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Field Lab on Internationalization: A Case Study of a Portuguese SME in the Floor Covering Industry – In-depth analysis of Germany and Japan

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Abstract

Company X is a growing Portuguese SME operating in the floor covering industry as a wholesaler. The company intends to expand globally and consolidate its financial stability after experiencing a deep crisis and downsizing its business. This dissertation's purpose is to develop realistic guidelines for Company X to successfully implement an internationalization strategy. To formulate the final recommendation, both company and sector were analyzed, as well as macro and industry-specific dimensions that resulted in a shortlist of five potential target countries. A detailed evaluation of each country allowed for the selection of Denmark as the optimal destination. Ultimately, a comprehensive marketing plan and the project's financial implications reflected the direct exporting strategy to be executed by the company.

Keywords: Internationalization, SME, Floor Coverings, Entry Strategy

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Abbreviations

R&C: Resources and/or capability

HQ: Headquarters

CCC: Cash Conversion Cycle

COGS: Cost of Goods Sold

B2B: Business to Business

B2C: Business to Consumer

EN: English

RRP: Recommended Retail Price

k: Thousand

M: Million

B: Billion

GAV: Gross Value Added

CAGR: Compound Annual Growth Rate

NTB: Non-Tariff Barriers

NGA: Next Generation Access Network

PT: Portuguese

SDGs: Sustainable Development Goals

GHG: Greenhouse Gas Emissions

EPI: Environmental Performance Index

SEO: Search Engine Optimization

DIY: Do-It-Yourself

Initial remarks

I. To denote that all monetary values in currencies other than Euros were converted on May 12th using the following exchange rates:

- 0.83 USD/EUR
- 0.13 DKK/EUR
- 0.0086 JPY/EUR
- 0.64 AUD/EUR

II. For confidentiality purposes, "Company X" was the name attributed to the company under analysis.

1. Company Overview

1.1. History, Mission and Vision

Company X was founded in 1992, focusing its activity on installing wood flooring in Portugal. Back then, the organization worked with national suppliers and hired subcontractors to apply the products. Unfortunately, at the beginning of the millennium, Company X faced severe financial problems. As a result, in 2000, the founder decided to sell the business to two partner families, holding a percentage of less than 1% (Assistant Manager 2021).

After the acquisition, Company X evolved. Although it was still providing floor installation services, the suppliers were no longer exclusively Portuguese-based, as the organization slowly started to import from other regions in the world, namely China and Brazil. Naturally, Company X started to expand its product portfolio and included laminated flooring, instead of working with wood alone. Additionally, back in 2002, the firm engaged in commercial trade with diverse local sellers in Spain, undertaking occasional exports to the neighbouring country.

The company continued to grow until 2010 when a financial crisis hit Portugal, accompanied by subsequent market instability. The aforementioned scenario led Company X to become more competitive. Particularly, the organization focused its whole supply chain on international manufacturers, due to their low prices, and started to develop its own private labels. At the end of 2010, the revenues accounted for a total of 5,433,555.42€ (ORBIS 2020).

In the successive four years, while the financial distress was still in place, the company was compelled to further transform itself. In the middle of the crisis, by 2012, the revenues had already dropped to 3,201,744.58€, which was followed by a dramatic collapse of the net income from 69,069.88€ in 2010 to -371,815.66€ in 2012 (ORBIS 2020). Consequently, by the end of 2014, Company X had fired part of its staff and contracted a bank loan. Moreover, it gradually shifted its business model from the installation of floors directly at customers' facilities to the importation and distribution of products to other businesses in the industry, while maintaining its private labels and partnerships with manufacturers from China and Brazil. It is worth noting that between 2013 and 2014 Company X tried to expand its operations to Morocco. Yet, the entry barriers and cultural gap prevented the project to continue. Interestingly enough, the time coincided with the end of the company's exports to Spain, marking the failure of both internationalization attempts (Assistant Manager 2021).

From 2015 onwards, the company began to recover. Reacting to an increasing demand, vinyl flooring was introduced to substitute the laminates. Furthermore, and although it never constituted serious investment, deck flooring steadily grew (Assistant Manager 2021).

Nowadays, Company X distributes wood, deck, and vinyl, having more than sixty references of flooring solutions spread across five registered brands (Company X n.d.). The company logistic headquarters is located in Braga, where the orders are shipped to clients in Continental Portugal and the islands, with the assistance of six employees. Over the years, Company X has been strengthening the relationships with its international manufacturers and increasing its imports each year. The firm under analysis has been following an uprising trajectory since 2016, both in revenues and net income, closing with 2,794,589.16€ and

79,715.66€, in 2019, respectively (ORBIS 2020). To sum up, there is a scheme in **Appendix 1** which pictures Company X's major milestones as well as the current ownership structure.

Company X's mission is "to provide its customers with the best solutions, by incorporating technical knowledge, market experience and innovation, producing differentiated and sustainable products." (Company X n.d.). In what the vision regards, the goal is "to position Company X as a differentiated and innovative company in the flooring brunch, being recognized as the best solution by both its customers and partners." (Company X n.d.).

1.2. Stakeholder Map

After understanding the milestones Company X went through, it is important to depict its main stakeholders in order to obtain an overall picture of the company's related parties that have an influence on its operations.

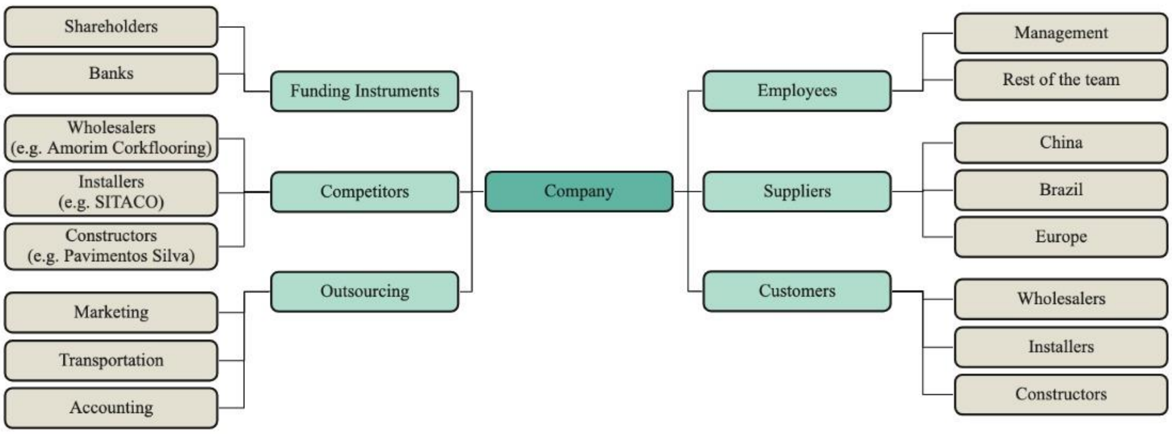

Figure 1 – Stakeholder Map

Source: (Assistant Manager 2021)

The above stakeholders can be briefly described as below:

- *Employees* – as aforementioned, the company has six employees that are responsible for most commercial activities, deal with financial and administrative issues and manage the warehouse. All the remaining branches of the company are outsourced.
- *Suppliers* – the company uses contracted manufacturing to produce their final products. Over the years, Company X built privileged relationships with factories in

China, Brazil, and Portugal which, in most situations, allowed the company to avoid intermediaries and buy directly from the source. Occasionally, the company uses *traders*[1] to facilitate communication with manufacturers.

- *Customers* – can be segmented into two different categories:
    - Resellers – include installers and constructors with relatively small projects, who contact directly with the final customer and apply the product in their house; and wholesalers, companies that buy large quantities of product and resell it to installers or even big construction projects.
    - Contractors – namely installers and construction companies that deal with large projects and need a common flooring solution that fits the clients' needs.
- *Outsourcing players* – the company's strategy consists of minimizing internal costs and relying on external services to deal with marketing, transportation, and accounting affairs since they neither have the capital requirements to incorporate all functions nor would it be financially appealing.
- *Competitors* – Company X competes in a specific branch of the furniture and floor covering industry and therefore most of their competitors do not solely target the flooring market. They can be classified into three different types of competitors: Manufacturers, Wholesalers, and Installers.
- *Funding instruments* – the company has long-term outstanding debt in the value of 430k€ mainly contracted during the crisis still being paid for. Nowadays, the company's investment policy is to rely on internal equity and retained earnings. Nevertheless, banks still need to be considered as a major stakeholder in the

[1] *Traders* consist of entities located in the same area as the source of a raw material or good, which are focused on facilitating a frictionless relationship between the supplying plant and the company demanding such raw material or good.

company since part of the company's assets was financed through the previously mentioned loan.

1.3. Organizational Structure

To elaborate on Company X's business activities and human capital, the organizational structure is mapped below. Owing to the low number of personnel, the company's culture is familiar and rather informal (Assistant Manager 2021). Given the organizational simplicity, the chart reflects a hierarchy based on function. Each rectangle represents an employee organizational role, the lines show relations, and the most important unit is at the top (Ahmadya, Mehrpourb and Nikooraveshb 2016).

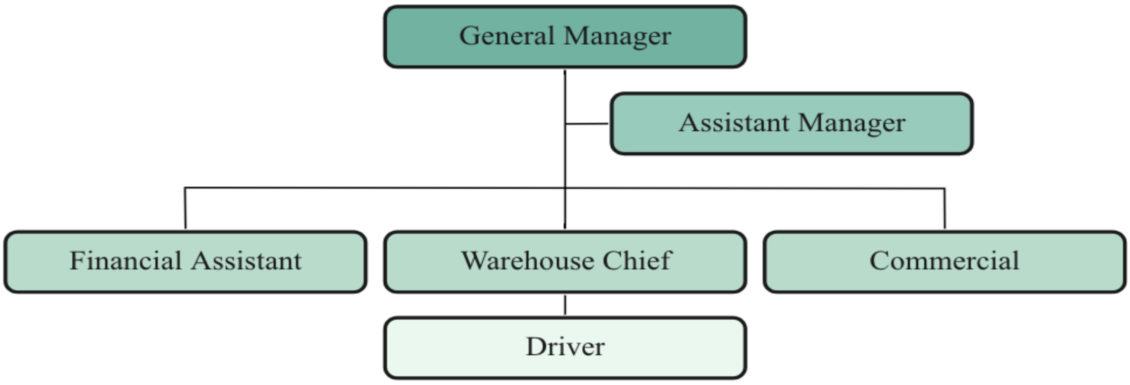

Figure 2 – Organizational Structure
Source: (Assistant Manager 2021)

The General Manager (i.e., owner-manager), is responsible for most of Company X's key strategic decisions. Among his duties, it is noteworthy the procurement of the inputs (i.e., the activity of purchasing the inputs), overseeing of the firm's daily operations, and management of the product portfolio. Additionally, the executive also manages relationships with major accounts. In late 2020, a new employee was hired aiming to assist in the management of Company X. The latter Assistant Manager performs a wide scope of tasks, ranging from the formalization and organization of simple businesses' process, such as the establishment of a price list, to the development of a long-term oriented strategy, based on market research and targeted KPI's (Assistant Manager 2021).

In turn, the Financial Manager supports all the company's day-to-day transactions, such as the receiving of orders, the process of invoices, and the organization and record of financial data. Besides handling the orders, the Financial Manager is also in charge of notifying them to the Warehouse Manager, whose job consists of receive and warehouse the products. Consecutively, the Warehouse Manager communicates with the Driver whose job is to deliver the orders within a small distance of Company X's headquarters. Finally, the Commercial has the duties of acquiring, promoting and managing the clients in the area of Grande Porto, the city in which Company X has a larger market influence (Assistant Manager 2021).

1.4. Financial Overview

Before further analyzing the financial context of Company X, it is important to underline the fact that the conducted analysis will be based on 2019 figures. The results for the fiscal year of 2020 were not considered for this analysis since they only became available at a final stage of this dissertation's completion and did not go up against the conclusions withdrawn.

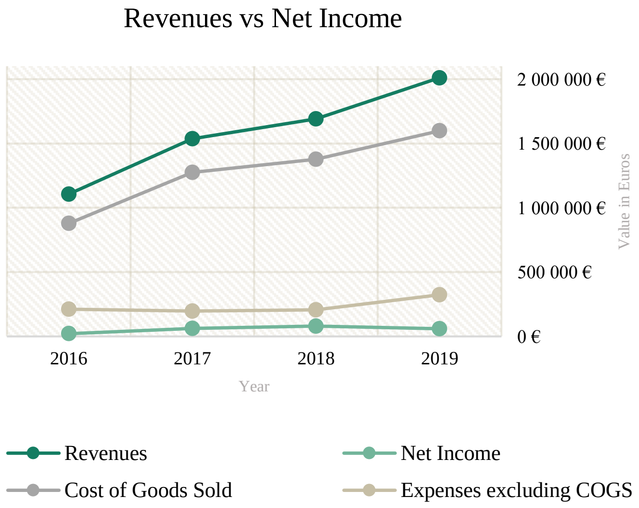

Figure 4 - Revenues vs Net Income

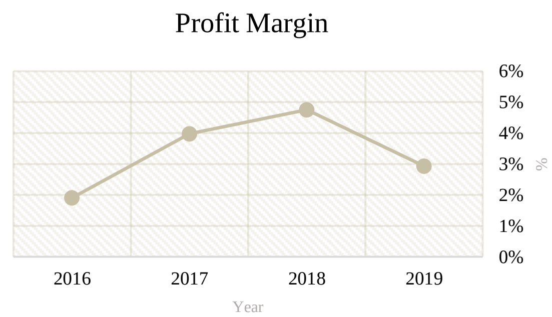

Figure 3 - Profit Margin

	2018	2019
Gross Margin	18.66%	20.52%
EBITDA Margin	7.55%	5.44%
Profit Margin	4.75%	2.93%

Table 1 - Profitability Ratios

Source: (Assistant Manager 2021)

Company X's revenues registered a consistent growth, increasing 53% since 2016. Net income increased with revenues until 2018, although at a bigger pace, being up 281%. COGS represented, in 2019, 84% of total costs, leading to a gross margin of around 20%. These values reflect the company's business strategy of acquiring the finished product from their suppliers without further transformation.

In 2019, expenses excluding COGS increased 57% from the previous year whereas revenues only increased by 21%. This can be partly explained by the sudden increase in inventory impairments, resulting from stored inventory becoming obsolete. Additionally, increases in wages and external services and supplies also contributed to the discrepancy between both growths. The overall impact of the aforementioned disproportional increase in costs resulted in an EBITDA margin of 5.44%, compared to 7.52% in the previous fiscal year.

As for the company's profit margin, it registered a relevant growth from 2016 until 2018, jumping from 2% to 5%. However, in 2019 its value shrank to about 3%, mainly due to the previously described asymmetrical growth in expenses excluding COGS.

The flooring business works with relatively low margins where scalability makes the difference. Despite the unfavorable financial condition, the company is able to maintain a stable business by not contracting debt and reinvesting all of its profits, along with relying on a large sales volume.

Indicators	**2018**	**2019**
Assets Turnover	163.06%	188.55%
Days to Sell Inventory	77	91
Average Collection Period	77	56
Average Payment Period	39	45
Cash Conversion Cycle	115	102

Table 2 - Efficiency Ratios

Source: (Assistant Manager 2021)

The Assets Turnover ratio displays the company's ability to use its assets to generate revenues. In the fiscal year of 2019, the value was 188.55%, i.e., every Euro the company owned in assets resulted in 1.88€ of sales. Such value means that the company was able to effectively use its assets to produce sales.

The Cash Conversion Cycle[2] represents the number of days a company needs in order to convert its investment in inventory into cash. Company X achieved a figure of 102 days of CCC for 2019 (a decrease of 11.3% compared to 2018). In 2018, the Average Collection Period doubled the Average Payment Period, which shows that, by the time the company was able to collect their clients' payment, they had already paid for two sets of supplies. However, in 2019 the company managed to both increase the Average Payment Period to 45 days and decrease the Average Collection Period to 56 days. Regarding the Days to Sell Inventory, it can be said that, due to Company X's strategy of retaining large amounts of stock, it was foreseeable and unsurprising that it takes around three months to sell the inventory starting from the day it arrives at the company's warehouse.

Company X achieved a 217% Current Ratio[3] for 2019, which shows that the company has more than twice as many short-term assets than short-term debt, reflecting the company's policy of consistently avoid contracting debt.

A Quick Ratio above 100% for both 2019 and 2018 demonstrates the company's ability to pay its short-term liabilities using its most liquid assets (i.e., excluding inventory). However, it is important to highlight the abrupt decrease in the company's liquidity once inventories are disregarded. Such a phenomenon goes in line with the company's current stock strategy.

Finally, the Cash Ratio depicts the company's capacity to pay off its short-term debt with its most liquid asset - cash and cash equivalents. For Company X, there was a considerably

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[2] CCC = Days to Sell Inventory + Average Collection Period – Average Payment Period.
[3] depicted as Current Assets over Current Liabilities.

positive increase in such capacity from 2018 (5%) to 2019 (27%). Nonetheless, both ratios show the company's incapacity to generate enough cash and cash equivalents to pay off its current debt. The previously analyzed Cash Conversion Cycle of 102 days helps explain the diminished Cash Ratio. Despite the positive evolution in CCC from 2018 to 2019, considerably large Average Days to Sell Inventory and Average Collection Period resulted in a shortage of liquidity for the company. Additionally, the short Average Payment Period also contributed to the absence of in-house cash and cash equivalents. Overall, the described scenario led the company to solely cover one-fourth of its current debt using its most liquid asset.

Indicators	**2018**	**2019**
Debt to Assets	0.80	0.75
Debt to Equity	4.11	3.07
Interest Coverage Ratio	11.42	9.12

Table 3 - Solvency Ratios
Source: (Assistant Manager 2021)

The Debt to Equity Ratio portrays whether a company's main source of financing consists of debt or equity. For Company X, both fiscal years of 2018 (4.11) and 2019 (3.07) show that it is still highly levered (due to the senior debt contracted in the past). Additionally, the company’s Debt to Assets Ratio shows that 75% of its assets are covered by its liabilities, a position that confirms the previously withdrawn conclusions and that depicts a massive financial risk due to the high degree of leverage. Company X also experienced an Interest Coverage Ratio of 9.12 in 2019, a figure that reflects the company’s ability to cover interest expenses with EBT. Overall, the previous results display Company X’s high level of indebtedness, as well as its lack of financial resources to scale its business and operations. However, recent improvements and the avoidance of debt contraction are promising indicators for the company’s future.

1.5. Products

Company X's product line can be classified as vertically differentiated (i.e., offers different quality levels to accommodate similar tastes (Dolan 2015)). The company's product development strategy was built around visiting flooring fairs, as well as other industry's events, where the company would benchmark the market to understand the most recent product trends. For detailed information on prices for each product line consult **Appendix 2** Products Prices. For information on the segmentation of sales by business unit consult **Appendix 3** Products BU.

The company's product mix can be segmented into three main product lines:

Vinyl – used for interiors, this type of flooring represents 60% of Company X's sales and is made out of synthetic materials such as fiberglass, petroleum, and plasticizer. Its durability is determined by the thickness of the protective coating. Additionally, this flooring solution can rip, tear and dent. Since it is a printed representation of the actual material, it can be easily manipulated to match user requests. The appearance of, virtually, any species of wood can be replicated and one can, for example, install a representation of an expensive type of wood for the same price as a regular vinyl tile. Additionally, it has sound absorbent and water-resistant qualities. Because of its composition, it cannot be recycled, thus being less environment-friendly than natural wood (Floor Experts 2019).

A vinyl buying "Persona" would be someone budget-concerned, looking for a viable alternative to Natural Wood while not discarding the quality factor. At the same time, it needs to be someone willing to replace the floor in a rather short time span, due to this solution's small durability.

Company X has two vinyl brands manufactured by four different producers based in China and Brazil:

- *Aroma Original* – twelve references of simple and stable pavement. These references are built with several layers using SPC[4] as its core and comprise the most affordable vinyl brand.
- *Aroma Ecomax* – six references representing the high-end segment of their vinyl product line. This pavement adds resilience, thickness and comfortability to *Aroma Original* making it more expensive. Instead of the SPC core, these references are built with PVC[5] and WPC[6] technologies, which increase the comfortability of this type of flooring. For more information on the differences between these types of vinyl flooring resort to **Appendix 4**.

For images of Company X's vinyl products, consult **Appendix 5**.

Natural Wood – interior floorings made from transformed harvested wood representing 30% of Company X sales. This type of flooring is, overall, better than vinyl, mainly due to its increased durability, since this solution lasts for generations. Although it can be scratched, it can hardly rip. Also, it has a more attractive appearance and serves as a good insulator. The environmental factor is also important as it comes from a renewable source and can be recycled. On the other hand, it is not very versatile because whoever buys it is subject to its natural appearance. Moreover, different types of wood play a big weight in the price – the rarest, the more expensive (the spruce 2020).

A natural wood buying "Persona" would be someone willing to spend extra money on getting a better solution. Additionally, this type of flooring would also fit someone worried about transposing the organic feel of the wood into their house. Being environmental-friendly

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[4] stands for Stone Plastic Composite. Known for being 100% waterproof with unparalleled durability, these engineered luxury vinyl planks use advanced technologies to mimic natural wood and stone at a lower price point

[5] stands for polyvinyl chloride and it is a synthetic plastic polymer. Most vinyl floors are made from this composite. It is generally more suitable for a cold climate.

[6] stands for a wood-plastic composite, which makes up the waterproof core. The WPC core is enhanced with a foaming agent, making it slightly softer and more comfortable in addition to being completely waterproof. (FlooringInc.com, s.d.)

can have some weight in the decision as well. Moreover, the fact that natural wood has a higher longevity can be seen as a long-term investment rather than a luxurious option.

Company X has two natural wood brands:

- *Premium Wood Nature* – this brand works with the best kind of natural wood and is composed of fourteen references covering most price ranges. These references are produced by six different producers based in China.

  References of this brand can have two different finishes:

  - *Natur*, a more rustic and organic feel incorporating the natural veins, knots and variations of wood;
  - *Standar*, a cleaner version with fewer variations in the color tone yet maintaining the robustness and beauty of natural wood.

Furthermore, this brand works with 3 different types of wood:

  - *Riga*, mainly used in big architectonic projects due to its post-fabric flexibility (4 *Natur*, 1 *Standar*);
  - *Oak*, distinguished by its increased durability in terms of blows, temperature and fungus (4 *Natur*, 4 *Standar*);
  - *Walnut*, exclusively from the USA, a very resistant hardwood type with average density. Due to its exclusivity, this is a luxurious option used for more premium projects (1 *Natur*).

- *Ecoflooring* – a collection with eight references working with exotic trees from Brazil. Its main characteristics are comfortability and durability. The products from this product line are produced by four different producers based in Brazil.

For images of Company X's wood products, refer to **Appendix 6**.

Deck – representing only 10% of Company X's sales, this outdoor flooring is specially designed to cover terraces or backyards. Decks can increase the living area at a minimal cost per square meter, work well among uneven terrains and are highly customizable and comfortable in heat as they naturally absorb and retain less warmth. On the other hand, they require maintenance and have a shorter lifespan due to their constant exposure to different weathers (houselogic 2020).

A deck buying "Persona" is someone with a stand-alone home or an apartment with a terrace, usually someone with a bigger purchasing power. This type of flooring is commonly suggested by architecture studios to improve the aesthetic of a home.

Company X sells three types of deck produced in China by two manufacturers:

- Bamboo with *RIVEmix* – this brand is the company's bet on sustainability, aiming to become the ecological solution for flooring, and serves as an alternative to the tropical wood. The brand has two references presenting two different colors;
- *Composite* – two references (*Grey* and *Brown*) made of wood fiber combined with recycled polyethylene. Composite decking is a good-looking, low-maintenance material that feels like real wood;
- *Natural* – four references made of wood, representing, in most cases, the low-cost alternative.

For images of Company X's deck products, consult **Appendix 7**.

1.6. Supply Chain[7]

Company X has historically been able to successfully establish and manage commercial relationships with suppliers from three key locations: Brazil, China and Portugal. From the first two countries, the decision adopted by the company consisted of directly importing the final flooring solutions (Assistant Manager 2021).

Considering that Company X receives entire flooring solutions from these countries, and not only raw materials, its business model, as well as its entire value chain, is directly linked with a significant trust factor. Therefore, relying on traders was, in some cases, the solution found to overcome the cultural challenges as well as the lack of physical presence at the source to monitor quality, quantity, certifications and other key considerations. Throughout the years, direct contacts, fairs and other industry's events were the channels through which Company X signed partnerships with traders that guarantee accurate and punctual deliveries (Assistant Manager 2021).

Both the Asian and American sources allow the company to experience interesting and financially appealing prices and margins due to the fact that the goods are directly extracted from forests sited in those locations (Assistant Manager 2021).

Company X currently imports its *Ecoflooring* business line as well as a portion of its vinyl solutions from different Brazilian suppliers. The company uses a unique harbor in Brazil as the origin of its American shipments. From there, the floor coverings are transferred to either the Algeciras port in Spain or Rotterdam's in the Netherlands before heading to the Leixões harbor (Portugal), the shipments' final destination.

As described in the *Products* section, three types of the company's floor covering lines originate from China: *Premium Wood Nature,* vinyl solutions and bamboo with *RIVEmix*. The

[7] Different activities through which a product is transferred from the suppliers' facilities to the firms' and is then delivered to the final customer.

products' journey starts in three different Chinese cities and follows the same route as the one starting in Brazil (i.e., either through Algeciras or Rotterdam and ending in Leixões).

When considering the possession of the products arriving from Company X's suppliers, it is important to highlight the fact that ownership is only officially transferred to the company once it is provided with the bill of lading[8] (which arrives either before the products' boarding, during the transit or at the Portuguese port). Nevertheless, the product already belongs to the company during the shipping process (since it also pays for transportation insurance). In what the payment for the products is concerned, Company X currently employs different arrangements (e.g., at the time of the order, phased instalments) (Assistant Manager 2021).

Regarding the costs faced by the company throughout the process, the most noteworthy relate to the containers' area and load, shipping service and insurance, customs' taxes and dispatch, and finally, transportation from the harbor to the warehouse. Additionally, the final cost is affected by fluctuations in currencies and freight rates. For instance, if the US Dollar depreciates against the Euro, an entire order may be positively affected and lead to an increase in the profit per unit sold by Company X. As for the variation in freight rates, factors such as fuel expenses or governmental regulations may induce a costs upturn or decline. In the current state of affairs, global issues such as the COVID-19 pandemic and the U.S. vs China trade war have developed into relevant sources of fluctuation in overall prices and costs due to limitations in commercial activities. According to Statista (2021), due to the pandemic's impact, the international sea freight market is expected to contract by some 1.1% under the actual impact scenario and 7.3% in a severe impact scenario.

Given the importance of stock availability, Company X receives around 60 to 70 containers (with a dimension of 20 feet, i.e., 32.7 m^3) per year. Once in Leixões, the containers are placed

[8] "Legal document issued by a transporter to a shipper with logistical details such as the type of cargo, the quantity, and destination for the goods" (CFI n.d.)

in trucks and moved to Company X's warehouse in Braga by sub-contracted transportation services. After the final products arrive at the company's HQ, they are registered, labeled, and organized according to their category. Despite the fact that Company X currently owns two trucks that are used for deliveries up until a 60km distance, the common procedure consists of allocating roughly 2,000€ per month to the outsourcing of the distribution service to a specialized external entity (Assistant Manager 2021).

Company X's business model is focused on a B2B strategy targeting Resellers and Contractors. It is important to mention that B2C operations merely compose about 5% of the company's sales since the standard policy consists of redirecting end-customers to *Resellers* or *Contractors*.

Resellers are categorized by wholesalers, as well as installers and constructors with a project dimension of fewer than 1,500m^2. The former's core activity can be described as somewhat similar to the one performed by Company X in the sense that its focus lies in reselling floor coverings in a B2B system. The latter is composed of individuals or structured entities who find in Company X the main supplier for floor coverings to be applied directly at the end-customers facilities.

Conversely, *Contractors* represent large construction projects (with a dimension above 1,500 m^2) arising from either installers or constructing firms. Such projects are sometimes reliant on whether architecture studios previously recommend Company X's solutions to the constructing firm in charge of the large project.

The company's pricing policy relies on attributing a 15% discount over RRP to installers and constructors. Wholesalers are offered a 23.5% discount over the company's RRP, to which solid partners (i.e., companies who have been working with Company X for a significant number of years) receive a further price decrease, totaling a 30.4% customized price discount. Additionally, projects with Contractors do not involve predefined prices nor discounts as the values charged by Company X are established upon request and are highly dependent on the size of the projects and the type of flooring they require. This revenue stream does not embody a main priority for the firm as it, despite leading to an instantaneous high sales volume, results in relatively small margins, imposes tight deadlines and shifts towards the company the risk of facing a default scenario in case the project does not move forward (Assistant Manager 2021).

Overall, wholesalers currently represent 62% of the company's transactions with revenues amounting to 1.23M€. As for installers and constructors, their share of Company X's sales is 30% since 600,000€ were collected from this segment of the market. The remaining 8% are distributed across direct and other sales (**Appendix 8**).

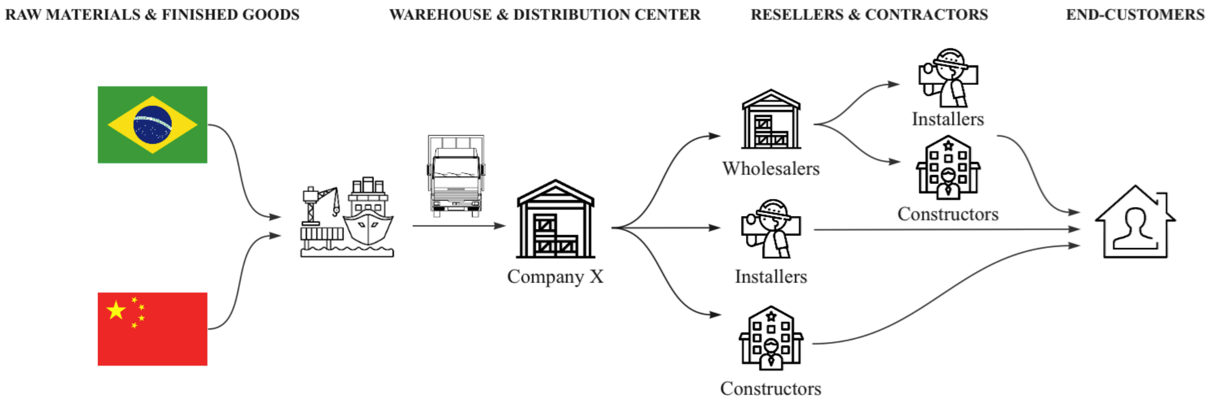

Figure 5 - Supply Chain

Source: (Assistant Manager 2021)

1.7. Strategy

According to Company X's Assistant Manager (2021), the firm presents a cost-differentiation strategy (i.e., dual strategy) working with a set of distinguished products, due to both their construction (significantly linked to its quality) and dimensions. These products are accompanied by a competitive price as a consequence of the sub-contracted network of suppliers who cover the firms' demands, as previously stated. Together with industry knowledge and good partnerships with suppliers, this versatility makes it possible for the firm to promptly adjust to market changes by producing new and competitive products (Assistant Manager 2021). As a matter of fact, the company delivers relevant differentiators in terms of quality, dimensions and variety. Nevertheless, its products may be easily replicable by established players in the market. Furthermore, although good relationships with traders and suppliers are key for achieving competitive prices (as a result of lower costs), they are not sufficient since if affected by negative externalities, they will strongly impact Company X's outcomes.

Moreover, the company's strategic decision-making process lacks solid grounds, as evidenced by previous attempts of internationalization. As a matter of fact, when entering foreign markets (namely, in Morocco), Company X made an early and unsubstantiated decision, driven by its urgency of making profits, which dictated its failure. Additionally, a structured product development strategy was never pursued, therefore, its product portfolio is not optimized (Assistant Manager 2021).

Having acknowledged its limitations, Company X has now established challenging goals for the upcoming years. Besides better structuring its decision practices, in a 5-year period, Company X aims to consolidate the opening of a delegation in Lisbon; to be present in, at least, one country; to position itself as a unique brand, which stands out in the market for its excellent quality and not for its low price; to be frequently prescribed by architecture studios; to have a maximum of 15 workers (associated with a solid fixed costs structure); to earn a fixed profit margin of 10%, considering a total revenue of 10M€; and, finally, to sustain an annual growth of 20% (Assistant Manager 2021).

1.8. Competitive Advantage

A company's success lies in how it can adapt to the external environment taken its strengths and weaknesses. If a company has strong *Resources and Capabilities* (referenced as *R&C,* from now on), it can more easily react to market and environmental changes. Being in a competitive industry is no longer enough, competitive advantage must be the main source of profitability (Grant 2016). In this next section, Company X's *R&C* will be listed and analyzed so it can be concluded if Company X has the competitive advantage and foundation needed to be successful nowadays and in the future with its possible expansion to new or better-suited markets.

Below are listed Company X's capabilities and resources classified according to the VRIO framework (Cardeal and António 2012). For more information on each resource and capability, consult **Appendix 9** and **10** respectively.

ID	Capability	Resources	VRIO Framework				Conclusion
			Valuable	Rare	Inimitable	Organized	
C1	**Quality Consistency**	Suppliers and traders network	X	X			Temporary Competitive Advantage
C2	**Stock Strategy**	Cash In Hand; Warehouse	X				Comparative Parity
C3	**Quick Delivery**	Delivery Vans	X				Comparative Parity
D1	**Unique Design**	Know-how	X	X	X	X	Sustainable Competitive Advantage
D2	**Digitalization**	Digital Channels	X	X			Temporary Competitive Advantage
D3	**Portfolio Differentiation**	Suppliers and traders Network; Own Brands	X	X			Temporary Competitive Advantage

Figure 6 - VRIO Framework

Company X's only Sustainable Competitive Advantage is its unique design. The large dimensions stand out in the market as most competitors offer smaller sizes. Company X's supply chain is organized in a way that allows for easier and less costly transportation of such sizes, compared to competitors. If there is relevant demand and the supply chain allows, Company X may be able to transfer this capability to markets abroad. To more easily visualize whether each *R&C* is relevant or strong against its competitors, an Importance-Relative Strength map was plotted. The goal is to identify which of the company's *R&C*s have a significant impact on its business (10 being the highest) and how they perform in relation to the competitors' (better performance if above 5; worse performance if below 5).

Figure 7 - Importance - Relative Strength Map

In Portugal, it seems that Company X's sustainable competitive advantage (D1) is both impactful and strong. As such, it may be advantageous for the company to enter a market where its unique design is just as important. It is important to notice that compared to other players, Company X has an interesting digital presence, however, this characteristic is not impactful enough to be considered a key strength. As a final remark, Company X's stock strategy is not considered a strength nor a weakness as there may exist companies with more capital to support its operations and suppliers may be quicker to deliver.

2. *Industry Analysis*

2.1. Definition

The floor covering market is often defined as the retail of finished materials (excluding the installation services) and categorized as a segment of the furniture industry. The scope of materials is wide, ranging from carpets, mats, and rugs to wooden flooring, laminates, and hard tiles. Considering the myriad options, the choice of these materials is determined by several factors such as the room's particularities, style, budget, installation requirements, and others. To shed light on the worldwide panorama, in terms of size, in 2019 the market amounted to

122,658M€, representing 11% of the global furniture market revenue (Statista 2020)[9]. The largest market was Asia, accounting for about half of the world's revenues. America and Europe are also strong markets, accounting for 31% and 20%, respectively.

The leading countries of the industry, considering revenues as the key measure, are United States, India, and China. In global comparison, the United States alone accounted for 21,429M€, representing the country with the highest generated revenue in 2019. One may infer that this fact relates to the rate of homeownership. Markets of home buyers might be foreseen as strong markets since people are more likely to invest in improving properties they own (Global Furniture & Floor Coverings 2020). In contrast, renters are typically spending less because they do not extract long-term benefits from home-renovations. The same logic might be applied to China, which is in the third place of the revenue podium, accounting for about 11.62B€ of revenues. Likewise, over the last five years, homeownership in China has hovered around 90% (Global Furniture & Floor Coverings 2020). The second place of the revenue podium is attributed to India, which accounts for about 17.43B€ of revenues. Although in this last case the high revenues are not explained through homeownership, it might be justified by the rapid expansion of the Asian Markets.

In recent years, the market has witnessed moderate growth. Therefore, even though the forecast dropped by 5,5% due to COVID-19, Statista points to an overall floor covering market increase at a CAGR of 4%, from 2019 to 2025 (Statista 2020).

The region that is expected to experience a stronger growth until 2025 is Africa (9,8%), followed by Asia (6,5%). Here, it is relevant to bear in mind that the Asian market is considerably larger in absolute terms, (in 2019 the Asian market reached 50B€ in revenues while the African stood at 4.15B€). Concerning the rest of the world, the CAGR is forecasted

[9] The scope of the market under analysis integrates carpets and other textiles, wooden flooring, linoleum and other plastic coverings, and laminate. One the other hand, hard flooring such as ceramic tiles are out of scope as well as other activities nor related to the sales.

to range between 2,3 and 2,8%, with Australia and Oceania displaying the highest growth rates per year, followed by the Americas and, lastly, Europe (Statista 2020).

Concerning the floor covering market trends, vinyl is forecasted to be one of the fastest-growing flooring products, being that will increase by 11.7% CAGR (MarketsAndMarkets 2020). Besides being cost-effective, the material exhibits durability and design flexibility, as already stated in the Product Section. Furthermore, consumer spending will also increase in rugs and carpets owing to the functionality and aesthetic properties (Statista 2020).

2.2. Porter's Five Forces

Porter's Five Forces was created by Harvard Business School professor Michael Porter, to analyze an industry's attractiveness and prospective profitability. In its publication, in 1979, Porter identified five forces that make up the competitive environment, and which can erode ones' profitability (Harvard Business Publishing 1979). Those forces being the *Threat of new entrants, Threat of substitute products or services, Bargaining power of suppliers, Bargaining power of buyers,* and *Competitive Rivalry*.

Applying the framework to the company under analysis allows for an evaluation of the degree to which rivalry among competitors leads to price competition and ultimately to lower profits. To perform such analysis, whenever there is enough information, the Portuguese industry will be analyzed. In turn, when the previous is not possible, the European industry will be used as a proxy.

For the sake of better comparability, each factor will be classified as either *Very Low*, *Low*, *Moderate, High,* or *Very High*.

2.2.1. Threat of New Entrants

This section is designated to infer the degree to which new competitors can enter the flooring industry and intensify rivalry. With such a goal in mind, several factors have to be mentioned starting with the strength of barriers to entry.

On the one hand, most players in this industry are already established companies, which have been in the sector for decades. The aforementioned are typically family businesses that transition from one generation to another. That, solely, helps explain the industry's requirement for having a strong relationship of trust between a company and its suppliers. A company, new to this industry, might be able to replicate the same products but will struggle in scaling its business. Consequently, suppliers are of hard access and, often, companies need the intervention of traders to act as intermediaries. Furthermore, the prospects for market growth are not very attractive – as previously mentioned, at around 4% market's CAGR (Statista 2020) – and the innovation potential is relatively low, demotivating companies to move into this industry.

On the other hand, as stated, the vinyl market has been on the rise. Since it is a relatively new way of floor covering, established companies have not yet saturated this product market segment allowing new players to jump on board and fill in the gap. Moreover, this industry has not yet seen the e-commerce boom and, consequently, most companies lack brand strength and a strong online presence (Statista 2020). Hence, new players can create new opportunities to enter the market by successfully exploiting niches and building online brand equity. This unexplored segment might open a new, more straightforward, and easier way of reaching the final customer as manufacturers can simply ship directly from their factories.

Overall, the *threat of new entrants* can be classified as *Moderate*.

2.2.2. Threat of Substitute Products or Services

This factor refers to the degree to which products of one industry can satisfy the same demand as those of another. A *substitute* is any product that satisfies a common need or desire (Carpenter and Sanders, Strategic Management Concepts and Cases 2014), also representing an alternative to the existing industry as a whole. Thus, it is widely agreed that floor coverings will not be substituted due to their nature and functionality. However, existing players might become obsolete for different reasons. The future of the industry comprises floorings combining a natural look with sustainability. Companies working with environmental-friendly materials such as bamboo or cork will most likely outperform their peers (MyMove 2020).

Overall, the *threat of substitute products or services* can be classified as *Very Low*.

2.2.3. Bargaining Power of Suppliers

Moving forward, this section relates to the degree to which firms in the supply industry are able to dictate terms to contracts and thereby extract some of the profit that would otherwise be available to competitors in the focal industry. *Supplier power* arises when suppliers are relatively concentrated, control a scarce input, or are simply bigger than their customers (Carpenter and Sanders, Strategic Management Concepts and Cases 2014). It is important to note that *suppliers,* in this analysis, will be divided into two different groups: *foreign manufacturers,* mostly from Asia and South America, consisting of big factories selling all over the world; and *local manufacturers,* Portuguese factories that either verticalized the whole supply chain or sell to resellers.

To start with, manufacturers of floor coverings typically have medium- to big-size operations. Many are specialized in the manufacture of one product type, such as carpet, decking, or wood. Due to the expertise required, backward integration by retailers into manufacturing is not common.

In *foreign manufacturers,* specifically, the existence of resellers as intermediaries is crucial to connect the retailer and the manufacturer. In most cases, the product is shipped from the factories in its final state, which means that all the remaining supply chain will simply be transferring the product to the clients' house. This increases the *bargaining power of suppliers*. Additionally, no single company has much power when bargaining with the larger wood and vinyl suppliers. These, however, have many possible firms to which to sell. Another reason why retailers are unable to control the market has to do with the fact that branding tends to be relatively unimportant to end-users, who are generally more concerned with the quality, price, and design of the product. Finally, the already mentioned requirements for a strong and lasting relationship with suppliers give rise to relatively high switching costs which, in turn, makes it difficult to switch suppliers.

On the other hand, there is low differentiation among suppliers because of the simplicity of the product, which, disregarding the high/moderate switching costs, limits supplier power. In addition, some manufacturers forward integrate by selling their products through their own factory retail outlets or online, but the majority still depend on retailers to market and sell their products.

In *local manufacturers*, although the conditions of the market are very similar, the proximity factor influences the behavior of the remaining players. The switching costs, in this case, are smaller due to the fact that establishing relations with another local factory is easier and faster than switching from a foreign one. Likewise, these local factories are smaller, which reduces their bargaining power since they depend on local resellers to vend their products. In spite of that, it is easier for these players to verticalize the whole supply chain because the market is smaller and, frequently, the factories are not as specialized as the *foreign manufacturers* are.

All in all, the *bargaining power of foreign manufacturers* can be classified as *High* and the *bargaining power of local manufacturers* as *Moderate*.

2.2.4. Bargaining Power of Buyers

The mirror image of supplier power, buyer power is the degree to which firms in the buyers' industry can dictate favorable terms on purchase agreements that extract some of the profit that would otherwise be available to competitors in the focal industry (Carpenter and Sanders, Strategic Management Concepts and Cases 2014). *Buyers*, in this analysis, will be divided into *contractors and resellers*, players who buy in big quantities either due to the deployment of large projects or due to economies of scale (buy in quantity at a discount and resell more expensive), and *final customers,* who buy from resellers and are looking to construct a house.

Floor covering purchases are for long-term use and are therefore infrequent. Often, *final customers* are highly influenced by architecture studios or similar players who work on a budget and have a final saying in the construction projects. Information about suppliers is scarce, hard to compile, and seldom reaches the *final customers,* mostly because of the considerable price competition among suppliers. Consequently, *final customers* barely make an informed decision when buying floor coverings, which reduces their bargaining power. What is more, individual buyers are not relevant – each represents a small portion of sales and, thus, cannot impose a big bargaining power among suppliers. Lastly, the threat of backward integration by the buyers is minimal for most of the industry, since customers able to produce their own floors are a negligible percentage. The application industry, however, might be under threat by this factor. Increasingly, buyers are able to buy vinyl floor coverings and install it themselves.

Conversely, the same does not apply to *contractors and resellers*. Working with big projects, *contractors* often choose one company from whom they will buy most floor coverings. These sales normally represent a big chunk of suppliers' sales volume, hence providing more bargaining power to buyers. *Resellers,* on the other hand, are composed of applicants, who sell and install the product at the clients' house, and wholesalers, who buy in large quantities and resell the products to the other players in the industry. These are also able to exert considerable bargaining power over suppliers due to their relevance and relations in the market.

Contractors and resellers are able to more efficiently negotiate prices and are also more informed about market conditions and price points. In general terms, they do not rely on intermediaries and frequently buy directly from the source.

The industry, overall, faces higher *bargaining power of buyers* when there is low differentiation between suppliers. Product standardization, i.e., when products of multiple competitors are effortless to compare and easily substituted (Carpenter and Sanders, Strategic Management Concepts and Cases 2014), makes for increased competition in the market which, in turn, leads to low switching costs from the buyers' point of view.

In general, the classification for the *bargaining power of buyers* is *Low* for the *final customer* and *High* for the *contractors and resellers*.

2.2.5. Competitive Rivalry

This section intends to evaluate the intensity of competition within the flooring industry, specifically in Portugal. The outcome associated with high degrees of rivalry is generally defined in terms of price competition. Thus, the most aggressive forms of competition include price wars. When firms are willing to sacrifice their margins through significantly lower prices, it can be assumed that the nature of the rivalry is very intense (Carpenter and Sanders, Strategic Management Concepts and Cases 2014). Consequently, higher degrees of rivalry result in lower levels of average industry profitability – the higher the price competition, the lower the average prices.

Despite having numerous competitors of similar size and power, the Portuguese flooring industry is characterized by companies somewhat scattered throughout different segments (Assistant Manager 2021). The latter aligned with the fact that every company specializes in a certain aspect of the supply chain leads to intensified price competition. Furthermore, when there is little differentiation between different competitor products, commonly, that is a sign of slow growth of the industry overall (Carpenter and Sanders, Strategic Management Concepts and Cases 2014). In the flooring industry, the previous can be observed, which increases even more price competition due to the lack of brand uniqueness in the eyes of buyers.

On the other hand, the cost of buyers related to switching from one brand to another is low for the reason that floorings are not easily replaced and normally require structural changes to one's home. In that sense, rivalry decreases as competitors feel compelled to motivate buyer loyalty with aggressive pricing (Carpenter and Sanders, Strategic Management Concepts and Cases 2014). Likewise, exit barriers are low since an outperformed player can easily sell its inventory to other market players.

To swift away from a price war, players have to find a new way of doing business, rather than competing on price. An example of good practice in the industry is the case of *Amorim Cork Flooring*. By renovating their brand image and their website to look modern and up to date, they were able to captivate the final customer and channel sales through their online store. "*Digital ecosystem*" was the name of their online marketing strategy where the customer would "research online and purchase offline" (construir.pt 2020). These sorts of initiatives are crucial in the current global panorama and define the longevity of brands in the industry.

In order to spot the distribution of the rivalry inside the industry, a Perceptual Map was designed using two dimensions: *Price* and *Performance*. Further information about the methodology used can be found in **Appendix 12.**

Figure 8 - Perceptual Map

Analyzing the Perceptual Map, the withdrawn conclusion is that the evaluated companies are seemingly scattered across the medium to the high-performance sector of the map and, additionally, a considerable concentration can be observed in the medium-performance / cheap-price section and the high-performance / high-price segment.

All things considered; *competitive rivalry* can be assessed as *Very High*.

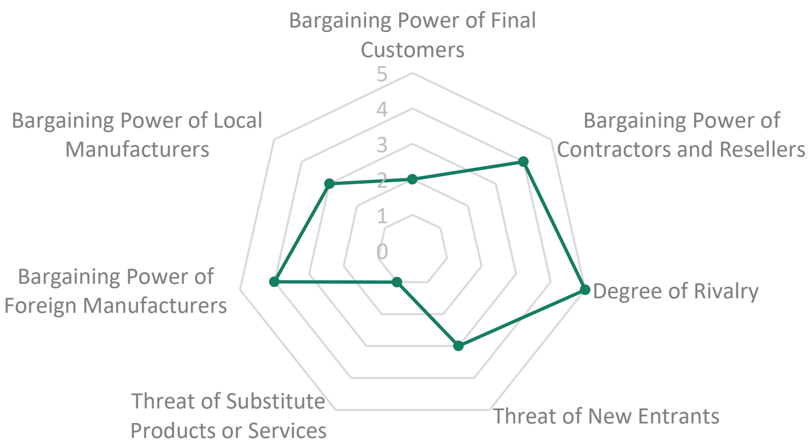

Figure 9 - Porter's Five Forces

The chart above illustrates and summarizes the points discussed throughout Porter's Five Forces framework.

2.3. Porter's Diamond

The Porter's Diamond framework evaluates four attributes that constitute a nation's advantage, "the playing field that each nation establishes and operates for its industries" (Porter 1990). This theory can also be seen as a display of one nation's conditions and traits that allow its companies to succeed in international markets. The four determinants composing the Diamond of National Advantage are *Factor Conditions*, *Demand Conditions*, *Related Supporting Industries* and *Firm Strategy, Structure and Rivalry*.

Due to the lack of sources and information focused on the Flooring industry in Portugal, the Wood and Cork industry was used as a proxy for most of the Porter's Diamond discussion.

The following sub-sections display the conclusions withdrawn from the implementation of the framework to the Portuguese context. However, each factor's detailed breakdown can be found in **Appendix 13**.

2.3.1. Factor Conditions

The weight of the industry in total GVA and total exports for the country has continuously been decreasing, but the respective growth in absolute terms shows potential for the nation to use this sector's conditions and recent developments in labor productivity as an international competitive advantage.

2.3.2. Demand Conditions

In summary, the Portuguese market demand can be classified as promising when focusing the analysis strictly on the forecasted rise in revenues for the industry and consumer spending per capita – 200M€ and 19,366.7€ in 2025, respectively (Statista 2021). Nonetheless, it is also important to highlight the fact that the type of demand representative of the Portuguese market is increasingly tilted towards unsustainable solutions.

2.3.3. Related Supporting Industries

All things considered, the logical deduction is that the recent developments in the Construction Industry, driven by foreign spending in outstanding real estate projects; tourism-related investments, and governmental policies and initiatives, demonstrate the sector's potential to be categorized as a competitive advantage for the nation.

Another conclusion extracted from the conducted analysis is that the Transportation Industry, although experiencing a significant decay in Portugal, may still be considered as a potential competitive advantage for the region due to the favorable conditions it provides.

2.3.4. Firm Strategy, Structure and Rivalry

The initially positive assessment of the Portuguese worldwide status is now reinforced by the scores the country achieved in the analyzed factors and, thus, it is proven that, in terms of firm strategy and structure, Portugal holds a robust international competitive advantage.

Considering the interpretations extracted from the *Porter's Five Forces* and the *Perceptual Map*, and since "the presence of strong local rivals is a final, and powerful, stimulus to the creation and persistence of competitive advantage" (Porter 1990), it becomes evident that this industry's rivalry represents a significant competitive advantage for the Portuguese region's global status.

3. Key Takeaways

3.1. SWOT and TOWS Analyses

With the purpose of summarizing the key features of Company X's business model and its surrounding environment, a SWOT analysis, based on the analyses provided by the previous sections, was conducted. Each dimension's elements were sorted from most to least impactful.

Strengths	Weaknesses
1. Industry experience and know-how 2. Reputation of trust and credibility with current suppliers 3. Efficient cost structure 4. Quick delivery 5. Strong quality-price ratio 6. Exclusive tiles' dimensions 7. Diverse product portfolio 8. Sustainable product line 9. Higher degree of digitalization than industry average	1. Weak firm structure and process implementation 2. Unclear positioning (Cost Leadership vs Differentation) 3. Accumulation of responsibilities in one unspecialized worker 4. Insufficient financial resources to grow 5. Outstanding debt hijacking the company's financial stability 6. Inconsistent marketing communication 7. Absence of digital tools' aid in the optimization of processes 8. Lack of market research to understand industry trends 9. Scarcity of human capital

Opportunities	Threats
1. Vynil is the fastest growing product in the industry 2. Environmental-friendly materials will increase in demand 3. Rapid growth in the Asian and African regions 4. Not a lot of companies have taken the digital leap yet	1. Market instability resulting from the global pandemic 2. High dependence on traders and suppliers 3. Currency and freight fluctuations 4. Risk of solely depending on the Portuguese market

Figure 10 - SWOT Analysis

With these aspects in mind, Company X must adapt its strategy when exploring new markets. A TOWS analysis was performed with the approach to be followed by the company and the existing relationships between *Strengths* (S), *Weaknesses* (W), *Opportunities* (O) and *Threats* (T).

	Opportunities	Threats
Strengths	**Strategies to make use of Opportunities through our Strengths** • S1/S2 + O3 – Exploit industry knowledge and relationship with suppliers to successfully expand to growing markets • S7 + O1 – Make use of the company's Vinyl line to benefit from this segment's current growth in the market • S8 + O2 – Focus its product mix on environmental-friendly solutions • S9 + O4 – Gain competitive advantage through digitalization	**Strategies to prevent Threats through our Strengths** • S2 + T2 – Leverage strong ties with suppliers to ensure consistency in quality and punctuality • S3 + T1 – Ability to face market instability through a robust cost structure
Weaknesses	**Strategies to make use of Opportunities to minimize Weaknesses** • O1 + W4 – Vinyl product line may boost sales and, consequently, allow the company to grow • O2/O4 + W2 – Associate the company with a Differentiation image through investing on environmental-friendly products • O4 + W2 – Make use of digital tools to convey the firm's desired positioning	**Strategies to minimize the potential dangers lying in sectors where Weaknesses meet Threats** • W4 + W5 + T4 – Explore other markets to create new sources of revenue • W9 + T4 – Contract more specialised workers

Figure 11 - TOWS Analysis

3.2. Diagnosis for Internationalization

Company X, as a growing firm in the Portuguese market, does not entirely rely on an expansion to foreign markets to ensure its survival and longevity. Nevertheless, the progressive strategy defined by the company is not achievable through limiting its operations to the national landscape. Therefore, an internationalization plan that goes in accordance with the company's size and available resources becomes a necessity to accomplish the delineated goals (Assistant Manager 2021).

Considering the potential hazards and complexities an international expansion may entail, it is crucial for a company to acknowledge them, in order to avoid irreversible damages, such as the ones experienced by Company X while expanding to Spain and Morocco.

Among the major drivers inducing the company to internationalize, it is important to underline a potential *increase in sales*, *increase in margins*, *reduction of risk*, *necessity*, extraction of *economies of scale and scope*, and, finally, *learning* and *knowledge sharing*. In fact, when faced with a saturated domestic market or untapped foreign markets, companies may achieve the aforementioned goals through the presence in the global stage. In the following paragraphs, a detailed description of each driver will be provided.

By internationalizing, Company X aims to increase its market size, leading to a prospective *increase in sales*. Although the Portuguese market is still expected to evolve at a 14.2% rate in 2021 (Statista 2021) – meaning that it is not saturated –, there is far more space to grow in other countries, as explained throughout the *Industry Analysis* section of this dissertation. In this sense, one may infer that there are untapped foreign markets, still unable to fill customers' needs, especially when considering developing countries. On the other hand, developed countries tend to present a fierce competition, becoming, in this sense, more easily saturated.

It is important to note that an increase in sales with this nature is usually preceded by *growing margins*. Such growth can have an origin in two main sources. For the developing countries scenario, the existence of a gap in the market (i.e., lack of rivalry and companies offering high-quality products and brand image) in those nations may allow the entering company to charge a higher price for its differentiated products. Additionally, by being recognized as higher quality brands, companies from developed countries may experience a higher demand. In the developed countries' case, higher margins would potentially come from maintaining the same production costs while serving customers with a higher purchasing power.

Another meaningful driver for Company X to internationalize consists of the *reduction of risk* achieved with this operation. More explicitly, through decreasing the dependence on a single location – Portugal –, the company will increase its market diversification, thus, spreading risk across its wider portfolio.

After careful research, *necessity* was identified as an additional engine for the internationalization locomotive. In this sense, it is important to highlight that the first argument the company uses as for why it intends to explore foreign markets is that it is part of its internal agenda. Furthermore, one may infer that, in an increasingly globalized and automatized world, customers' preferences are becoming highly uniformed (leading to similar tastes across different cultures). Moreover, these same preferences tend to be focused on brands with the ability to convey an international image (Lekshmi and Rajamani 2018). Overall, Company X aims to keep up with an ever-changing customer base, while establishing its strong position in the global arena.

The firm is currently able to sell most of the inventory it acquires, being limited only by its financial liquidity. By increasing the company's margins in the target market, Company X would also increase its purchasing power to acquire inventory. Therefore, *economies of scale* can be extracted by decreasing the marginal cost, due to the increased volume in purchases to suppliers.

Regarding *economies of scope*, three sources were identified as promising for Company X. Firstly, suppliers (i.e., resources) located in different countries may facilitate products' distribution across neighboring regions. Secondly, different nations demand distinct products. In this context, making use of the suppliers' geographical setting and existent raw materials allows for Company X to cover that distinctive demand using its current manufacturers. Lastly, in case the target countries are strategically and geographically linked to Portugal, Company X's current warehouse can be used.

Finally, by being present in international arenas, Company X may *learn* from and exchange *knowledge* with the environment target regions might provide. It is further important to mention that, besides the already stated in-and-out flow of expertise, there must be a similar movement of the same factor between local and international departments to solve potential flaws at both levels.

After recognizing the likely benefits that can be extracted from an internationalization process, it is also important to assess Company X's readiness to operate abroad. Considering the previous evaluation of the company's drivers for expanding overseas, together with the performed SWOT and TOWS analysis, it is possible to infer that Company X is ready to internationalize as long as the current resources and capabilities are properly exploited and further enhanced. Analogously, the benefits that can be obtained from both strengths and opportunities were considered to outstrip the limitations posed by weaknesses and threats.

More specifically, certain endeavors may be pursued by the company so as to successfully expand its operations. Firstly, and following both the environmental-friendly and vinyl global trends, the company may opt to increase its focus on this type of product lines. It might also combine the two tendencies by investing on eco-vinyl floorings (e.g., PVC-free solutions). Furthermore, and acknowledging the current lack of brand equity, Company X may make use of digital tools to achieve its desired positioning when operating in foreign markets. Another approach could consist in exploiting industry knowledge and relationships with suppliers to successfully recognise foreign markets' differences while providing customers with consistent quality and punctuality. Additionally, the company's reduced cost structure may be used as a vehicle to overcome financial limitations, potential market instability and unexpected fluctuations. Finally, a strong competitive advantage when dealing with foreign markets might rely on the differentiated tiles' dimensions.

4. Country Clustering and Ranking

4.1. Introduction

The present section aims to determine the most suitable international markets for Company X to enter, according to its industry's specificities and countries' features. In this context, two methods will be used: country clustering and country ranking. This preliminary selection phase relies on macro-level factors with the goal of decreasing the number of countries within the initial array and determining countries which qualify for further consideration.

On the one hand, country clustering aggregates groups of nations according to structural similarities in terms of legal, political, economic and cultural dimensions. The previous is particularly useful for companies that intend to standardize their offering across different markets (Cavusgil 2004). On the other hand, the ranking process places nations considering meaningful market potential indicators and according to weights attributed to underlying variables (Cavusgil 2004). By only highlighting the countries with higher scores, the latter facilitates the in-depth analysis and alters the database into a more manageable one. The joint combination of the aforesaid approaches provides "unique and highly valuable information that does not overlap" (i.e., while clustering lacks report on market potential, ranking fills this gap unveiling the most attractive markets).

4.2. Preliminary Analysis

In the preliminary market analysis, data from 202 countries was collected. As shown in **Appendix 15**, the information was gathered from a variety of reliable international sources such as OECD, Passport, World Bank, United Nations, among others. After, it followed a process of narrowing down the geography spectrum in order to select the countries with the greatest market potential, which is detailed below.

During the countries' selection phase, the first criterion employed was the lack of data which reduced the list to 100 countries. There were two main drivers for the chosen criterion.

First, the inevitability inherent to the missing information which forbade the validation of further decisions with the accuracy and depth the research in hand requires. In fact, the excluded countries presented a missing data rate of above sixty%. Secondly, it was denoted that the deleted countries shown unfavorable market conditions, namely social and economic.

The *Ease of Doing Business* was the second criterion selected, which resulted in the exclusion of 23 countries. This latter parameter measures whether a regulatory environment in a certain country encourages efficiency and supports freedom to do business (World Bank 2020). Given the bewildering choice of countries, the *Ease of Doing Business* was elected because of its wide scope of market conditions' evaluation. On top of that, there were several empirical studies that pointed to a relation between the *Doing Business* parameters and the growth, productivity and ease of trade for companies within a specific country (World Bank 2020). For instance, one criterion measured the time taken in procedures when trading across borders. The result of the aforementioned analysis might provoke postponements in a firm's exports thus delaying the sales and consequently reducing exports (C. V. Martincus 2015). In sum, it was an appropriate filter to analyze Company X's potential target markets.

At the end of the pre-selection, the research was conducted on 77 countries worldwide. The next section discusses the key attributes of the portfolio of countries screened to execute the clustering and ranking analysis.

4.3. Selection of the Variables

The analysis of the most relevant variables should be as collectively exhaustive and mutually exclusive as possible. To achieve the former, a compilation of various types of variables was gathered from different topics: both industry-specific and in a macro level (Economic, Political, Legal, Demographic, Cultural and Sustainability). This first screening included tests to make sure that the variables were indeed valuable. As a way of ensuring that the indicators were mutually exclusive, the *Pearson Correlation* method was applied to eliminate any interconnected variables that could spoil the results. **Appendix 17** includes additional information on the 35 initially chosen variables such as the units of the dataset and a detailed description.

4.4. Missing Data Analysis

When handling data, it is key to recognize the limitations caused by missing values. In order to address this challenge and minimize the bias potential, three procedures were employed.

Firstly, the proportion of missing data was below 5%. In statistics, when the number of missing values is below the mentioned threshold, its potential impact might be neglected in statistical inferences validation (Y. Dong 2013).

Additionally, an *MCAR* test was performed to ensure the remaining missing data would not foster a biased analysis. The abovementioned test was conducted using the *SPSS* statistical program and showed if the data was missing completely at random (i.e., there was no cause affecting why the data was missing) (Rubin 1976), a scenario that constitutes the *MCAR* test's null hypothesis. Since the result gathered from the test was above 0.05, it was concluded that the data was completely random (C. V. Martincus 2015).

Lastly, the analysis proceeded with the imputation of the missing data (i.e., attributing one set of plausible values). The method adopted was the *single imputation*, which consists in the replacement of values defined by a certain rule (C. V. Martincus 2015). Although the previous is a potentially biased method, two different approaches were applied to mitigate the risks.

The first technique lied on the *hot deck imputation*, consisting in using the mean observed values of a data cluster with similarities. The method is more reliable than the simple mean, which might underestimate the variability of a dataset (C. V. Martincus 2015). The categorization was geographical, as the world was prior divided by regions. **Appendix 16** discriminates this process.

The second approach followed the *cold deck imputation*, a procedure in which the value is replaced for one constant in another data source with the same indicator.

4.5. Pearson Correlation

After deciding which variables were to be considered, a *Pearson Correlation* analysis was performed in order to measure the strength and direction of linear relationships between pairs of continuous variables (Kent 2021). The statistical software *SPSS* was used in order to return the correlation table between all the considered variables. Those with a significant statistically linear relationship would distort the analysis and lead to wider confidence intervals that produce less reliable probabilities in terms of the effect of independent variables in the model. This phenomenon is called *Multicollinearity* (Kent 2021).

To solve the aforementioned issue, a critical analysis was carried out in which variables with more than 0.75 statistical correlation were considered to have a high correlation (Kent 2021). In such cases, if the variable presented similar issues with multiple others would be eliminated. However, in certain cases where either the correlation was high but not significant or the variable was considered of outmost importance, it was not left out. The following correlations fell in the previous criteria:

Variable 1	Variable 2	Pearson Correlation
Corruption Perception Index	Logistics Performance Index	0.801
Corruption Perception Index	GDP (PPP) per capita	0.793
Construction Industry Market Size	Population	0.761
Index of Furniture and Furnishings, Carpets and Other Floor Coverings Prices	Exchange Rates Volatility	0.865
Logistics Performance Index	GDP (PPP) per capita	0.764

Table 4 - Pearson Correlations

4.6. Standardization, Rescaling and Inversion

After assessing the different levels of correlation, and since the variables under analysis were extracted from their sources with different units, a standardization procedure was followed using SPSS and the corresponding z-scores[10] were obtained to convert the observations into normalized values (ranging from -3 to 3). Any z-score smaller than -3 or above 3 was deemed to be an outlier (CTSpedia 2011). However, such outliers were not excluded from the statistical analysis since those values were considered to be significantly relevant. As a matter of fact, countries predicted to under- or over-perform when compared to global standards presented extremely negative or positive values, respectively.

Once concluded the standardization procedure, a rescaling process[11] was followed, where the previous scale (ranging from -3 to 3) was converted into a 0 to 100 scale, to ease the

[10] "Measures the number of standard deviations that a given data point is from the mean." (CFI n.d.)
[11] ((X – Min) / (Max – Min) * 99) + 1, where *X* represents the observed value, *Min* is the minimum value observed for the variable and *Max* is the maximum value observed for the variable.

withdrawal of conclusions. For particular variables[12] where the impact on each country's final score was expectedly reversed (i.e., the higher the observed value, the more adverse the outcome was forecasted to be), an inversion technique[13] was implemented with the purpose of accounting for the previous effect while rescaling the results.

4.7. Country Clustering Methodology

To perform the country clustering, 77 countries and 14 variables were considered. Despite the fact that, according to the literature, this method only considers variables inherent to the country (excluding the ones related to market potential), industry-specific were also included to increase the analysis' accuracy. In this sense, from the initial set of variables, the ones presented in **Appendix 17** were handled.

Taking into account that *a priori* the number of clusters is unknown, the *hierarchical clustering* method was selected. Following this, the *squared Euclidean distances* and *Ward's clustering algorithm* were used, aggregating the various clusters among the initial dataset as proven in **Appendix 19**.

Throughout the process several limitations were found, namely the reliance on secondary data, absent of countries' comparisons and outdated in some cases, and the exclusive reliance on macro indicators at the expense of industry-specific ones. Acknowledging the lack of comparability across countries, Hofstede's dimensions were transformed into an index based on the Portuguese scores (Company X's country of origin), underlining the idea that international markets should be considered a continuum instead of similar or dissimilar (Luqmani, Yavas and Quraeshi 1994). Furthermore, after performing diverse sensitivity analyses, it is possible to infer that when including industry-specific indicators, better results

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[12] *Index of Furniture and Furnishings* (...); *Current Account as a % of GDP*; *Peace Index*; *Exchange Rates Volatility*.

[13] ((Max – X) / (Max – Min) * 99), where *X* represents the observed value, *Min* is the minimum value observed for the variable and *Max* is the maximum value observed for the variable.

were obtained. In turn, as more variables were excluded from the analysis, the more the dendrogram was vague and ambiguous (**Appendix 20**).

4.8. Weighting

When considering the analyzed variables, different levels of importance and potential impact were associated to them depending on their category. Grounded by the variety of general and industry-related evaluations conducted throughout this dissertation, a sensitivity analysis was performed to establish the percentual influence to be assigned to each variable.

Firstly, *General* and *Industry* were defined as the two main types of variables, to which weights of 60% and 40% were assigned, respectively. The *General* category was considered to have a marginally higher burden on the final score due to the relevant insights it provided involving varied features of the regions and the fact that it comprised a significant number of subcategories, namely, *Economic*, *Demographic*, *Political*, *Sustainability*, *Legal* and *Cultural*.

The *Economic* subcategory was attributed a 23% weight (noticeably the highest among those pertaining to the *General* category) distributed across its 5 different indicators, denoting the major importance of assessing the countries' financial stability, forecasted growth and global performance. Regarding the *Demographic* class, a minimal weight of 3% was ascribed to its 2 variables as they are merely indicative of population and target class size. The *Political* type of variables totaled a magnitude of 12%, a significant percentage distributed across the 3 indexes this subcategory contains, since it is crucial that the chosen countries present democratic and administrative stability. *Legal* features of the regions were assigned a weight of 14% not only because of their relevance in assessing the ease of doing business and economic freedom, but also due to their expected observations' accuracy (a result of the 8 variables considered for this dimension). Due to its increasing relevance in companies' positioning and market-entry strategies, the sole *Sustainability* variable considered for this analysis – *Environmental Performance Index* – was contemplated as having a 3% significance for the final score. The 3 Hofstede's cultural dimensions considered for the *Cultural* subcategory were assigned a 6% influence, reflecting the relative importance of correctly approaching foreign countries' independent preferences.

Finally, weighting the different types of variables according to their proportional relevance allowed for an accurate scoring of 0 to 100 for each region included in the previously defined clusters.

4.9. Final Countries' Selection

Taking the average ranking of all the countries in each of the final clusters, the top 5 were chosen for further analysis. The clusters with the highest-ranking average were the Anglo-Saxon Group (cluster 13), the Northern Europe Group (cluster 12), the Central Europe Group (cluster 12), the Western Asia Group (cluster 20) and Singapore (which represented a cluster alone, cluster 17). The first criterion to understand which countries should be further analyzed was selecting the countries with the highest performing overall score inside each cluster. This would lead to the following list of countries: USA, Germany, Denmark, Japan and Singapore.

However, Singapore's market was of a small size compared to the investments that would need to be made. As such, the group decided it was best to choose another country from the highest performing cluster, the Anglo-Saxon Group. In this cluster, after the US, New Zealand presented the second-best ranking in the cluster and in the overall analysis. Much like Singapore, New Zealand presented a limited market size and, as such, Australia was selected to be the 5th country to be further analyzed.

The final countries chosen for analysis were the US, Denmark, Germany, Japan and Australia, from 4 different clusters.

5. *In Depth Analysis*

5.1. Methodology

In this chapter, the chosen countries were thoroughly analyzed. Such assessment takes form in a macroenvironment and industry analysis.

Firstly, an overall environmental analysis was conducted where context around each of the 5 candidates was built using a PESTLE framework.

Secondly, the industry of each country must be carefully investigated. The first part is a reference to the size of the market. For such exposition, a variation of the *TAM SAM SOM* model was used. The Total Available Market corresponds to the total revenue of the floor covering industry, as a way to demonstrate the market size. Since Company X will most likely use exportation as its entry strategy, the Serviceable Available Market is the value of floor covering value that is brought through imports to the country. This analysis shows how dependent each country is on imports as a response to their population's demand for floor covering products.

The next step was understanding how relevant floor covering was for each country's citizens and therefore, how much they are willing to spend on this sector. To evaluate exactly that, the average expenditure on floor covering per house was calculated[14].

Next, the relation between the candidate country with Company X's current trading countries (China and Brazil) and with Portugal (as national products could be used to export) was analyzed. The exposé was focused on the generic relationship between the countries and the tariffs associated with each candidate country. These tariffs were evaluated for assembled wood flooring panels, plastic and rubber floor coverings, carpets, linoleum and ceramic floor tiles. Even though the last three types are not part of Company X's current portfolio, they could

[14] Calculated by taking the market size of furniture and floor covering, using the ratio of furniture and floor covering expenditure to isolate floor covering expenses and finally dividing that result by the housing stock.

potentially become interesting products if demand for such products is relevant and if the barriers-to-entry are considerably lower.

After assessing how big and open the markets are, the bureaucracies involved in an export trade must be considered. In this subcategory, legal processes related with exporting to the candidate countries were scrutinized based on how quick or expensive it is to settle a company and how taxes are conducted. At this stage, the overall attractiveness of each country in terms of market size, tariff and non-tariffs barriers and bureaucratic obstacles is assessed.

Finally, an analysis about the concentration of the market was developed. This was based on the percentage that the top 5 companies with the highest revenue represent related to the total market revenue specifically for the floor covering segment.

Ultimately, weights for each dimension were given and the final candidate to internationalize was reached through a 1-5 rating to each dimension.

5.2. USA

5.2.1. PESTLE Analysis

5.2.1.1. Political context

The USA is a constitutional federal republic and is constituted by 3 main political branches: legislative (entrusted to the Congress, the Senate and the House of Representatives), executive (entrusted to the President, Joe Biden, member of the Democratic Party) and judicial (entrusted to the Supreme Court) (The World Factbook 2021). The inhabitants are subject not only to the federal government, which is composed by 50 states, but also to state and local ones.

The people of The United States have become more engaged in politics the year of 2020 and the government addressed its problems in regards of police violence and racial injustice (Economist Intelligence Unit 2020). However, according to the Economist Intelligence Unit (2020), the negatives outweigh the positives: there is little trust in institutions, the government has been having problems with its functioning, there are threats to freedom of expression and the people are deeply divided when considering their core values (Economist Intelligence Unit 2020). As such, in 2020, the USA was considered a “flawed democracy”, with a score of 7.92 (the lowest yet) in the Democracy Index (25th worldwide, just above Portugal). In terms of corruption, the US is in the 25th position worldwide, a lower position compared to last year partly because of anti-corruption and government accountability concerns over an 830B€ COVID-19 relief package (Transparency International 2020).

In terms of conflicts, the USA has seen the first increase in peacefulness since 2016. Despite the country’s militarization (thanks to the weapon trade) and its involvement in small overseas conflicts, the America saw a decrease in its homicide rate, terrorism impact and deaths from internal and external conflicts. However, the US is still far from excellence given its 121st position in the Global Peace Index (Institute for Economics & Peace 2020).

5.2.1.2. Economic context

Besides all its political influence, the USA is considered the largest economy in the world with a GDP of 17,789B€ (The World Bank 2019). Being a first-world country, most of its GDP is generated through the service sector more specifically the services related with finance, insurance, real estate, renting and leasing (about 21% of GDP in 2019) and professional and business (about 12.7%) (Statista 2019). The COVID-19 crisis opposed a serious obstacle for its growth and, according to the IMF, 2020 finished with a GDP contraction of -4.3%, less than the average of advanced economies (-5.8%) (International Monetary Fund 2020). The IMF projects a 5.1% increase on the US GDP in 2021 and 2.5% in 2022 (International Monetary Fund 2021).

With this global pandemic, the US saw its government balance decrease to -15.8%, however this number is set to increase in the next few years (International Monetary Fund 2021). Currently, its gross debt position is at 127.1% of GDP (International Monetary Fund

2021). To fight this, the US has been printing money in the economy as a way to recover from the crisis (Santander Trade Markets 2021). Inflation levels are expected to arise from 1.5% in 2020, to 2.8% in 2021 and 2.1% in 2022 (International Monetary Fund 2021). Unemployment is also expected to decrease from 8.9% to 7.3% during the same time period (International Monetary Fund 2020).

When it comes to trade, the US current account is projected to be -2.1 as a % of GDP for both 2020 and 2021 (International Monetary Fund 2020). In 2020, the United States traded more than 2,600B€ (Statista 2020). With its high-income economy, the country is both the biggest importer in the world (Statista 2021) and the second biggest exporter (Statista 2021). In January 2021, most of US's imports came from China (19.1%), Mexico (14.2%) and Canada (12%), which shows just how crucial US-China relationships are (United States Census Bureau 2021). With the new elected president Joe Biden, it is expected that trade relationships with both Europe and China will improve (Santander Trade Markets 2021).

5.2.1.3. Social context

The US is the third biggest country in the world when it comes to population - 333,340,309 inhabitants (United States Census Bureay 2021) – and 80.7% of it lives in urban areas (United Status Census Bureau 2021). Most Americans live in the east or west coast.

The Human Development Indicator reveals that the US is in 17th place in terms of development, scoring 0.926 compared to the global average of 0.737. Adding to that, and according to the OECD Better Life Index (2020), the US ranks the highest in satisfactory housing conditions ("households on average spend 19% of their gross adjusted disposable income on keeping a roof over their heads, below the OECD average of 20%" (OECD 2020)) and is above the OECD average for most criteria, with the exception of work-life balance, ranking 29/40. In general, life satisfaction of the average American scores 6.9 out of 10, above the 6.5 OECD average.

When comparing Portugal with the US, the latter seems to be significantly more individualistic (being one of the cultures scoring the highest in this parameter, scoring 91 compared to Portugal's 27) and there seems to exist less uncertainty avoidance (46 vs 99). The US scored higher in masculinity (62 vs 31) and indulgence (68 vs 33) (Hofstede Insights 2021). As such, the United States is a country with less rigid hierarchies, informal communication, works according to a "winner-takes all" attitude, people are more willing to try something new and tend to have a relatively weak control over their impulses (Hofstede Insights 2021).

5.2.1.4. Technological context

The country has been in the front face of technological advancements ever since its industrialization. According to the Global Innovation Index (Cornell University; INSEAD; World Intellectual Property Organization (WIPO) 2020), the United States ranked 3rd as the most innovative country and 1st concerning its quality of innovation.

The business sector is the largest producer with about 72% of total R&D expenditure (National Science Foundation 2018) and, nowadays, these innovations are centered around IT giants like Alphabet, Microsoft and Facebook (Visual Capitalist 2021). However, the country may give up the title soon as it is losing the lead on gene editing and artificial intelligence (National Science Foundation 2018).

In 2020, the US only grew its R&D expenditure by 3.4%, while China raised it by 8.6% and India by 5.5% (Cornell University; INSEAD; World Intellectual Property Organization (WIPO) 2020). An article from Bloomberg (2020) showed that the US has fallen to the 9th place according to their 2020 Innovation Index, but still claims number one in high-tech density and patent activity.

5.2.1.5. Legal context

The legal system in the US works according to common law, contrasting with the civil system adopted in Portugal[15]. The rule of law in the US is relatively efficient (World Justice Project 2020). According to the WJP Rule of Law Index (2020), it ranks 21st worldwide but, within its income group it merits the 21st position out of 37 countries within the range. Its order and security are efficient scoring highly in the index but both the civil and criminal justice lag behind, ranking consequently at 36th and 22nd out of 128 countries. As such, it seems that even though the USA is able to efficiently implement its rule of law, the country does not seem to efficiently provide its population with access to justice (Mathews and Botero 2010).

The US has the 20th freest economy in the world, scoring 74.8 in the Economic Freedom Index (Heritage 2021). Compared to the country's income level median, the USA has a slightly higher ability to promote the private sector, scoring 1.35 in relation with the median of 1.1.

Finally, The US is one of the best countries to start a business. According to the World Bank (2020), the United States of America is the 6th easiest country to do business, especially when it comes to getting credit (95/100 score), starting a business (91.6/100) and resolving insolvency (90.5/100).

5.2.1.6. Environmental context

According to OECD's Better Life Index (OECD 2020), the US is doing fairly well compared to its neighbors when it comes to environmental indicators, ranking 12th in air pollution quality and 23rd in water quality, comparing to 40 countries. Additionally, the country is also promoting the re-usage of contaminated areas for renewable energy (OECD 2020).

[15] The main difference between the two is that in common law: "There is not always a written constitution or codified laws; Decisions of the highest court can generally only be overturned by that same court or through legislation; there's extensive freedom of contract - few provisions are implied into the contract by law; generally, everything is permitted that is not expressly prohibited by law." (The World Bank 2021).

However, the country still has a long way to be considered an environmentally friendly place. (OECD 2020).

In 2019, the USA was considered the 2nd biggest polluter in the planet in terms of CO_2 emissions (Statista 2019). On June 1st, 2017, Donald Trump announced the country would be withdrawing from the Paris Agreement (The New York Times 2017). This was a major step back for the country. However, when the Biden administration came to power, an executive order was quickly signed to rejoin the global environmental agreement (The White House 2021). This gives hope that the country will start actively implementing sustainable measures to reduce its climate footprint in the world.

5.2.2. Industry Analysis

5.2.2.1. Market Size

Once with an overall analysis of the country, a more detailed analysis can be conducted with the focus on the industry Company X performs. In 2021, the USA is the country that generates the most revenues (21,331M€) followed by India (19,680.96M€) and China (13,283.32M€) (Statista 2021). This value is estimated to increase to 22,097M€ in 2022, with a 3.6% 2021-2022 growth rate (Statista 2021).

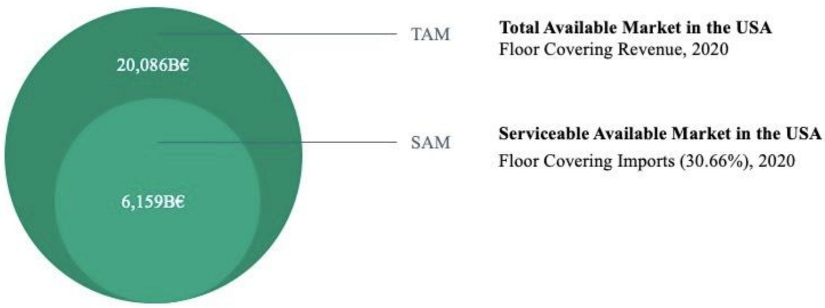

Figure 12 - TAM SAM USA

Source: (Statista 2020) & (MarketLine 2021)

The recent market growth was mainly driven by a rise in urbanization, in consumer confidence, increase in single-family home construction and the expansion of the building and construction markets (Mordor Intelligence 2020). The vinyl segment seems prominent in the US as the cost-effectiveness, ease of installation and durability are especially appealing to the public, mainly when it comes to residential construction and renovation activities (Mordor Intelligence 2020). According to Mordor Intelligence (2020), the main obstacle to growth is the volatility in prices of raw materials.

To understand the demand side of the market, the average expenditure in floor covering was calculated. In 2020, the US spent 178,571.7M€ on furniture and furnishings, carpets and other floor coverings (Passport 2020). Furthermore, 73% of this value was spent on furniture, showing that Americans spend about 48,214.359M€ on floor coverings (MarketLine 2021). Taken that in 2020 the housing stock was 140 573 600, on average, each American house spent about 342.98€ on floor coverings in 2020.

5.2.2.2. US Relations with Portugal, Brazil & China

Portugal and the USA have bilateral ties that move back to 1791, when Portugal was the first neutral country after the Revolutionary war to recognize the US (Bureau of European and Euroasian Affairs 2020). Since then, the two countries have established a strong link and Portugal considers keeping a close relationship with the US a priority in its foreign policy (Bureau of European and Euroasian Affairs 2020). According to Essential Business (2020), the bilateral economic relation is improving significantly, and volumes of trade are expected to increase. The US is Portugal's largest trading partner outside EU and there is a significant US investment in the technology, banking, pharmaceutical and chemical industries (Bureau of European and Euroasian Affairs 2020). The US and EU signed a deal (Transatlantic Trade and Investment Partnership) that significantly helped SME's export to the country, and where Portugal is also included (European Commission 2015). When it comes to tariffs, the US charges the highest in vinyl products and wood panels however both linoleum and ceramic flooring enjoy duty-free importation. For more information on tariffs, consult **Appendix 21**.

China is the US' third largest export partner and China's biggest export partner. As the US trade deficit with the country increases, economic pressure grows. At the moment, the US seeks to control its inflow of Chinese goods and has pushed for a decrease in Chinese trade restrictions and enforcement of intellectual property rights (Bureau of East Asian and Pacific Affairs 2018). In 2019, new tariffs were imposed on floor covering products (wood, vinyl and ceramic tiles) and, as a consequence, many companies were forced to sacrifice its margins. The US is highly dependent on Chinese suppliers to source the increasing luxury vinyl tile (LVT) market. Although the domestic demand unsuccessfully tried to absorb the loss, the US lacked the experience to produce innovative products, an important factor for this market (Bernard 2019). In August 2020, most vinyl products were freed from the Trump 301 tariffs. Chinese engineered wood products continue to be subject to the 25% tariffs and importation costs increased. The importers are subject to 3 other tariffs: anti-dumping, a countervailing and a standard duty. According to the OEC (Observatory of Economic Complexity 2018), importing from Portugal or from China seem to have similar levels of tariffs. However, with the additional 301 China tariffs implemented during the Trump administration, these original tariffs related to the products Company X would eventually export are subject to additional tariffs.

As two of the biggest countries in the continent, the US and Brazil keep close political and economic relations. The two are tied in many agreements such as the *Partnership for Conservation of Amazon Biodiversity (PCAB)*, the *Partnership Platform for the Amazon (PPA)* and *Mais Unidos*. Economically, Brazil is the US' second largest trading partner and the US is the second largest export market to Brazil. As of tariffs, when exporting to the US, most of the floor covering related products are duty free with the exception of carpet materials. Most products fall into the Most Favored Nation duty rate treatment but many of the assembled wood and carpet Brazilian products are free from importation fees as they are subject to the *United States Generalized System of Preference*.

5.2.2.3. Starting a Business and Taxes

It is important to analyze what type of conditions Company X may need to face when entering a new market. In general, the country ranks 6th place in the ease of doing business index (The World Bank 2020), with a score of 84, the highest in the continent. When starting a business, the USA is not one of the easiest countries to move to, being in the 55th place worldwide, although this figure has improved compared to last year. The associated costs in a city like New York would be around 601.75€ and 643.25€ and it would take around 5 days to set up. The procedures will be the biggest barrier (scoring 70.6 out of 100) in this subcategory. It is also becoming easier to pay taxes (25th easiest country to do so). The profit tax is around 20.2% and the labor and contributions represent 10% of the profit. The total tax and contribution rate (as % of profit) is 38.9% and the post filling index is exceptionally good, scoring 94 against the OECD average of 86.7. However, it takes more time to prepare, file and pay those taxes, a total of 175 hours per year. Finally, the trading across borders score is 92, the 39th of the rank. For a detailed list of the entities Company X should contact in case it decides to enter the American market, consult **Appendix 22**.

5.2.2.4. Competitive Landscape

When it comes to competition, SME's seem to be increasingly gaining market presence related with new technological advancements and product innovations by expanding to new markets and closing new contracts. Mordor Intelligence (2020) considers that the floor covering market in the US is fairly fragmented and competitive in a global scale. However, the floor covering market is monopolistic driven by a strong influence of the top 5 manufacturers, where, all together, are responsible for almost 50% of the market's revenue. These main manufactures are *Mohawk Industries Inc*. (with revenues of 4.59B€ in 2020 (Mohawk 2020)), *Floor & Decor Holdings, Inc*. (2.02B€ in 2020), *Shaw Industries Group Inc*. (1.38B€[16] in

[16] Please keep in mind that this number refers to the parent company as subsidiary values were not found.

2020), *Engineered Floors* (0.98B€[17] in 2020), and *Mannington Mills Inc.* (657.8M€[17] estimated for 2021) (Orbis 2021). For more information on other import competitors in the market, consult the **Appendix 23.**

5.3. Denmark

5.3.1. PESTLE Analysis

5.3.1.1. Political context

Denmark represents a constitutional monarchy grounded on a parliamentary democracy. The country distinguishes two types of political power: legislative and executive. Theoretically, the Monarch Queen Margrethe II is considered the head of the state, holding all executive powers. Nevertheless, in practice, the aforementioned are performed by the Prime Minister Mette Frederiksen, leader of the Social Democrats, on behalf of the monarch. In turn, the legislative power is unicameral and held by a 179-seat parliament, the People's Assembly or "Folketing".

Since the Spring of 2020, the Social Democratic Party has been increasingly getting support due to both an early response to the ongoing sanitary crisis and the government's involvement in the promotion of an austerity policy within the EU, which aimed to decrease the portion of grants in the EU's recovery fund. In November 2020, however, and following the discovery of a COVID-19 mutation, the Danish state was strongly criticized after proposing a mass cull of the mink population (Santander Trade 2021).

The previously mentioned decision culminated into protests and consequent resignation of the Minister for Food, Agriculture and Fisheries. Even considering the COVID-19 measures adopted, Denmark was able to sustain its statute of "Full Democracy", ranking in the 7th position, with an overall score of 9.15, according to the 2020 EIU Democracy Index (EIU 2020).

5.3.1.2. Economic context

The Danish economy is portrayed by an equitable income allocation and extensive government welfare policies. The country presents a GDP PPP per capita of 49,941.35€ (World Bank 2019), one of the highest in the world. Over the last three years, government spending accounted for 50.6% of the total output and budget surpluses amounted to 1.5% of GDP, on average. Although successful – with a GDP of 290,586.59M€ –, Denmark is heavily reliant on foreign trade. On the grounds of this lies the country's small size, together with an open economy and a balance of payments surplus.

Due to the COVID-19 outbreak, the nation witnessed a profound contraction in GDP of around 7.7% in the first semester of 2020. Nevertheless, in the second half of the year, driven by private consumption, the Danish economy partially recovered, with the GDP contraction decreasing to 4.5%. The ongoing crisis also triggered the increase of the debt-to-GDP ratio, but the country still displays one of the lowest ratios in Europe – 34.5% of GDP in 2020. Additionally, as tax receipts dropped, budget revenues faced a significant decrease.

Finally, in 2020, although the unemployment rate escalated to 6.2%, it was counterbalanced by a governmental wage support measure, to constrain substantial layoffs. In 2021 and 2022, as soon as domestic and external demand return to normal, the country's real GDP is predicted to rebound, respectively, 3.5% and 2.5%. Despite high levels of uncertainty, the European Commission further expects private consumption to expand by around 4.7% and 3%, in 2021 and 2022, correspondingly. Denmark's deficit is also expected to achieve 1% in 2021 and 0.5% the following year, and the unemployment rate is predicted to drop to 6% in 2021 and 5.7% in 2022. Inflation, despite reasonable in 2020 (0.4%), is projected to increase by 0.9% and 1.2% in the next two years as a result of low oil prices and severe decline in consumption (Santander Trade 2021).

Regarding trade, Denmark presents a trade balance surplus, having exported and imported, respectively, 91.88B€ and 81.17B€ of goods in 2019. The nation's most relevant trading partners are mostly members of the European Union, namely Germany, Sweden, Norway and the Netherlands, while the US and the UK still account for a significant proportion of its trade values (Santander Trade 2021).

5.3.1.3. Social context

Denmark has approximately 5,807,372 inhabitants, and a share of 88.2% of the population living in urban areas (Worldometer 2021).

According to the OECD Better Life Index, Denmark performs particularly well (i.e., above OECD average) in parameters such as education and skills, housing, jobs and earnings, personal security, work-life balance and economic openness, which translates into a society with conscious consumers, especially regarding health and environmental concerns. Although there is still room for improvement in income and wealth, where it scores below OECD average and presents high levels of fiscal burden over companies in both private and public sectors, its available income is still above the European average, meaning that Denmark is receptive to innovative products and ideas (OECD 2020).

When defining the best strategy for entering a market, cultural similarities and disparities are to be considered. For this purpose, Hofstede's dimensions were used. By comparing Portugal with Denmark, it is possible to infer that there is a substantial divergence in terms of *Uncertainty Avoidance*, where Portugal scores 99 and Denmark 23, meaning that Danish inhabitants do not rely on a defined structure nor plan in their work life, being barely sensitive to unpredictable circumstances. Discrepancies in terms of *Power Distance* are also observed, with Portugal counting with a rating of 63 and Denmark with 18, evidencing Danes' ability to coach – in detriment of lead – and promote employee autonomy. Lastly, the two countries further differ considerably in the *Indulgence* dimension, with Denmark scoring a value of 70, which contrasts with a score of 33 for Portugal, underlining the Danish tendency towards optimism and their predisposition concerning enjoying life and having fun (Hofstede Insights 2021)

5.3.1.4. Technological context

The Danish technology functioning will be assessed by means of the *Digital Economy and Society Index (DESI)*, where the country ranks in the 3rd position out of the pre-Brexit 28 EU Member States. The most relevant progress was made in terms of connectivity improvement, where it ranked in the 1st position in 2019, compared to the 3rd one in 2018. As a matter of fact, the coverage of both 4G and NGA in the country is 100%, exceeding the EU average. SMEs in Denmark have been progressively reshaping their businesses, shifting to an increasingly digital economy, and those selling online are gradually leveraging their e-commerce turnover performance.

Recently, the Danish government developed the "Strategy for Denmark's Digital Growth" which intends to improve citizens' digital skills and incorporate the use of new technologies, for Danes to be equipped for the future digital economy and to foster growth and prosperity in the country. The government further settled the "Danish Cyber and Information Security Strategy 2018-2021" to enhance information and cybersecurity in diverse sectors, namely, healthcare, telecommunications and transport.

5.3.1.5. Legal context

The Danish legal system is ruled by both civil law and the judicial review of diverse legislative acts (Santander Trade 2021). The *Index of Economic Freedom* indicates that Denmark is the 10th freest economy in the world and the 5th in Europe, scoring 77.8. In terms of *Rule of Law*, the protection of property rights is fiercely implemented, and the judicial system is impartial, independent and reliable, being institutionalized right through the economy. The Danish legal system is ruled by both civil law and the judicial review of diverse legislative acts (Santander Trade 2021). The *Index of Economic Freedom* indicates that Denmark is the 10th freest economy in the world and the 5th in Europe, scoring 77.8.

Denmark is perceived as the least corrupt country in the world, ranking 1st in the *2020 CPI*, with an overall score of 88 (Transparency International 2020). *Government Size* is characterized by a corporate tax of 22% and an overall tax burden of 44.9% relative to aggregate domestic income. On the *Regulatory Efficiency* side, the *Ease of Doing Business Index* indicates that the minimum capital required to start a business has diminished and construction permits became less expensive. In regard to *Open Markets*, the banking sector has been restructured, the financial system persists stable and doors to foreign investment remain institutionally open. Being a member of the EU, Denmark holds 45 privileged trade agreements and a trade-weighted average tariff rate of 3% (standardized across the EU Member States), plus 639 nontariff measures in force, delegated by the EU. Additionally, there are 15 country-specific nontariff barriers (Heritage 2021).

5.3.1.6. Environmental context

Under the environmental scope, Denmark ranks 1st worldwide, with a score of 82.5, as indicated by the *2020 EPI* (Yale University 2020). In fact, the country is deemed to be a front-runner in the transition towards a greener economy, a more sustainable consumption of natural resources and an increased energy efficiency, acting in line with the 7th and 8th SDGs[17], respectively.

While strongly committed to a sustainable economy, the Danish government aims at ensuring jobs and competitiveness. Among the most relevant national targets the country aims to achieve, it is important to underline those related to the protection of biological diversity and marine environment; prevention and constraint of contamination with harmful agents; creation

[17] “Goal 7: Ensure access to affordable, reliable, sustainable and modern energy”; “Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all” (United Nations n.d.)

of sustainable cities; promotion of a circular economy; encouragement of sustainable companies and products; endorsement of sustainable food; mitigation of GHG emissions; and development of renewable energy. Within the extent of the last target, Denmark is building an artificial island offshore, to be the stage of a clean energy hub, where wind energy will be produced and stored (European Environment Agency 2020).

Denmark's current label of being an environmentally developed nation is the result of significant investment in the awareness of an imminent climate crisis (European Environment Agency 2020).

5.3.2. Industry Analysis

5.3.2.1. Market Size

According to Statista (2020), floor covering revenues in 2020, in Denmark, amounted to 501.32M€. Furthermore, after conducting an extensive research, imports of different products within the floor covering industry were aggregated, by resorting to Comtrade and UN databases. By doing so, a proxy of 120.23M€ was attained for the market supply, meaning that imports represent 24% of the total floor covering revenues.

According to Passport (2020), Denmark's Consumer Expenditure on Furniture and Furnishings, Carpets and Other Floor Coverings amounts to 2,602.63M€. For the purpose of the present analysis, only the floor coverings' sector was considered. As such, the average European ratio of 20.3% (MarketLine 2021) was used as a proxy. By multiplying the two values, an annual expenditure on floor coverings of 528.33M€ was obtained. The annual expenditure on floor coverings per house was computed by dividing the annual expenditure on floor coverings by the country's correspondent housing stock – 3,095.6 thousand (Passport 2020). As a result, a value of 170.67€ was achieved.

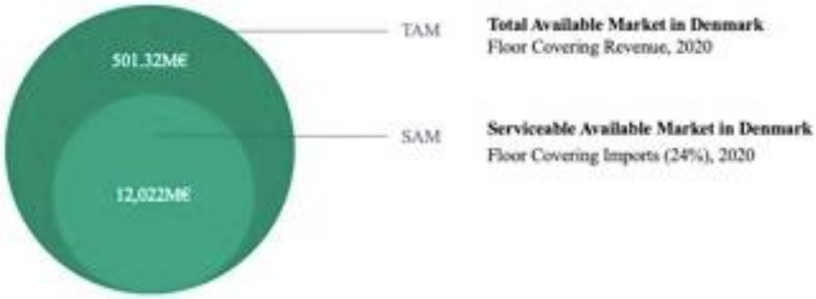

Figure 13 - TAM SAM Denmark

Source: (Statista 2020) & (MarketLine 2021)

5.3.2.2. Denmark Relations with Portugal, Brazil & China

Having settled diplomatic relations in 1896, the ties between Denmark and Portugal have remained strong, almost uninterruptedly, over time (United Nations 2011). Considering Denmark was already a Member State of the EU, the accession of Portugal to the same union in 1986 came to stress the aforementioned, allowing the two countries to freely trade goods, services, capital and people across borders through both the EU Customs Union and Single Market (i.e., no-barrier trading policy). It is important to underline that within the community territory, besides specified restrictions (where floor coverings are not included), customs duties are not applied, member states are sovereign over VAT fixation[18] and commercial invoices are of vital importance (Portal Diplomático 2021). Although belonging to the EU, Denmark is not a member of the Eurozone[19], meaning that its official currency is not the Euro but instead the Danish Krone. The Krone is currently pegged to the euro at a rate of 7.46 and is required to remain within a range of 2.25% of that value (Investopedia 2021).

Considering Company X's products come mostly from Brazil and China, it is important to understand the Danish trade policy over non-EU countries. Denmark follows EU's common external duty tariffs regarding the entrance of products from non-EU nations. Duties usually range from 5% to 14% on industrial goods. In this context, when entering EU, products from

[18] VAT application in Denmark equals 25% and the nation follows a non-discriminatory policy on all goods, regardless of being imported or locally produced

[19] monetary union

these origins are required to be declared to customs according to their classification in the CN[20] (International Trade Administration 2021). For additional information on the tariffs practiced by Denmark against Brazilian and Chinese floor covering products, see **Appendix 24**.

5.3.2.3. Starting a Business and Taxes

After understanding the bilateral relations between the two countries, one shall acknowledge the required bureaucracies, in terms of documentation and registration, to start a business in Denmark. Furthermore, it will be required to deposit startup capital at a bank, corresponding to either 25% of the share capital or at least 6,500€. Another important step consists of proceeding with an online registration with the Danish Business Authority (DBA). Companies must further register the pledge of 5% or more of a company's shares in the public register of shareholders, ownership or voting rights. In case turnover surpasses 6,500€, it is mandatory to register online for VAT within 12 months. The aforementioned requires a payment of 87.1€. Having employees – and after obtaining their central business registration number – companies must register as employers with the Danish Business Authority (DBA). Lastly, employees must be registered with workmen's insurance against occupational illnesses and industrial accidents (World Bank 2020). For a detailed list of the entities Company X should contact in case it decides to enter the Danish market, consult **Appendix 25**.

5.3.2.4. Competitive Landscape

Facing demanding and conscious customers, with an available income superior to the European average, the Danish floor covering market is moderately competitive and includes a wide range of products, namely laminate, linoleum, parquet, plastic/PVC, textile and wood floorings. For the purpose of the current analysis, wholesalers and manufacturers will be considered. In this context, the most relevant players in the Danish arena, by descendant order

[20] Combined Nomenclature

of annual revenues are as follows: *Ege Herning A/S* (143.59M€, private parent company) (MarketLine 2021), *F. Junckers Industrier A/S* (54.17M€, subsidiary) (Dun and Bradstreet 2019), *Wiking Gulve A/S* (4.08M€, subsidiary) (Dun and Bradstreet 2020), *Hoerning Parket A/S* (3.72M€, parent company) (Dun and Bradstreet 2020), *Forbo Flooring A/S* (3.57M€, independent) (Dun and Bradstreet 2020) and, lastly, *Norbord NV* (190.9k€, independent) (Dun and Bradstreet s.d.). By considering the previously stated annual revenues, subsidiaries and parent companies, it is possible to infer that each company owns a small market share, thus being categorized as a fragmented sector with no monopolistic player.

5.4. Germany

5.4.1. PESTLE Analysis

5.4.1.1. Political context

As Europe's biggest economy and second most populated country (after Russia), Germany is a vital member of the continent's economic, political, and defense organizations being part of the European Union as well as a member of NATO, the OECD, the G20, the G8, the IMF and World Bank (CIA 2021).

Germany is a democratic, federal parliamentary republic. While the President holds a merely ceremonial role as Head of State, the Chancellor (Angela Merkel) is the Head of Government and holds the executive power. The former includes enforcing the law and managing the country’s businesses which reflects an identical role as to a Prime Minister in other political systems. The legislative power is bicameral, i.e., composed of two chambers: the lower house, whose members are elected by universal suffrage; and the upper chamber, where members are the delegates of the 16 *Länder* (regions) of the country.

Germany is classified as a “full democracy” being the 14th best according to The Democracy Index (EIU 2020). Meanwhile, mainstream parties are becoming increasingly popular and the far-right alternative for Germany is struggling much related to the positive COVID-19 response by the government (The Economist Intelligence Unit 2020).

In terms of corruption, the country has been relatively stable for the past three years holding the 9th position worldwide (Trading Economics 2020). Nevertheless, critics argue that corruption would diminish if political parties', parliamentary groups' and foundations' finances were disclosed in an official financial report (Nehra 2021).

When it comes to conflict level, Germany jumped six places and is now the 16th most peaceful country in the world. This improvement is largely due to a reduction in arms exports as well as a decrease in homicides and terrorist incidents (The Economist Intelligence Unit 2020).

5.4.1.2. Economic context

Germany is the fourth largest economy in the world with a GDP of 3,861,123M€. Although its economy shrank by 5% (GDP contraction) due to the COVID-19 crisis, the decrease was among the smallest in Europe as its manufacturing and exporting base were able to continue operating with fewer disruptions (The Guardian 2021). Growth in the following years is expected to be driven by recoveries in private consumption and exports as the pandemic outlook becomes increasingly positive. The IMF projected GDP growth for Germany to 3.5% in 2021 and 3.1% in 2022 (International Monetary Fund 2021).

Germany remains the main exporter of vehicles, machinery, chemicals, and household equipment (CIA 2021). In fact, it is among the European biggest net lenders with 6.8% of GDP as current account. Moreover, the government's policy of continuing the *"Schwarze Null"* policy (zero-debt) was not sustainable during the crisis and the government balance was estimated by IMF to have turned to a deficit of 5.8%, before narrowing to 1.8% this year and 1% in 2022 (International Monetary Fund 2021).

Due to cheaper energy and a decrease in VAT, inflation was projected at 0.5%. It is likely to slightly increase but remain downcast at less than 1.5% caused by excess capacity in the services sector and muted demand (Santander Trade 2021). COVID-19 also impacted unemployment being up 1.4% from its all-time low in mid-2019, at 4.3%. This figure is expected to remain constant in the next years.

Germany is among the wealthiest countries in the world with a GDP per capita (PPP) of 46.52k€ (The World Bank 2019). Nevertheless, with the current pandemic outlook, more than 17.4% of the country's population is at risk of poverty or social exclusion (De Statis 2020).

5.4.1.3. Demographic context

Germany is the 19th most populated country in the world with 79,903,48 inhabitants, of which 77.5% live in urban areas. The life expectancy for men is 78 years and for women is 83 years. Concerns have been raised about the growing number of retirees and shrinking of the population in general for the country – 22% of the population has over 65 years, and the same percentage of people have under 24. Additionally, it is worth mentioning that Germany has one of the lowest birth-rates in the world (8.63 births per 1000 people).

On assessing whether people in Germany have the freedom and opportunity to live the lives they value, the HDI positions the country at 6th place (United Nations 2020). In addition, and according to the OECD Better Life Index (OECD 2020), Germany scores highly in most criteria and its citizens are more satisfied with their lives than the OECD average (7.0 vs 6.5).

When a comparison between both Portuguese and German cultures is performed, one can understand that Portuguese have a more embedded sense of community, whereas Germans focus more on themselves and have a stronger belief in self-realization. Moreover, the Portuguese prefer normative thought over pragmatic and there is great respect for tradition, while Germans believe that truth depends very much on situation, context and time (Hofstede Insights 2021).

Power distance is also a distinguishment factor with hierarchy being more widely accepted and respected in Portugal than in German where most systems are decentralized and horizontal. On the other hand, both countries have a strong preference for rigid codes of belief and behaviour and score low for indulgence, meaning both have a tendency to cynicism and pessimism (Hofstede Insights 2021).

5.4.1.4. Technologic context

The country has been occupying a stable 9th position in terms of the ranking for the most innovative countries according to the Global Innovation Index (GII 2020). Additionally, it presents an exceptional workforce and research structure, thanks to its high number of graduates in science and engineering, top R&D-intensive global companies, and a strong university system. The country is also among the highest spenders on R&D, ranking 2nd globally, and the world leader in terms of patents by origin.

5.4.1.5. Legal context

The German government promotes the establishment of all types of business independently of its founder nationality. According to the *Index of Economic Freedom*, Germany is the 29th freest economy scoring above the OECD and World averages. Mainly due to a decline in judicial effectiveness, its score decreased by 1.0 point.

Regarding its *Rule of Law*, it is generally thoroughly enforced with rare cases of public corruption. Intellectual property rights are robust and properly protected as well as interests in property. In terms of taxation, top individual income tax rate is 47.5%, whereas the federal corporate tax rate is 15.8%. The overall tax burden equals 38.2 percent relative to aggregate domestic income. Government spending has amounted to 44.6 percent of total output (GDP) over the last three years, while budget surpluses have averaged 1.5 percent of GDP. *Business Freedom* is at its core, although the asset recovery rate when resolving insolvency has slightly declined. *Labor freedom* is worrisome as German labor laws typically complicate the hiring and dismissing of employees. As a member of the EU, Germany has 45 preferential trade agreements in force.

Global commerce, together with top-notch infrastructures and structural reforms, serve as a baseline for long-term competitiveness and investment. Although it represents an attractive investment environment, Germany ranks 22nd in the EDB report as the easiest country to do business in (World Bank 2020). Worrisomely, the country is the 125th best country to start a business in. The reasoning for such may lay on the high number of legal procedures necessary to initiate a business which is considerably above the OECD average.

5.4.1.6. Environmental context

Germany ranks 13th worldwide in EPI country rank for sustainability performance (EPI 2020). Although in terms of "Ecosystem Vitality" it outperforms its peers as the 8th in the world, when "Environmental Health" is assessed the country is in the 24th position. The worst contributors are industries such as Fishery, Forest and Energy. Consequently, the government has been pushing towards green energy and therefore set the goal of ending coal usage by 2038 by shifting the production of energy from burning coal, which still represents one third of the country's energy manufacture, to sustainable sources (Independent UK 2019). Renewable energies, however, already represent 52% of total energy production capacity, which positions Germany in 4th place in terms of percentage of energy production originated from sustainable grounds (CIA 2021).

5.4.2. Industry Analysis

5.4.2.1. Market Size

To understand the demand side of the market, the calculation of the average expenditure in floor covering was performed. In 2020, German consumers spent 46,408.2M€ on furniture and furnishings, carpets and other floor coverings. According to Marketline (2021), 19% of this value was spent on floor coverings, showing that Germans expended about 8,817.6M€ on floor coverings. Taken that in 2020 the housing stock was 42,663.4 million, on average, each German house spent about 206.68€ on floor coverings in 2020.

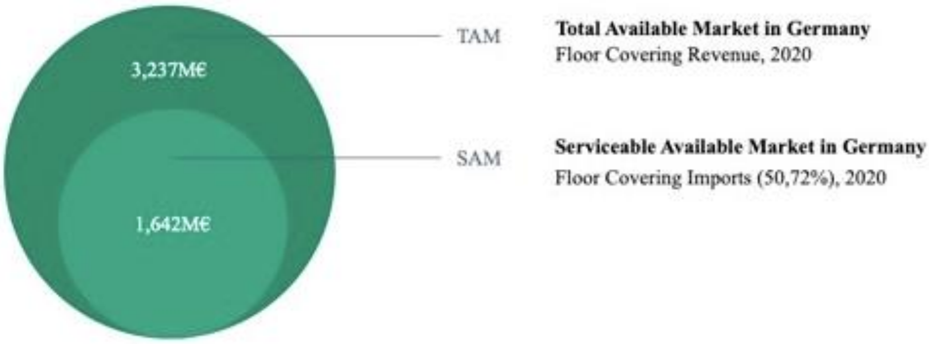

Figure 14 - *TAM SAM Germany*
Source: (Statista 2020) & (MarketLine 2021)

5.4.2.2. Germany Relations with Portugal, Brazil & China

Germany presents itself as a vital pro-European partner for Portugal (EU 2020). Their relations are strong mainly due to a shared commitment to the European values. Both countries belong to the EU and its customs union (established in 1968), meaning they apply the same tariffs to goods imported into their territory from the rest of the world, and apply no tariffs internally (EU 2020). Besides EU partnerships, Germany has some specific agreements with Portugal. Among some were the agreement to prevent double taxation; the cooperation in technological R&D; the reciprocal promotion and protection of investments; and an agreement to foster technical cooperation (Diário da República 1982). Germany is the 3rd biggest client for Portuguese exports of goods, representing 12% of total trade. Between 2015 and 2019, Portuguese exports to Germany grew on average 5.1% annually (AICEP 2020). According to Comtrade (Comtrade UN 2020), Germany's imports of Portuguese vinyl[21] decreased 36.13% from 2017 to 2019 to a value of 2.41M€. Overall, Germanic imports decreased 4% in 2019 to 1,029.78B€.

[21] Floor coverings of plastics, self-adhesive or not, in rolls or tiles; wall or ceiling coverings of plastics, in rolls of a width not less than 45cm

Due to the fact that Germany belongs to the EU, the agreements and trade relations with Brazil and China will be the same as Denmark's, which were already analyzed. As of tariffs, specific types of flooring, mostly environmental-friendly ones are duty-free while more pollutant ones as the ones made from plastic are subject to higher fares. It is also important to denote that tariffs are the same for both China and Brazil. Moreover, all the accords celebrated between the mentioned countries are *Most Favored Nation duty rate agreements*. For more information regarding tariffs, consult **Appendix 26**.

5.4.2.3. Starting a Business and Taxes

When starting a business in Germany, the first element to take into account is to check whether the company's name is available at the Berlin Chamber of Industry and Commerce. Subsequently, the company needs to notarize the Articles of Association and Memorandum of Association by paying an amount in proportion to its share capital. In Company X's case, this amount equals to 1,023€. The execution of this agreement and its online publication costs 629€. Also, in terms of notifications, the company needs to inform the local Office of Business and Standards local Labor Office of the establishment of the company. Furthermore, a deposit into a bank of at least 25 % of the initial capital must be paid-in before registration or, if higher, at least half of the minimum capital, i.e., 12,500€. Companies also need to file the Articles of Association through the public notary and register the company with the local Commercial Register, this process will cost over 400€. Finally, it needs to register with the Professional Association of the relevant trade, enlist employees for health and social insurance, and reach with the local Tax Office to obtain a VAT number which must be completed within 4 weeks of the opening of the business.

In terms of taxes, companies will need to pay 23.2% of profit tax, including corporate income tax and solidarity surcharge; 21.5% of labor tax and contributions, such as social security contributions and long-term care insurance; and 4.1% of other taxes, including tax on interest. The abovementioned taxes add up to a total tax burden of 48.8%.

For a detailed list of the entities Company X should contact in case it decides to enter the German market, consult **Appendix 27**.

5.4.2.4. Competitive Landscape

The “floor and wall covering” market in Germany is composed of 12,077 companies. From an industry sample of 1,765 companies, 8.7% of the total revenue belonged to the top 5 companies and no company reported more than 69.72M€ yearly, which points to a highly fragmented market with no company having substantial market share. The main industry players in Germany can be consulted in **Appendix 28**. Among them, *Bembe Parkett* and *Norddeutsche Steingut AG* were highlighted as the main local flooring solutions. However, foreign players are also prevalent. Some worth mentioning are *nora by Interface*, specialized in rubber flooring to business clients and *Milliken Flooring*, the biggest European player in the floor covering market.

In addition, the number of companies operating in the “Manufacture of assembled parquet floors” and their size are very small with only one company over 66.4M€ and the remaining barely surpassing the 8.3M€ frontier. This, subsequently, indicates that the degree of rivalry might be large, although not in a monopolistic environment. Furthermore, a general lack of brand strength for many retailers and manufacturers means that new players can create new opportunities to enter the market by successfully exploiting niches.

5.5. Japan

5.5.1. PESTLE Analysis

5.5.1.1. Political context

Japan is a constitutional monarchy, with its Emperor Naruhito (since May 2019) as the Head of State and the Prime Minister Yoshihide Suga (since September 2020), leader of the Liberal Democratic Party (PLD), as the Head of Government (European Parliament 2020). This parliamentary system assigns its Emperor the "symbol of the State and of the unity of People" (BBC 2019), mainly performing ceremonial duties.

The legislative power is carried out by the *National Diet* – Japan's bicameral parliament – composed of the House of Councilors (upper house) and the House of Representatives (lower house). Moreover, the judicial power is enforced by a constitutionally declared Supreme Court headed by the Chief Justice (Nordea Trade 2021). In the Democracy Index 2020, Japan ranked 21st worldwide, with a score of 8.13/10 (The Economist Intelligence Unit 2020). For the first time since 2014, Japan returned to the "full democracy" class, mostly owing to a considerable rise in public confidence in the Japanese government as well as a relative success in handling the pandemic (Schroders 2020).

On foreign policy affairs, in 2019 Japan signed two bilateral agreements with the US, allowing for increased and accelerated trade between the two economies. Furthermore, efforts are being made by the Japanese government to enhance bonds with powerful nations such as India, the UK, France and Australia. Inversely, relationships with China remain fragile due to historical disputes and political differences (CFR 2014).

5.5.1.2. Economic context

With a GDP of approximately 4,150B€, Japan is the world's third largest economy, after the US and China. Prime Minister Suga campaigned on following the commonly known "Abenomics" – economic policies instituted by former Prime Minister Abe in 2012 –, characterized by a significant increase in money supply and government spending, as well as the enactment of economic reforms aiming at turning Japan into a more competitive economy (Heritage 2021). Additionally, due to the pandemic impact on, among others, domestic consumption (which exceeds half of the nation's total consumption) and exports, GDP fell by 5.3% in 2020 and public finances were severely impacted.

The Japanese government has launched an 830B€ stimulus package to reestablish the previous economic growth, which is now expected to reach the 3.1% figure by the end of 2021. However, such a measure negatively impacted the government deficit, which was -12.7% in 2020 and in 2021 is forecasted to decrease to -5.6%. Also, as a result of the global pandemic, public debt and the inflation rate were at 266.3% and -0.1%, correspondingly, in 2020. However, the two metrics are now estimated to improve to 264% and 0.3%, respectively, in 2021. Additionally, unemployment increased in 2020 to 3.3% (2.4% in 2019) but projections are that such rate will move to 2.8% in 2021 (Nordea Trade 2021).

Japan is also a member of the G7, G20, APEC and ASEAN, intergovernmental organizations and alliances through which the country establishes and intensifies its global trade influence. As a result of this increasing influence, Japan's exports (591.79B€) surpassed its imports (541.99B€), leading to a positive trade balance of 49.14B€ (Commodity 2020).

5.5.1.3. Social context

Japan has a population of 126.48 million – the 11th greatest in the world – and an urbanization degree of 91.7% (Statista 2021), considerably above the worldwide rate of 56% (Statista 2021). Japan has a low level of diversity (98% of the population has Japanese roots) and its official language is the Japanese.

In the Human Development Index, Japan scored 0.919 in 2019, thus ranking 19th in the world in terms of life healthiness, knowledgeableness and standard of living (UNDP 2020). More specifically, the OECD's Better Life Index shows that Japan is the world leader in personal security, while also scoring above the OECD average in income and wealth, education and skills, jobs and earnings, housing and environmental quality. Contrarily, it ranked bellow the OECD average in civic engagement, subjective well-being, social connections, work-life balance and health status.

Overall, the Japanese reported a lower level of general satisfaction than the OECD average – 5.9/10 versus 6.5/10 (OECD 2020). Hofstede dimensions for Japan versus Portugal highlight the significant discrepancy in long term orientation, with Portugal scoring 28 and Japan 88, demonstrating the country's profound forward-looking culture both in life and in business. The masculinity dimension depicts an even greater divergence among the two countries, considering the score of 31 for Portugal and 95 for Japan, a country with a relentless competition between groups, characteristic workaholism and an outstanding determination in seeking perfection and excellence (Hofstede Insights 2021).

5.5.1.4. Technological context

Despite being an Asian high-tech powerhouse economy, with expenditures on R&D reaching around 141.1B€ (3.6% of the country's GDP) (Statista 2020), Japan has been lagging behind both at the macro level (with decreasing productivity growth and IP generation) and micro level (with Japanese R&D leaders lacking in the belief that their corporations comprise the ability to cope with global everchanging challenges) (McKinsey 2020).

As per the Global Innovation Index, Japan scored 52.7/100, leading to a 16th worldwide position characterized by a better performance in innovation inputs (i.e., institutions, human capital and research, infrastructure, market and business sophistication) than outputs (i.e., knowledge, technology and creative outputs) (Cornell, INSEAD and WIPO 2020). The Bloomberg Innovation Index ranks Japan 2nd worldwide, after South Korea, driven by the 5th place in R&D, 3rd in the "High-Tech Companies" category and 2nd in patents (Bloomberg

2015). However, this index was last updated in 2015, depicting the previously mentioned Japanese decline in terms of technological development.

5.5.1.5. Legal context

Alike Portugal, Japan resorts to a civil law system, based on the first written constitution (the Meiji Constitution – 1889) in the Asian continent (SSRN 2020).

In the 2021 Economic Freedom Index, Japan scored 74.1/100 (up 0.8 points), becoming the 23rd freest economy in the world and 6th in the region. Regarding the Japanese *Rule of Law*, one of the index's scopes, independence and fairness in the judiciary allowed for effective enforcement of contracts. On the *Government Size* dimension, it is important to highlight the top corporate tax rate of 23.9%, the overall tax burden of 31.4% relative to aggregate domestic income and the significant improvements in fiscal health. *Regulatory Efficiency* was also considered for this global ranking and it emphasized the decrease in time-consumption when dealing with construction permits in Japan, the intensification in required disclosures and the increase in state incentives to draw FDI inflow, which is now at 12.12B€. The *Open Markets* magnitude demonstrates Japan's persisting state involvement in the highly competitive financial sector and the amount of interest and collateral-free concessional loans granted to SMEs harmed by the pandemic.

Finally, Japan also ranked 19th worldwide in the Corruption Perceptions Index (Transparency International 2020), obtaining a score of 74/100 and reflecting the generally low risk of corruption the country is subject to (Risk & Compliance Portal 2020), despite the existence of close relationships driving favoritism in both companies and government (e.g., *amakudari*[22]) (Heritage 2021).

[22] "Granting retired government officials top positions within Japanese companies"

5.5.1.6. Environmental context

According to the Earth.Org Global Sustainability Index, Japan ranks 59th worldwide regarding plans and actions to better sustain their ecosystem. One of the country's targets relates to the Paris Agreement and consists of reducing emissions to 26% below 2013 levels by 2030. At the same time, and opposingly, Japan has maintained its plans to construct further coal plants, leading to a third of the country's electricity being supplied by coal in 2030 and a lack of incentives to invest in renewable solutions. Moreover, Japan's frail commitment to reaching net-zero emissions during the second half of the 21st century does not sufficiently contribute to the long-term goals established in the Paris Agreement (Earth.Org 2020).

5.5.2. Industry Analysis

5.5.2.1. Market Size

For the supply side of this market size analysis, and in an initial stage, the Total Available Market in the Japanese floor coverings industry was assessed and a TAM of 8369.72M€ in revenues was realized (Statista 2021). Out of that amount, 575.21M€ (6.87%) correspond to floor covering imports – the Serviceable Available Market (SAM) under this industry analysis – obtained through the appraisal of several meaningful segments of Company X's industry (UN Comtrade 2019). Subsequently, the demand side of the industry allowed for an evaluation of the annual expenditure on floor coverings in Japan, which amounted to 4.01B€, and the equivalent annual expenditure on floor coverings per house of 61.76€. On a side note, the annual expenditure was obtained through multiplying the consumer expenditure on furniture and furnishings, carpets and other floor coverings (9.53B€) (Passport 2020) by the country's share of floor coverings (42.1%) (Marketline 2020). Finally, the annual expenditure per house was a result of the division of the aforementioned total annual expenditure by the country's housing stock of 64,958.3 thousand houses (Passport 2020).

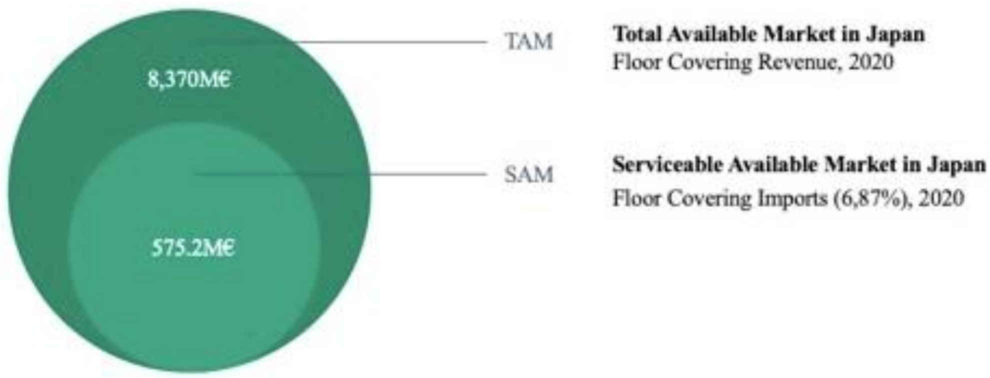

Figure 15 - TAM SAM Japan

Source: (Statista 2020) & (MarketLine 2021)

5.5.2.2. Japan Relations with Portugal, Brazil & China

During 2020, Japan imported goods amounting to 351.67M€ from Portugal. As a member of the European Union, Portugal is included in the union's trade agreements with foreign states. Relations between the EU and Japan date back to 1959 (EU-Japan Centre 2014) and culminated on February 1st, 2017, with the two economies signing the EU-Japan Economic Partnership Agreement (EPA), constituting the largest open economic area in the world (BBC 2017), which came into force precisely two years later. The agreement aimed at decreasing Japanese duties on EU exports and intensify annual trade volume. In actual fact, EU exports to Japan during the first ten months after the deal's implementation went up by 6.6% YOY (European Comission 2020). Simultaneously, and alongside other Asia-Pacific nations (such as China), Japan signed the Regional Comprehensive Economic Partnership (RCEP) in November 2020, the world's biggest trade pact, accounting for 30% of the world's economy and population (Al Jazeera 2020). Lastly, it is also important to highlight the intentions of Japanese and Brazilian trade authorities to "update the joint report on a roadmap for a Brazil-Japan economic partnership agreement (EPA)" (CNI and Keidanren 2018). For information regarding tariffs on products traded between Japan and Portugal, China and Brazil, **Appendix 29** displays the most significant rates affecting Company X's business.

5.5.2.3. Starting a Business and Taxes

When starting a business in Japan, the first factor to be taken into account relates with the company's name, which should be available in the Legal Affairs Bureau of the Ministry of Justice's database. Afterwards, for an amount going from 86€ to 172€, the company should obtain the aforementioned Bureau's seal which is required by law. One of the crucial steps consists in registering the company in the Legal Affairs Bureau for a cost of 0.7% of the company's capital or 516€ (the highest of the two), followed by a series of 8 supporting documents. In terms of notifications, the company must file for its incorporation, for the opening of a payroll office and request blue tax returns (which allow for reductions in taxable income) at the National Tax Agency. Additional notifications relate with the commencement of business at the Local Tax Department, as well as the labor insurance and employment rules at the Labor Standards Inspection Office. All the previously mentioned notifications are free of charge. Finally, and also with no charge involved in the procedures, the company should file the applications for health insurance and public welfare pension, both at the Japan Pension Service, and for employment insurance at the Public Employment Security Office (Doing Business 2020).

For companies entering the Japanese market, it is of the highest relevance to consider the associated taxes of establishing a business in this Asian economy. Profit taxes (e.g., corporate income tax and Metropolitan enterprise tax) amount to 23.9% of profit; labor tax and contributions (e.g., welfare pension insurance and health insurance) equate with 18.6% and other taxes (e.g., city planning tax and automobile tax) correspond to 4.2%. The above tax categories add up to a total tax burden of 46.7% of the company's profit (Doing Business 2020).

Should Company X decide to expand its operations to Japan, **Appendix 30** provides a shortlist of key contacts the company could make use of to ease the process.

5.5.2.4. Competitive Landscape

The Japanese floor covering industry can be described as fiercely competitive. The ancient *keiretsu* tradition (i.e., establishing a business network grounded in cooperation and strong ties between Japanese companies) (Investopedia 2021) is highly reflected in the reduced weight of 6.87% that imports of floor coverings have over total revenues for the industry (*Daiken Corporation* (1.55B€), *AICA Kogyo Co., Ltd.* (1.46B€), *Sangetsu Corporation* (1.23B€) and *Shimachu Co., Ltd.* (1.17B€) represent, revenues-wise, the largest Japanese players – with worldwide activities – in the floor coverings industry (Marketline 2021).

A superficial research on Orbis demonstrates that there are currently more than 20,000 active firms operating in the "floor and wall covering" segment of the Japanese economy. However, the rivalry intensiveness in this market segment is not only a result of quantity of firms, but also a matter of size. In terms of sales, the industry's 10 largest firms, e.g., *Kashiwabara Corporation* (392.26M€), *Kenso Kogyo Co.* (363.2M€) and *Haseko Reform Inc.* (284.87M€) have operating revenues above 83M€ and their majority represent outstanding construction firms with about 21% of the market share, providing their clients with several service lines in addition to floor coverings (Orbis 2021).

Not only would a new entrant face these relevant incumbents as it would also compete against several medium-to-high sized firms specialized in the "manufacture of assembled parquet floors". All the Japanese companies under this market segment have operating revenues below 83M€, but their robust production and financial stability translate into an increased competitiveness for the industry. *Toyo Tex Co., Ltd.* (80.02M€) is the definite market leader with its strong product portfolio and quality, however, other players such as *Ikuta Corporation* (45.68M€) and *Ryushin Mokuzai Kogyo KK* (34.99M€) are almost equally established and successful inside the floor covering industry, with the three entities representing around 48% of this market's revenues (Orbis 2021).

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APPENDIX

APPENDIX 1
COMPANY X MILESTONES, OWNERSHIP STRUCTURE AND NET INCOME

Company X Milestones

1992 Company X was **founded**.

2000 The founder-owner **sold the business**, keeping a percentage of less than 1%.

2001 Company X's main activity was the **installation of flooring**, namely wood and laminate, in Portugal.
Some of the flooring materials started to be imported from Brazil and China.

2002 Beginning of **commercial relations** in **Spain.**

2005 The company was **growing** and **enhancing the relationships** with internacional suppliers.

2010 Company X's **revenues decreased**.
The **high costs** in labour required to install flooring were **foreseen as unsustainable** given the **upcoming crisis**.

2012 Company X was no longer able to support its activities.
Reaching an all-time low, the firm contracted a **bank loan** and **fired part of its staff**.

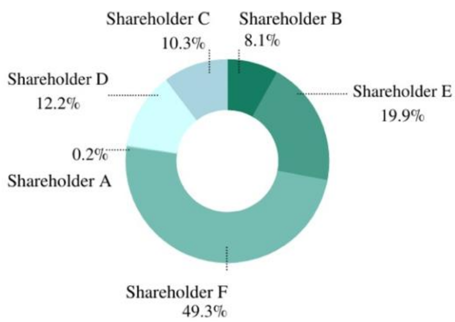
2013 **Internationalization** to Morocco.

2014 Company X had fully shifted its business model to the **importation** and **distribution** of flooring products to other **businesses**. However, the expansion to **Morocco** turned out to be **failure** and the commercial relations with **Spain** came to an **end.**

2015 The laminate was discontinued and the **vinyl** and **deck** were added to the product portfolio.

2021 The company **recovered** and has been exhibiting a **positive net income** for the last four years.

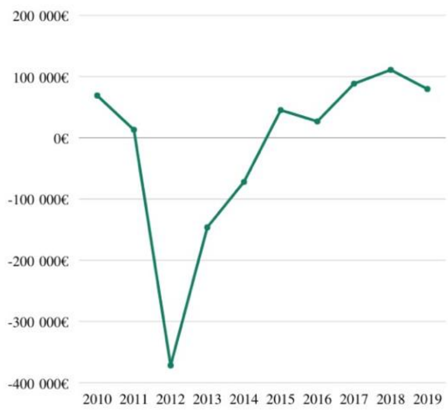
Ownership Structure (2021)



(ORBIS, 2021)

Company X has **six shareholders**.
Shareholder E (general manager) and Shareholder C (financial manager) currently lead the board of directors - the remaining do not perform any active role in the company.
Company X does not distribute dividends.

Net Income Evolution (2010-2019)



(ORBIS, 2021)

Go back to
History, Mission and Vision

APPENDIX 2
COMPANY X'S PRODUCT PRICES

Type of flooring	Product Line	Price range per m²
Vinyl	Aroma Original	22.69€
	Aroma Ecomax	25.42€
Wood – *Riga*	Premium Wood Nature	39.94€ – 43.57€
Wood - *Oak*		22.33€ – 54.47€
Wood - *Walnut*		49.93€
Wood - *Exotic*	Ecoflooring	45.39€ – 49.93€
Bamboo Deck	Rivemix	54.47€ – 58.10€
	Composite	38.13€
	Natural	21.79€ – 62.64€

Source: CEO and Company X's website

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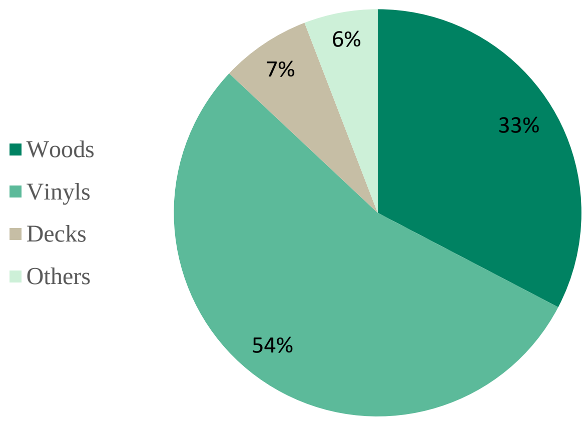
APPENDIX 3
SALES BY PRODUCT TYPE

2019 Sales by Business Unit



Go back to Products

SPC VINYL VS WPC VINYL: WHAT IS THE DIFFERENCE?

Type	**SPC Vinyl**	**WPC Vinyl**	**Winner**
Cost	Slightly more affordable	More affordable than real stone or wood but slightly more expensive than SPC	SPC
Feel	Dense and rigid; Easily gets cold	Less dense and more comfortable; Retains some warmth	WPC
Use	Basements, bathrooms, kitchen and commercial spaces	All levels of home	SPC
Durability	★★★	★★☆	SPC
Moisture Resistance	100% waterproof from above and below	100% waterproof from above and below	Tie
DIY-friendly	Easy to install	Easy to install	Tie

Source: Adapted from "SPC Vs. WPC Vinyl Flooring". n.d. Flooringinc.Com. https://www.flooringinc.com/buyers-guide/spc-vs-wpc.html.

Go back Products

APPENDIX 5

IMAGES OF VINYL PRODUCTS

<table>
<tr><th>Vinyl Products</th><th>Patterns</th></tr>
<tr><td>Aroma Original</td><td>


</td></tr>
<tr><td>Aroma EcoMax</td><td>


</td></tr>
</table>

Source: Company X's website

Go back to Products

APPENDIX 6

IMAGES OF WOOD PRODUCTS

Wood Products | **Patterns**

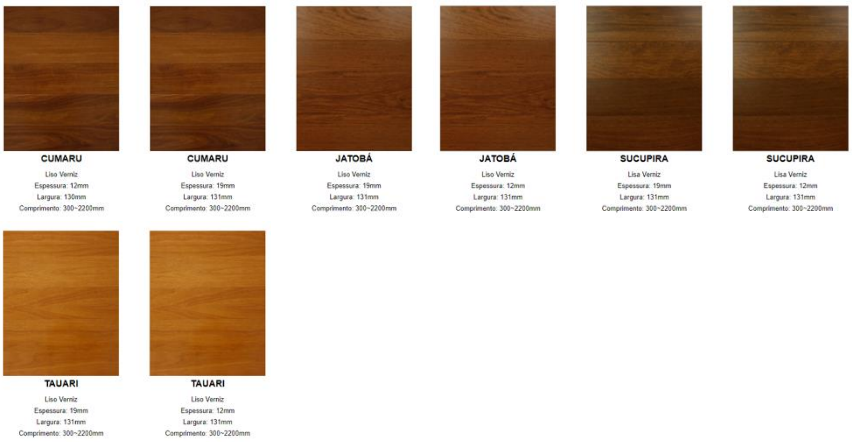
Premium Wood Oak - Standard

Premium Wood Oak - Natur

Premium Wood Riga

Premium Wood Walnut Tree

Ecoflooring



Source: Company X's website

Go back to Products

APPENDIX 7

IMAGES OF DECK PRODUCTS

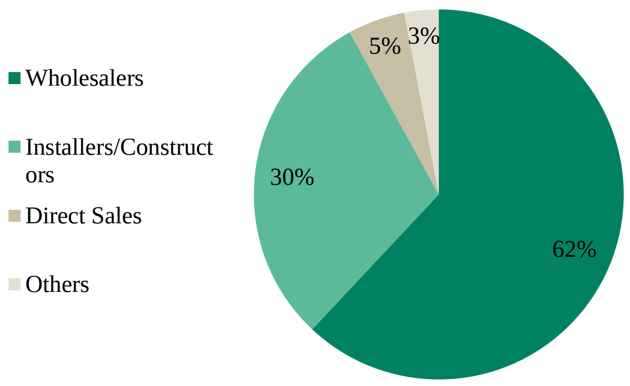
Source: Company X’s website

Deck Products	Patterns			
Deck Bamboo	 COFFEE Espessura: 20mm Largura: 140mm Comprimento: 1860	 CARAMELO Espessura: 20mm Largura: 140mm Comprimento: 1860		
Deck Composite	 GREY Espessura: 25mm Largura: 150mm Comprimento: 2200	 BROWN Espessura: 25mm Largura: 150mm Comprimento: 2200		
Deck Natural	 CUMARU Espessura: 20mm Largura: 100mm/ 107mm/ 114mm Comprimento: Variável	 IPÊ RANHURADO Espessura: 20mm Largura: 100mm/ 110mm/ 120mm Comprimento: Variável	 IPÊ LISO Espessura: 20mm Largura: 90mm Comprimento: Variável	 PINHO Espessura: 24mm Largura: 145mm Comprimento: 3000

Go back to Products

APPENDIX 8

SALES BY CUSTOMER SEGMENT



Source: Assistant Manager 2021

Go back to Supply Chain

APPENDIX 9

COMPANY X'S RESOURCES

Resources	**Comments**
Delivery Vans	The company owns a small fleet of 2 delivery vans.
Warehouse	Company X rents a warehouse in Braga, where the products arrive from Leixões' Port.
Know-how	Many of Company X's current employees have experience in the industry of up to 25 years.
Cash in Hand	The company possesses enough liquidity to carry its day-to-day business, mainly to cover delays in customers' payments.
Digital Channels	The company has a website (with a product simulator), where it exposes its products & social media channels (on Facebook, LinkedIn and Instagram) from where it can reach its audience online.
Suppliers and Traders Network	The company has a reliable network of suppliers with whom it has been able to establish and sustain a strong reputation.

Go back to Competitive Advantage

APPENDIX 10

COMPANY X'S CAPABILITIES

Capabilities	Comments
Quality Consistency	With its reliable suppliers, Company X can deliver quality aligned with the customers' expectations for a competitive price. **Valuable**: its consistency ensures that Company X does not need much quality control and the customer will get the quality it expects without additional delays. **Rare**: Company X's good reputation with its suppliers comes from a relationship of trust, where the suppliers were always paid on time. As such, the network that Company X uses is considered rare in the market. **Imitable:** The company's suppliers are not exclusive. As such, this quality consistency cannot be considered inimitable as with enough time and money, competitors could achieve a similar level of consistency.
Portfolio Differentiation	To avoid large market fluctuations and exposure to risk, it is important that companies have readily available different types of products and various references. **Valuable**: having various references, Company X is able to cover different types of customers and supply the same customer with different solutions and various price points. **Rare**: The type of portfolio Company X uses and its infrastructure to support it are not common among competitors. **Imitable:** Even if competitors do not have the same products as Company X, most are also able to deliver a differentiated portfolio. Besides, with enough time and investment, this infrastructure can be copied.
Stock Strategy	For a company to be part of the market, it must have enough capital to cover delays in client payments. However, if Company X wants to be profitable in the long run, the stock rotation period of 91 days should be shortened, so there is less risk of debt accumulation. **Valuable**: With its stock strategy Company X is capable of delivering the products to its clients in a short notice. **Not rare**: competitors can achieve a similar strategy if they obtain enough liquidity.
Unique Design	To set apart from competition, Company X designs its tiles to a specific and larger dimension, exclusive in the Portuguese market. **Valuable**: the client is able to get a more robust and organic feel for its flooring, which reflects the idea of continuity. **Rare**: Company X has exclusivity regarding this type of tiles in the Portuguese market.

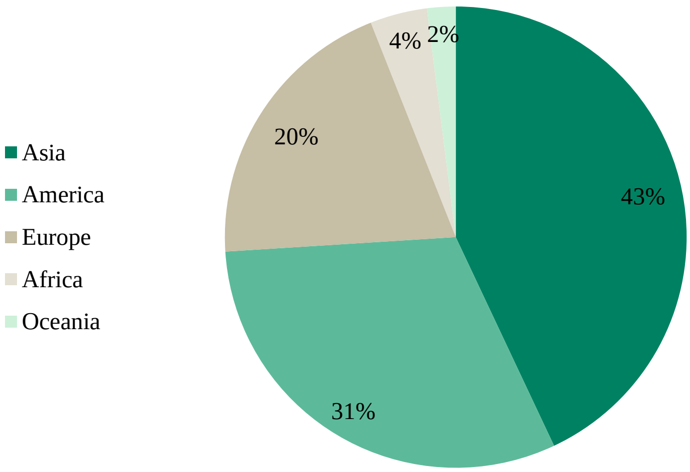
Capabilities	Comments
	Inimitable: to adopt the same type of tiles requires changes in the supply chain that can be very costly, take time to achieve and may need very specific partners. **Organized**: with an optimized supply chain, Company X has the ability to efficiently distribute this product in Portugal.
Quick Delivery	With Company X's network resources, outsourced activities and liquidity, it is possible to deliver a product to a client in an average of 2 days, when Company X has stock available. **Valuable**: the company can satisfy its customers while optimizing its inventory management procedure by shortening the time each product is in the warehouse.
Digitalization	The company has been enhancing its online presence whilst modernizing its processes. **Valuable**: Company X can position itself as a pioneer in digitalization when compared to competitors of the same size, and customers benefit from the ease of accessing information and buying experience. **Rare**: at the moment, it is not an industry standard to invest in a strong digital presence. **Imitable**: although it will be costly for competitors to replicate the same experience to their customers, they can easily pursue a similar strategy.

Go back to Competitive Advantage

APPENDIX 11

COMPANY X'S RESOURCES

Floor Covering Market by Continent (2019)



Go back to Competitive Advantage

APPENDIX 12

PERCEPTUAL MAP

Both indicators were implemented through a 1 to 5 rating. In the Price dimension, 1 would represent an overall cheap set of products for the company, while a 5 would be attributed to companies with expensive products. Contrarily, the Performance axis was defined so that a 1 would mean low performance and a 5 would represent high performance.

Each company's price level was defined following the insights provided by Company X's market analysis and past experience dealing with their competitors. Even though portfolios of the different firms contain business units that may differ in their price levels, an estimate was used so as to reach an approximate rating.

Regarding the firms' Performance, four criteria were used to estimate the general quality of the different participants in the market:

- The Financials factor was given a 20% weight and was based on the companies' Cash Conversion Cycle and Gross Margin.
- Communication was attributed a 30% preponderance and measured the entities' degree of digitalization as well as their internal and external communication strategy.
- Product Quality was provided with a 30% weight and was composed by the evaluation of the tiles' size, durability aesthetic appeal, and composition quality.
- With a 20% weight, the Product Mix factor rated the companies' product portfolio size.

Using the previously described indicators, an Average Performance of 1 to 5 was obtained for each of the 10 companies used in this market breakdown.

Go back to Competitive Rivalry

APPENDIX 13

PORTER'S DIAMOND

1. Factor Conditions

This first metric of the diamond depicts "the nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry" (Porter 1990).

In 2017, the number of Portuguese companies in the Wood and Cork industry amounted to 4,135. Such volume had a constant decrease throughout the last few years, a trend that started in 2010 (5,635 firms in the industry), justified by a significant reduction in industry-related labor. Portugal employed 24,477 workers in the Wood and Cork industry in 2010 and finished 2017 with that same amount dropping to 20,351 (i.e., a decrease of 16.9% in less than a decade) (DGAE 2019).

However, there is a different pattern presented by the gross value added (GVA) for the industry in Portugal, which represents the industry's output adjusted to subsidies and taxes on products. In 2012, GVA for the year was 330.47 million euros, a figure that escalated to 421.75 million euros in 2017 (DGAE 2019). Thus, the withdrawn conclusion is that the apparent production by each additional unit of labor has been increasing. Such an event can be explained by the educational, infrastructural, and technological developments experienced by both employees and organizations operating in the industry.

In terms of forested area, 38% of the Portuguese territory in 2018 was constituted by forests. The evolution of the area occupied by forests has demonstrated a certain consistency throughout the years of not much less than 3,500 thousand hectares (DGT 2020). Despite this stable trajectory, the tendency for industry's exports followed a notable progression, with exports of 537.8 million euros in 2010 and 650.7 million euros in 2018 (i.e., a 21% increase) (DGAE 2019).

The weight of the industry in total GVA and total exports for the country has continuously been decreasing, but the respective growth in absolute terms shows potential for the nation to use this sector's conditions and recent developments in labor productivity as an international competitive advantage.

2. Demand Conditions

Demand Conditions represent "the nature of home-market demand for the industry's product or service" (Porter 1990).

In order to understand the impact of home demand on the Wood and Cork industry, it is imperative to analyze the turnover volume for the industry in Portugal. Total sales realized in 2017 were 1.63 billion euros, depicting a 12.4% growth from 2012 (DGAE 2019). More precisely, and focusing only on the Floor Covering industry, revenues for 2019 have reached 135 million euros, reflecting an industry growth of 21% since 2015. Even though the Covid-19 pandemic negatively impacted the sales for the industry by 11%, revenues for 2021 are expected to surpass the figures observed in 2019 and achieve a new maximum of 139 million euros, placing Portugal as 63rd worldwide in terms of total revenues for the Floor Covering Industry (Statista 2021). Such escalation in sales of flooring solutions was a consequence of the recent increase in construction projects carried out across the country, which will be analyzed in more detail during the following Nations' Competitive Advantage topic – Related Supporting Industries.

Different and contrasting trends have emerged during the last few years with customers' inclination shifting to environmental-friendly solutions (e.g., bamboo floorings) while also demonstrating a preference for affordable solutions, such as vinyl. In Portugal, this divergence in market trends is rather unbalanced towards the vinyl (CEO 2021), mostly because of the characteristically low purchasing power of the Portuguese market (consumer spending per capita of 14,924.5€ in 2021) (Statista 2021) but also due to the high applicability this solution offers in several environments and types of house divisions.

In summary, the Portuguese market demand can be classified as promising when focusing the analysis strictly on the forecasted rise in revenues for the industry and consumer spending per capita – 200 million euros and 19,366.7€ in 2025, respectively (Statista 2021). Nonetheless, it is also important to highlight the fact that the type of demand representative of the Portuguese market is increasingly tilted towards unsustainable solutions.

3. Related Supporting Industries

This component allows for an analysis of "the presence or absence in the nation of supplier industries and other related industries that are internationally competitive" (Porter 1990).

For the Portuguese Floor Covering industry to thrive, two main auxiliary industries need to be strongly coordinated and operative throughout the main industry's supply chain.

The first and probably most relevant supporting industry involves the construction sector. Apart from representing the vast majority of the demand for the Floor Covering Industry, the Construction industry is the vehicle that allows for flooring companies to succeed in the marketplace.

A thorough scrutiny of this industry indicates that, in Portugal, the sector regressed by 20.3% in the number of operational firms from 2010 to 2014. However, this volume intensified from 141,043 companies in 2015 to 178,084 in 2019, a 20.8% growth for the industry. Furthermore, from 2015 to 2019, a rise in the construction of civil engineering and buildings set in motion a proportionate increase of 4% in the Portuguese volume index of production (i.e., price-adjusted output) for the Construction industry. In terms of the industry's total turnover, the regression period lasted from 2010 to 2017, with sales going from 51.1 billion euros to 36.2 billion euros, respectively. Nevertheless, revenues for the sector also confirmed a positive recovery reaching a 41.6 billion euros figure in 2019. Finally, another noteworthy aspect of the Construction Industry concerns the actual growth experienced during the Covid-19 crisis and the expected post-pandemic upsurge of about 2% to 3% in both 2020 and 2021 (ECSO 2020).

All things considered, the logical deduction is that the recent and aforementioned developments in the Construction Industry, driven by foreign spending in outstanding real estate projects; tourism-related investments, and governmental policies and initiatives, demonstrate the sector's potential to be categorized as a competitive advantage for the nation.

The second assisting industry relates to the step of the journey comprised by the transportation of the flooring solutions. This supporting activity runs in the supply side of the Floor Covering industry and becomes crucial when considering that not only do the flooring solutions need to be transferred from the suppliers' plants to the intermediary's warehouses or transforming facilities, as they also require a transfer headed to the end-customers' establishment.

Inland Freight Transport in Portugal has been in decline for the past few years, with the 42,264 million tons being transported per meter in 2013 dropping to 35,979 million tons in 2018 (OECD 2019). This 15% reduction in transported freight for the 5-year period contrasts with the worldwide tendency for a certain steadiness or even a slight increase in the volume of transportation for the same time period. The same trend can be identified when comparing the $9.11 million in revenues of Portuguese Inland Freight Water Transport during 2010 with $5.21 million corresponding to 2018 (Statista 2014). Despite this negative evolution regarding the Portuguese Transport industry in the last decade, a World Bank report from 2020 enhances the country's worldwide lowest costs and time associated with transportation services, as well as documentation and requisites fulfillment.

The conclusion extracted from the previous analysis is that this supporting industry, although experiencing a significant decay in Portugal, may still be considered as a potential competitive advantage for the region due to the favorable conditions it provides.

Firm Strategy, Structure and Rivalry

These elements compose "the conditions in the nation governing how companies are created, organized and managed, as well as the nature of domestic rivalry" (Porter 1990).

So as to comprehend the dynamics of the Portuguese firms' establishment and administration, several indicators related to the country's ease of doing business will be evaluated, namely, starting a business; dealing with construction permits; registering property; getting credit; paying taxes; trading across borders; enforcing contracts; and, lastly, resolving insolvency. According to the 2020 Ease of Doing Business Index, developed by the World Bank, Portugal reached a score of 76.5/100 and ranked 39th out of 190 countries (GEE 2020). Even though such a position instantly leads to a positive perspective on the country's international standpoint, the scrutiny of the different factors driving the Portuguese ease of doing business will be performed.

Regarding the first indicator, starting a business (i.e., amount of time, costs, and capital requirements for the implementation of an SME), Portugal obtained a rating of 90.9/100 (ranking 63rd worldwide). Despite the remarkable position the country experiences, national firms still face an obstacle related to the bureaucracy involved.

When considering the procedures, time and, costs associated with the construction of physical facilities and the gathering of legal certifications, the final result for Portugal was ranked in the 60th place, with a score of 73.2/100 in the dealing with construction permits metric. On the positive side, Portuguese firms deal with the low costs of establishment. Contrarily, the disproportionate amount of time and procedures associated with this process represent a significant hurdle.

Thirdly, the registering property dimension was analyzed, and Portugal ended up 35th by scoring 78.4/100. This section of the analysis evaluates all the efforts and burdens that registering a physical office entail for a businessman.

In what concerns getting credit (i.e., the efficiency of loan-facilitating laws), the Portuguese state attained 45 out of 100 possible points, leading to the 61st position internationally. This undesirable place is the result of the insufficient coverage offered by credit agencies.

As for the paying taxes dimension, Portugal scored 43rd (83.7/100), meaning that the country offers its businesses increasingly low tax-related administrative costs, even though there are still improvements to be made in the total time it takes for firms to cover all fiscal obligations.

The greatest result Portugal achieved in this international markets' evaluation was the previously mentioned 1st place in trading across borders, an indicator that measures the efforts required to internationalize a company and for which this nation got a 100/100, alongside Spain and France.

Concerning the enforcing contracts' measurement of this study, which covers both the inconveniences involved in solving commercial disputes in Court and the quality of the judiciary processes, Portugal obtained a rating of 67.9 out of 100, which led to the 38th position.

Finally, and introducing the resolving insolvency attribute, the criteria for the Portuguese 15th place (80.2/100) was based on the time, cost, and efficiency of insolvency processes in the country's judiciary entities.

The initially positive assessment of the Portuguese worldwide status is now reinforced by the scores the country achieved in the previously analyzed factors and, thus, it is proven that, in terms of firm strategy and structure, Portugal holds a robust international competitive advantage.

Lastly, the focus of the analysis will shift towards this industry's rivalry as a source of competitive advantage. Looking back at the *Porter's Five Forces* section, a Very High level was assigned to the competitive rivalry in the Portuguese Floor Coverings industry. Additionally, the *Perceptual Map* inserted in that same section of the dissertation allowed for the inference that this market is composed of strong players denoting fierce competition. Considering that interpretation, and since "the presence of strong local rivals is a final, and powerful, stimulus to the creation and persistence of competitive advantage" (Porter 1990), it becomes evident that this industry's rivalry represents a significant competitive advantage for the Portuguese region's global status.

Go back to Porter's Diamond

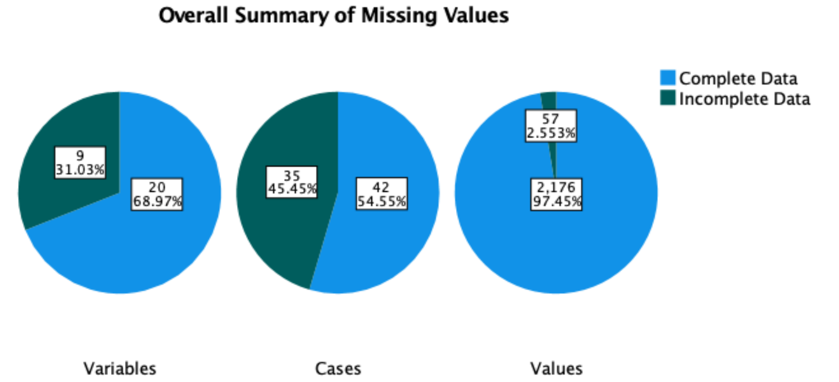
APPENDIX 15

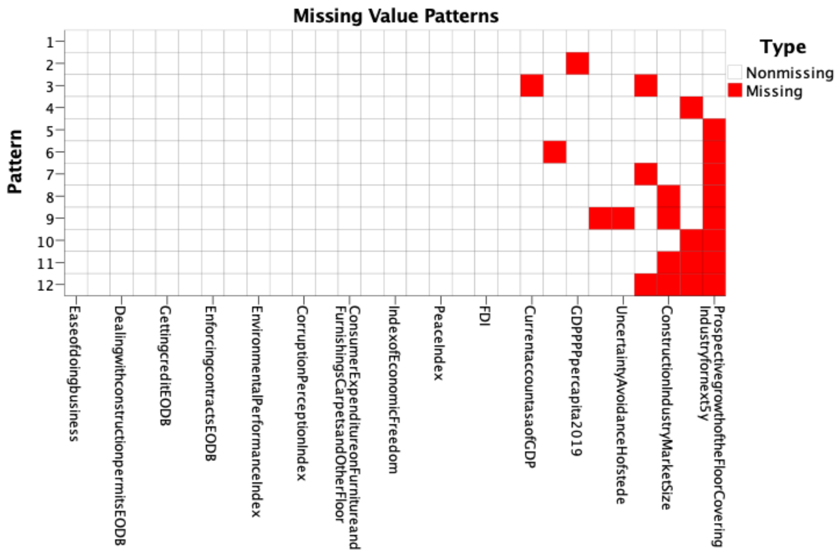
LIST OF VARIABLES CONSIDERED FOR PRELIMINARY ANALYSIS

- Ease of Doing Business
- Ease of Starting a Business (EODB)
- Ease of Dealing with construction permits (EODB)
- Ease of Registering property (EODB)
- Ease of Getting credit (EODB)
- Ease of Trading across borders (EODB)
- Ease of Enforcing contracts (EODB)
- Ease of Paying Taxes (EODB)
- Prospective growth of the Floor Covering Industry for next 5y in percentage
- Construction Industry Market Size
- Environmental Performance Index
- Democracy Index
- Corruption Perception Index
- Middle Class Households in percentage of the population
- Consumer Expenditure on Furniture and Furnishings, Carpets and Other Floor Coverings in percentage
- Index of Furniture and Furnishings, Carpets and Other Floor Coverings Prices
- Percentage of households living in a house
- Current account as a percentage of GDP
- Index of Economic Freedom
- Logistics Performance Index
- GDP Growth
- GDP, PPP, per capita
- Peace Index
- Hofstede’s Individualism dimension
- Hofstede’s Uncertainty Avoidance dimension
- Hofstede’s Long-Term Orientation dimension
- Population
- FDI
- Exchange Rates Volatility

Go back to Country Clustering and Ranking

APPENDIX 16
MCAR ANALYSIS





Go back to Country Clustering and Ranking

APPENDIX 17
INFORMATION ON FINAL VARIABLES

Variable	Year	Unit	Type	Source	Impact
Individualism	2015	Index (0=weak to 100=strong)	Cultural	Hofstede Insights	+
Long Term Orientation	2017	Index (0=weak to 100=strong)	Cultural	Hofstede Insights	+
Uncertainty Avoidance	2016	Index (0=weak to 100=strong)	Cultural	Hofstede Insights	+
Middle Class Households	2020	Units (thousands)	Demographic	Passport	+
Population	2020	Units	Demographic	Worldometer	+
Current account as a % of GDP	2019	Percentage	Economic	OECD	-
Exchange Rate Volatility	2020	Volatility (%)	Economic	OECD, Yahoo Finance	-
FDI	2019	Net Inflows (BoP, current USD)	Economic	The World Bank	+
GDP Growth	2019	Annual %	Economic	The World Bank	+
GDP, PPP (current international $)	2019	Current International $	Economic	The World Bank	+
% of Households living in a house	2020	percentage (%)	Industry	Passport	+
Construction Industry Market Size	2020	USD Million	Industry	Marketline	+
Consumer Expenditure on Furniture and Furnishings, Carpets and Other Floor Coverings	2020	%	Industry	Passport	+
Index of Furniture and Furnishings, Carpets and Other Floor Coverings Prices	2020	2010=100	Industry	Passport	-
Logistics Performance Index	2020	Index (1 - worst performance; 5 - best performance)	Industry	Passport	+
Prospective growth of the Floor Covering Industry	2020-2025	Percentage (%)	Industry	Marketline	+

Variable	Year	Unit	Type	Source	Impact
Dealing with construction permits	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Enforcing contracts	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Getting Credit	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Index of Economic Freedom	2021	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	Heritage	+
Paying Taxes	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Registering Property	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Starting a Business	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Trading across borders	2020	Index (100 signifies the highest score and 0 signifies the lowest score)	Legal	The World Bank	+
Corruption Perception Index	2020	Index (0 - Highly Corrupted; 100 - Lowly Corrupted)	Political	Transparency International	+
Democracy Index	2020	Index ([0; 4] - Authoritarian; [4.01; 6] - Hybrid Regime; [6.01;8] - Flawed	Political	The Economist Intelligence Unit	+

Variable	Year	Unit	Type	Source	Impact
		Democracy; [8.01;10] - Full Democracy)			
Peace Index	2020	Index (1 - More Peaceful; 5 - Less Peaceful)	Political	Vision of Humanity	-
Environmental Performance Index	2020	Index (0 - Very Bad; 100 - Very Good)	Sustainability	Yale Center for Environmental Law & Policy	+

Variable	Description of variable
Individualism	This framework proposes six dimensions along which cultural values could be analyzed: individualism-collectivism; uncertainty avoidance; power distance (strength of social hierarchy); masculinity-femininity (task-orientation versus person-orientation); long-term orientation; indulgence versus self-restraint
Long Term Orientation	This framework proposes six dimensions along which cultural values could be analyzed: individualism-collectivism; uncertainty avoidance; power distance (strength of social hierarchy); masculinity-femininity (task-orientation versus person-orientation); long-term orientation; indulgence versus self-restraint
Uncertainty Avoidance	This framework proposes six dimensions along which cultural values could be analyzed: individualism-collectivism; uncertainty avoidance; power distance (strength of social hierarchy); masculinity-femininity (task-orientation versus person-orientation); long-term orientation; indulgence versus self-restraint
Middle Class Households	The middle class is defined as the number of households with between 75% and 125% of median disposable income.
Population	Total population by country in 2020.
Current account as a % of GDP	Consists of the trade balance (the difference between the total value of exports of goods and services and the total value of imports of goods and services), the net factor income (difference between the return on investments generated by citizens abroad and payments made to foreign investors domestically) and net cash transfers, where all these elements are measured in the domestic currency.
Exchange Rate Volatility	Last 5 years average annual growth (in absolute value) of exchange rates measured in terms of national currencies compared to the USD. For the USD, the average annual growth of the exchange rate was measured with the last 4 years and compared to the Euro.
FDI	Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Data are in current U.S. dollars.
GDP Growth	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is

Variable	Description of variable
	the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.
GDP, PPP (current international $)	This indicator provides values for gross domestic product (GDP) expressed in current international dollars, converted by purchasing power parity (PPP) conversion factor. GDP is the sum of gross value added by all resident producers in the country plus any product taxes and minus any subsidies not included in the value of the products. PPP conversion factor is a spatial price deflator and currency converter that eliminates the effects of the differences in price levels between countries. From April 2020, “GDP: linked series (current LCU)” [NY.GDP.MKTP.CN.AD] is used as underlying GDP in local currency unit so that it is in line with time series of PPP conversion factors for GDP, which are extrapolated with linked GDP deflators.
% of Households living in a house	Percentage of the household's living in a house (either detached house (a single dwelling not attached to any other dwelling or structure - open space on all sides, with no dwellings either above it or below it) or semi-detached and terraced house (one of two dwellings attached side by side to each other, but not to any other dwelling or structure - has no dwellings either above it or below it, and the two units together have open space on all sides; Terraced house is a dwelling in a line of dwellings attached to and adjoining one another and planned and built as one unit)).
Construction Industry Market Size	The construction market is defined as the value of work put in place annual for both residential and non-residential construction. The residential construction market is defined as the value of work put in place annually for residential buildings. This includes apartments and apartment blocks, houses, and similar buildings, but not hotels and other forms of commercial, temporary accommodation, and includes both single- and multi-family housing. The non-residential construction market is defined as the value of work put in place annually for non-residential buildings.
Consumer Expenditure on Furniture and Furnishings, Carpets and Other Floor Coverings	Furniture and furnishings includes laying of floor coverings, both the cost of labour and the cost of materials are covered; beds, sofas, couches, tables, chairs, cupboards, chests of drawers and bookshelves; lighting equipment; art objects; screens, folding partitions and other furniture; floor coverings such as carpets and linoleum; repair and installation, when applicable, of furniture, furnishings and floor coverings; mattresses, tatamis; bathroom cabinets; baby furniture; blinds; camping and garden furniture; mirrors, candleholders and candlesticks; restoration of works of art, antique furniture and antique floor coverings.
Index of Furniture and Furnishings, Carpets and Other Floor Coverings Prices	Index of furniture and furnishings, carpets and other floor coverings prices is estimated using a sample of prices for a defined set of goods or services from furniture and furnishings, carpets and other floor coverings category. Include beds, sofas, couches, tables, chairs, cupboards, chests of drawers and bookshelves; lighting equipment; carpets, linoleum and other such floor coverings; repair of furniture, furnishings and floor coverings; ect.
Logistics Performance Index	Logistics Performance Index overall score reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade- and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time.

Variable	Description of variable
Prospective growth of the Floor Covering Industry	Prospective growth of the Floor Covering Industry for next 5 years
Dealing with construction permits	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Enforcing contracts	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Getting Credit	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Index of Economic Freedom	A measure of economic freedom based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom: Rule of Law (property rights, government integrity, judicial effectiveness), Government Size (government spending, tax burden, fiscal health), Regulatory Efficiency (business freedom, labor freedom, monetary freedom), Open Markets (trade freedom, investment freedom, financial freedom). Economic freedom is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. In economically free societies, governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.
Paying Taxes	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Registering Property	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Starting a Business	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Trading across borders	Although Doing Business covers 12 areas of business regulation, only 7 were considered in the analysis due to their relevance to the industry - starting a business, dealing with construction permits, registering property, getting credit, paying taxes, trading across borders and enforcing contracts
Corruption Perception Index	The CPI scores and ranks countries/territories based on how corrupt a country’s public sector is perceived to be by experts and business executives. It is a composite index, a combination of 13 surveys and assessments of corruption, collected by a variety of reputable institutions. The CPI is the most widely used indicator of corruption worldwide.

Variable	Description of variable
Democracy Index	The Economist Intelligence Unit's Democracy Index provides a snapshot of the state of democracy worldwide in 165 independent states and two territories. This covers almost the entire population of the world and the vast majority of the world's states (microstates are excluded). The Democracy Index is based on five categories: electoral process and pluralism, the functioning of government, political participation, political culture, and civil liberties.
Peace Index	A composite index measuring the peacefulness of countries made up of 23 quantitative and qualitative indicators each weighted on a scale of 1-5. The lower the score the more peaceful the country.
Environmental Performance Index	The 2020 EPI provides a quantitative basis for comparing, analyzing, and understanding environmental performance for 180 countries. We score and rank these countries on their environmental performance using the most recent year of data available and calculate how these scores have changed over the previous decade. Overall EPI rankings indicate which countries are best addressing the environmental challenges that every nation faces. Going beyond the aggregate scores and drilling down into the data to analyze performance by issue category, policy objective, peer group, and country offers even greater value for policymakers. This granular view and comparative perspective can assist in understanding the determinants of environmental progress and in refining policy choices.

Go back to Country Clustering and Ranking

APPENDIX 18

COUNTRIES' RANKING AND SCORE

Ranking	Country	Score	Ranking	Country	Score
1	United States	66.66	25	Hungary	54.20
2	New Zealand	66.30	26	Slovakia	53.08
3	Denmark	63.37	27	South Korea	52.82
4	Australia	62.65	28	Italy	52.74
5	United Kingdom	62.40	29	Spain	52.65
6	Sweden	62.30	30	Slovenia	51.29
7	Canada	61.73	31	Poland	51.21
8	Ireland	61.55	32	Chile	51.05
9	Germany	61.35	33	Portugal	50.96
10	Norway	61.07	34	Qatar	50.82
11	Netherlands	60.62	35	Israel	50.02
12	Austria	60.25	36	United Arab Emirates	49.90
13	Belgium	59.23	37	India	49.61
14	Finland	58.69	38	Latvia	48.94
15	Estonia	57.53	39	Romania	48.89
16	China	57.37	40	Croatia	48.65
17	Switzerland	56.59	41	Panama	48.46
18	Singapore	56.55	42	Georgia	48.05
19	France	56.48	43	Azerbaijan	48.05
20	Taiwan	55.72	44	Bulgaria	48.00
21	Japan	55.48	45	Costa Rica	47.88
22	Czech Republic	54.95	46	Indonesia	46.82
23	Malaysia	54.47	47	Vietnam	46.76
24	Lithuania	54.30			

Ranking	Country	Score
48	Kazakhstan	46.44
49	Serbia	46.30
50	Saudi Arabia	45.92
51	Bahrain	#N/A
52	Thailand	44.82
53	North Macedonia	44.79
54	Peru	44.77
55	Mexico	44.16
56	Tunisia	43.94
57	Philippines	43.91
58	South Africa	43.91
59	El Salvador	43.88
60	Turkey	43.29
61	Greece	43.02
62	Morocco	42.53
63	Colombia	42.50
64	Uruguay	42.43
65	Russia	42.31
66	Bosnia and Herzegovina	42.19
67	Jordan	42.13
68	Dominican Republic	41.79
69	Sri Lanka	41.49
70	Brazil	41.23
71	Paraguay	41.09
72	Ukraine	40.93
73	Guatemala	39.79
74	Ghana	39.16
75	Belarus	39.16
76	Uganda	39.08
77	Egypt	34.59
78	Argentina	29.37
79	Pakistan	28.84

Go back to Country Clustering and Ranking

APPENDIX 19

COUNTRIES' RANKING AND CLUSTER

Cluster 1	Score
Peru	54
Mexico	55
El Salvador	59
Brazil	70
Paraguay	71
Guatemala	73
Argentina	78
Average Ranking	65.7

Cluster 2	Score
Chile	32
Greece	61
Uruguay	64
Average Ranking	52.3

Cluster 3	Score
Panama	41
Costa Rica	45
South Africa	58
Colombia	63
Average Ranking	51.8

Cluster 4	Score
Romania	39
Georgia	42
Serbia	49
North Macedonia	53
Bosnia and Herzegovina	66
Ukraine	72
Average Ranking	53.5

Cluster 5	Score
Tunisia	56
Morocco	62
Jordan	67
Sri Lanka	69
Average Ranking	63.5

Cluster 6	Score
Pakistan	79

Cluster 7	Score
Malaysia	23
Indonesia	46
Thailand	52
Average Ranking	40.3

Cluster 8	Score
Philippines	57
Dominican Republic	68
Ghana	74
Uganda	76
Egypt	77
Average Ranking	70.4

Cluster 9	Score
Vietnam	47

Cluster 10	Score
China	16
India	37
Average Ranking	26.5

Cluster 11	Score
Germany	9
Netherlands	11
Austria	12
Belgium	13
Switzerland	17
France	19
Italy	28
Average Ranking	15.6

Cluster 12	Score
Denmark	3
Sweden	6
Norway	10
Finland	14
Average Ranking	8.3

Cluster 13	Score
United States	1
New Zealand	2
Australia	4
United Kingdom	5
Canada	7
Ireland	8
Average Ranking	4.5

Cluster 14	Score
Saudi Arabia	50
Bahrain	51
Turkey	60
Average Ranking	53.7

Cluster 15	Score
Azerbaijan	43
Kazakhstan	48
Russia	65
Belarus	75
Average Ranking	57.8

Cluster 16	Score
Qatar	34
United Arab Emirates	36
Average Ranking	35

Cluster 17	Score
Singapore	18

Cluster 18	Score
Czech Republic	22
Hungary	25
Slovakia	26
Poland	31
Average Ranking	26

Cluster 19	Score
Spain	29
Slovenia	30
Portugal	33
Israel	35
Croatia	40
Bulgaria	44
Average Ranking	35.2

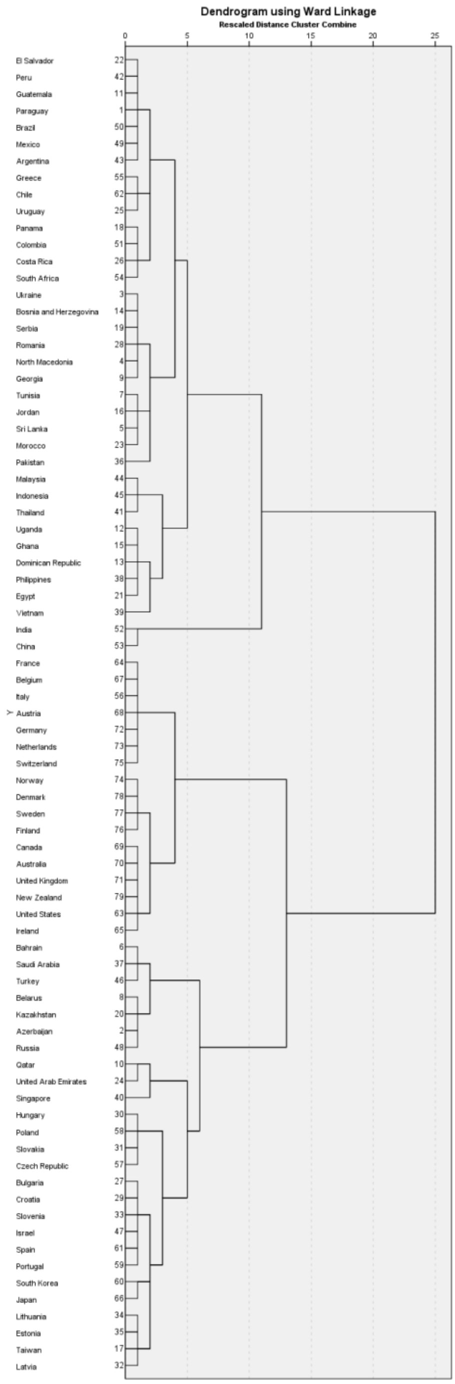
Cluster 20	Score
Japan	21
South Korea	27
Average Ranking	24

Cluster 21	Score
Estonia	15
Taiwan	20
Lithuania	24
Average Ranking	24.3

Go back to Country Clustering and Ranking

APPENDIX 20

DENDROGRAM



Go back to Standardization, Rescaling and Inversion

APPENDIX 21

TARIFFS FROM EXPORTING TO THE USA

Product	Tariff to Portugal	Tariff to China	Tariff to Brazil
Assembled Wood Flooring Panels	2.67% - 4.1%	2.67% - 4.1%[1]	0%
Plastic Floor Coverings	5.13% - 5.33%[1]	5.13% - 5.33%[1]	0%
Rubber Floor Coverings	2.7%[1]	2.7%[1]	0%
Carpets	0% - 7.5%[1]	0% - 7.5%[1]	0% - 7.5%
Linoleum	0%[1]	0%[1]	0%
Ceramic	0%[1]	0%[1]	0%

Source: https://oec.world/en/tariffs/
Note: [1] Most Favored Nation duty rate treatment

Go back to USA

APPENDIX 22

USEFUL CONTACTS WHEN STARTING A BUSINESS IN THE USA

Entity	Email	Phone Number	Website	Comments
Portuguese Embassy in the US	sconsular.washington@mne.pt	+1 202 33 230 07	https://washingtondc.embaixadaportugal.mne.gov.pt/pt/	Intergovernmental entity
US Embassy in the US	NA	351-21-727-3300	https://pt.usembassy.gov/pt/	Intergovernmental entity
Portuguese Industrial Association	aip@aip.pt	213 601 021	http://www.aip.pt/pt/internacionalizacao	Studies and workshops on how to export
AICEP Portugal Global	aicep@portugalglobal.pt	808 214 214	https://www.portugalglobal.pt/PT/Internacionalizar/Paginas/MercadosExternos.aspx?marketId=35	Studies and workshops on how to export
U.S. Department of Commerce	NA	1 (202) 482-2000	https://www.commerce.gov/	Information on tariffs compliance and trade agreements
U.S. Chamber of Commerce	smallbusiness@uschamber.com	1-800-638-6582	https://www.uschamber.com/	Information on tariffs compliance and trade agreements
Portugal-US Chamber of Commerce	chamber@portugal-us.com	NA	http://portugal-us.com/	Information on tariffs compliance and trade agreements
U.S. Customs and Border Protection	NA	1-202-325-8000	https://www.cbp.gov/	Information on tariffs compliance and trade agreements
International Trade Administration	office.lisbon@trade.gov	+351 217 702 528	https://www.trade.gov	Information on tariffs compliance

				and trade agreements
U.S. International Trade Commission	margaret.olaughlin@usitc.gov	1 (202) 205-1819	https://www.usitc.gov/	Information on tariffs compliance and trade agreements
Animal and Plant Health Inspection Service	CustomerServiceCallCenter@aphis.usda.gov	1-844-820-2234	https://www.aphis.usda.gov/aphis/ourfocus/planthealth/import-information/permits/plants-and-plant-products-permits/sa_logs_and_lumber/wood	Information on regulation of wood and timber products importations
WTO	enquiries@wto.org	+41 (0)22 739 51 11	http://tariffdata.wto.org/default.aspx	Estimates on tariffs
European Commission	TAXUD-DDS-TARIC@ec.europa.eu	NA	https://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en	Estimates on tariffs
Consumer Products Safety Commission	NA	1 800-638-2772	https://www.cpsc.gov/	Governmental Entity
Environmental Protection Agency	NA	NA	https://www.epa.gov/	
Coverings, Orlando	info@coverings.com	1 (571) 313-5159	https://www.coverings.com/	Trade shows and fairs
PCBC The Western Building Show, San Francisco	showinfo@pcbc.com	1 (916) 325-9300	https://www.pcbc.com/pcbc/public/enter.aspx	Trade shows and fairs
ICFF, New York	kevin.mcghee@icff.com	NA	https://icff.com/	Trade shows and fairs

World Market Centre Las Vegas, Las Vegas	NA	NA	https://www.lasvegasmarket.com/	Trade shows and fairs
NY Luxury Design Fair, New York	info@NYLuxuryDesignFair.com	800-677-6278	https://nyluxurydesignfair.com/	Trade shows and fairs
High Point Market, High Point	NA	1-336.869.1000	https://www.highpointmarket.org/	Trade shows and fairs
DOMOTEX USA	NA	+1 (773) 796-4250	https://domotexusa.com/	Trade shows and fairs
The International Surface Event 2021, Las Vegas	info@tisewest.com	NA	https://www.intlsurfaceevent.com/	Trade shows and fairs
Floor Covering Weekly	NA	(212) 649-7981	https://www.floorcoveringweekly.com/main/events1	More information on future trade shows
Trade Fair Dates	NA	NA	https://www.tradefairdates.com/Trade-Shows-for-Flooring-USA-FSL392-L228-S1.html	More information on future trade shows
American Floorcovering Alliance	afa@americanfloor.org	1-706-278-4101	www.americanfloor.org	Association
Carpet and Rug Institute	NA	1-(706) 278-3176	www.carpet-rug.org	Association
Floor Covering Installation Contractors Association	info@fcica.com	1-630-672-3702	www.fcica.com	Association
Hardwood Manufacturers Association	NA	1-412.244.0440	www.hardwoodinfo.com	Association

Hardwood Plywood & Veneer Association	NA	1-435-2900 ext. 106	www.hpva.org	Association
National Tile Contractors Association	NA	1-601-939-2071	www.tile-assn.com	Association
National Wood Flooring Association	info@nwfa.org	1-800.422.4556	www.woodfloors.org	Association
North American Association of Floor Covering Distributors	nfo@nafcd.org	1-(800) 383-3091	www.nafcd.org	Association
Wood Flooring Manufacturers Association	NA	1-800.422.4556	www.nofma.org	Association
Tile Council of North America Inc.	NA	NA	www.tileusa.com	Association
North American Building Material Distribution Association	info@nbmda.org	1-312.644.0310	https://www.nbmda.org/	Association
World Floor Covering Association	wfca@wfca.org	1-(855) 330-1183	https://wfca.org/	Association
Natural Wood Flooring Association	NA	1-800.422.4556	https://nwfa.org/	Association
Certified Floorcovering Installers Association	NA	1-(816) 231-4646	https://cfiinstallers.org/	Association

Go back to USA

APPENDIX 23

COMPETITORS IN THE USA

Competitor	Revenues
Mohawk Industries Inc.[1]	$5.53 billion in 2020
Floor & Decor Holdings, Inc.	$2.43 billion in 2020
Shaw Industries Group Inc. [2]	$1.66 billion in 2020
Engineered Floors[2]	$1.18 billion in 2020
Mannington Mills Inc. [2]	$792.58 million estimated in 2021
Armstrong Flooring Inc. [2]	$584.80 million estimated in 2021
Tarkett	$566.04 million in 2020
Maples	$359.22 million in 2020
Safavieh Inc.	$350.00 million in 2019
Ahf Products, LLC	$339.56 million estimate for 2021
Interface Inc[2]	$329.28 million in 2018
The Dixie Group[2]	$315.939 million in 2020
Unilin Flooring Nc, LLC	$221.77 million in 2019

Source: Orbis, dun&brastreet, except [1] https://ir.mohawkind.com/static-files/2b4eadfe-e050-4730-8b81-9bee20337b1e

Note: [2] Please keep in mind that this number refers to the parent company as subsidiary values were not found.

Go back to USA

APPENDIX 24

TARIFFS FROM EXPORTING TO DENMARK

Product	Tariff
Plastic floor coverings	6.5%
Floor coverings, mats of rubber except cellular, hard	2.5%
Assembled wood flooring panels	0% - 3%
Carpets and other textile floor coverings	3% - 8%
Linoleum	5.3%
Ceramic flooring blocks, tiles and the like	2%

Source: https://oec.world/en/tariffs/
Notes: The Partner countries are both China and Brazil.

APPENDIX 25

USEFUL CONTACTS WHEN STARTING A BUSINESS IN DENMARK

Entity	Email	Phone Number	Website	Comments
Boligdage (fair)	info@compassfairs.dk	+4574629440	https://boligdage.dk/en/contact-us/	Address: Brunde Vest 17 6230 Rødekro
Danish Construction Association	danskbyggeri@di.dk	+4572160000	https://www.danskindustri.dk/brancher/di-dansk-byggeri/the-danish-construction-association/	Address: H. C. Andersens Boulevard 18 1553 København V
European Floorcovering Association	info@eufca.org	+3222870873	https://www.eufca.org	Address: Rue Montoyer 24 1000 Brussels Belgium
Danish Trade Council	NA	+4533920500	https://um.dk/en/tradecouncil/	Address: MINISTRY OF FOREIGN AFFAIRS OF DENMARK Asiatisk Plads 2 DK-1448 Copenhagen
Embassy of Portugal in Denmark	copenhaga@mne.pt/embport@get2net.dk	+4533360072/131 301	https://copenhaga.embaixadaportugal.mne.gov.pt/pt/	Address: Toldbodgade 31, 1.sal 1253 Copenhagen K Denmark
Embassy of Denmark in Portugal	lisamb@um.dk	(+351)213512960	https://portugal.um.dk	Address: Embassy of Denmark Rua Castilho 14-C-3 1269-077 Lisbon
aicep Portugal Global – Portugals Handelsbureau	carlos.moura@portugalglobal.pt	+46850652100	https://www.portugalglobal.pt/EN/Pages/index.aspx	Address: Toldbodgade 31, 1o, 1253 Copenhagen – Denmark

Danish Business Authority: Team Global Trade and Security	eksportkontrol@erst.dk / erst@erst.dk	NA	http://dba.erhvervsstyrelsen.dk/home/0/2	Address: Langelinie Allé 17 DK-2100 Copenhagen O Denmark
Danish Agency for Digitisation	digst@digst.dk	+4533925200	https://en.digst.dk	Address: Landgreven 4 1301 Copenhagen K
Invest in Denmark	idk@um.dk	+45339 21116	http://www.investindk.com/	Address: 2, Asiatisk Plads, DK-1448 Copenhagen K – Denmark
Dansk Erhverv (Danish Chamber of Commerce)	info@danskerhverv.dk	+4533746000	http://www.danskerhverv.dk/OmDanskErhverv/Profil/Danish-Chamber-Commerce/Sider/Danish-Chamber-Commerce.aspx	Address: Borsen, 1217 Copenhagen K - Denmark
Danmarks Nationalbank (Danish National Bank)	nationalbanken@nationalbanken.dk	+4533636363	http://www.nationalbanken.dk/en/Pages/default.aspx	Address: Havnegade 5, DK-1093 Copenhagen K – Denmark
Enterprise Europe Network – Denmark	NA	+4530108080	kbo@ehhs.dk	Address: København Ø Fruebjergvej 3 2100 København Ø

Go back to Denmark

APPENDIX 26

TARIFFS FROM EXPORTING TO GERMANY

Product	**Tariff**
Plastic floor coverings	6.5%
Floor coverings, mats of rubber except cellular, hard	2.5%
Assembled wood flooring panels[1]	0% - 3%
Carpets and other textile floor coverings	5.75% - 8%
Linoleum	5.3%
Ceramic flooring blocks, tiles and the like	2%

Source: https://oec.world/en/tariffs/
Notes: [1]If wood flooring is multilayer or not made of bamboo, there is no tariff.
All the above agreements are Most Favoured Nation duty rate treatments;
The Partner countries are both China and Brazil.

Go back to Germany

APPENDIX 27

USEFUL CONTACTS WHEN STARTING A BUSINESS IN GERMANY

Entity	Email	Phone Number	Website	Comments
AICEP Berlin	aicep.berlin@portugalglobal.pt	Miguel Crespo: +49-30-254 10	https://www.portugalglobal.pt/EN/about-us/overseas-network/Pages/ARedeAicep.aspx?idPontoRede=9	Market Research and identification of business opportunities for Portuguese companies abroad
AIP (Associação Industrial Portuguesa)	internacionalizacao@aip.pt	+351213 601123	http://www.aip.pt/	Foster the progress of Portuguese companies and associations
AEP	aep@aeportugal.pt	+351229 981500	https://www.aeportugal.pt/pt/servicos-1/internacionalizacao/	Actions of external promotion
Câmara de Comércio e Indústria Luso-Alemã	nfolisboa@ccila-portugal.com	+351213 211200	https://www.ccila-portugal.com/pt/	Help with exporting issues
Embassy of Portugal in Germany	berlim@mne.pt	+493059 0063500	https://lissabon.diplo.de/pt-pt	
Embassy of Germany in Portugal	info@lissabon.diplo.de	+351218 810210	https://lissabon.diplo.de/pt-pt	
Bilateral Chamber of Commerce in Germany	post@cicpa.de	+49 (0) 2285269 410	https://www.ahk.de/	Promotes the cooperation between Portuguese and German companies in Germany
Bilateral Chamber of Commerce in Portugal	infolisboa@ccila-portugal.com	+351213 211200	https://www.ccila-portugal.com/pt/	Promotes the cooperation between Portuguese and

				German companies in Portugal
Heimtextil-Internationale Fachmesse	heimtextil@messefrankfurt.com	069-75756096	https://heimtextil.messefrankfurt.com/frankfurt/en.html	An international fair of floor, wall and window decoration & furniture fabrics; happens annually in January
Domotex Hanover	info@messe.de	+49 (0)511890	https://www.messe.de/home	World's leading trade fair for floor coverings
interzum Cologne	info@koelnmesse.de	+49 (0)22182 10	www.koelnmesse.de/	International trade fair for suppliers of the furniture industry and interior
Oberpfälzer Baumesse Amberg	info@systema-online.eu	+49 (0)85866 565	www.messe-amberg.de/	Construction trade fair

Go back to Germany

APPENDIX 28

COMPETITORS IN GERMANY

Company	Revenues ($)	Geographic Market
Nora Systems by Interface	215 870 000	International
PolyFlor	165 960 000	International
Milliken Flooring	135 080 000	International
Saloni Ceramic SA	111 470 000	International
Forbo Flooring GmbH	102 020 000	International
Norddeutsche Steingut AG	97 280 000	Germany
Bembe Parkett Gmbh & Co. Kg	83 814 132	Germany
Parador	68 200 000	International
Gruppo Ceramiche Ricchetti Spa	53 980 000	International
Spoma Parkett Und Ausbau Gmbh	33 763 564	Germany
Klk Raumdesign Gmbh	15 560 000	Germany
Porcelanosa Group	5 210 000	International
Dieter Holschbach Gmbh	5 130 000	Germany
German Flooring	330 441	International

Source: Orbis, dun&brastreet

Go back to Germany

APPENDIX 29

TARIFFS FROM EXPORTING TO JAPAN

Product	Tariff to Portugal	Tariff to China	Tariff to Brazil
Assembled Wood Flooring Panels	2%	1.2%	1.2%
Plastic Floor Coverings	3.1% - 4%	0%	0%
Rubber Floor Coverings	0%	0%	0%
Carpets	0% - 8.15%	0% - 6.52%	0% - 6.52%
Linoleum	3.9%	0%	0%
Ceramic	0%	0%	0%

Go back to Japan

APPENDIX 30

USEFUL CONTACTS WHEN STARTING A BUSINESS IN JAPAN

Entity	Email	Phone Number	Website	Comments
EU-Japan Centre for Industrial Cooperation	info-eu@een-japan.eu	+81364080281	www.eee-japan.eu	Promoting all forms of industrial, trade and investment cooperation.
Tokyo Metropolitan SME Support Center	NA	+8132517881	https://www.tokyo-kosha.or.jp/english/index.html	Contributing to local economy and SMEs placement, fostering and training.
AICEP	aicep.tokyo@portugalglobal.pt	+81335112871	https://www.portugalglobal.pt/PT/sobre-nos/rede-externa-aicep/Paginas/ARedeAicep.aspx?idPontoRede=4	Supporting the internationalization of the Portuguese economy.
Portuguese Embassy in Japan	geral@portugal.jp.net	+81352127322	https://embaixadadeportugal.jp/en/	
Japanese Embassy in Portugal	economia@lb.mofa.go.jp	+351213110560	http://www.pt.emb-japan.go.jp/	
Portuguese-Japanese Chamber of Commerce and Industry	geral@ccilj.pt	+351213889632	http://www.ccilj.pt/	Promoting the commercial links between Portugal and Japan.
Step in Japan	StepInJapan@eu-japan.or.jp	NA	https://www.eu-japan.eu/logistical-support-step-japan	Landing pad for SMEs based in the EU entering into Japan
Get Ready for Japan	d.lula@eu-japan.eu	NA	https://www.eu-japan.eu/events/get-ready-for-japan-training-programme	2-week online programme that helps understanding how

				to do business in Japan.
Japan External Trade Organization	Inquiry Form	+81335825511	https://www.jetro.go.jp/en/	Promoting mutual trade and investment.
Tokyo Chamber of Commerce and Industry	kokusai@tokyo-cci.or.jp	+81332837876	http://www.tokyo-cci.or.jp/english/	Providing business support to SMEs
Manufactured Imports and Investment Promotion Organization	mipro@mipro.or.jp	+81339716571	http://www.mipro.or.jp/english/	Supporting business and investment in Japan.
Japanese Standards Association	po@jsa.or.jp	NA	http://www.jsa.or.jp/default_english/default_english.html	Educating on the standardization and unification of industrial standards.
Japan Home and Building Show Tokyo	jhbs@convention.jma.or.jp	NA	http://www.jma.or.jp/homeshow/	International trade fair for construction and materials.
IFFT	info@ifft-interiorlifestyleliving.com	NA	https://ifft-interiorlifestyle-living.jp.messefrankfurt.com/tokyo/en.html	International trade fair focusing on lifestyle concepts for the Japanese market.

Go back to Japan