



## CEMS Work Project

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### “Food Supplements: An Expansion Strategy for Europe”



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MSc. Economics 493  
CEMS MIM 254

Japan  
1<sup>st</sup> August 2013

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# I. Context

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## A. The Client: Kowa Company

Kowa Company was founded as a cotton clothes wholesaler in 1894 in Nagoya, Japan. Through the course of the last century, Kowa Company has evolved and diversified its core business forming the Kowa group, operating both as a manufacturer and a trading company. This group is currently engaged in the health and medical industries, chemical and industrial production, environmental & energy conservation as well as community development.

Kowa can still be considered a traditional and family managed company. The current president and CEO of the company, Yoshihiro Miwa, replaced his father (who held the position for 32 years) in 1991. As of March 2013, Kowa Company reports 1843 employees with a capital of 3,850 million yen. In this same year, their sales revenues accounted for 220,321 million yen (non-consolidated), with their biggest deals related to optical devices, analgesics and face-masks (a widespread habit for a generally health conscious population). Kowa's reputation in Japan is quite prestigious. Their positioning strategy in the Japanese as well as existing foreign markets is that of a premium brand, with quality ingredients and packaging - a perception fueled by the fact, in general, their prices are above the market average.

Besides their headquarters in Nagoya, Kowa opened various branches across Japan, namely Osaka, Fukuoka, Tokyo, and also acquired manufacturing factories in Fuji and Hamamatsu. Their pharmaceutical business has already been expanded to the United States, Europe and Asia, focusing mainly on dietary supplements.

## B. The Food Supplements Market: Japan & Europe

Food supplements (or dietary supplements) are concentrated sources of ingredients intended to fulfill a nutritional or physiological gap in the regular diet. Furthermore, food supplements can be divided in two main categories, vitamins and minerals and dietary supplements (VDS).

As the increase of private and public health care costs becomes a burden for governments, the global consumption of food supplements becomes more relevant. Indeed this fact is forcing governments and private households to take a different approach towards health care: preventive care is currently gaining importance as evidenced by the 22% global increase of VDS expenditure per capita between 2005 & 2010 (Appendix 1).

With regards to competition, the global VDS market remains quite fragmented, with only 15 companies standing out, adding a total market share of 25%.

In Japan, the market for food supplements is already at a mature stage, especially with regards to vitamins. In 2012 the total VDS market reported a decline of 0.3% in value. On the other hand, in Europe, the food supplement market is experiencing noticeable growth, especially driven by Eastern European countries.

Other important aspects to take into consideration in this market are the regulatory and administrative procedures involved when launching a new supplement. The ease of regulatory landscape also varies from country to country. In Japan, most VDS are considered foodstuffs, which, when meeting certain requirements, become food items with a specific nutritional claim. In the European Union, there is a clear distinction between vitamins and minerals, and botanicals (Appendix 2). The procedures regarding botanicals are currently being revised and healthcare claims are now more difficult to make on those products (Leatherheadfood, 2013). Furthermore, the regulations in the EU involve more uncertainty, as regulations are currently undergoing harmonization across member states and thus are still subject to considerable variation.

### **C. Current Client Situation & Business Project Challenge**

Given the decline in consumption of dietary supplements in Japan, combined with a stagnating structural economy, the internationalization of this business is relevant for the sustainability of Kowa's business model. As over-the-counter drugs require additional procedures in order to be launched in international markets, Kowa expects to start its expansion by creating brand recognition in the food supplements business and recently developed a formal international expansion strategy. They launched two supplements in the United States, where they hold a subsidiary, and are planning on launching a new supplement in Germany at the end of 2013.

Along the same train of thought, the proposed business project was to “develop an expansion strategy for a dietary supplements business in arbitrarily assumed country A”. This strategy should take into consideration the adaptation of the business plan to the local culture, a compelling story supporting the product concept and development and an indication of future market profitability. Furthermore, the expansion should also take into consideration the core competencies of Kowa Company.

For three months, the business project mission given by the company, was conducted in line with the vision we had for Kowa: “to build brand recognition in a growing European market, paving the way for further expansion into Europe”

Taking into consideration both mission and vision, the expansion strategy for the European market was designed and divided in three parts. Firstly, a market study and analysis of European countries was done in order to identify the country with highest market potential. Secondly, an entry marketing plan was prepared: after analyzing the country market in question, a product offering and media and sales strategy was designed as a way of building brand recognition. Thirdly, the execution plan involved the elaboration of both value chain and operational strategies. Additionally, a financial plan and a risk assessment were developed in order to complete and prove the sustainability of the overall business plan.

Our final conclusions and recommendations were based on information gathered from multiple data sources, semi-structured interviews, an internally conducted survey and benchmarks of best practices in the pharmaceutical industry.

## **D. Summary of Conclusions**

### **i. Market Research**

After in-depth market research, selection criteria were developed which facilitated the determination of the country presenting the biggest potential for future growth in the food supplements market: Poland (Appendix 3). Over the last few years, Polish people have become more health conscious, shifting their approach towards more preventive health behavior. Additionally, Poland is one of the fastest growing countries in the EU, with high potential growth in the VDS market. In fact, the food supplements market is expected to grow annually by an average of 4.1% between 2013 and 2017 (Euromonitor International, 2011). Being at the center of the Europe, Poland is seen as a strategic foothold for Kowa’s future expansion into Eastern Europe.

### **ii. Marketing Plan**

After conducting 10 semi-structured interviews and one survey, a market gap was identified, in the perceptions of Polish people, for products able to healthily sustain their daily energy levels. This perception comes in contrast with products such as energy drinks or coffee, which provide high levels of energy but are perceived as unhealthy given their

rapid dipping effect<sup>1</sup> 2 hours after consumption. “Bushido” was the concept developed in order to capture the identified market gap (Appendix 4).

The desired product image seeks to make use of the Japanese heritage of Kowa and its connotations of herbal and healthy rituals. Furthermore the product design attempts to evoke an association that was mentioned by most of our Polish interviewees, the image of the Japanese person as a high performer - the modern samurai (Appendix 5). The statement proposition of this concept “a continuous, healthy boost, energizing body & mind”, targets health conscious individuals between 25 and 40 years old, living in urban areas with a busy and demanding lifestyle. Additionally, “Bushido’s” product composition was determined tactically in order for Kowa to be able to make legitimate health claims for reduced fatigue (Appendix 6). The product is positioned as a premium good, differentiated by the ingredient quality and packaging using premium materials, sold at a price of 40 Zloty. The promotion strategy using pharmacy networks, and online channels, was designed to directly capture the target group. Finally, the size of the potential market for this product was estimated to be in the region of 1.1 million Polish citizens.

### **iii. Execution Plan**

The high integration of the supply chain, located in EU territory, is expected to bring more flexibility to deal with possible disruptions and more loyalty from a single partner, limiting the entry risks. Additionally, using local manufacturers’ know-how will allow Kowa products to be tailored to specific market conditions. Laboratoria Natury, a contract manufacturer in Poland, was identified as a possible partner, handling all production activities, from sourcing to packaging and distribution. Additionally, this manufacturer already has contacts with the two largest pharmaceutical retailers, “Mediq” and “Dbam o Zdrowie” which hold a combined market share of approximately 75%, and are expected to be the primary retailers of this product. Additionally, a representative office should be opened in Poland, close to Warsaw, in order to handle daily operations, such as marketing and communication, and to serve as a strategic location for further European expansion.

The financial plan, built on a forecast for demand, indicated that the break-even point should be reached in 5 years with the first profits observed after 2 and a half years (Appendix 7). In this plan we took into consideration the importance of setting high markups for pharmaceutical retailers, as they play a major role for Polish people as health consultants (Appendix 8).

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<sup>1</sup> Rapid dipping effect is a term coined by the energy drinks industry to represent the fatigue after caffeine high.

## II. Reflection on Work Done

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In general, the approach taken in order to complete this business project followed the steps described in the previous section. However, given the complexity of dimensions involved, it was difficult for us to assess how detailed each one of these dimensions should be. As a group, and following the company's instructions, we provided more emphasis on the marketing plan, specifically in finding a unique offer that could target a niche market in Poland. This second phase of the business project was quite straightforward, with minor changes along the way. For that purpose, we conducted extensive interviews with Polish people in order to identify unmet needs in the food supplements market. We derived a matrix of perceptions for already existing products in the market and concluded that there was an opportunity to create brand recognition by creating value to Polish consumers. After a few weeks, we came up with a product concept that would possibly address this Polish need, "Bushido", and provided evidence towards this fact via a conducted survey. Additionally, the marketing and sales strategy was easy to execute given that we had a clear idea of the target customer for our product. The third phase of the business project, the execution plan, was subject to certain revisions and will be the focus of the next section.

### A. Original Approach

#### i. Supply Chain Fragmentation

The original approach attempted to replicate Kowa's expansion into the German food supplements market, which we used as a benchmark.

The strategy was to build on the healthy and productive image of Japan for our marketing strategy, thus we thought about sourcing and mixing the ingredients in Japan with already established partnerships. After mixing the ingredients in Japan, the product would be transported in bulk from Japan to Poland – given that in our evaluation we deemed the existing transport networks as satisfactory (Appendix 9). The final product would then have been encapsulated in a Polish OEM, in Warsaw, and finally placed in premium packaging as a final step. The distribution channels were ensured from Warsaw to the main cities of Poland, which is the main location of the target group. Finally, the marketing plan would have been outsourced to a Polish agency, which would have better knowledge of the local market needs.

The strategy of leveraging the supply chain on existing partnerships was chosen for the following reasons

- Ensure quality standards of existing partnerships in Japan thus guaranteeing the image of Kowa as a premium brand.
- Ensure partnership trust and know-how of the production process.
- Possibility of higher negotiation margins due to the long-term relationship between Kowa and their contract manufacturers.
- Ensure good communication with the partners: The potential pitfalls of the negotiation and communication processes would be eased given that they would be carried out within the same cultural context.

Additionally this strategy would still ensure

- Cutting tax costs, when importing bulk products instead of finished products, by a rate of 6%.

## **ii. Risk Assessment**

After conducting a risk assessment of our business project, we realized that certain parameters were not taken into consideration in our strategy and could compromise the entire expansion. Those risks were categorized as systematic, inherent to the entire market and non-systematic, which are investment specific.

Furthermore, the systematic risks were again split into two concerns

- Policies and Regulations – Recent changing regulations regarding food supplements could impede imports of certain ingredients into Europe.
- Economical risks – During the course of 2013, Japan and the EU have been undergoing several rounds of negotiation regarding free trade agreements without reaching a formal consensus. In fact, the previous agreement was subject to some disagreements, especially with regards to non-tariff barriers in Japan. The European commission warned Japan that Europe could “pull the plug” on negotiations if Japan does not remove those trade barriers (European Commission Memo, 2013).

Likewise, the main systematic risks were also divided in two

- Value Chain – The fragmentation of the value chain in two separate countries would bring low flexibility to deal with disruptions. In fact, when considering issues such as the blockage of imports from Japan to the EU, this risk would become even more prominent.
- Marketing risks – Given the geographic distance between the two markets Kowa would risk having low control over Polish partners, in charge of encapsulating, packaging and marketing. With low control over those partners, the quality of Kowa’s



products and the effective marketing message cannot be ensured, possibly damaging Kowa's image in the Polish market.

## **B. Evolved Approach:**

Given the outcome of the risk assessment, we decided to completely overhaul the operational strategy taking into consideration the various issues we identified.

### **i. The Supply Chain as a One-Stop Solution**

First, in order to counter the above-mentioned risks, we decided to locate the entire value chain inside the EU territory. We realized that the ingredients we wanted to include in our product, green tea, schisandra and vitamins, were also available in Europe and at the necessary scale for production. Thus, sourcing and producing in the EU territory would prevent the systematic risk identified in the previous section. Furthermore, we realized that having a Polish partner handling the entire supply chain would be strategically advantageous for control and flexibility issues.

There are a large number of certified OEM producers in Poland capable of handling the entire value chain. We thus, identify a possible set of Polish partners using relevant indicators with the following criteria (Appendix 10).

- Market Experience – Preference was given to older companies with rich experience in the Polish market.
- Certification – Strong preference was given to higher levels of quality certification.
- Location – Given the central location of Warsaw, preference was given to partners close to this city. This strategy was mainly directed at reducing transportation costs to the largest potential customer base.
- Expansion Opportunities – Preference was given to partners with existing intake format variety, market segment expansion and international expansion opportunities. This would increase Kowa's potential for future expansions, using the same supplier for future contracts.

Based on these criteria we identified a preferred producer. Laboratoria Natury is a Polish company with more than 10 years of market experience. They are pharmaceutically certified<sup>2</sup>, and their range of services varies from creation and launch of private labels, sourcing, mixing, production, encapsulation, packaging and they even provide assistance with administrative procedures. Additionally, they offer services like product development and marketing and have already established contacts with the main pharmaceutical

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<sup>2</sup> ISO 9001:2000 and HACCP (a GMP and GHP certificate).

retailers in Poland: Midq and Dbam o Zdorivie. As Laboratoria Natury already has offices in Slovakia, Serbia, Czech Republic and Hungary, the company would provide an opportunity for Kowa's future expansion into eastern European markets.

## **ii. The local office as a strategic role**

The second strategy we tailored to counter the identified risks was the placement of a local office in Poland, close to the OEM partner. This office would encompass both operational, local and European market expansion responsibilities. It would ensure control over the value chain, guaranteeing the reliability of their partner's expertise and know-how.

Operational Responsibilities:

- Ensure that the notification procedures with the Legal Entity Registration are met – the notification procedure for launching a new supplement in the Polish market requires the presence of a representative of the Kowa Company. As Kowa company grows in European markets, and additional products are launched, the office becomes a necessity for assisting in this process.
- Contact and negotiate with contract manufacturers in Poland - facilitate the launch of “Bushido”.
- Launch marketing campaigns - strengthen Kowa's image and product awareness.
- Daily Operations: monitor performance of product concept and maintain office operations.

Local Market Expansion:

- Expand the partner network in Poland: learn and understand the Polish market and possible growth opportunities provided by local manufacturers.
- Gain local market knowledge - study consumer needs, trends and market opportunities in Poland.
- Promote the Kowa brand - at trade shows, expos and professional gatherings.

Strategic European Expansion:

- Monitor neighbor markets for possible partners – look for patterns and similar consumer trends; gain insights from local partners.
- Explore expansion opportunities - monitor consumer trends, assess possibilities of expansion from existing and new products and into European markets.

As a starting point, we recommended staffing the branch with approximately five employees. We put emphasis on having three expatriates sent from Japan and two locals. We recommended that the expatriate employees serve as Kowa representatives while

studying the Polish market, and that the Polish employees manage tasks requiring specific knowledge of the local language such as negotiation and contract assistance.

Opening a representative office in the EU territory is the first step towards gaining credibility as an international company. As Kowa's market expansion develops in Europe, the development of this office would become a priority.

### **C. Main Limitations of Approach**

Even though, the supply chain strategy was completely restructured, our revised approach had two main limitations.

Firstly, we did not clearly explain why opening a representative office in Poland would be so important, what would be its major role, what would the organizational structure be and what would be its role in the future. We chose to open an office with mostly expats but it could be cheaper and more suitable to do so with local hires instead.

Secondly, we did not consider cases of potential non-compliance from the OEM. How to respond if they breach the contract? Can Kowa only rely on Polish contract laws or are there any cultural or financial elements that could be used?

Finally, the cultural dimension of this expansion plan was only taken into account during the selection criteria, when choosing a country. Indeed, the indicator built for cultural fit, derived from the Hofstede model of cultural dimensions, indicated that Poland would be the country providing the best fit. However, certain dimensions of this model still diverge between Poland and Japan. This certainly impacts the local office management in Poland as well as contractual relations with Polish partners. We did not specifically tailor any strategy for tackling cross-cultural management challenges in Poland per se. As a consequence, the next section will be devoted to understanding the cultural challenges of entering the Polish market, as well as creating a possible structural organization for Kowa's Polish offices in order to counter those challenges.

## **D. Cross-Cultural Management Issues: Japan - Poland**

In order to identify possible challenges of entering the Polish market, I used the Hofstede model of cultural dimensions: Power distance, individualism, masculinity, uncertainty avoidance and long-term orientation - refer to appendix 11 for a detailed explanation of each model dimension. Furthermore, I conducted research into case studies of cross-cultural challenges faced by Japanese companies abroad. Subsequently, I identified possible issues arising from differences in corporate culture between the two countries, which I confirmed using the World and European Value Surveys<sup>3</sup>. Finally, I provide recommendations based on benchmarks and case studies of Japanese companies' best practices abroad, in particular Poland.

### **i. Japan & Poland: Cross Cultural Management Challenges**

An in depth analysis of the Hofstede Model is done in order to understand the differences in cultural dimensions between the two countries (Appendix 11).

Poland and Japan are quite similar in one particular dimension, uncertainty avoidance. Both countries prefer to avoid uncertainty and try to prevent ambiguous situations whenever possible. Power distance is considered to be at an intermediate level in both countries, however higher in Poland than in Japan. Polish people are more accepting of unequal distribution of power and formal control is commonly exercised. On the other hand, Japanese people have flatter organizational structures, and leaders don't have as much power as is the case in Poland (The Hofstede Centre, 2013).

Individualism is also reported to be higher in Poland than in Japan. This indicates that Japanese people have stronger group cohesion, with a high sense of loyalty and respect among groups. Delivering on social obligations and avoiding loss of face are considered very important. Additionally perseverance, loyalty, and commitment are rewarded. On the other hand, the study suggests that Polish people have lower interpersonal connections, lower responsibility sharing for each other and they care more about themselves and their closest family instead of the group.

The most divergent dimensions are masculinity and long-term orientation. According to the Hofstede model masculinity is much more important in Japan than in Poland. Japan is actually one of the most masculine societies in the world. This dimension implies that in the Japanese culture, men should avoid discussing their emotions or making emotionally based decisions or arguments. Furthermore, their drive for excellence and ambition can be

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<sup>3</sup> Survey database gathered from research studying people's values and beliefs and their evolution over time

found in every aspect of life. Japanese “workaholism” is another facet of their masculinity, which makes it hard for women to climb up the corporate hierarchies because of masculine norms of long and hard working hours. Japanese Companies are traditionally role oriented, with a well-defined distinction between a man and a woman’s work. Although not as prevalent as it is in Japan, Poland is also a masculine country, where managers are expected to be decisive and assertive with emphasis on equity, competition and performance. Conflicts are generally resolved through confrontational arguments (The Hofstede Centre, 2013).

The second divergent dimension is long-term orientation. Japanese society is one of the most long-term oriented societies in the world. In the corporate world this dimension can be observed in the importance they give to investment levels of R&D, with priority given to steady growth of market share rather than short-term profits. Companies do not operate around shareholders’ requirements but rather around their shareholders and society interests, for many future generations. On the other hand, Poland is much more short-term oriented and traditions do not play an important role in society. This suggests that Poland is more receptive in terms of new ideas, outside of normative rules, and preference is given to the achievement of rapid results (Hofstede Center, 2013).

To summarize, both countries seem to have relatively similar levels of individuality uncertainty avoidance and power distance. However, there is a significant gap between them regarding long-term orientation and masculinity. The difference in long-term orientation will have a high influence on the future contractual relations Kowa will have with its partners in Poland. Differences in masculinity levels on the other hand will undoubtedly influence daily communication and working practices inside the Polish office and between the Polish office and head office.

#### **a. Japan: Expansion Strategies Abroad**

Despite recent efforts of the so-called “Abenomics<sup>4</sup>” government, the domestic market in Japan is shrinking. Over the last 10 years, Japanese companies have been turning their attention towards overseas markets. Successful Japanese international deals are generally done through M&A’s for companies like Toyota Motors or Rakuten, who are considered best practice in their respective business. However, successful international expansions plans from Japanese companies are exceedingly rare. Japanese companies often prefer partnerships or minority joint ventures when entering a new market. Most of the time

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<sup>4</sup> Combination of Shinzo Abe and Economics, referring to his investment in expansionary monetary policy measures

these attempts result in failure, due to expansion strategies with low integration to local markets, not allowing for best-practice sharing. Indeed those companies often try to ill advisedly export Japanese management practices abroad, lacking in attention for talent retention and the offices end up being mainly used for revenue collection and consolidation (Globalinx, 2012). One characteristic Japanese managerial practice is the importance given to collectivism (Hofstede Center 2013). Building consensus is extremely important for Japanese people. The “nemawashi” decision-making (root-binding) is a traditional way of decision making in Japanese companies. This particular process of implementation dictates that a decision should be built with all organization members’ consensus, starting from the roots (the lower hierarchical members or the organization). Consequently, the decision-making of Japanese firms is generally a slow process and is sometimes the source of frustration for western local employees (Jetro, 1999). The avoidance of best-practice sharing is also caused by communication challenges encountered by Japanese expatriates sent abroad, who often cannot adapt to local circumstances (Zsuzsanna Tungli, 2009). These challenges include:

- Language barriers – English language education in Japanese schools stills lacks in proficiency. According to the TOEFL score data, Japan is ranked 135<sup>th</sup> in the world, lower than all its neighbors, including North Korea (Toefl score data, 2010). Japanese people often lack in confidence in English and get discouraged from learning. The major difficulties they face when speaking English come from the Japanese language itself, which is quite vague (James R. Lincoln et al. 1995).
- High context culture – Japan is a country with a high context culture, which means that when communicating, the emphasis of the message does not only depend on words but is rather situational (Edward T. Hall, 1976). This can create communication problems with foreigners, who often have difficulties understanding their Japanese colleagues (James R. Lincoln et al. 1995).
- Aversion to conflict – Face saving is one of the basic characteristics of Japanese culture, which dissuades people from having confrontational arguments and have a certain tendency to conform. Cultures with deep roots in Christianity often see this type of behavior as characteristic of dishonesty (Jetro, 1999).

#### **b. Poland: Openness to Foreign Direct Investment**

As one of the fastest growing countries in the EU, Polish incentives to foreign direct investment are becoming more important. Office infrastructures, tax deductions, and administrative procedures are being relieved for foreign companies wanting to establish a

business in Poland. The country was in 55<sup>th</sup> position in the world rank was of doing business in 2013, 19 positions higher than in 2012 (World Bank, 2013).

One of the most important roles of Kowa's Polish office will be to handle negotiation and establish relationships with partners. For this purpose, understanding the corporate culture of the country is necessary in order to establish long-term contractual relations.

### **Communication and Negotiations in Poland**

Similarly to Japan, Poland is also considered a high context culture country. When communicating, Poles make a wise choice of words, as few of them can communicate a complex message to the in-group<sup>5</sup> (Sylwia Kaftanska, 2006).

In Poland, building individual relationships is considered essential to the success of a business in the long-term (Jodie R. Gorrill, 2009). When negotiating, Polish people adopt a reserved and meditative approach to settling deals. They associate negotiations with trust and generally foreigners must earn the trust of their Polish acquaintances in order to build individual relationships as part of an in-group (Jodie R. Gorrill, 2009). However, a new person can quickly be accepted as a valid business partner if he or she is introduced by a confidant (Lothar K., 2008). While the number of English speakers in Poland is increasing, communication in Polish is recommended in order to have prompt responses to offers and facilitate negotiations (Sylwia Kaftanska, 2006).

Over complimenting Polish business colleagues is seen as insincere and it is advised not to disguise feelings or emotions as openness and honesty are considered essential in order to build trust for future relationships – an attitude that does not come naturally to most Japanese people (Jodie R. Gorrill, 2009).

### **c. Cultural Challenges**

From the analysis in the previous section, the issues identified from Kowa's expansion into Poland result from two challenges: lack of local market adaptation and behavioral gaps between the two cultures. The former could have an impact on contractual relations and negotiations with Kowa's future partners in Poland, while the latter could impact the organizational structure of the future Polish office. Conflicts could also arise as a result of the difficulties Japanese companies face in adapting their managerial and HR practices abroad. Indeed, Japanese and Polish workers are driven by different incentives, especially with regards to objectives (Appendix 12). Additionally, communication issues could increase the creation of conflicts inside the office.

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<sup>5</sup> Sociological term explaining a person's psychological identification to a group as a member

## **ii. Tackling Cross Cultural Management Challenges**

The importance given to the establishment of a local office in Poland was mostly driven by the fact that Kowa should have a certain level of control in its foreign operations. However, Kowa needs to take into consideration the balance between the headquarters' interests and local market needs in order to sustain its business in Poland. With low levels of task structuration, as would be the case in the Polish office, culture cooperation models, as opposed to domination, should be favored. (Marek Krasiński, 2012). This could be achieved by finding a balance between control and trust.

### **a. Building Control**

One of the main reasons for recommending that Kowa establish a local office in Poland is to ensure control over local operation as well as partners who handle the supply chain.

- **Manager** - as mentioned in the business project report, the manager of this office should be from the Japanese headquarters in order to ensure adequate control and effective implementation of orders. He should also be responsible for the transfer of information and execution of sales and media strategy.
- **Staff** - the staff should comprise both foreign nationals and Polish people. The former should assist the manager by focusing marketing control, monitoring and communication with Kowa's headquarters. The latter's responsibilities include establishment of contacts with local communities, effective negotiations and the integration of the company in the Polish business tissue. Employing locals would ensure that Kowa would belong to the Polish in-group by inspiring trust, which is an essential characteristic to successfully negotiate and build business relationships in Poland (Appendix 14). These locals should also be experienced people, preferably with networks in Poland and Eastern Europe and possess the communication abilities to facilitate the entry of Kowa into this market. HR activities should focus on Japanese expatriates who already have cross-cultural understanding, with good English and/or Polish proficiency; this could mean, for instance, looking for people who already have experience working abroad. This is generally a best practice shared among successful Japanese companies abroad, as it prevents having traditional Japanese managers implementing the business model of their companies in the foreign country. Consequently, this increases the likelihood of best knowledge sharing with the local market, together with effective control and communication with Kowa's headquarters.



### **b. Building Trust**

When people from different cultures work together, clique creation based on nationality is a high risk. In order to sustain the diverse and cooperative work environment, all employees should strive to build trust (Jeremiah Sullivan et al. 1981).

- Decision-making - As the Hofstede model indicates, Poland is more acceptant of hierarchies than Japan, thus the managerial power and decision-making should be well defined beforehand (as opposed to the Japanese “nemawashi”). This would foster a faster decision-making environment, preventing Poles from frustration and resentment over a traditional Japanese management style. Consequently, the manager should adopt a mixture of a participative and authoritarian leadership style, fostering cultural cooperation.
- Training - Adaptation to the Polish work environment might be a challenge for Japanese expatriates; thus, all Japanese expatriates should undergo some training in Poland before being deployed to Kowa’s Polish office. This training should facilitate the integration of Japanese people in Poland, focusing on the communication and negotiation issues they would encounter when interacting with Polish people. In the contractual relationship context this involves building trust through knowledge sharing and communication of intentions of long-term contractual agreements in order to create good environments for negotiation. Additionally, the training should make sure Japanese people understand the English language implications (direct, confrontational) and Polish people understand the specificities of the Japanese language (evasive and vague) and not perceive the Japanese as dishonest and untrustworthy.
- Facilitators - training with cross-cultural “facilitators” to bring intercultural awareness would foster the acknowledgement of different cultures inside the office (Philip R. Harris, 1996).

### **c. Finding a Balance: The role of HR:**

Most Japanese companies need to rethink HR’s role abroad and adopt an employment strategy with new approaches to career paths, compensation, and performance evaluation. In Kowa’s case, the leader of this office in Poland needs to support the coexistence of different national cultures.

- Hiring process – HR activities should focus on hiring Polish nationals with higher cultural sensitivity, as it would avoid the creation of conflicts inside the office.
- Incentives – Kowa needs to respond to local employees needs in terms of motivation, which involves creativity, in order to achieve their ambitious goals (Appendix 15).

Concerning performance targets, Poles would prefer a relatively more competitive and individualistic working environment than is common in Japan (Appendix 16). Additionally, both individual and team targets should be used simultaneously - this would stimulate the motivation of Poles and the self-confidence of the Japanese while supporting the fostering of team spirit.

- Talent management – Kowa’s HR should be accountable for developing a talent strategy in the Polish market, acknowledging the value of local knowledge for Kowa’s business development. Indeed, Polish employees should be considered the pillars of Kowa in the Polish market given their strategic importance in contractual relations with partners.
- Local integration & retention - HR management’s focus should lie on the integration of Japanese expatriates into Polish society, thus limiting high rates of turnover due to poor adaptation to local circumstances. The Polish employees should function as a catalyst in order for all the employees to become part of the in-group, developing a network within Poland and other Eastern European countries.

### **iii. Conclusion**

Implementing an entry strategy in Poland should not only take into consideration operational aspects but also the cultural challenges Kowa would face in that country. Taking into consideration the cultural analysis, it is clear that Kowa will have to mostly rely on local employees for negotiating and communicating with partners, in order to develop its business in Poland. If this strategy proves to be effective, Kowa should consider expanding it to other Eastern European countries, as there are cultural similarities between Poland and its neighbors, in particular Czech Republic (Appendix 17). Adapting management processes, learning to work with new partners, developing different local strategies and combining adaptation and standardization will be necessary. Vigilance will therefore be key in this fast moving region.

### III. Reflection on Learning

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#### A. Previous Knowledge

##### i. Masters Content Applied

During my masters program in economics I had the opportunity to acquire specific skills, which contributed to the achievement of this business project.

- Heath Economics – this was probably the course that provided the greatest contribution towards my understanding of pharmaceutical companies and different health care systems around the world.
- Financial Management and Modeling Business Decisions - these courses were particularly useful, especially with regards to knowledge about programs such as Microsoft Excel or Stata. These packages were very practical when analyzing the survey results and preparing a financial plan for Kowa.
- Microeconomics and Econometrics - this field was useful when analyzing the surveys in order to estimate the microeconomic behavior of the target group. From the estimate of willingness to pay we were able to derive a demand curve and analyze the price sensitivity of Polish consumers with respect to our product. This step was particularly important for the financial assessment of the expansion plan, as the estimated demand provided us with a quantitative assessment of a possible set of consumers for our target group.
- Macroeconomics - this course was particularly relevant when assessing the non-systematic risks associated with entry into a new market. For instance, the blockage of trade agreements between Japan and Europe or even forecasted fluctuations in exchange rates between Yen and Zloty could have considerably put into question the viability of the business project. The risk assessment contributed to our aptitude to create a counter strategy for a worse case scenario, which highly influenced the execution plan of the entry strategy.

Overall, the masters in Economics gave me the ability to analyze and understand a multitude of databases. This knowledge was directed at the more analytical aspects of the business plan. The access to and analysis of information was part of the basis of the strategy to create a sustainable business plan.

##### ii. Masters Content Adjusted

Although the knowledge acquired during the masters program was useful for certain aspects of this project, it is important to mention the determination by the company

instructing us to have a more hands-on approach. In our first meeting, the head of the European markets department explicitly mentioned that we should not approach this business project from a strict academic perspective. Consequently, we needed to adapt our academic knowledge in line with the practical issues

- Health economics - in order to have an in-depth analysis of the Polish market, we conducted 10 semi-structural interviews and one survey. I have had previous experience in designing surveys related to my studies in the health economics field, however this one required some adjustments in terms of expected outcome. Not only health behaviors, we were expected to understand the possibilities of product developments in the Polish market.

### **iii. New Knowledge**

In order to design a strategy for a European expansion we had to understand certain specificities of the food supplement business.

- Food supplements regulations – Although not as restrictive as over-the-counter or prescription drugs, regulations regarding food supplements are nonetheless exhaustive. Indeed, in order to have an operational business plan we needed to pick a possible set of ingredients for our product composition. Additionally we needed to make sure Kowa would be able to make legitimate health claims for reduced fatigue.
- Pharmaceutical industry supply chain organization – It was important to understand how the supply chain is organized in the pharmaceutical industry to create an operational strategy for Kowa in Poland. This knowledge was facilitated by Kowa, who organized field trips around Japan at almost all levels of the supply chain (mixing, encapsulating, packaging).
- Japanese Business Culture – In order to create this business project, our team was in contact with Kowa Company as much as possible. The interactions we had with the company weren't only directed at understanding how to create an expansion strategy but also to share business experiences within different cultures. Additionally, this interaction also allowed knowledge sharing regarding the Japanese economy and society.

## **B. Personal Experience**

I identified two aspects of this business project that were of particular significance for my personal experience. Firstly, the differences in business cultures between Japanese and

European companies, which significantly influenced the choice of topic for this work project; and secondly, the team dynamic of this business project, composed of members with very different cultural and academic backgrounds.

Both of these dimensions allowed me to identify the following strengths and weaknesses.

**i. Key strengths and weaknesses**

One of the main weaknesses regarding this business project is related with my lack of knowledge about marketing. In fact, I've never previously taken a course, nor worked on anything related to this field. Thankfully, I could rely on my business project partners, who created a strategy for my business project and from whom I have learnt a great deal throughout this experience.

Additionally, I thought I was a person who would easily adapt to multicultural environments. I still think this is true, however in the Japanese context this turned out to be a bigger challenge than I expected. Even without taking language barriers into consideration, the high context culture of Japan required a sense of communicational intuition, which I didn't have.

Regarding my strengths, I discovered that I have much more confidence when it comes to presenting and communicating with people (including inside the company) than I thought. The absence of a feminine role in Kowa Company, as generally is the case in Japanese society, did not inhibit my self-assurance, on the contrary; it gave me even more confidence to succeed and prove my abilities.

Finally, I realized that I am a patient and perseverant person. Even though some members of the group did not put the same level of effort into this business project as others, I still was able to successfully convince the formers to put some determination into their work by acknowledging their importance to the group.

**ii. Areas of Improvement**

After this business project, I realized that there are still certain areas I need to improve. The most obvious one would be to have a little more knowledge about marketing as it comes hand in hand with successful business developments.

The second would be to approach the obstacles and difficulties faced during a project with less pressure and more calm. In the end I know I can count on myself and on others to make things work even during the most difficult periods.

### **C. Benefit of Hindsight**

Retrospectively, our time could have and should have been managed more efficiently. The first half of the project, in terms of our time, was spent entirely focusing on the product design and marketing plan, but the execution plan ended up suffering as a result. What ensued were many long nights working into the early hours of the morning, whereas if we had scheduled and distributed our time more efficiently during the planning process these last minute difficulties may have been avoided.

Another thing that comes to light with the benefit of hindsight was our approach to working as a group. Initially we were under the impression that it would be more effective for us to allocate work to individuals and allow group members to function independently. This strategy, however, turned out to be flawed, which we learnt at our expense, as the entire group needed to sign off on each aspect of each project dimension and essentially most of the work that was done at an individual level needed to be re-done together with the group. Fortunately we learned as we continued to work together, and towards the latter stages of the business project our approach had evolved to a much more group-oriented work ethic.

What added the most value to our project was the in-depth market research done before building the expansion strategy. Following Kowa's instructions, we explored the unmet needs of Polish people rather extensively, in order to create something unique. Moreover, we were also able to give the company more insights about future product expansions in Poland.

Another important quality brought to the business project was that we always tried to make this project as practical as possible, by interviewing local authorities and possible contract manufacturers in Poland. Those insights were useful, especially when building an effective action plan for Kowa to enter the Polish market (Appendix 18) or in order to have a better valuation of financial costs in our investment assessment.

Finally, the diversified academic backgrounds of the group members strengthened our analysis in every dimension: data analysis, marketing, supply chain strategy and financials. The multiplicity of cultural backgrounds also contributed towards our ability, as a group, to see this project and its solutions from different perspectives.

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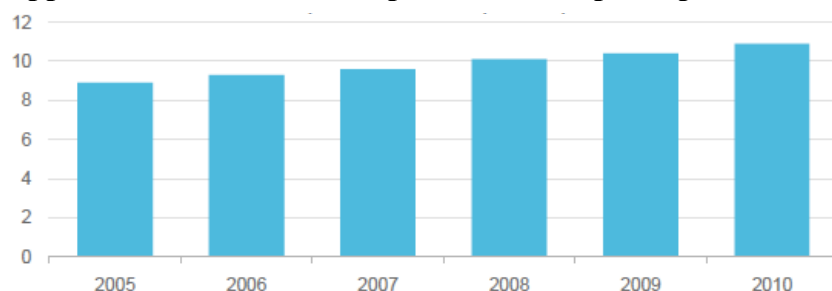
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# Appendix

## Appendix 1: World VDS Expenditure US\$ per capita 2005-2010



Source: Euromonitor International (2011)

## Appendix 2: Applicable Regulations, EU & Polish Directives

<p><b>Food safety &amp; hygiene (General Food Law)</b></p> <ul style="list-style-type: none"> <li>• Regulation (CE) 178/2002</li> <li>• Reg EC/852/2004</li> </ul> <p><b>Additives legislation</b></p> <ul style="list-style-type: none"> <li>• Dir 89/107/EEC</li> </ul> <p><b>Contaminants</b></p> <ul style="list-style-type: none"> <li>• Reg. (EC)1881/2006</li> </ul> <p><b>General Labelling Rules</b></p> <ul style="list-style-type: none"> <li>• Dir 2000/13/EC</li> </ul> <p><b>Foods supplements law – specific rules for vitamins and minerals</b></p> <ul style="list-style-type: none"> <li>• Directive 2002/46/EC</li> </ul> <p><b>Intake levels requirements</b></p> <ul style="list-style-type: none"> <li>• Annex to Directive 90/496/EEC</li> <li>• Scientific Committee on Food (SCF) report</li> </ul>	<p><b>Health Claims</b></p> <ul style="list-style-type: none"> <li>• Regulation (CE) n° 1924/2006</li> <li>• Commission Regulation (EU) No 432/2012 – list for approved generic claims</li> <li>• EFSA scientific opinions</li> </ul> <p><b>For substances other than vitamins and minerals</b></p> <ul style="list-style-type: none"> <li>• Botanicals : Directive 2004/24/CE – Herbal medicinal products</li> <li>• Novel Foods Regulation Reg. EC/258/97</li> </ul> <p><b>Polish regulations</b></p> <ul style="list-style-type: none"> <li>• The Food and Nutrition Safety Act of August 25<sup>th</sup>, 2006</li> <li>• The Order of the Minister of Health of October 9<sup>th</sup>, 2007 regarding ingredients and labeling of food supplements</li> </ul>
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Source: own table

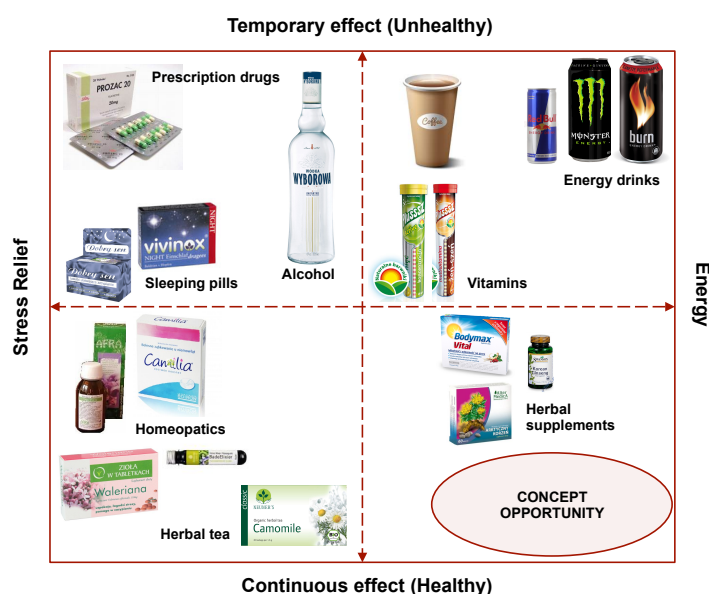
### Appendix 3: Selection Criteria, phase 3

European Shortlist	Market Size (Mln. €)	Market Growth (%)	Market Saturation	Ease of Regulatory Landscape	Cultural Fit
Italy	€ 1,676	2.3 %	46%	★★★	★★
UK	€ 922	3.3 %	65%	★★★★	★
France	€ 786	2.3 %	45%	★	★★
Poland	€ 592	4.1 %	39%	★★★★★	★★★

Source: Own table

The selection criteria created in order to chose a country for conducting an entry strategy was divided into 3 phases. In a first phase, the 5 largest countries in terms of market size in Europe were shortlisted: Italy, UK, Germany, France, and Poland (Euromonitor International). In a second stage, Germany was eliminated from this selection as it presented low opportunities of growth, - 0.47% estimated on average between 2013 and 2017. The third phase consisted on analyzing various indicators relevant for the VDS market: market size<sup>6</sup>, growth<sup>7</sup>, market saturation<sup>8</sup>, regulatory landscape<sup>9</sup> and cultural fit with Japan<sup>10</sup>.

### Appendix 4: Consumer Perception Gap



<sup>6</sup> Based on actual market size for the VDS category for 2012, Euromonitor 2013

<sup>7</sup> Based on average forecast growth of VDS over 2013 to 2017, Euromonitor 2013

<sup>8</sup> Calculated as a percentage of market share of top 10 players for VDS in 2012, Euromonitor 2013

<sup>9</sup> Relative count of "V" in regulations assessment, scored out of 5 stars, European Advisory Services, 2007

<sup>10</sup> Number of dimensions from Hofstadter model for cultural fit with less than 20 pts. difference, Hofstadter 2013

## Appendix 5: Bushido Product and Packaging Concept

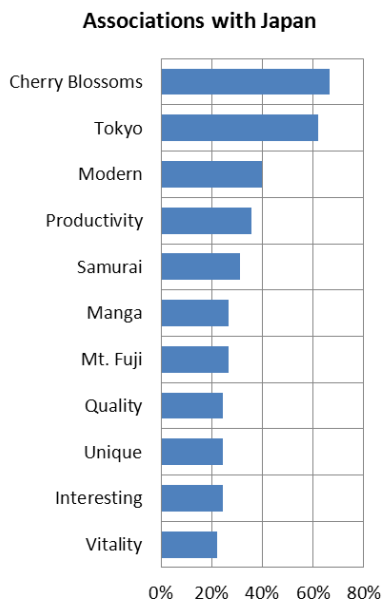


Japanese bento boxes inspired the packaging of Bushido. The product concept relies on three pillars:

The supplement enhances the energy levels of consumers in a sustained way.

The supplement helps consumers achieve a balanced and stress-free state of mind.

The supplement provides a noticeable effect to consumers.



Source: Business Project Survey, 2013

## Appendix 6: Product Composition

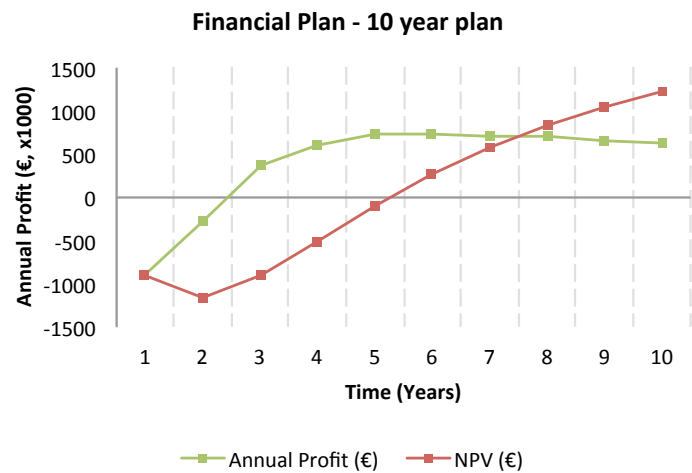
<b>VITAMINS</b> <ul style="list-style-type: none"><li>• Vitamin A = 800 µg (100% RDA*)</li><li>• Vitamin B1 (thiamin) = 1,1 mg (100%)</li><li>• Biotin (Vitamin B8) = 50 µg (100%)</li><li>• Vitamin E = 12 mg (100%)</li><li>• Folic Acid (Vitamin B9) = 200 µg (100%)</li><li>• Niacin (Vitamin B3) = 16 mg (100%)</li><li>• Vitamin B2 (Riboflavin) = 1,4 mg (100%)</li><li>• Vitamin B6 = 1,4 mg (100%)</li><li>• Vitamin C = 80 mg (100%)</li><li>• Pantothenic Acid (Vitamin B5) = 6 mg (100%)</li><li>• Vitamin B12 = 2,5 µg (100%)</li></ul>	<b>MINERALS</b> <ul style="list-style-type: none"><li>• Iron = 14 mg (100%)</li><li>• Magnesium = 225 mg (60%)</li></ul> <b>BOTANICALS</b> <ul style="list-style-type: none"><li>• Green Tea Extract = 115 mg</li><li>• Schisandra Chinensis = 28 mg</li></ul> <p>*Recommended Daily Intake</p>
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Source: own table

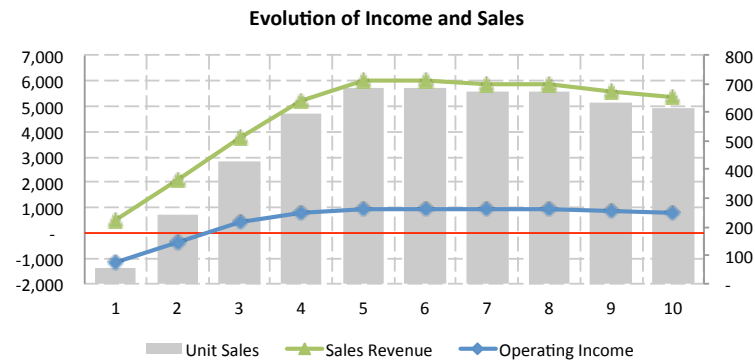
## Notification procedure to the Chief Sanitary Inspector

Notification of the first introduction to sales in Poland <ul style="list-style-type: none"><li>• Inform the Chief Sanitary Inspectorate (GIS) (using an electronic notification form)</li><li>• The company provides the following data:<ul style="list-style-type: none"><li>• The name of the product and its manufacturer,</li><li>• The form of the product,</li><li>• A sample of the label in Polish,</li><li>• The ingredients list including detailed specification of active substances,</li><li>• The quantitative specification of the ingredients,</li><li>• The name and address of the notifying company.</li><li>• A copy of notification from another (e.g. EU or CIS) country.</li></ul></li></ul>
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Appendix 7: Financial Plan

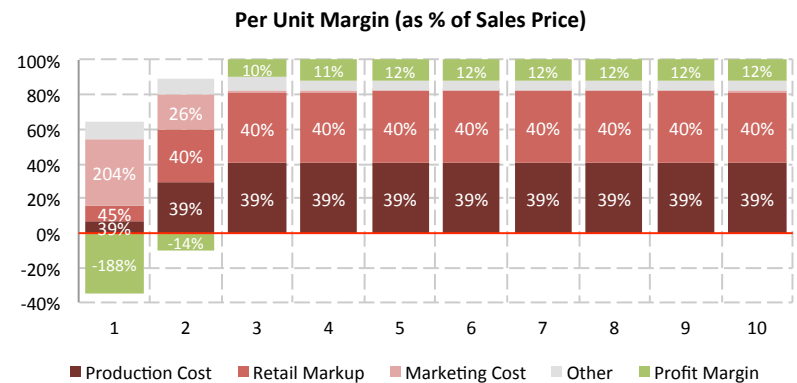


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Appendix 8: Product markups and Cost Composition



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## Appendix 9: Polish Infrastructure Assessment – Road Transport



Source: Own figure

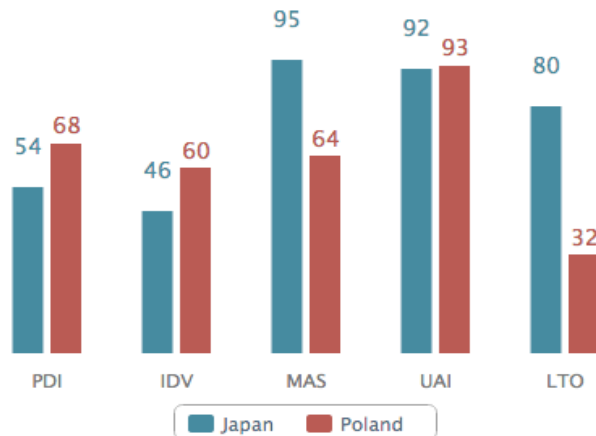
## Appendix 10: Shortlist of OEM Manufacturers

Name	Range of Services	Market Experience	Certification	Location (Distance)	Expansion Opportunities
Efferta	***	8 years	GMP	Warsaw, Poland	*
Pharmedus	***	12 years	GMP	Kunas, Lithuania	***
Laboratoria Natury	***	10 years	GMP, GHP, ISO9001	Warsaw, Poland	***
Labopharm	**	12 years	GMP, ISO9001	Gdansk, Poland	***
Amilek	*	7 years	GMP, GHP	Warsaw, Poland	*

### Company Profiles:

Efferta, (<http://www.efferta.pl/>)  
Pharmedus, (<http://www.pharmedus.com>)  
Laboratoria Natury, (<https://www.laboratorianatury.pl/>)  
Labopharm, (<http://www.labofarm.pl/>)  
Amilek, (<http://www.amilek.pl/>)

## Appendix 11: Hofstede model of Cultural Dimensions: Japan - Poland



Source: The Hofstede Centre (2013)

Geert Hofstede's research focuses on the influence of culture on values in the workplace in more than 70 countries. Hofstede defines a culture as "the collective programming of the mind distinguishing the members of one group or category of people from others". In fact, Hofstede finds that cultures are relatively stable over time (The Hofstede Centre, 2013).

Power distance (PDI) measures "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally".

Individualism (IDV) is defined as "the degree of interdependence a society maintains among its members".

Masculinity (MAS) answers the question as to "what motivates people, wanting to be the best (masculine) or liking what you do (feminine)".

Uncertainty avoidance (UAI) refers to "the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these". (The Hofstede Centre, 2013)

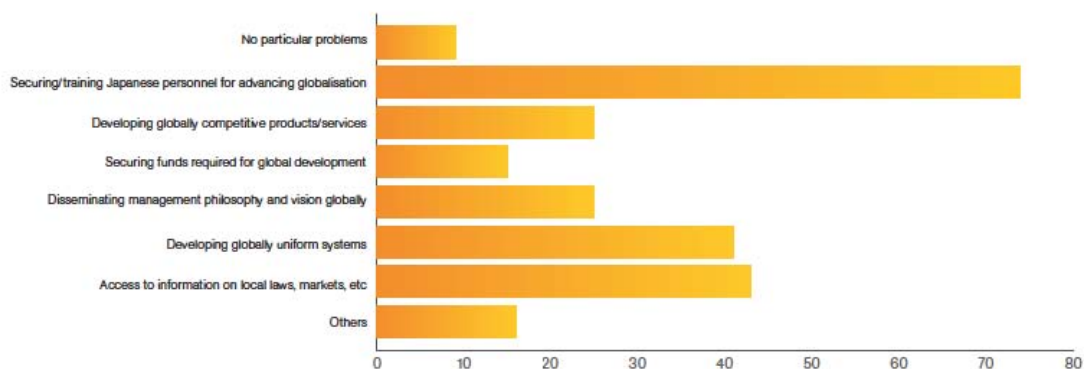
Long-term orientation (LTO) measures "society's search for virtue" and the time horizon to which goals are set to be achieved (The Hofstede Centre, 2013).

## Appendix 12: Differences in Corporate Culture: Japan-Poland

Organizational gaps	Japan	Poland	Recommendation
Decision making	Group decision	Individual decision based on hierarchical position	Low levels of task structuration - cultural cooperation
Pace of decision making	Slower	Faster	
Implementation	Faster	Slower	
Incentives	Favor Group	Favor Individual incentives	
Conflicts	Aversion to conflict & Face Saving	Openness and honesty	
Market Challenges			
Negotiations	Based and trust and long-term relationship	Based on ingroups and trust	Rely on locals to handle contractual relations given the mistrust in foreign people
Contractual relations	Long-term view	Short-term view	
Communication	High context culture	High context culture	

Source: Own table

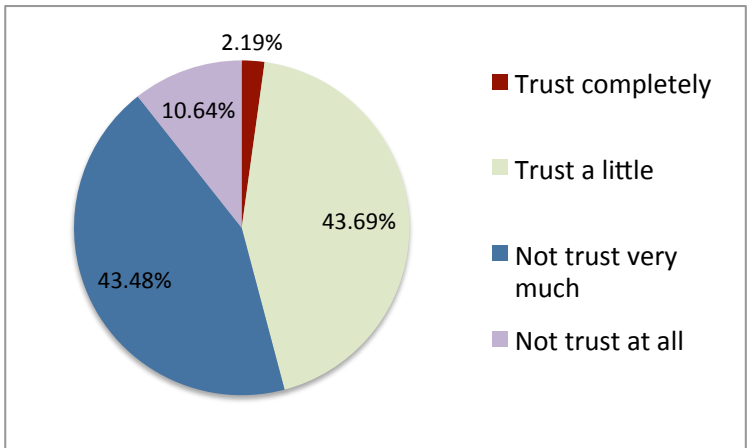
## Appendix 13: Problems Experienced When Establishing Overseas Operations



Source: METI, グローバル人材育成に関するアンケート調査 [Survey on the development of global human capital], 2010, p. 4.

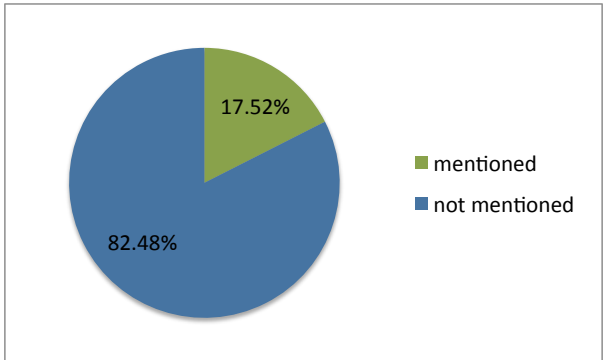


**Appendix 14: Question: People from another nationality can be trusted (Polish Answers)**



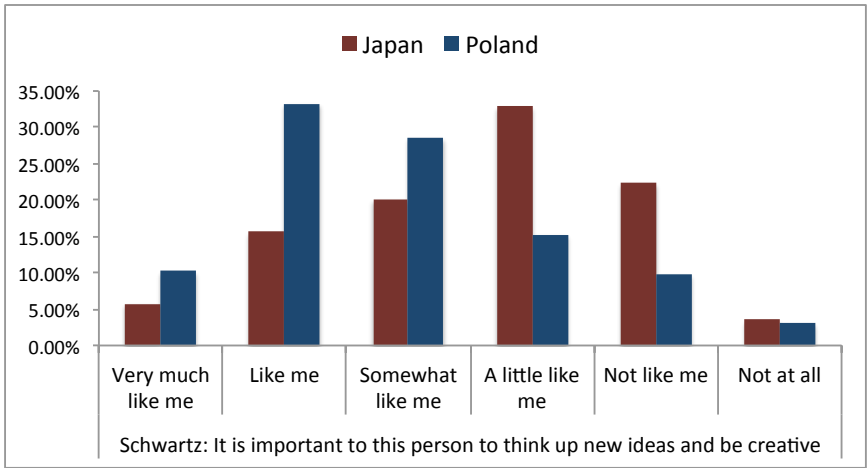
Source: European Value Study, Survey (2008) W4

**Question: Don't like as Neighbors: Emigrants, foreign workers (Polish Answers)**



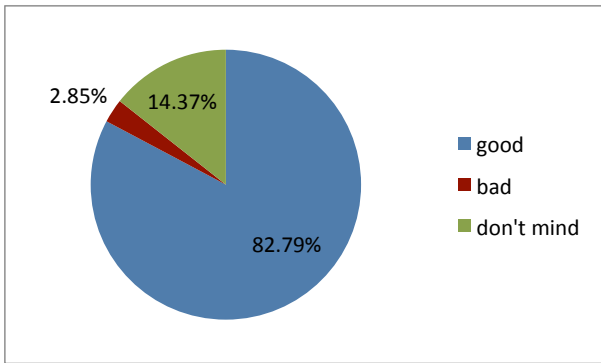
Source: European Values Study, Survey (2008) W4

**Appendix 15: Schwartz Dimension – Importance of creativity (Polish and Japanese Answers)**



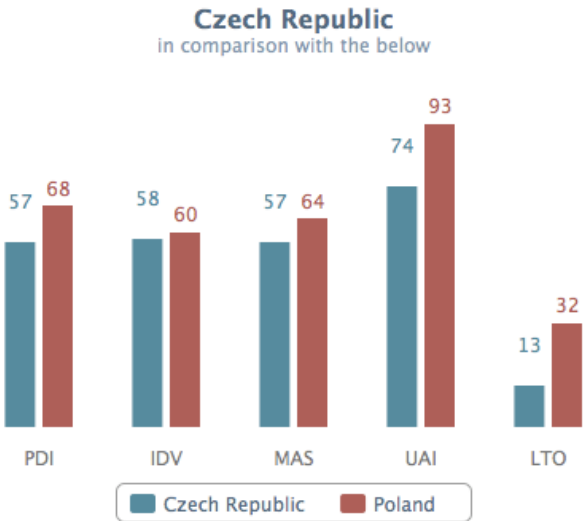
Source: World Value Survey (2005-2008) W5

**Appendix 16: Question: To Give More Emphasis on Individual: Good/Bad (Polish Answers)**



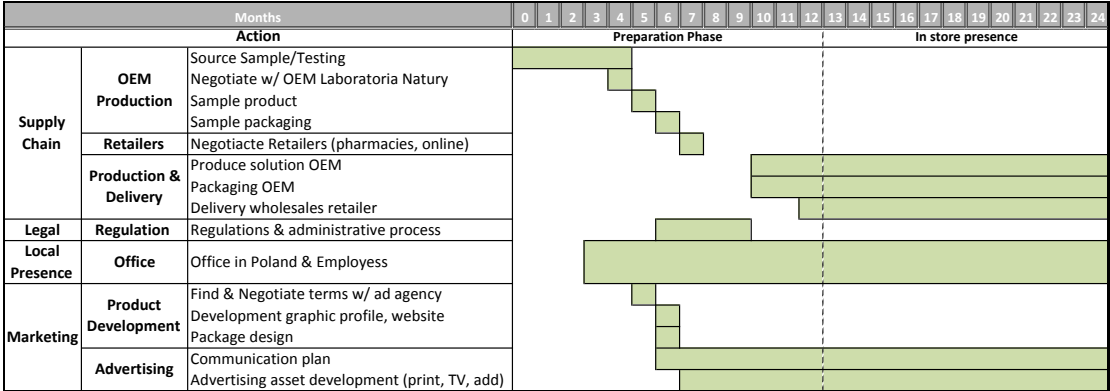
Source: World Value Survey (2005-2008) W5

**Appendix 17: Hofstede model of Cultural Dimensions: Czech Republic - Poland**



Source: The Hofstede Centre (2013)

**Appendix 18: Action Plan for Kowa In Store Presence in Poland**



Source: Own Table