Cluster 6	Japan	Croatia
Morocco	Bhutan	Malaysia	Cyprus
North Macedonia	Lesotho	Netherlands	Estonia
Romania	Mozambique	Cluster 7	Georgia
Ukraine	Pakistan	Brazil	Greece
Cluster 5	Sri Lanka	Chile	Jordan
Belgium	Uganda	Colombia	Latvia
China	Cluster 9	Costa Rica	Lithuania
Czech Republic	Dominican Republic	Mexico	Malta
Finland	Ecuador	Oman	Poland
France	El Salvador	Panama	Saudi Arabia
Hungary	Guatemala	Cluster 8	Serbia
Iceland	Honduras	Denmark	Slovenia
Israel	Iran	Germany	Turkey
Italy	Namibia	Ireland	Cluster 10
Luxembourg	Paraguay	Norway	India
Qatar	Peru	Singapore	Indonesia
South Korea	Senegal	Sweden	Kenya
Spain	Tunisia	Switzerland	Mauritius
United Arab Emirates		United Kingdom	Rwanda
		United States	Thailand
			Vietnam

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Appendix 29 - Country Ranking

Country	Ordered Ranking
Netherlands	1
United States	2
Luxembourg	3
Singapore	4
Canada	5
Malta	6
Romania	7
Belgium	8
Croatia	9
Estonia	10
Sweden	11
China	12
Switzerland	13
Spain	14
Slovenia	15
Ireland	16
Israel	17
Chile	18
France	19
Austria	20
Denmark	21
Poland	22
Norway	23
Hungary	24
Germany	25
Finland	26
Japan	27
Montenegro	28
Albania	29
El Salvador	30

Country	Ordered Ranking
Czech Republic	31
Serbia	32
Lithuania	33
Cyprus	34
Italy	35
United Kingdom	36
Malaysia	37
Turkey	38
South Korea	39
Bulgaria	40
Greece	41
Panama	42
Qatar	43
United Arab Emirates	44
Bhutan	45
Iceland	46
Oman	47
Bahrain	48
North Macedonia	49
Morocco	50
India	51
Dominican Republic	52
Azerbaijan	53
Argentina	54
Saudi Arabia	55
Georgia	56
Latvia	57
Jordan	58
Moldova	59
Australia	60

Country	Ordered Ranking
Bosnia and Herzegovina	61
Guatemala	62
Brazil	63
Ukraine	64
Costa Rica	65
Honduras	66
Lesotho	67
Thailand	68
Colombia	69
Vietnam	70
Senegal	71
Mexico	72
Rwanda	73
Indonesia	74
Peru	75
Iran	76
Namibia	77
Philippines	78
Mozambique	79
Paraguay	80
Mauritius	81
Tunisia	82
Ecuador	83
Kenya	84
Uganda	85
Pakistan	86
Sri Lanka	87
Jamaica	88

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Appendix 30 - Top Five Countries

**In green the countries selected*

Country	Rank
Netherlands	1
Luxembourg	3
Singapore	4
Sweden	11
China	12
Ireland	16
Denmark	21
Norway	23
Hungary	24
Finland	26
Czech Republic	31
Italy	35
South Korea	39
Qatar	43
United Arab Emirates	44
Iceland	46

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Appendix 31 - PESTEL Analysis Singapore

P
• Singapore is ruled through a parliamentary democracy and is considered to be one of the most politically stable countries of the Southeast Asia as well as the fifth least corrupt country in the world, according to Transparency International Corruption Perceptions Index (2022) (How and What 2023). • It is an active member of multiple international organizations such as IMF, World Bank, UN and Common Wealth (How and What 2023). • Despite the countries political stability and efficiency, Singaporeans face significant limitations when it comes to freedom of expression, association and peaceful assembly (How and What 2023).
E
• Singapore's open and trade-driven economy is developing extremely fast, being expected to achieve a GDP of over € 400 billion in 2024 (How and What 2023). • Singapore is one of the biggest beneficiary of foreign direct investment (FDI) in the world. Accordingly, the effort from the government on attracting FDI is one of the main explanations for the economy's growth (How and What 2023). • Singapore in part of multiple free trade agreements and is one of the most relevant exporters in the world, being top exporter of goods such as computers, refined petroleum, gold, etc (How and What 2023). • The country's strategic geographic location and transportation network are another factors that contributed its economic growth, being home to one of the busiest ports and airports of the world (How and What 2023). • The economic activity is very diverse, however industries such as electronics, chemicals, financial services and biomedical services are key (How and What 2023).
S
• With a population of 5.9 million people, the country comprises a multitude of ethnic groups such as Chinese, Malay, Indians and Eurasians. This can also be reflected in terms of languages as English, Malay, Mandarin and Tamil are considered official languages (How and What 2023). • Singapore is known for its remarkable education system that only promotes bilingualism but also the pursue of Mathematics and Science, leading to a high literacy level. Accordingly, the country works with eligible workforce (How and What 2023; Wondershare n.d.). • Demographically, the country faces some challenges such as high population density, high costs of living, high divorce rates and ethnic intolerance (How and What 2023).
T
• Singapore is considered the Asian tech capital, and accordingly, 80% of the top 100 tech companies in world have an established presence in the country (How and What 2023). • The country has a well established technology infrastructure (Swot and Pestel Analysis n.d.). • Given the high number of top tech companies in the country, the demand for workforce is significantly higher than what the country has to offer, being challenging to hire IT professionals (Swot and Pestel Analysis n.d.).
E
• Singapore's environmental issues are mostly in regards to high level of industrial pollution, rising sea level and limited water resources (Swot and Pestel Analysis n.d.).
L
• Singapore has a business friendly environment having a transparent tax regime, strong intellectual property protection and efficient legal framework for employment (EDB n.d.b).

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Singapore Furniture Industries Council (SFIC)	Established in 1981, SFIC is the representative body in the furniture industry in Singapore. The association has as its main focus internationalization, design development, business innovation, digitalization and sustainability in order to be able to empower its members to stay competitive. The council represents 95% of the established furniture manufacturers in Singapore (SFIC n.d.).
Singapore Furniture Associations (SFA)	SFA is another relevant representative body in the furniture industry as it bridges its member to other contacts within the industry both nationally and internationally (Singapore Furniture Industry n.d.).

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Appendix 33 - Furniture Fairs in Singapore

International Furniture Fair Singapore (IFFS)	Supported by the ASEAN Furniture Industries Council (AFIC), Design Singapore Council, International Enterprise (IE) Singapore, Singapore Exhibition and Convention Bureau and SPRING Singapore, this fair remains the best channel through which both local and international companies are able to pierce the global market (International Furniture Fair Singapore n.d.).
Design Fair Asia (FIND)	FIND is attractive fair that displays a wide range of contemporary designs that connects suppliers of furniture, lighting, kitchen, bathroom, and homeware to the appealing Asian market (FIND Design Fair Asia n.d.).
Asia Pacific Furniture Fair (APFF)	Supported by Singapore Furniture Association (SFA), APFF aims to provide a space for SFA member to exhibit their products and services to the market (Asia Pacific Furniture Fair n.d.).

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Appendix 34 – Singapore’s Competitor Analysis

The Wooden Platform	The Wooden Platform is a customer-oriented company accredited with multiple licenses such as HDB and BCA, that focusses its business in offering high-standards of design and reliability (The Wooden Platform n.d.).
The Green	Founded and based in Singapore, The Green, offers a wide range of furniture pieces while maintaining affordable prices. The company aims to bring its customers’ designs to life all while maintaining quality (The Green Furnishings n.d.).
KODA	KODA offers an extensive, luxurious and sophisticated product portfolio directed to both trade and end consumers. The company claims to differentiate itself through its design expertise, technical concepts, practical craftsmanship (KODA n.d.).
Castlery	Castlery positions itself as a company that offers expensive designs at affordable prices for everyone. The company puts efforts in delivering good quality and durable products that can easily fit any personal style. Castlery oversees the entire process, from build to delivery, to guarantee the highest quality experience at the best price (Castlery n.d.).
IKEA	Known for its affordable prices, IKEA is a furniture store that offers a multitude of services such as home delivery, assembly, installations and sewing services (IKEA 2023).
Commune	Originated in Singapore, Commune is a design-savvy homegrown furniture design and lifestyle company that values quality, craftsmanship and authenticity. The furniture is manufactured in-house factories in Malaysia and Vietnam (Commune n.d.).

Hoffen	Hoffen is the trademark brand of the JC Packer's System Pte Ltda, a firm of custom-made wardrobes and kitchens. Hoffen's products are developed with the best European technology and can be found in many private homes and international projects (Hoffen n.d.).
Panaplast	Panaplast distinguishes itself from the other competitors through its extensive customization options and materials exclusively from Japan (Panaplast n.d.).
Cheng Meng Furniture	Established in Singapore, the Cheng Meng Furniture Group operates in the B2B segment of the fit-out industry and produces custom designed furniture and luxury interiors. Its portfolio contains a wide variety of high-quality custom-made furniture (Cheng Meng Furniture n.d.).
LY Corporation Limited	With 40 years in the furniture industry, LY Corporation Limited is one of the biggest manufacturers and exporters of wooden bedroom furniture in Malaysia (LY Corporate Limited n.d.).
Crown Construction	Established in Singapore in 1997, Crown Construction specializes in high-quality construction services including furniture manufacturing. The firm has well-trained workforce that is able to communicate in English (Crown Construction n.d.).
Star International	Star International is a furniture manufacturer and retail group that works with anyone in need of furniture products in bulk. The group has an established retail presence in Singapore, Taiwan and Malaysia catering all types of customers with its 7 distinct brands (Star International n.d.).

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Appendix 35 - Definition of Entry Modes Under Analysis

Direct Exportation	The use of direct exports means that Firms would be more independent incorporating its activities into the international market. Therefore, it would enjoy lower variable costs but endure higher fixed costs (Elango and Pangarkar 2021).
Indirect Exportation	Indirect exports are associated with low fixed costs but high variable costs, the lower fixed costs are associated with gaining economies of scale and scope. The high variable costs are linked with having to pay fees to the third-party intermediary used (Elango and Pangarkar 2021).
Management contracting	Management contracts are created to ensure the contractor progression of the contract which is monitored between the company and investors (GMI 2022).
Contract manufacturing	Contract manufacturing is the making of an agreement between a contract manufacturer and a firm to produce and ship the products of that firm (Mariadoss 2018).
Franchising	Franchising is able to distribute goods without the liability of investment by licensing another firm's business model or name to distribute those goods (Mariadoss 2018).
Licensing	Licensing enables the rights and/or resources of one firm in exchange for payment from the second firm rights such as patents and copyrights (Mariadoss 2018).
Strategic Alliances	Strategic alliances are a committed relationship between two autonomous firms or organisations to achieve a mutual or bi-neutral beneficial goal (He et al. 2020).
Joint Venture	A joint venture is when two or more firms join resources, profits, losses and expenses through collaborating on a mutually beneficial project (bdc n.d.).

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Appendix 36 - Analysis of the Alternative Entry Modes

	Direct Exportation	Contract Manufacturing
Control and Flexibility	High - Direct Exportation is a strategy that provides a great amount of control for the firm. Firm F would be able to control its business activities domestically as well as abroad. During this process they would have total responsibility over the execution of the strategy.	Medium - This strategy offers less freedom to exit. However, it is relatively simple to close a contract with the partner manufacturer. Firm F would lose a great amount of control as the partner manufacturer would be in charge of the delivery and finished product. It would also have to choose a manufacturer with a capacity for operating in line with the growth of Firm F.
Resource Commitment	Low - Taking on exportation as a strategy will mean a low resource commitment from Firm F. They must ensure that their supply meets the market demand abroad. They will only need to deliver the product to its retailers or an intermediary warehouse to distribute the product. There is less responsibility on the distribution aspect.	Medium to Low - Resource commitment would rise moderately since Firm F would have to concentrate operations abroad to ensure the product is made as it should be. The contract manufacturer may have unique competencies in terms of technology and techniques to give an edge.
Net Gain (Revenues - Costs)	High - Firm F would enjoy the totality of its earnings from sales as it would not be incurring the costs of intermediaries or agents to facilitate the process. It is important that Firm F cover those steps that would otherwise be taken by those intermediaries or agents in the operational chain.	Medium - In this strategy Firm F would be incurring the costs of the contract manufacturer taking a cut for the production of the product. It enables Firm F to operate from abroad without having to move their own operation into the new country, thus avoiding more costs.
Risk	Medium to Low - Operations will be conducted domestically as well as in the new country therefore stretching Firm F thinner. This could lead to more risk in terms of stock control and distribution for demand and scenarios for lack of demand.	Medium to High - There is a risk of giving the contract manufacturer a hold onto the product of Firm F. This could mean know-how is shared and could be used by the contract manufacturer selfishly.
Speed of Implementation	Medium to High - This entry mode requires less commitment is needed therefore finding a strong chain of retailers to sell to and a potential warehousing partner will ensure a higher speed of implementation.	Medium to High - Similarly to exportation, this strategy only requires a contract with a partner who is already implemented.

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Appendix 37 - Furniture Fairs in the Netherlands

Design District	Trade fair for interior design showcasing 200 brands for 3 days and taking place in May in Rotterdam. Last year, 5,500 visitors attended the fair, with 43% being (interior) architects. The event is solely accessible to professional, apart from the last exposition day. Stands have a maximum size of 30m ² , whereas one m ² costs €240 per m ² (Puur Design Productions n.d.).
vt Wonen & Design Beurs	This living & design fair taking place in the beginning of October over the course of 6 days. Even though this trade show mainly addresses the end-consumer, approximately 5,000 professionals visit the event, portraying a good opportunity for Firm F to build a network in the Netherlands (DPG Media 2021)

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Selection Criteria

Appendix 38 - Income Statement of the Project

Income Statement	2023	2024	2025	2026	2027	2028
Revenues	€ 272,224.98	€ 304,360.11	€ 336,631.40	€ 370,528.44	€ 408,112.70	
Material costs	€ 123,350.89	€ 136,710.91	€ 150,763.55	€ 165,733.45	€ 182,472.91	
Gross Profit	€ 148,874.08	€ 167,649.20	€ 185,867.85	€ 204,794.99	€ 225,639.79	
New Machine	€ 100,000.00					
Transportation & Logistic costs	€ 15,418.86	€ 17,088.86	€ 18,845.44	€ 20,716.68	€ 22,809.11	
Marketing Cost	€ 30,000.00	€ 30,000.00	€ 30,000.00	€ 30,000.00	€ 30,000.00	
Agency cost	€ 23,139.12	€ 25,870.61	€ 28,613.67	€ 31,494.92	€ 34,689.58	
EBT	-€ 100,000.00	€ 80,316.10	€ 94,689.73	€ 108,408.74	€ 122,583.39	€ 138,141.10
Taxation	€ 16,866.38	€ 19,884.84	€ 22,765.84	€ 25,742.51	€ 29,009.63	
Net Income	-€ 100,000.00	€ 63,449.72	€ 74,804.89	€ 85,642.90	€ 96,840.88	€ 109,131.47

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Appendix 39 - WACC

WACC estimation						
Historic cost of debt	2017	2018	2019	2020	2021	
Short-term	€ 3,823,225	€ 3,058,217	€ 2,616,515	€ 1,228,578	€ 1,235,609	
Long-term	€ 408,746	€ 974,956	€ 1,195,416	€ 1,748,567	€ 1,767,901	
Total debt	€ 4,231,971	€ 4,033,173	€ 3,811,931	€ 2,977,145	€ 3,003,510	
Interest expenses	€ 40,362	€ 48,883	€ 42,820	€ 14,276	€ 9,611	
Cost of debt	0.95%	1.21%	1.12%	0.48%	0.32%	
Average cost of debt	0.82%					
Cost of equity						
Risk-free rate	2.689%					
Beta unlevered	0.71					
Beta levered	1.54					
Risk premium	6.20%					
Cost of equity	12.2%					
WACC						
	2021					
Equity	2,041,659					
Debt	3,003,510					
E+D	5,045,169					
Tax Rate	21.00%					
WACC	5.34%					

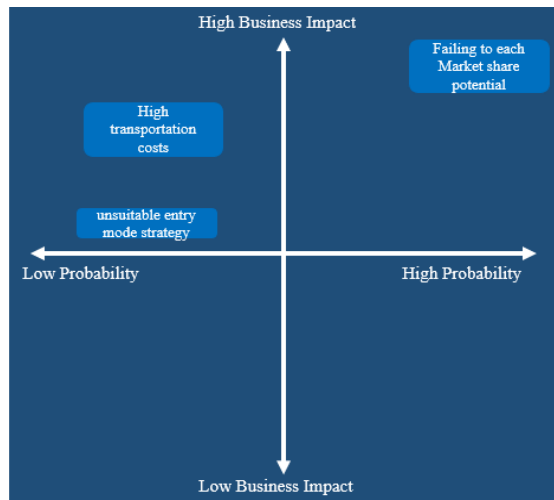
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Appendix 40 - NPV, IRR, PI and Payback Period calculations

NPV	2023	2024	2025	2026	2027	2028
CapEx	€ (100,000)					
Net Income	€ 63,450	€ 74,805	€ 85,643	€ 96,841	€ 109,131	
Net Working Capital	€ -	€ -	€ -	€ -	€ -	
Delta Working Capital	€ -	€ -	€ -	€ -	€ -	
Salvage Value	€ -	€ -	€ -	€ -	€ -	
FCF	€ (100,000)	€ 63,450	€ 74,805	€ 85,643	€ 96,841	€ 109,131
DFCF	€ (100,000)	€ 60,234	€ 67,416	€ 73,272	€ 78,654	€ 84,145
NPV	€ 179,576					
IRR	69.94%					
Profitability Index	4.30					
Payback Period	Year 2					

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Appendix 41 - Operational Risk Map



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