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The world of Renova

- Internationalization Plan to India -

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A Group Project carried out on the Export and Internationalization Field Lab with respect to the company Renova, under the supervision of Professor Pedro Pereira Gonçalves and Professor Pedro Teixeira Santos

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Abstract

This paper studies the viability of Renova's internationalization to India. Its initial chapters include an analysis of the country, the Tissue & Hygiene industry and the company, as well as a section dedicated to the entry mode, in which an entry mode framework was created. Based on this tool, it was discovered that Renova should enter in India by direct export. Moreover, from the chapter on marketing strategy it was concluded that Renova should first export toilet paper, facial tissues, and napkins from its *Red Label* line, pursuing a premium positioning in the market. The products should be distributed first in Mumbai, through *More*'s retail chain and the wholesalers *Metro* and *Walmart*. Finally, despite India's inherent risks and the industry's challenges, a financial analysis suggests that this internationalization is viable (NPV = 215.565,66€) and worth to be followed.

Key words: Internationalization Process, Entry Mode, Differentiation, Distribution

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"Coming together is a beginning. Keeping together is progress. Working together is success", *Henry Ford*. We believe this was the motto of our project from its early start until the end. Throughout the course of this work, not only did we extend our business knowledge and related tools, but also grew as individuals, understanding the importance of working as a team. Although this path required high levels of effort and dedication from of each of us, the support of our advisors, Professor Pedro Pereira Gonçalves and Professor Pedro Teixeira Santos, was paramount, as well as from members of Renova, who met with us several times and continuously answered our doubts. Not to mentioned family and friends, and Nova School of Business and Economics, fundamental for the four of us. As a group, we want to highlight how much we learned over time; and again, thank the ones who were involved in this process.

Group Renova

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Catarina Dolleman

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Rita Craveiro

Executive Summary

For Renova, a Portuguese company operating in the Tissue & Hygiene Industry, becoming a global brand is not something unattainable. Already present in more than 60 markets worldwide, the firm has a new one in mind – India. As such, this paper studies the potential internationalization of the company to India, and provides recommendations regarding the best strategies to approach this market. In 2016, the Tissue & Hygiene Industry in India registered double-digit growth, related to an increase in consumer disposable income and awareness towards hygiene habits. Despite this, this industry remains unattractive, mainly due to the presence of strong international players in the market, threat of emerging private labels, usage of cheaper alternatives and diminished hygiene habits. Given this, to succeed in India, it is crucial to present a differentiated offer, to grab consumers' attention more easily. Consequently, Renova should introduce its *Red Label* line of products, with an assortment of toilet paper, facial tissues, and napkins, as these are the ones with highest sales potential in the country for the following years. Regarding the mode of entry, given the country's level of risk, previous internationalizations, and resources available, among other factors, the one that best suits Renova is direct exporting. Additionally, choosing where to place the products in India is crucial, as it reflects the quality of the product and its uniqueness. In line with its product offerings, the potential target of Renova are big cities and shops in high-end stores; crossing this with the different prospective clients, the retailer that should be chosen is *More*, and the wholesalers *Walmart* and *Metro.* To create brand awareness, online marketing campaigns should be used, along with in store promotions. Later, to gain credibility, celebrity endorsements could be considered. A financial analysis proves that this internationalization is viable, reinforcing how an adequate entry strategy can bring gains to Renova. India is a promising market, and, as such, Renova should proceed with the internationalization.

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1. Introduction

Over the past two decades, Renova has been exploring internationalization opportunities, by offering its innovative and differentiated products to distinct consumers types in several countries. The main purpose of these expansions is to globalize the brand, through an increase in brand awareness and legitimacy across nations. The hypothesis of entering in India is a further step in this direction; and its feasibility is studied in this paper. To do so, an in-depth analysis is performed, on the country, as well as on the industry in which Renova operates - Tissue & Hygiene - and on Renova itself. Moreover, insights regarding the entry mode, marketing, operational and financial strategies are given. Lastly, suggestions for the implementation and control of the process are proposed, along with some final actionable recommendations for the firm.

2. Company Overview

Renova is a high-quality innovative Portuguese brand, founded in 1939, which currently exports to more than 60 countries worldwide and employs around 600 people. The company operates in the Tissue & Hygiene Industry, fabricating and commercializing products such as kitchen rolls, toilet paper, napkins, pocket tissues, facial tissues, wipes and others. These products are known for their unique designs, for the new functional solutions they offer, and for being environmentally friendly (*Appendix 1*). In 2005, Renova launched "Renova Black", the first black toilet paper ever created, giving birth to *"The Sexiest Paper on Earth"*. This product drawn the attention of media all over the world, creating a new range of opportunities for the company in the international market, and allowing it to launch several other products based on the same innovative concept: transforming a commodity into a fun and stylish product. Due to its cosmopolitan and irreverent designs, Renova was invited to display its products in remarkable locations, such as the Louvre Museum, in Paris, or the luxury Harrods stores, in London. Regarding manufacturing facilities, the firm operates two factories in Portugal and one in France. In 2015, Renova registered net sales in the value of EUR 123.4M, and by 2016 it was the third leading player in Portugal in its industry[1], with a 10% value market share (private labels accounted for 43% and P&G for 25% of the total value market share). Recently, to continue its strategy of differentiation, Renova invested in a pioneer technology to launch its most recent line, "Renova Magic", the first generation of Renova 4D paper. (*Appendix 2)*

2.1 Project Description

The search for new commercial opportunities around the planet comes naturally for Renova, and similarly came the idea to expand to India. Renova's Management considered this market a potential target, given that India is an emerging country, with the 2nd largest population in the world and a growing middle class[2]. Consequently, the firm aims to assess the viability of this internationalization, and formulate the best strategy to be successful in this new market.

3. Country Analysis

To expand internationally, a company must perform a macroanalysis of the factors that affect the target country the most. Thus, it is important to understand the key trends of the Indian market, at a political, economic, social, technological, environmental and legal level.

3.1 PESTEL Analysis

	Table 1 - Factor Description
Political	**1)** Indian Government has been smoothing restrictions over international agreements and cross-border trading. **2)** Tissue & Hygiene products' awareness is improving in India, due to the country's international outlook improvement, illustrated by the increase in the number of foreign companies setting subsidiaries there (FDI grew from USD 24.2B in 2012 to USD 44.2B in 2015)[3]; and to the tourism growth (direct contribution of Tourism & Hospitality to GDP registered a CAGR of 14.05% since 2006)[4]. **3)** Indian State looks forward to improve sanitary conditions in the country: the current Prime-Minister promised to put a toilet in every Indian household[5], build community toilets and improve the ones in schools and hospitals, until 2019. Institutional campaigns to enhance the consciousness of citizens towards sanitary and hygiene habits are being conducted[6], along with international and local companies. **4)** Foreign companies in India suffer from political setbacks due to pressure from the community or specific interest groups, as well as from legislation that may change in an unanticipated way. **5)** In 2016, India ranked 176 out of 206 countries in the *Political Stability and Absence of Violence/Terrorism* Index of World Bank.
Economic	**1)** Indian Government has been striving to promote international trade to boom the local economy - it adopted measures[7] to support economic liberalization, such as reducing limitations to foreign companies that desire to make business in India, accepting the privatization of SOEs, adapting regulations to attract FDI and enhancing the way bureaucracies of exchange and interest rates are followed. **2)** Yet, despite several attempts to educate Indian citizens towards the need to improve hygiene standards, products in the Tissue & Hygiene Industry are often perceived as "unnecessary luxuries"; therefore, per capita consumption still stands at a low level[8], when compared to other countries.

Social	**1)** India is the second most populous country in the world, with over 1.34B inhabitants[9]. **2)** In 2015, about 28.79% of the Indian population was aged below or at 14 years old, and 65.6% stood in the 15-64 age group. The country has been showing advances in education and a fast-growing middle class[10], with a forecasted size of around 583M, by 2025. **3)** India presents wealth distribution disparities: more than a million Indians are millionaires, but around 35% of the population lives below the poverty line[11]. **4)** Levels of urbanization are facing a steady growth[12]. Consequently, the term "rurban market" arose, referring to locations close to top cities, which are home to a large number of heterogeneous people, who are increasingly brand conscious. These individuals are willing to adopt new types of products, and use innovative channels such as online shopping. **5)** Consumers are becoming more commercially educated, as consumer confidence in India is improving and buying behaviour[13] is changing. They are starting to pay more attention to their preferences, focusing on topics such as convenience or special design to satisfy their needs. **6)** Similarly to commercial behaviour, hygiene habits are suffering changes[14]. Traditionally, Indian people did not make an intensive use of hygiene products; namely, they found toilet paper repellent and considered it cleaner to splash water; yet, the adoption of Tissue & Hygiene products is expanding[15]. **7)** Disposable income is rising and lifestyle activities are changing, which further fuels this tendency. The number of working women has been increasing[16], and their concerns about a healthier and more hygienic lifestyle have also been supporting the strengthening of hygiene habits.
Tech.	**1)** Indian society is tradition-bounded, presenting several concerns regarding e-commerce[17], namely around online and mobile payment (preference for cash on delivery), lack of online regulation and cybercrime. **2)** India is the second largest online market[18], with about 460M users, and expected to surpass 635M by 2021. **3)** New methodologies and technologies[19] are being adopted to improve the tissue production process. Examples are the shift of tissue paper convertors to semi/fully automatic packaging machines, and a more accurate control of the process of fibres' fragmentation.
Environmental	**1)** India is one of the most polluted countries in the world[20], and faces several other environmental issues, such as the one of water scarcity[21], which is particularly severe. **2)** Throughout the years, excessive exploitation has contributed to a dramatic drop in the levels of vital fresh water. Substantial amounts of water are spent to clean cloths and rags used for sanitary purposes, instead of disposable Tissue & Hygiene products. **3)** Open air defecation[22] is also a problem. Despite the current institutional efforts to develop the sanitary and hygiene sector in India[23], around 25% of households still lack toilets and over 72% of India's rural population defecates in the open air**. 4)** There is an urgent need[24] for a safe garbage disposal system, and citizens must realize that changes in hygiene standards are imperative to improve the existing conditions.
Legal	**1)** International rules are mainly displayed in both UN Convention on Contracts and in the "Convention for the Unification of Certain Rules for International Carriage"[25]. **2)** The Government has been implementing measures[26] to ease the process of doing business in India[27], namely by simplifying labour laws, reducing the number of mandatory documents required for commercial purposes, and easing the process of obtaining industrial licenses. **3)** A uniform Goods and Services Tax, recently implemented (July 2017), eliminates the complexity of double taxation, at the state and institutional levels**. 4)** India aims to attract more FDI in the future**.** In 2016[28], FDI Policy started to permit FDI up to 100% from foreign/NRI (Non-Resident Indian and person of Indian origin) investors, under two routes[29]. The first one, *automatic route*, does not require prior approval and puts less restrictions on the levels of investment. The other one, valid for activities that require an Industrial License and Governmental approval, follows an *approval route* and scrutinizes foreign investment in detail[30]. Trading by means of wholesale, (the way in which Renova conducts business) will follow a fully *automatic route*[31]. **5)** Labelling requirements[32] when exporting to India must be complied with; for instance, the favoured language for labelling is English. **6)** Indian Legislation presents some hurdles in terms of labour laws, such as it does not encourage a fire and hire policy[33].

3.2 Some Implications of Doing Business in India

After analysing the global situation of the country, it is crucial to explore additional topics that may influence the ease of conducting business in India. Thus, the 4 risks of International Business will be assessed, for this country.

3.2.1 The Four Risks of International Business in India

India ranked 130th out of 190 countries in the *2017 World Bank's Ease of Doing Business Index*[34]*(table 1 Appendix 3).* This suggests there are several risks that need to be considered when exploring the possibility of operating in this country.

- **Cross Cultural Risks**: In the last few decades, cultures in India have been renovating fast in urban areas (due to "westernization"[35], among other factors); yet, the country has been retaining, simultaneously, several of its core and older values[36], which impact negotiation patterns, decision-making styles and ethical practices. For instance, interpersonal relations[37] are esteemed, even in business; top-down decisions and hierarchical structures in both companies and society are the standard. Additionally, Indian employees require a high level of monitoring, training and management time; thus, sometimes, problems in the company are only discovered late in time, when they cannot be solved. Since India has a high-context culture, the correct way to conduct business is not explicitly specified; therefore, face-to-face interactions are usually preferred, as indirect signals such as body language can carry enormous information.

- **Country (political) Risks:** India was, in 2016, the 79th out of 176 countries in the *Transparency International's Corruption Perceptions* Index[38], demonstrating that corruption and bribery are ingrained in its society and may form a barrier to the development of business, demanding systematic *due diligence* work and *au courant* risk tactics. Moreover, business managers must assume and accept delays, underdeveloped infrastructures, a complex tax system, and bureaucratic burden. Also, even though labour laws enforcement is dependent on the State, sector and registered trade union, this type of law has been growing in number to ease cooperative negotiations through proper regulation.

- **Currency (financial) Risks:** Economic risks[39] in India are related with sustaining growth, lowering inflation and managing the deficiencies in fiscal discipline. Since the beginning of 2016, the Indian economy has been facing a growth slowdown[40] (7.4% January 2016 to 5.7% July 2017, *graph 1 Appendix 3*). Yet, specialists claim that the downturn is only momentary and due to adjustments from reforms, such as the implementation of the mentioned dual Goods and Services Tax (GST)[41]. Furthermore, the Indian economy is still volatile due to the repercussions of 2016's extreme demonetization, when the use of almost 86% of the country's cash was banned, affecting Indians' daily life and commerce in a severe way[42]. There are serious structural problems[43] in the country, as companies and banks persist overloaded in high levels of debt, private investment has weakened and the rupee[44] has appreciated strongly[45] (68.8 INR per USD in February 2016, to around 65 in September 2017, *graph 2 Appendix 3*). This latter phenomenon is a risk for companies that want to produce and have a physical presence in India, as it lowers earnings from exports. On the other hand, this currency appreciation will be beneficial for foreign companies that want solely to export to India, as imports grow due to attractiveness of foreign goods' prices for Indian consumers. In July 2017, India's inflation rate rose above market expectations[46] (from 1.54% in June, to 2.36% in July, *graph 3 Appendix 3*), following a series of declines, therefore leading to an increase in consumer prices. This complicates business planning, the pricing of inputs and finished goods. Another potential area of concern for companies that want to establish themselves in India is the comprehensive transfer pricing regulation (rules for pricing transactions between enterprises under common ownership or control), where a growing number of transfer pricing audits and stringent penal consequences for non-compliances with regulation cause uncertainty for foreign companies.

- **Commercial Risks:** Companies interested in doing a greenfield investment in India face costly construction permits[47]: getting electricity involves a number of procedures, and registration of properties requires a 1% charge on their market value, as well as a 5% stamp duty. Also, India is one of the worst countries[48] in the world to enforce a contract. Regarding exchange of goods, several layers of bureaucracy make it challenging to move goods efficiently. For instance, exporters face barriers at India's ports, related to the lack of infrastructure and accurate documentation. In addition, other considerations should be made: for instance, sole ownership of distribution in India implies high costs and hampers market penetration, as the country has a fragmented market, and labour laws that make operations of organized distribution very expensive. Moreover, demand for top talent is fierce: young Indian professionals view jobs with a short-term perspective, and turnover is high.

Concluding, India is still a risk country to do business with, despite Government efforts and improvements it has been undergoing. Nonetheless, the risk can increase or decrease depending on the mode that a company chooses to enter, as well as its level of commitment and resources involved in the internationalization.

3.2.2 Portugal – India Relationship and Legal Agreements

Political relations between Portugal and India are friendly, which enables investment from Portuguese companies in India. Portugal ranks 55th in terms of the overall FDI inflow into India, and major investors belong to the manufacturing sector[49]. Both countries have been signing several agreements to encourage the development of trade, involving the Portugal-India Business Hub and the Agency for Investment and Foreign trade of Portugal (AICEP), among others. When doing business in India, some of these agreements should be taken into consideration, such as: MoU on Avoidance of Double Taxation; Agreement for Cooperation in Science & Technology; Agreement between Federation of Indian Chambers of Commerce & Industry (FICCI) and the Portuguese Foreign Trade and Investment Agency (AICEP); Bilateral Agreement on Trade, Economic, Industrial and Technical Cooperation; among others[50] *(Appendix 4)*. These offer a safer environment for Portuguese investors in India, mainly due to the support from recognized entities.

4. Industry Analysis

In this section of the paper, an overview is conducted on the industry in which Renova operates - the Tissue & Hygiene one - both at global and country levels, with the aim of unveiling the main facts and figures that are essential to understand its dynamics. This industry contains several product categories. Tissue comprises paper towels, paper tableware (napkins and tablecloths), facial tissue (boxed and pocket handkerchiefs) and toilet paper; and Hygiene includes adult incontinence products, diapers, sanitary protection (tampons, towels, pantyliners) and wipes (home care, floor cleaning, feminine, baby, cosmetic and moist toilet)[51].

4.1 Global Industry Outlook

Currently, the Tissue & Hygiene Industry is worth USD 162.7B (USD 71.3B for Tissue and USD 91.3B for Hygiene)[52]. Per product category, most of this value comes from toilet paper (USD 44B) and diapers (USD 42.3B)[53], while per geography, the regions that stand out the most are Asia-Pacific (58B) and North America (36B)[54]. When it comes to distribution, the most popular channels are store-based retailers, which originate 94.1% of the value. Yet, non-store retailers are the ones growing the most in value terms (CAGR of around 36%, against 4% for the other type, in the 2011-2016 period)[55]. Here, online selling, especially of hygiene products, is the key component; and Asia is the key market (more specifically China, which in 2016 was responsible for USD 6B out of global USD 9B in sales)[56].

The market size is expected to grow up to 2021, with unmet potential both in Tissue (USD 44B) and Hygiene (USD 295B)[57], mostly in emerging markets. Yet, forecasts for value of sales in this industry show a downgrade, up to 2021. This is mainly due to an increase in demand for affordable products, especially from consumers of lower-income segments, which threatens profitability and poses a challenge to premium products. Also, the fact that developing countries are composed by a significant portion of this type of consumers adds dimension to this problem. This is so because their markets present higher future opportunities, while the ones of developed countries are becoming saturated[58]. Moreover, several local players are emerging, such as China's Hengan International, challenging industry leaders like Procter & Gamble and Kimberly-Clark with their local knowledge[59]. Along with this, private label penetration level is high: 14% in value terms (2012), at a global level, vs 6.4% for household care or 3% for personal care[60]. Furthermore, demographic shifts[61] and changes in consumer preferences constitute further menaces to companies in the industry[62]. All of the above facts imply that industry players must engage in efforts to cut costs and gather information on their new markets, to conceive products that appeal to the local consumer segments, once low prices are not enough to capture value.

4.2 Indian Industry Outlook

The Tissue & Hygiene Industry has been advancing in India, presenting a sales value of over USD 1.3B in 2016. During the same year, the product categories that generated most value of sales were diapers (USD 700M), sanitary protection (USD 400M), and facial tissues (USD 60M), a trend that is expected to continue up to 2021. In terms of growth, the category that stands out is adult incontinence, with a CAGR for value growth in the 2016-2021 period of 15.4%, followed by wipes (12.8%) and diapers (9.5%)[63].

Regarding distribution, store-based retail accounts for 99.5% of the distribution, with grocery retailers leading (59.8%). Non-store retail only happens through the internet, accounting for the remaining 0.5%[64]. Away-From-Home (AFH) institutions play a key role in this industry, especially for the tissue segment. In 2016, tissue in AFH was responsible for 54% of tissue sales in India, in value terms. Among the different AFH types, Horeca stands out in several categories: for instance, in 2016 it originated 84% of value sales of paper tableware in AFH. Value sales from AFH institutions will continue to grow, at a projected CAGR of 7% in the 2016-2021 period, reaching around USD 335M in 2021[65]. Concerning competition, international players dominate, especially in hygiene products, although other brands are entering the market. Private labels are already present in India, experiencing the highest penetration in the category of toilet paper.[66] (*Appendix 5*).

In 2016, the Tissue & Hygiene Industry in India has experienced double-digit growth, due to higher consumer disposable income and awareness, which is being stimulated mostly by Away-From-Home (AFH) channels, such as restaurants, hotels and hospitals, and by the Government and other entities that alert the population to the importance of hygiene. Among these, leading players in the industry play an important role, and the increase in the number of working women in the country is a further contributor for its rising popularity[67]. Yet, per capita consumption is still low when compared to developed regions in Europe and North America, due to low incomes, low awareness and use of cheaper alternatives. This is especially felt in rural areas, where the population is less educated towards hygiene habits, incomes are lower and retail is less organized than in the urban areas. Overall, price plays an important role: since the majority of the Indian population still does not perceive these products as essential, offering low prices helps to make them attractive to consumers[68].

4.2.1 Retail and Wholesale in India

Given that the main clients of Renova are retailers and wholesalers[69], the firm demonstrated interest in obtaining an outlook of these players in India[70]. Hence, this section comprises an analysis of these, displaying key insights.

4.2.1.1 Store-Based Retailing in India

The Indian Retailing Industry is one of the most dynamic and fastest growing markets in the world, having recorded a 13% growth in 2016[71]. Yet, organized retail is still at its nascent stage: in 2017, unorganised/traditional players accounted for 90-92% of the market[72]. Despite this, convenience is becoming a priority, which increases the popularity of shopping centres. Retailing in India can be divided into two separate categories: store-based retailing and non-store based retailing. The store-based category includes *modern retailing* (hypermarkets, supermarkets, forecourt retailers, discounters, and convenience stores) and *traditional retailing* (independent small grocers)[73]. In this analysis, the non-store based category will be considered as being solely *e-commerce*, for simplification purposes and since the share of other distribution types is neglectable. As previously mentioned, store-based retailing dominates in India (in 2016, 7 out of the top 10 retailers were store-based), although online retail is expected to be at par with this store type in the next 5 years[74]. Below is a description of the several categories, including an overview of the main players of each.

Modern Retailing

<u>Hypermarkets and Supermarkets:</u> In India, this category is dominated by a few players, evidenced by the distribution of the retail value (%) in 2016: *Big Bazaar* 0.7%; *D-Mart* 0.3%; *Reliance*, *More* and *Spencer's* 0.1% each; and *Others* 98.9%[75]. As such, the previously mentioned players will be looked into with further detail.

- ***Big Bazaar*** belongs to Future Value Retail Group. The company positions all its retail brands as affordable, and has supermarkets located in rapidly growing areas of retailing[76].

- ***D-Mart*** belongs to Avenue Supermarkets Group. It offers a "one-stop shop" experience, which appeals mainly to urban consumers. The company is able to keep its prices low, by positioning its stores in the suburbs of the metro and in Tier II and Tier III cities[77].

- ***Reliance*** belongs to Reliance Group. The company has several retailing brands and targets consumers from all income levels. Also, it is the player with the highest amount of selling space among all retailers in India.[78]

- ***More*** belongs to Aditya Birla Retail Group. The company is positioned towards middle to high-end consumers, and the stores are placed in high streets and malls, especially in metropolitan areas such as Bangalore, Delhi, Mumbai and Kolkata. The brands it offers are known for its superior quality, premium offerings and strong reputation[79].

- ***Spencer's Hypermarkets*** belongs to RPG Group. The firm positions itself as a retailer that offers value to its customers, at a wide range of prices. Stores are located in upscale neighbourhoods in India's large cities, which points to a premium positioning. The company is planning to expand its Hypermarkets' format[80].

<u>Convenience stores</u>: Convenience stores in India registered slow growth in 2016, rising by just 4% in current value terms[81]. This is mostly due to the limited ranges of products that this type of players offer, which implies that consumers often visit these stores only for quick purchases of daily essentials. The main players in the convenience space are *Twenty-Four Seven*[82], which follows the same model as the popular 7-Eleven brand; *J Mart*[83], which ambition is to replace the neighbourhood *Kirana* store; *In&Out Convenience Stores*[84], which offer an array of services, including cafeterias and others; and *Easy Day*[85], which in 2015 became part of Future Group (which owns Big Bazaar).

Forecourt Retailers: These retailers are usually present in gas stations and operate under franchise agreements with the local fuel station. In India, the market is dominated by *In&Out*; a convenience chain managed by the State-owned Bharat Petroleum Corp. Ltd., which operates more than 12,000 fuel filling stations and runs 157 Convenience *In & Out stores*[86].

Discounters are not significant in the Indian retail, and therefore will not be considered[87].

Traditional Retailing

In 2016, independent small grocers continued to control value sales in grocery retailers, with 98% of total grocery retailers' value sales[88]. *Kirana stores* (family-operated grocery stores) dominate the channel in terms of number of outlets: in 2016, India had roughly 9.6M *Kiranas*, present in every residential neighbourhood[89]. Citizens visiting these stores are mostly middle/low-income ones.

4.2.1.2 Non Store-Based Retailing in India

E-commerce: Internet retailing in India has been expanding and, by 2020, the revenue generated by online retail is expected to grow to USD 60B[90]. In 2016, online retailers such as *Flipkart Online Pvt Ltd* and *Amazon.in* have started to develop their own networks of collection points and tie-ups with *Kirana stores*, so that consumers could collect their orders from a physical store located near to them[91]. The e-commerce market is highly concentrated, as the top 3 internet players retained 81.8% of the market share in 2016 (global business owner company share % value): *Flipkart Online Services Pvt Ltd* 39.5%; J*asper Infotech Pvt Ltd* 30.2%; *Amazon.com Inc* 12.1%[92]. These are described below.

- ***Flipkart Online Services Pvt Ltd*** is an India-based company that is a pure internet player. It enjoys the leading position in India for three main reasons: firstly, it was the first mover; secondly, it has a strong presence across the country, covering cities in which most other internet retailers are not present; and thirdly, it offers frequent high discount sales[93].

- ***Jasper Infotech Pvt Ltd*** is a national leading multi-channel direct marketing company, and owner of India's largest buying site, *SnapDeal.com*. The latter, created in 2010, has millions of users, more than 300,000 sellers and provides goods to more than 6000 locations in India[94].

- ***Amazon.com Inc*** is part of Amazon, the largest internet-based retailer in the world, by total sales and market capitalization. It is present in India since June 2013, and has been improving its investment in the country, with the aim of playing a key role in its grocery retail sector[95].

4.2.1.3 Organized Wholesale – Cash & Carry Business in India

Another type of business that must be mentioned is Organized Wholesale, through Cash & Carry (C&C). Five years ago it was imperceptible in India; yet, currently it has values around USD 1.02B[96], with a growth rate of 13% solely in the first semester of 2016. Despite this, C&C is still only present in 12 Indian states[97], although it is gaining scale. The Organized Wholesale Cash & Carry is concentrated in four large companies, which are described below.

- ***Walmart India[98]***: Belongs to *Walmart*, and operates in India since 2009. It is already present across 9 states and owns 21 *Best Price Modern Wholesale* stores. These stores are known for the convenience, quality, wide range of choices and community-orientation, at low prices. To be able to purchase in these shops, consumers must sign a membership contract and need to be part of one of the following categories: traditional retailers, *Kirana Stores* or AFH.

- ***Metro Cash and Carry India[99]:*** Operates in India since 2003. It is present in more than 14 cities and owns 23 wholesale centres. It sells over 7000 products, characterized by having high quality, low prices, customer-orientation and tailor-made contracts. To be able to purchase in these stores, customers need to have a registration card and be either: *Kirana stores*, *HoReCa* institutions, SME's, offices, bars, restaurants or self-employed professionals.

- *Reliance Cash and Carry*[100]: Recognized as *Reliance Market* and present in India since 2011. It has already expanded to 37 cities, and aims to support the growth of *Kirana Stores*. It is known for helping member partners to become more profitable, working on products' simplicity and offering a wide range of low-price options.

- *The Booker India*[101]: Known as *Booker Wholesale*, it belongs to the UK group Booker and entered the country in 2009, currently owning 6 stores. Recently, this firm has made an equity joint venture with *Future Consumer Ltd*[102], with the goal of scaling the amount of stores in the next few years. This chain offers more than 5000 product lines with lower prices, to a wide range of customers, such as restaurants, *Kirana shops*, and hotels.

4.3 Porter's Five Forces Analysis

To assess the attractiveness of the Tissue & Hygiene industry in India and conclude this chapter of the paper, a Porter Five Forces Analysis will be made. To perform this analysis, a product and geographical scope needs to be defined: the geographical scope will be the Indian market - the firm's target market; and the product scope will include all products belonging to the industry in study.

- Threat of Substitutes: Indian consumers do not consider Tissue & Hygiene products as essential; therefore, switching costs are low and the use of alternatives is common. For instance, the Indian population uses textile products for cleaning purposes, such as rags and towels, which are reusable and multi-functional[103]. Additionally, these textiles are widely available and are cheap, which further increases the tendency of people to use them. Consequently, the threat of substitutes for Tissue & Hygiene related products is high in India.

In the future, with a population more educated towards hygiene habits and with economic growth (India will witness a rapid growth of its middle class, which will dominate the cities by 2025[104]), the threat of substitutes is expected to decrease, as consumers start to make more use of Tissue & Hygiene products (as evidenced by the projections for market growth).

- Industry Rivalry: Major players in the Tissue & Hygiene Industry in India, including the ones with the highest value shares (e.g P&G and Kimberly-Clark), have local production[105]. Given this, exit barriers for these companies are high, due to the significant capital requirements associated with setting up a manufacturing facility, and to the high specificity of the assets employed when doing so (such as specialized machinery). Also, the firms may face complications when terminating contracts with employees[106]. All these factors incentivize these players to compete more fiercely, therefore increasing industry rivalry. In addition to this, products in this industry have a low degree of differentiation, which implies low switching costs and higher rivalry. Moreover, the market is small when compared to other ones at the global scale (around USD 1.3B, vs 29B for Western Europe and 19B for Latin America, for example)[107], which also intensifies rivalry. On the other hand, the industry is moderately concentrated - in 2016, the *Herfindahl-Hirschman Index* was around 2300, with the top three players (by % of value share) holding roughly 65%[108] of the market (P&G with 37.5%, Unicharm 18.8% and J&J 8.6%) - which decreases rivalry. In addition, intermittent overcapacity is not an issue, as the product is a commodity and does not fluctuate seasonally or with economy changes, and so firms can control demand more easily, which decreases rivalry. Considering this, industry rivalry in India is currently medium-high.

In the future, the market is expected to grow: in the 2016-2021[109] period the projected CAGR is 9.2%, meaning that firms may gain market share more easily, with no need to compete so aggressively, which will reduce rivalry. Yet, due to entry of new players the market is becoming more fragmented[110], which implies a decrease in concentration and increases rivalry. Hence, rivalry will increase comparatively to its current state.

- Bargaining Power of Buyers: There are three main types of buyers in the Tissue & Hygiene Industry: retailers, wholesalers and Away From Home (AFH) institutions. AFH institutions obtain their products both from wholesalers and directly from the producers. For simplification purposes, it will be assumed that most AFH players buy from wholesalers, and that the ones that don't are large players in their business. A further assumption is that *Kirana* stores obtain their products solely by wholesale. These three categories of players will be analysed separately. Yet, before looking at each one of them in detail, there are some common features that can be named for all: Retailers, Wholesalers and AFH institutions are price sensitive[111], and they have low switching costs, mainly due to the fact that these are standardized products. These two features contribute to an increase in their bargaining power.

Looking at each one separately, and starting with retailers: as mentioned, retail in India is very fragmented, with the top 5 leaders in sales accounting only for 1.2% of total value share in 2016[112]. This implies that buyers do not have particular influence on product or price, which lowers the bargaining power. Also, threat of backward integration is diminished: there are not many incentives to become a producer in this industry, given that it is complex to do so. This further decreases the bargaining power, and strengthens the final conclusion that it is low among retailers. On the other hand, the demonetisation declared in India during 2016 made consumers start to shift to larger hypermarkets and supermarkets[113], which damaged a large number of traditional grocery retailers. As a consequence, retailing is likely to become less dependent on small traditional stores and more oriented towards modern grocery retailers[114], thus decreasing fragmentation. Therefore, bargaining power of retailers is expected to increase in the future.

Wholesalers (Cash&Carry), on the other hand, purchase in larger quantities and resell to retailers, among others. As previously mentioned, organized wholesale in India is unusual and highly concentrated, with four large companies dominating the segment[115], which contributes to an increase in the buyer's bargaining power. Cash&Carry's purchases are usually made in larger volumes, fact that increases the buyer influence and, therefore, their bargaining power is considered medium-high. In the future, this category is expected to register growth[116], which will strengthen wholesalers and consequently increase their bargaining power.

Finally, *AFH institutions* must be analysed. For simplification purposes, since these comprise several types of players, they will be assessed as a whole. As previously mentioned, it is assumed that AFH that buy directly from the producers are major players in their business, representing a small percentage of total AFH, and buying in large quantities. Hence, these factors imply that they have high bargaining power. In the future, value of sales for AFH institutions is expected to grow at a CAGR of 6.6% in the 2016-2021 period[117], meaning that these players will gain importance, which is likely to increase their bargaining power.

- Threat of new entrants: Here, two scenarios must be constructed to evaluate the threat of new entrants: one in which firms enter by making a greenfield investment, and other one in which they do not do so. As previously mentioned, expenditures associated with making a greenfield investment and consequent fixed costs are high, and the assets that must be acquired are highly specific. This creates a barrier to entry, which decreases the threat of new entrants. However, for a firm that does not make a greenfield investment, barriers to enter this market are not significant, since the high fixed costs associated with setting up a manufacturing facility disappear, which increases the threat of new entrants. Besides this, common features to both scenarios include the fact that the Government does not impose barriers to business in this industry[118], which increases the threat of new entrants.

Concluding, this threat is medium-low when considering a greenfield investment, whereas it becomes high when a greenfield investment is not made. In the future, with the attractiveness of the market increasing, and due to recent implementation of less strict FDI policies in India (namely allowing for 100% FDI from certain foreign companies[119]), the threat of new entrants is expected to increase (for both scenarios).

- Bargaining power of suppliers: The main suppliers for this industry can be considered as being the pulp and paper manufacturers[120]; therefore, those will be the ones taken in consideration when evaluating this force. The pulp and paper industry is dominated by North American, Northern European and East Asian countries. Its level of concentration has been increasing in the past years[121], which contributes to a growth in the bargaining power of suppliers. Given that the firms in the industry are mainly well-established multinationals[122], the importance of volume to supply a single customer is not significant, which increases suppliers' bargaining power. Additionally, the fact that there are few substitutes available, and that the supplier's product is an important input in the process, contributes to a further increase in their bargaining power. Therefore, bargaining power of suppliers can be considered to be high. In the future, this industry is expected to become more consolidated[123], through mergers and acquisitions, which will increase this bargaining power even more.

Some conclusions can be taken about the attractiveness of the Tissue & Hygiene in India, after assessing all the forces affecting it. Most of the analysed forces pose a threat, which implies that this industry in India is unattractive. Additionally, it is crucial to bear in mind that, with the exception of the threat of substitutes, all these forces are expected to strengthen in the future. Consequently, a firm that enters this market now must conceive a dynamic strategy that allows it to accommodate for these conditions.

5. Company Analysis

It is crucial to understand what are the internal resources that enable Renova to succeed in its industry. Hence, a VRIO analysis is performed below. Furthermore, to expand internationally, the firm must understand not only its internal capabilities, but also the external environment; thus, a TOWS analysis is also conducted in the following section.

5.1 VRIO Analysis

A firm's internal analysis should comprise an understanding of its[124] Specialized Assets (namely tangible and intangible resources), its Strategic Capabilities & Competencies and how its Architecture of Relationships is characterized. In addition, the core concept of a VRIO Analysis[125] is that these capacities and areas of expertise must be Valuable, Rare and difficult to Imitate, and that the company must be Organized in a manner that enables it to extract value out of these, so that there is potential for competitive advantage.

Starting with Valuable resources, and focusing on Specialized Assets[126], for Renova the most important ones are its manufacturing facilities in Torres Novas, for two reasons. Firstly, one of these plants - the original one - has a strategic location. It is placed close to the Almonda River[127], allowing privileged access to a raw material essential for the manufacturing process: water. Secondly, its other factory has an integrated recycling unit that enables Renova to produce recycled paper pulp. This reduces the firm's dependence on external suppliers to obtain this raw material, enabling it to control its quality at the same time. Although these resources are key to ensure the success of the firm, they are neither Rare nor difficult to Imitate, and thus they simply enable Renova to maintain Competitive Parity[128].

On the other hand, Valuable and Rare resources allow the company to have Temporary Competitive Advantage. Focusing on Strategic Capabilities, Renova holds innovation competencies regarding the production of its colourful paper; this product's quality is ensured by means of a specific technological process that is not yet used by other players of the industry. Also, the firm has sustainability concerns, which support its good performance: namely, it incorporates faulty products/semi-products back in the production process, avoiding waste; and it takes advantage of the natural gas used throughout the production process, by selling the excess to third parties. Besides this, competencies such as new product development, knowledge accumulation derived from product quality testing, and innovation hub with the use of updated technologies also constitute Valuable and Rare resources.

Finally, resources that are not only Valuable and Rare, but also difficult to Imitate are the ones that will render Sustainable Competitive Advantage. Focusing on intangible assets, the most powerful tool of Renova is its ability to manage the brand and generate brand awareness, along with its recognition. This is linked to the firm's ability to design, build and communicate its differentiated products, and it influences its reputation and opportunities of future growth: namely, it facilitates relationships with customers and suppliers. Associated with this arises the recognition of Renova's products' high standards, from Tissue & Hygiene institutions, via certifications and awards. Regarding Strategic Capabilities, the company's ability to train workers to present high levels of autonomy is key: it makes them responsible for testing the quality of the final product, which improves the workflow. Furthermore, the firm's Architecture of Relationships should be highlighted: its Portuguese facilities have a prime location in the country's industrial landscape, enhancing networking with suppliers and distributors. Additionally, Renova tailors contracts to each client's needs, ensuring satisfaction and improving relationships.

Deprived of an adequate Organization, resources that are Valuable, Rare and difficult to Imitate would create an unused Competitive Advantage. Yet, Renova's organization enables it to realize its potential. For instance, it has sound control over the use of firm-specific resources, and impedes the disclosure of production processes, which enhances resources' durability and lowers imitation threats. Also, management is orientated towards knowledge; teams are cross-functional and cooperative; and there is constant focus on enhancing marketing abilities and developing product-engineering skills. Finally, management is concerned with adapting strategies to external trends, benefiting from economies of experience in this point[129]. Finally, focusing on its Architecture of Relationships, Renova is organized in such a way that tacit knowledge is intrinsic among the working force, namely in brand values such as innovation, disruption, concern with sustainability and quality, and thinking ahead of competitors[130].

Considering its expansion to India, Renova will be able to transfer some of these resources and capabilities to the new market. Namely, its capabilities around the production of colourful paper; resources regarding new product development and knowledge accumulation; ability to tailor contracts; recognitions and awards received; and ability to manage the brand and generate brand awareness (excluding brand recognition, since this does not apply to the Indian market currently). The importance of resources regarding the firm's Portuguese manufacturing facilities (strategic location, recycling unit, sustainability concerns, sound networking), along with its ability to train workers, will be dependent on the entry mode; for instance, these will be crucial under an exporting contract, but harder to transfer if a greenfield is pursued. The same is valid regarding the organization of the company.

5.2 TOWS Analysis – Variant of the SWOT Analysis

A TOWS analysis is a variant of the SWOT analysis, in the sense that it uses the latter framework as a basis to provide strategic guidance to a company. Its purpose is to conceive strategies that: leverage a company's strengths, to take advantage of opportunities and to minimize threats; use opportunities to minimize firm's weaknesses; and both diminish weaknesses and avoid threats.

The first step is to assess Renova's Strengths when entering India, which derive from the resources and capabilities that are transferable to this market, identified in the VRIO analysis above. These include Renova's ability to manage the brand and generate brand awareness, resulting from its attempt to reshape how an average consumer perceives products of the Tissue & Hygiene Industry (transforming commodities into premium items[131]). Also included are the customization[132] of contracts; the knowledge derived from the firm's experience, that enables it to develop strategies aside with a learning curve[133]; capabilities around product development, and production of colourful paper; and awards received.

Parallel to strengths, Renova has some Weaknesses, mostly related to the sector in which it operates and the differing opinions a consumer may have regarding its products. Firstly, its message may not be clearly perceived or accepted by a regular consumer, who may see these products as mere commodities. In addition, the firm faces high operational costs, such as the ones for electricity and transportation - the latter ones being a consequence of logistical issues arising due to the characteristics of the products. Moreover, since Renova is a relatively small player, it still lacks the resources needed to compete at the scale of industry leaders, meaning it can be harmed by their competitive tactics.

In terms of Opportunities, future acquisition of customers can be named: in India, Renova can benefit from globalization - the Western lifestyle[134] is becoming more popular, which allows the firm to market both the health benefits and the social aspects associated with its products. Furthermore, it can seize the abolishment of restrictions and changes in regulations in India, which eases the process of exploring this market. Finally, Renova may try to settle partnerships with local players to, for example, join distribution fleets in the destination, to reduce transportation costs.

Lastly, regarding Threats in India: in this market, maintaining low prices is important to capture clients, which hinders Renova's ability to market premium products and its profitability. Parallel to this comes the threat of private labels, which are gaining market dimension[135] (in emerging countries, such as India, 89% of shoppers buy private label products). Besides this, the presence of players such as P&G or Kimberly-Clark, which currently dominate in market share[136], creates difficulties for Renova, as it becomes harder to conquer clients. Moreover, as the company is a pioneer in a new way of looking into this product category, the threat of imitation is high.

It is possible to draw strategies for the firm, by crossing the mentioned categories. Starting with *"Maxi-Maxi" (SO)* ones, which use strengths to maximize opportunities: Renova can take advantage of its branding competences to appeal to the Indian consumers, keeping in mind that these commonly value premium items, which they associate with the Western lifestyle. When doing so, the firm can find support in its experience to dodge any obstacles it finds, and leverage on the awards it has received to build reputation. It may also design tailored contracts as it has done so far, which can be helpful to capture clients.

Regarding *"Maxi-Mini" (ST)* strategies, which use strengths to minimize threats, Renova may assume a premium position and avoid to target the masses, who look for cheaper products. To do so, it can use its expertise in producing high quality, differentiated products to move increasingly towards the higher end of the Indian market. Furthermore, it can promote its tailored approach to contracts with suppliers and intermediaries - an advantage over large players that do not present this flexibility - to fight competition from major brands.

Concerning *"Mini-Maxi" strategies (WO)*, that minimize weaknesses by taking advantage of opportunities, Renova has the chance of reinforcing its presence in the consumers' minds by entering in the Indian market. Since a significant part of the Indian population still does not present strong hygiene habits, Renova can shape perceptions and educate consumers towards the benefits and utility of its products.

Finally, a *"Mini-Mini" strategy (WT)* for Renova can be to diminish its presence or ultimately withdraw from the premium segment, and thus enter in India only with standard products. Facing consumers that search for low prices, aggressive competition and being haunted by the shadows of copycats, a small player like Renova may benefit from specializing in standard production of commoditized products. Yet, it is necessary to keep in mind that this would imply a loss of identity for the company, whilst not guaranteeing its success.

6. Entry Mode

6.1 Introduction and Framework Construction - Need and Methodology

This chapter aims to assess which entry mode is more suitable for Renova's internationalization process. The main objective is to provide the firm with an accurate and optimal solution, tailored to its preferences and way of working. Methodology to design this solution consisted of two distinct parts: a *Literature* review on internationalization theories, and an analysis of a *Collection of Individual Case Studies*. Regarding the first source - *Literature*, although several theories and conceptualizations on modes of entry have been developed, so far no consensus has been reached[137]. In fact, some authors[138] claim there is a need for a new model that can unify all the concepts proposed on each of the existing theories. As a consequence, to facilitate Renova's decision process, a need emerged to create a new framework - one that compiles the theories reviewed in the *Literatur*e, and integrates them with the company's insights. By using such framework, the firm can choose an entry mode in a smooth and systematized way, while being backed by information that supports the validity of the final decision and accomplishes the main goal - to determine the entry mode for any future internationalization process of the company, including the one to India.

To collect the company's insights and build the framework, an analysis was made on four of its past internationalizations - Canada, China, Jordan and Mexico - in four distinct case studies *(Appendix 6)*. These examples were selected by Renova's management, which claims that they yielded important learnings. On the following sections, the main conclusions from the *Literature* and the case studies will be disclosed. Afterwards, the framework and its construction will be explained, including a description of how the insights from the two sources were incorporated, and how it should be applied to select an entry mode. Finally, the framework will be used to determine the entry mode Renova should choose for India.

6.2 Main Insights from the Literature Review

The main theoretical models[137] considered and their descriptions are presented below.

Table 2 - Theories	Authors	Date	Theory Description
The Eclectic (OLI) Paradigm of International Production	*John H. Dunning*	1970	- Analyses entry modes in terms of three main factors: **1**) location **-** eg. country specificities, familiarity with the place; **2**) ownership **-** eg. competitive advantage namely in input costs, labour, market size, privileged access to assets; **3**) internationalization outlook **-** eg. market's uncertainty-delivery timings and control over pricing. **-** An enterprise should choose an entry strategy that effectively adds value internally and to the foreign country, while differentiating its products.
The Cultural Distance theory	*Hofstede and Geert*	1976	It analyses **1**) the cultural differences between the firm's home country and the target one and **2**) how cultural related subjects may influence the way of doing business.
The Monopolistic Advantage theory	*Hymer and Stefan*	1976	- States that a foreign investor may possess some kind of monopolistic advantage, yet not available in the host market. These differentiated advantages may be related with **1**) industry knowledge; **2**) marketing tools; **3**) economies of scale; **4**) superior capital resources. - The greater the market share a firm occupies in the industry, the easier it can control the entry strategies, and the higher the chances of becoming a market leader in the target country.
The Uppsala Internationalization Model	*Johanson and Vahlne*	1977	- Separates entry modes into four different stages, which are straight linked with **1**) the firm's resources; **2**) capabilities; and **3**) knowledge regarding the target market. - The entire entry process is seen as a gradual path, and the more experienced the firm is, the easier it is to succeed internationally.
The Bargaining Power Theory	*Fagre, Nathan and Wells*	1983	Describes the relationship between the firm and the host country, which is mostly affected by **1**) management expertise; **2**) technological resources; **3**) product differentiation and range; **4**) country specific risk; **5**) market accessibility; **6)** available capital; and **7**) cultural familiarity.
The Resource-based view (RBV)	*B. Wernerfelt*	1984	- Determines which firm's available strategic resources might be used for the entry strategy. - These can be **1**) tangible or intangible; must be **2**) heterogeneous and immobile; **3**) have the VRIO attributes - value, rare, inimitable and organizationally embedded **-** and may provide competitive advantage for the company in the target market.
The Market Failure theory	*Cowen and Tyler*	1988	Shows the market failures created by externalities that may affect the entry mode, which are usually linked with **1**) country specificities; **2**) management of public goods; and **3**) institutional protectionism.
The Behavioural theory of Market Entry Mode	*Erramilli and Krishna*	1990	States that a firm's commitment towards the entry strategy is in line with **1**) its knowledge regarding the target market; and **2**) the resources that may be used for the internationalization process.
The Internationalization theory	*Dunning and John H.*	1993	This model aims to compare **1**) FDI and **2**) non-FDI entry modes: **1**) FDI – entails higher control over assets and less risk of information loss; **2**) non-FDI – entails lower overall risk and decentralization of costs.
Transaction cost-based framework	*Sumantra Ghosal*	1996	- Associates **1**) the risk a company faces while entering a foreign market and **2**) the degree of control that it wants to have. - States that it is preferable to start with low levels of control until the contrary is proven, even though higher control gives a firm a greater role during the entry strategy formulation. -The factors that affect control the most are **1**) product type; **2**) country specificities; **3**) governmental policies; **4**) past experience; **5**) asset characteristics; **6**) technologies; and **7**) brand awareness.

The Gradualist Approach	*multiple interpretations*	-	Holds the idea that companies should increase the degree of presence in the target country as a continuous process, supported by the accumulation of local knowledge.

6.3 Main Insights from the Individual Case Studies

Firstly, Canada: Renova faced difficulties in this market, related with its product offerings. It surpassed these and tackled the market successfully, by adapting its products to local preferences, launching the *Red Label* line. Thus, it becomes clear that, when internationalizing, the firm must assess if its product portfolio is suitable (and, consequently, if it should be adapted or not) and if it has the capabilities to adapt it. Secondly, China: it has not been easy for Renova to operate in this market, mostly due to cultural differences. Chinese people tend to have a more indirect trait, lack trust in foreign players and filter the information shared to protect their businesses. Thus, recognizing the differences between the Portuguese and the target country's culture is paramount to be successful while doing business abroad, as it enhances communication channels, supports the understanding of different time perceptions and improves the outcomes of decision-making. Thirdly, Jordan: Renova has been able to succeed in this market mainly due to its local distributor; it allowed the firm to take advantage of its partner's network to reach new markets in the Middle East, and to reduce its transactions costs in trade. Thus, for future expansions, Renova should assess if it is beneficial to partner with a distributor, and what would be the consequences of doing so (namely in terms of control). Finally, Mexico: Renova succeeded due to strategies it adopted to control its brand, as a reaction to challenges that arose. It adapted its brand name and hired a company to audit the products' promotion and placement in store. Hence, during internationalizations, Renova should adapt the control of its brand to overcome potential hurdles similar to the ones faced in Mexico, to ensure the achievement of its primary goal - create brand awareness.

6.4 Framework Explanation and Link with Entry Mode Selection

The framework was constructed by compiling and organizing the conclusions from the two named sources, *Literature* and Renova's cases, into four different sections - Elements & Expertise, Enterprise Management, Entity Offerings and External Influences. After this, it was named the *4Es of Entry Mode (Appendix 7)*. Each section comprises subtopics, which are associated with questions that should be answered by Renova's Management when going through the framework. By doing this, they will be able to assess which entry mode to use in an internationalization process. The framework is disclosed below, along with a detailed explanation of the link between each subtopic and possible entry mode *(Appendix 8*).

The 4Es of Entry Mode

A. Elements & Expertise - Resources

A1. Financial and Tangible Resources: What are the resources (financial and tangible) that the company has available for the internationalization process? **Link with entry mode:** If the firm has many available resources, there are no restrictions on the entry mode; yet, if these are constrained, it is limited to strategies that require less resources, like exporting. (*Baorakis, Katsioloudes and Hadjidakis, 2007*)[140]

A2. Internal Capabilities and Competencies: 1) *Experience*: Does the firm already have experience in internationalization processes? 2) *Flexibility* in expansions: Is the firm able to deal with prospect partners?; Does it have flexibility to adapt its culture? 3) *Commitment & Involvement*: What is the company's practiced/intended level of commitment with internationalization processes (e.g. presence of Key Account Managers/employees specialized in internationalization processes)? **Link with entry mode:** If the firm is not experienced in internationalization processes, it is more likely it will need a partner, which favours strategies such as collaborative ventures and mergers. Yet, if it is not flexible, it probably lacks the abilities to deal with a partner, which does not favour these entry modes. Finally, high levels of commitment and involvement show the firm's capability to manage internationalizations from distance, evidencing no need for partnerships or local investment strategies, such as collaborative ventures and greenfield. (*Johnson, Scholes and Wittington, 2006*)[141]

B. Enterprise Management

B1. Goals & Objectives: What is the company trying to achieve with the internationalization? Three possible choices: 1) Mainly *awareness*: enhance brand recognition in the Tissue and Hygiene Industry; 2) Mainly *information* (about the target market, to leverage company's functioning); 3) *Mainly profit:* increase volume of sales (achieve a wider customer base or economies of scale), or diminish production costs (e.g., by enhancing access to raw materials). **Link with entry mode:** Preference for awareness favours greenfield, while preference for information favours collaborative ventures, greenfield and M&A. Regarding profit, if the firm aims to diminish production costs, and these are lower in the host country, or if access to raw materials is better there, greenfield and M&A (with a local company) are favoured (*Krzysztof Wach, 2012*)[142]; yet, if it wants to increase volume of sales, no specific entry mode is preferable (*Daniels & Bracker, 1989*)[143].

B2. Degree of control over managerial decisions, assets and operations: What is the level of control that the company intends to have over: 1) the *managerial decisions* that are made regarding the internationalization process (decisions and negotiations); 2) the *assets* involved in the internationalization process (tangible and intangible ones); and 3) the *operations* abroad (steps of the supply chain, after production)? **Link with entry mode:** The preferable entry mode will depend on the combination of control levels that the firm wants to have. It can range from full control, on all points, which favours greenfield; to no preference for control in almost any point, which favours licensing and franchising (*Krzysztof Wach, 2012*)[144].

C. Entity Offerings

C1. Presence of adequate portfolio: Is the firm's product portfolio suitable for the internationalization process? **Link with entry mode:** Absence of an adequate portfolio favours M&A or collaborative ventures with companies that have suitable offerings. (*Wind, Y.; Mahajan, V.; 1981*)[145]

C2. Ability to adapt the portfolio: Is the company able to adapt/create new products? **Link with entry mode:** Absence of this ability favours M&A or collaborative ventures with companies that have this competence. (*Wind, Y.; Mahajan, V.; 1981*)[146]

D. External Influences

D1. Country Specificities: What is the market outlook? Regarding *Financial* stability (exchange rate, overall state of the target country's economy), *Political* stability, *Governmental* incentives and *Legal* issues; How are the *Shipping* constraints, *Transportation* costs and *Infrastructure* development?; Are there prospective *partners* in the market?; How is the *Attractiveness* (overall costs and benefits) of local production? **Link with entry mode**: Unattractive macroeconomic trends favour low risk entry modes, such as exporting. Yet, if there are shipping constraints, high transportation costs, and underdeveloped infrastructures, strategies like greenfield and M&A are preferable. If there are no prospective partners in the market, however, strategies that involve partnerships are excluded. Attractive local production favours greenfield and M&A. (*Craig S. Julian, 2009*)[147]

D2. Cultural impact: How does the host country compare with the home one? Assessed by looking at: language; interpersonal traits; way of doing business (including openness to negotiate); cultural specificities; stratification and hierarchies. **Link with entry mode:** A substantial difference between host and home market cultures favours high involvement entry modes, capable of mitigating this barrier, such as collaborative ventures, M&A and greenfield. (*Vidal-Súarez; González-Díaz; López-Duarte, 2010*)[148]

D3. Partners in distribution: Is it beneficial to work with a distributor? Will it be easy to control how distributors perform and where the products are placed? **Link with entry mode:** If a distributor is beneficial and easy to control, entry modes such as exporting using a distributor or collaborative ventures (with joint distribution) are favoured. (*Baorakis, G.; Katsioloudes, M.; Hadjidakis. S, 2007*)[149]

D4. State of the Industry in the target country: How is the firm's industry outlook in the target country, and how is it likely to evolve over time? **Link with entry mode:** A challenging industry favours low-involvement strategies, such as exporting. In terms of evolution, a consistently attractive industry outlook over time does not favour a particular entry mode. Yet, if the industry will only be attractive for a short period of time, low risk and involvement entry modes are preferred again. (*Rakesh B. Sambharya, 2004*)[150]

D5. Existing Competition: What is the nature and extent of competition from existing rivals and firms that may enter the market? **Link with entry mode:** Intense competition favours low risk entry modes, such as exporting, and as collaborative ventures where the firm seizes partners' abilities to surpass this obstacle. (*Kwon, Y.; Konopa, L., 1983*)[151]

A table (*table 3*) crossing the mentioned theories of Entry Mode and the influencing factors of the *4Es framework* is disclosed below.

	Theories of Entry Mode											
Influencing factors	**4Es of Entry Mode**	**Transaction cost-based framework**	**The Eclectic (OLI) Paradigm of International Production**	**Bargaining power theory**	**Resource based View (RBV)**	**Market failure theory**	**Behavioural Theory**	**Monopolistic Advantage Theory**	**The Internationalization Theory (FDI)**	**The Gradualist Approach**	**The Uppsala Internationalization**	**Cultural Distance Theory**
Enterprise Management												
Goals and Objectives	x	-	x	-	-	-	x	x	x	x	x	
Degree of control over decisions, operations and brand	x	x	-	x	-	-	x	x	x	x	x	-
Risk profile of the firm	x	-	x	-	-	-	x	-	x	x	x	x
Elements & Expertise												
Financial and Tangible resources	x	x	x	x	x	-	x	x	-	-	x	-
Internal Capabilities and Competencies	x	x	x	x	-	-	x	x	-	x	x	x
Entity Offerings												
Presence of adequate portfolio	x	x	x	x	x	-	x	x	-	-	x	-
Ability to adapt the portfolio	x	x	x	x	x	-	-	-	-	-	x	-
External Influences												
Country specificities	x	x	x	x	-	x	-	-	-	-	-	x
Cultural impact	x	-	-	x	-	-	x	-	-	-	-	x
Partners in Distribution	x	-	-	x	-	-	x	x	x	-	-	x
State of the industry	x	-	x	-	-	-	-	x	-	-	-	-
Existing Competition	x	-	-	-	-	-	-	x	-	-	-	-

6.5 Application of the Framework to the Case of India

In this section, the framework is used to assess which entry mode is best to approach India.

A. Elements & Expertise - Resources

A1. Financial and Tangible Resources: Renova is a SME and has limited resources available for this expansion. **Link with entry mode:** Given this, FDI entry modes (greenfield and M&A) cannot be considered. Thus, the remainder of the analysis will involve a choice between exporting (with or without a distributor), licensing, franchising and collaborative joint ventures (strategic alliances and equity joint ventures).

A2. Internal Capabilities and Competencies: 1) *Past Experience:* Renova is present in over 60 markets - it is experienced in doing business abroad. Yet, all these presences are done by exports. 2) *Flexibility* in expansions: The firm has a strong culture, unaffected by its internationalizations, and it has never worked with partners before (excluding for distribution purposes). Regarding reaction to changes, Renova is often responsive; for instance, it faced legal issues around its brand name in Mexico (another company was already named Renova), and it responded by rebranding to *novaRe*. It intends to maintain this approach to India[152]. 3) *Commitment & Involvement*: Renova's level of commitment and involvement in internationalizations is high. Typically, it prefers to approach prospective clients directly, by sending representatives to the foreign country to discuss the negotiation procedures. Moreover, it keeps on doing this with a certain regularity, to ensure everything runs smoothly. Also, it has KAMs for certain markets, who often speak the native language or have local knowledge, which mitigates cultural barriers. Renova also invests in marketing to reinforce its presence and legitimacy in some markets, when it perceives there is a need to do so, and the timing is appropriate. The firm intends to maintain a high commitment/involvement in its expansion to India[153]. **Link with entry mode:** The fact that all the firm's past internationalization experiences are exports favours this entry mode. The lack of experience in dealing with prospect partners, along with the absence of flexibility to adapt its culture and processes, favours strategies that do not involve partnering over the others. Finally, the high level of managerial commitment and involvement reinforces no need for partnering.

B. Enterprise Management

B1. Goals and Objectives: Renova's focus is to promote its brand, and ultimately achieve brand globalization[154]; thus, its key goal in India is to generate brand awareness. **Link with entry mode:** Brand awareness does not favour any entry mode of the ones being considered.

B2. Degree of Control over managerial decisions, assets and operations: 1) *Managerial decisions*: typically, Renova wants to maintain control over the managerial decisions, since it chooses, most of the times, with which partners, at which location and with which products to target a market. This applies to the case of India[155]. 2) *Assets*: maintaining control over assets is the only way to stay in line with the company's practices - currently, regarding tangible assets, Renova has full control, since it has indoors production (from raw materials to the final product). Also, it is not willing to share information about the production process and its products with external partners. The same is valid for intangible assets, as the firm is the sole responsible for managing the Renova brand, even in its expansions; it is not willing to take risks in this field, as branding is the core of its strategy. This applies to the internationalization to India[156]. 3) *Operations*: usually, Renova is willing to give up on full control over operations, if that means simplifying the internationalization process. For instance, in some cases, the firm works with distributors, who decide where to place the product (although it prefers to minimize the number of intermediaries). Also, when possible, it chooses to deliver the merchandise to clients in the Portuguese port, instead of controlling the process up to the destination country. Yet, control over operations differs throughout markets: for example, in Mexico, control is tight - an independent auditing team is paid to visit clients' stores, to ensure they are complying with what was negotiated. In the case of India, Renova is willing to opt for a strategy that cedes some operational control, as it has been doing so far[157]. **Link with entry mode:** The company wants to maintain control over managerial decisions and assets (mainly its products) in India, but is willing to compromise on control of operations, which favours the exporting entry mode. At the same time, this eliminates the hypothesis of licensing and franchising, since both would imply loss of control on the products and brand. Hence, these strategies will not be considered as an option in the remainder of the analysis; the decision will be between exporting (with/without distributor) and collaborative ventures.

C. Entity Offerings

<u>C1. Presence of adequate portfolio:</u> As evidenced by previous experience, Renova's products are suitable for international markets. Also, the Indian market does not have any restrictions on the type of products offered by Renova; so, adaptation of products is not mandatory. **Link with entry mode:** This shows no need for partnerships in India, on this point.

<u>C2. Ability to adapt the portfolio</u>: Renova is capable of adapting its products, if necessary. It recently created a package for facial tissues, customized for Jordan[158], demonstrating this ability. **Link with entry mode:** This also shows no need for partnerships on this point.

D. External Influences

<u>D1. Country Specificities:</u> Regarding the profile of India, despite governmental incentives around Renova's industry, legal constraints, financial and political stability (mentioned in the first section of this report) indicate that it is a risky country. Infrastructure is still problematic; yet, there are no shipping constraints or major costs around transportation. Concerning local production, some industry players already operate by this mode, which may be a signal that the country is attractive to set manufacturing facilities. Finally, local partnerships are possible **Link with entry mode:** India is a risky country, with lack of shipping constraints and no major transportation costs, which favours both exporting and collaborative ventures. The possibility

of establishing local partnerships is not sufficient to exclude any entry mode. Attractiveness of local production is ignored, for above stated reasons.

D2. Cultural impact: The Indian culture presents striking disparities when compared to the Portuguese one. To succeed in India, it is paramount for Renova to understand the Indian way of doing business and build strategies to adapt to the local mindset and behaviours. **Link with entry mode:** This point favours collaborative ventures.

D3. Partners in distribution: A local distributor in India would imply loss of control, namely of where the products are placed. Also, due to the differing country specific risks, the effectiveness of the relationship between Renova and the local partner could be compromised. **Link with entry mode:** A distributor is not beneficial; so, this favours no use of a partner. Exporting by means of a distributor will no longer be considered for the remainder analysis.

D4. State of the Industry in the target country: Current metrics and prospects for the Tissue & Hygiene Industry in India, disclosed in previous sections, led to the conclusion that the market for these products is currently challenging; yet, it will improve in coming years. **Link with entry mode:** Since the industry is currently challenging, all the considered entry modes at this point are favoured, although it may be beneficial to review this decision over time.

D5. Existing Competition: This point was previously analysed in the Porter's Five Forces, having as main conclusion that rivalry is medium-high, and expected to increase. **Link with entry mode:** Both exporting (without a distributor) and collaborative ventures are favoured.

To conclude, the framework evidences that the firm should enter in India through direct exporting. Below is presented a table (*table 4*) that summarizes the fit of each entry mode[159] with the preferences of Renova for India, disclosed in the points of the *4Es framework*.

Favoured Entry Mode
"Passive" Entry Mode
Excluded Entry Mode

Entry Mode no longer being considered
Ignored Criteria

Influencing factors		Entry Mode							
		Exporting - w/o distributor	Exporting - w/distributor	Licensing	Franchising	Strategic Alliances	FDI	M&A	EJV
Elements & Expertise									
Financial and Tangible resources									
Internal Capabilities and Competencies	Experience								
	Flexibility								
	Commitment & Involvement								
Enterprise Management									
Goals and objectives									
Degree of control	Managerial decisions								
	Assets								
	Operations								
Entity Offerings									
Presence of adequate portfolio									
Ability to adapt the portfolio									
External Influences									
Country specificities	Macroeconomic trends								
	Shipping, Transportation and Infrastructure								
	Existence of prospective partners								
	Atractiveness of local production								
Cultural impact									
Partners in Distribution									
State of the industry	Current Outlook								
	Future Outlook								
Existing Competition									

6.6 Framework Use and Limitations

This framework is a tool that Renova can use to determine which entry mode to choose for any new market, in a systematized way, backed by its own insights and *Literature*. Given this, the value it adds lies in the way it rearranges the content presented in the discussed *Literature*, which leads to a smoother decision process to the firm. Furthermore, the characteristics of the *4Es framework* enable it to be applied to other SMEs that share the same needs and resources as Renova, which enhances even more its added value.

Yet, similarly to what happens with all existing frameworks, the *4Es* one has some limitations. First, it is hard to set boundaries for the importance of each topic; it may not be realistic to assume the weight each one has in the decision is the same. To surpass this, Renova (and eventually other SMEs) should reflect on each parameter, and prioritize the analysis of the most crucial ones, although all should be assessed to obtain a sound conclusion. Second, all the variables in consideration may change throughout the process, meaning that the framework is not suitable to give permanent answers; instead, companies should constantly evaluate all the suggested topics, and understand how these are evolving over time. Third, the degree of customization to Renova means that the points the framework proposes for analysis are adapted to this firm, and may not be the most adequate ones for other SMEs. Thus, these companies must take this into account and adapt the framework's points to their reality and conditions, for an appropriate choice. Finally, since one of the basis to build the framework were inputs from Renova's past internationalization processes, it may become outdated as the company builds new expansion experiences. To solve this, Renova and the other SMEs should maintain flexibility to add new topics to the framework, if this need arises.

7. Marketing Strategy

After deciding on the entry strategy, other considerations on market approach must be made. Marketing plays a key role in this process, and so this chapter will elaborate on the main marketing tactics Renova should apply to the Indian market.

7.1 STP Analysis – Segmentation, Targeting and Positioning

7.1.1 Segmentation: India takes the 6th position in terms of consumers' market value, with a total spending of over USD 1.3T in 2016[160]. These consumers are different between themselves, and so segmentation will be conducted to understand them better. In this process, consumer behaviour will be used as a basis to distinguish segments. This is so because it should be the focus of a company when offering its products, because it reflects the purpose that individuals are looking to achieve with the purchase of a certain product. A Euromonitor study[161] was used, which suggests a division of consumers into five distinct categories: *impulsive spender*; *secure traditionalist*; *empowered activist*; *conservative homebody*; and *undaunted striver*. A brief characterization of each of these groups is presented below.

- ***Empowered Activists*****:** Correspond to 20% of total Indian consumers, with a household income around USD 46,991. Empowered activists are, on average, 37 years old, and 51% are male. They place high importance on well-known brands and premium items and on their personal image, and show concerns with the environment. They have high brand loyalty and product knowledge, as they commonly research about products, both in-store and online. These consumers love the in-store shopping experience, tend to make impulsive purchases and do not prioritize low prices; instead, they prefer durable and high-quality products. Most of them live in cities with more than 1.5M inhabitants, have reached high levels of education (Bachelor's degree or other), and half are full-time workers.

- ***Undaunted Strivers:*** 16% of Indian consumers, with a household income around USD 57,568. They are 34 years old on average, and almost 57% of them are male. They enjoy spending money, as it reflects their purchasing power. They seek prestige and differentiation, although they are driven by low prices, value for money and convenience. These clients are aware of the latest trends, care about green issues, and are highly active online. Most of them live in cities with more than 1.5M inhabitants, have reached high levels of education (Bachelor's degree or other), and are employed.

- ***Impulsive Spenders:*** *2*6% of total Indian consumers, with an average household income of USD 44,154. They are around 34 years old, and 55% are men. These consumers make impulse purchases, frequently. Despite the lack of loyalty towards brands, they like to indulge in premium and worldwide-recognized ones, with the purpose of enjoying themselves, experiencing new things and buying trendy products. The majority lives in cities with more than 1.5M inhabitants and has reached high levels of education (Bachelor's degree or other), but only a minority has full-time jobs.

- ***Secure Traditionalists:*** 12% of Indian consumers, with a household income of around USD 38,970. They are 33 years old, on average, and 52% are men. They avoid shopping and do not care about brand names, preferring to save money instead. They are unconcerned with image, buying only necessities. Almost half of them lives in cities with less than 1.5M inhabitants and has a high level of education. The majority does not have a full-time job.

- ***Conservative Homebody:*** 27% of total Indian consumers, with a household income of around USD 42,292. They are 40 years old, on average, and 55% are women. These consumers actively try to save money and seek financial stability. Yet, although being driven by low prices, they also look for quality, not only at low cost. Conservative Homebodies are attracted by higher end brands, with unique offerings. The majority lives in cities with more than 1.5M inhabitants and has reached important levels of education (Bachelor's degree or other), but only a minority has a full-time job.

To complement this segmentation, three additional criteria were introduced: *Geography, Caste System and Income Level.*

1. Geographic: India has 29 states, 7 union territories and around 300 cities. It becomes necessary to segment, since it is nearly impossible to reach all these upon entry.

- **Total Population**: In India, the cities with highest urban population in 2016 were Mumbai, Delhi and Bangalore. Other major cities were Hyderabad and Ahmedabad[162] (*Appendix 9).* In 2015, these locations exhibited the highest GDP growth, highlighting Delhi, Mumbai and Bangalore[163] *(Appendix 10).*

- **Consumer expenditure**: In 2016, the largest regions by total consumer expenditure were Uttar Pradesh, Maharashtra and West Bengal[164]. Moreover, Kochi (Kerala state), Delhi and Mumbai have the largest shopping malls in India[165].

- **Awareness and accessibility:** Higher awareness towards hygiene habits translates into more consumers concerned with Tissue & Hygiene products' specificities. It was assumed that some of the factors that affect this are higher levels of education and internet usage. Regarding the first one, Chandigarh and Delhi had, in 2011, the highest proportion of graduates from University, followed by Maharashtra[166]. Internet usage in 2014, on the other hand, was highest in Mumbai, Delhi, Kolkata, Bangalore and Chennai[167]*(Appendix 11).* Regarding accessibility, Kolkata's public transport system is considered the most progressive in India. In Mumbai

(Maharashtra), the rail network and metro system make its public transport system the largest in the country[168], and the city has one of the main maritime ports. Additionally, the towns with the highest number of cars ownership are Delhi, Bengaluru, Chennai and Greater Mumbai[169].

2. Caste System[170] and Income: The caste system shapes the consumption pattern, since it affects social interactions, occupations and wealth[171]. On the top of the pyramid are *Brahmins*, whose buying behaviour is oriented towards modern retail, premium brands and international trends. Then come the *Kshatriyas*, who purchase based on perceived-quality and status effect. The annual disposable income of the previously mentioned casts is above USD 50,000[172]. In the middle are the *Vaishyas*, who buy products that give them a sense of belonging, and whose annual income is above USD 30,000[173]. On the bottom are the *Shudras* and *Dalits*, who strive to survive and live with an annual disposable income lower than USD 10,000[174].

7.1.2 Targeting: Taking all the mentioned factors[175] into account (and a table of comparison in *Appendix 12)*, Renova should look at the Indian market using a *niche* strategy and target *Empowered Activists*, once these are the ones whose preferences are more aligned with what the brand represents: they are high-end consumers, who care about personal image, value strong and well-known brands, and prefer durable products of high quality to low-priced ones. In terms of caste (and respective income level), Renova should target the *Empowered Activists* that belong to the *Brahmins*, *Kshatriyas* and *Vaishayas* castes. This is so because these are more educated (and, consequently, it is assumed that they have more knowledge and education towards hygiene habits), and look for product specificities that Renova can offer. Furthermore, considering the criteria for geographical segmentation, Renova should choose Mumbai (state of Maharashtra) to enter India, because this is the city with highest potential. This is so because it has one of the highest GDP growth rates and level of consumer expenditure in the country, as well as internet usage and accessibility. Another city with favourable ranking, using these criteria, is Delhi; besides being the country's capital, it has high GDP growth, significant internet usage, and high number of cars circulating. Thus, it could be a further choice for Renova, on a later stage. Concluding, Renova's target should be *Empowered Activists*, who live in Mumbai and belong to the *Brahmins*, *Kshatriyas* and *Vaishayas* castes. On a later stage, the firm should also look to serve this segment in Delhi.

7.1.3 Positioning: All the considerations made in the previous sections can be summarized with the following positioning statement: *To consumers who seek quality, care about personal image and enjoy trendy and new products* (Target), *Renova's prime labels of Tissue products* (Frame of reference) *offer functionality with a differentiated and premium twist* (Point of Difference), *due to the colourful, appealing and innovative features of its superior quality product portfolio* (Reason To Believe). Renova's Positioning Map provides insights about the firm's positioning, against other established players, when entering the Indian market with its *premium* products. In terms of market attractiveness, the factor taken into account was price (high vs low); and, for the competitive position, it was the firm's innovative portfolio (colourful/appealing vs simple/standard features). The most relevant competitors taken into account were: *Procter & Gamble*[176], which is focused on high-end customers; *Origami Cellulo*[177], which covers medium to low-end consumers; *Kimberly-Clark*[178], whose offerings serve all income groups; and *Ballarpur Industries*[179], which is oriented towards medium to high-end buyers. Renova is high-priced positioned, presenting a differentiated portfolio.

Graph 1

7.2 4P's Analysis – Product, Price, Place and Promotion

7.2.1 Product

7.2.1.1 Product Selection Renova's main goal is to promote and develop its brand, at a global scale. Therefore, the product assortment chosen to enter a new market should depict its brand essence. The firm has distinct lines of products, organized under several labels. When assessing these, it becomes clear that Renova should use the *Red Label (Appendix 13)* to enter the Indian market, similarly to what it has done in the past. This is so because this line offers both differentiated (colourful) and functional products, under a more accessible price relative to other company's labels[180], namely the *Black Label*. By entering with this line of products, Renova will be able to stand out and, consequently, get attention from potential new buyers. Below are presented the *Red Label* products with which Renova should enter India.

Tissue Category

- Toilet Paper: As done in previous market expansions, Renova should enter in India with toilet paper. Since this is one of its core products, the firm can take advantage from its experience and knowledge to tap the Indian market. In this country, the toilet paper segment has not yet reached its full potential, since its use is still low in terms of value and sales' volume. Yet, forecasted sales present a % value growth of 37.6 in retailing (*Appendix 5)* and of 29.0 in the AFH sector[181], from 2016 to 2021. By 2021, the sales value of toilet paper in India is expected to represent the second highest value in the Tissue category (*Appendix 5)*. The main causes for this growth are related with investments in hygiene[182], as well as the rise in disposable income and changes in lifestyle, translated into higher demand for fashionable, customized products. Differentiated toilet paper will be critical to fight low price competition, as the share value of private label for these products in India is the highest of their category[183].

- Facial Tissues: Facial tissues are a clear pick when selecting products to approach the market with. In the 2011-2016 period, the value of this product grew at an average rate of 15.7%, making it the leader of the tissue category by 2016 (in value sales). Although this growth will decelerate in the 2016-2021[184] period, facial tissues will maintain category leadership[185]. The adoption of Western habits and the rising number of women who work[186] also favour the usage of facial tissues. A desire to convey a premium image or to show hygiene concerns can further favour facial tissues, as these can be used in public. Despite this, facial tissues present a disadvantage - they are the second most affected product of their category by private label penetration. This suggests that Renova must engage in efforts to differentiate them, thus avoiding that customers divert towards lower priced items.

- **Paper Tableware (napkins):** Sales for this product in India are still not representative; yet, forecasts present a % value growth of 24.3, from 2016 to 2021. Besides, the penetration of private labels in this group is low[187], which may decrease the threat of consumers shifting towards lower-priced options. Furthermore, India has been facing a boom in its international outlook, which is important for two reasons: firstly, foreigners commonly use paper tableware on a daily basis, therefore, demand from AFH players will increase; secondly, their presence in India will enhance the already verified attractiveness towards Western lifestyles[188]. Also, the role of women is crucial, because they are interested in enhancing dining experiences and trying higher quality products[189]. Renova offers the possibility to customize these products on its website[190], which improves the chances of customer loyalty, and opens doors to enter in India's e-commerce market[191] (as orders are online-based).

Hygiene Category

- **Sanitary Protection:** Within the Hygiene category, the highest value for forecasted sales comes from diapers, followed by sanitary protection[192]. Since diapers are not included in Renova's portfolio, these will not be considered; as such, product choice will fall into sanitary protection. This choice can be justified by the sustained growth this product will register in the upcoming years[193], mainly due to the higher awareness of Indian women towards hygiene.

Additionally, private label share in sanitary protection is negligible in the country[194], which decreases threat of low priced competition. As seen in *Appendix 5,* forecasted sales for sanitary protection in India will reach USD 579M in 2021[195]. Yet, this product should be introduced by Renova later on, because it is not the core of its offerings.

To conclude, Renova should enter India with its core products from the Tissue category - toilet paper, napkins, and facial tissues. In the future, as the firm gains credibility in the market, it should include sanitary protection products in its offering. Along with these, standard white products can be gradually introduced, since these are the ones that will create volume in sales for the firm. This will support brand consolidation in India.

7.2.1.2 Product Characteristics

As mentioned, Renova will enter India with *Red Label*[196] products. Colourful tissue paper is not common in India, and innovative designs in products and packaging are still not abundant, which is an advantage for Renova[197]. Yet, product' colours for India must be carefully chosen, as they are inherently linked to religion, politics, or celebrations. Black should not be used, as it has negative connotations[198]. On the other hand, all the other colours belonging to Renova's *Red Label* category - namely, orange, red, pink, green and blue - have a positive connotation in the country (symbolism of each colour in the *Appendix 14*). In addition, the packaging size and format of the products will not be adapted on this first stage, and will correspond to *Red Label*' standards (6 units per package of toilet paper, 70 units per package of napkins, and 100 per package of facial tissues) (*Appendix 13*). However, in the future, after experiencing the reaction of consumers to its marketed products, Renova may have to do some adaptations, according to the most significant local needs and preferences. Concerning the white line of products Renova should introduce in the future: the targeted consumers are environmentally conscious and believe their actions have a great impact on the environment[199]. Consequently, these consumers may be influenced by eco-labeling[200], and so it makes sense to introduce the *Renova Green* label - a line of white products, made with recycled paper pulp.

7.2.2 Price

Renova's management expressed interest in knowing how the current prices of the products selected for the internationalization (the *Red Label* ones) would be impacted by the export process to India. At the same time, they disclosed only one information: the factory price of a package of toilet paper, from the *Red Label*, which includes a margin on top of the production costs. Consequently, in these conditions, the pricing strategy that best fits the firm's interests and that will reflect its current practices is the *cost-plus*. This is so because, under this approach, the final price to Renova's clients is reached by summing the production costs to the export ones, and to the mark-up that the firm wants to obtain in each product; given that the factory price already includes the production costs and a margin, if this information is incorporated, the mark-up will correspond to the margin set by the firm, which reflects its reality. This was assumed to be 75% for napkins and facial tissues, and 80% for toilet paper.

Given this, this section will comprise the computation of the final price of the named products in the Indian market, under a *cost-plus* approach. Although this is the most adequate strategy to use, it carries limitations[201]: it is not market oriented - it ignores competition and consumer preferences; it generates inflexibility, because it is harder for the firm to raise prices afterwards, if wanted; and it may lead the firm to focus on costs, and distract it from other important strategic considerations[202]. To surpass one of these limitations - ignoring competition - a comparison with the prices practiced in India will be made at the end of this section. This analysis also intends to ensure that price conveys the products' premium twist; the price cannot be among the lowest prices in the Indian market, since this is not associated with premium products. The process to reach the final prices is disclosed below.

Starting with the export costs: to compute these, an assumption was made - products will be sent by sea, in containers, to the Indian port preferred by Renova's clients. There, products will be picked by Renova's clients, which will then assure distribution to their stores. This means that the contractual arrangement between Renova and its Indian clients will be a *CIF*[203] (*Cost, Insurance and Freight*). Under this scheme, the exporting costs for Renova will be the freight and insurance. The base information used to compute these two components was given by Renova, since it disclosed the cost of transporting one container from Portugal to Mundra (which is assumed to be the same for any Indian port, and includes insurance costs). So, to reach the freight and insurance cost per product, it is fundamental to understand the quantity (number of packages) of each product - toilet paper, napkins and facial tissues - that can fit into one container. The computations supporting this reasoning are below.

A container of 40ft (~67.7m^3) implies costs of 3,650€[204] to ship the products from Portugal to the port of Mundra. It was assumed that the total volume available inside the container would be ~60 m^3, ignoring the volume of pallets. Then, it was crucial to estimate the proportion of container volume that each product type should occupy. To do so, it was assumed that these proportions would follow the current demand in the Indian market, computed using the volume of sales for each of the three product categories, in 2016[205]. The reached proportions were 24% for toilet paper, 39% for facial tissues and 37% for napkins. Using these, it was possible to know the total volume that the packages for each product type would occupy. Consequently, the number of packages of each product type inside one container was computed, by dividing the total volume by the volume of a single package (uncovered by doing observations in supermarkets[206]). The solution showed that a container will take 7,969, 8,400 and 5,169 packages of napkins, facial tissues and toilet paper, respectively. Taking these information into account, the insurance and freight cost per package of each product type is 0.14€ for napkins, 0.12€ for facial tissues and 0.30€ for toilet paper.

Then, production costs. As mentioned, the company only disclosed the factory price of a package of toilet paper (6 units): 1.80€. Thus, factory prices for napkins and facial tissues had to be uncovered. This was done by observing Portuguese supermarket prices for the three products, and assuming that the retailers' margin is the same on all of them. The values obtained were 0.43€ for napkins (package of 70 units) and 1.08€ for facial tissues (package of 100 units). By summing the factory prices to the insurance and freight costs, the following values were obtained: 0.57€/package of napkins; 1.20€/package of facial tissues; 2.10€/package of toilet paper. On top of these, an import tariff of around 30%[207] (according to the Indian Harmonised System of Nomenclature (HSN) classification[208]) will be charged upon arrival to India, which further increases final values, to 0.74€/unit of napkins, 1.56€/unit of facial tissues and 2.73€/unit of toilet paper (*Appendix 15*).

These last values represent the prices Renova will charge to its clients (Indian retailers and wholesalers), which are different from the final prices to Indian consumers. To reach the latter, retailers and wholesalers' margins would have to be added. Considering a margin of 40%, a comparison was made between Renova's final prices and the average prices for products of the three categories, presented in the online channels of four of the main players operating in India (*More*, *Reliance*, *Spencer's* and *D-Mart*) (*Appendix 15*). Renova's final prices per unit (in Indian Rupees) would be above the average of three (out of four players) for toilet paper, and above average of all players for napkins and facial tissues. Thus, excluding toilet paper, these prices are already the highest of the considered benchmark, which goes in line with the intended position of the brand – a premium one. Yet, as Renova lacks brand recognition in the Indian market, this may hamper the initial contact and trial effect from local consumers. It constitutes a limitation, originated by the level of the implicit margin on factory prices, practiced by the company. Therefore, to surpass it, the firm should consider lowering this margin (restricted to a level that still reflects the premium positioning).

7.2.3 Place

The places where Renova's products will be sold will be the main point of contact with the targeted final consumers; thus, an appropriate selection is essential. As such, an analysis was made on the main players operating in this scenario, mentioned in the section 4.2.1."Retail and Wholesale in India". This analysis intends to be forward-looking, and thus the fact that Mumbai is the only recommended city for entry will not be a criteria used to exclude any chain. Instead, this factor will be taken into account after the chains are selected.

Firstly, several evaluation criteria were defined (*Appendix 16)*: ***Consumer-driven*** parameters, which explain the main consumer target of the chain; ***Geographic*** parameters, which disclose the presence of the chain across India, internationally, and online; ***Renova-driven*** parameters, which include the subsequent points: previous interaction with the firm, openness to negotiate with foreign companies, presence of Tissue & Hygiene products in the portfolio, and price point of these products in the chain; and ***Company-driven*** parameters, which comprise the ownership of the chain and the benefits it seeks when doing business (price, product quality, service). Then, these criteria were applied to the chains[209].

Following this, the chains were ranked, taking into account several factors which are in line with the preferences of the target consumers and the product's features. Firstly, regarding retailers: players were favoured if they target medium or high-income consumers. The same happens for the ones located in high streets or premium shopping malls, since these are preferred by the target consumer (*Empowered Activists*). Retailers that present online shopping were also favoured, since the target consumer enjoys pre-thought purchases and looks for information and product features, which can be seen online. Chains that offer more Tissue & Hygiene products were also given higher scores, as this implies bigger potential for sales. Retailers with lower level of private label offers were favoured, because private labels do not attract the target consumer and do not fit with the products' features. Finally, since Renova's products will be high-priced, retailers with higher price points for Tissue & Hygiene products were preferred. Given this, retailers that fit the most with Renova's preferences in India are *Spencers*' and *More*.

Wholesalers were also evaluated, as these are a way to reach the AFH segment (responsible for 54% of tissue sales)[210] and *Kirana* stores. To do so, it was assumed that wholesalers with global presence integrate more international brands in their portfolio, and that these have more ease and openness to negotiate with foreign companies. Since these factors are crucial for Renova, this wholesaler type was favoured. Although Renova will enter only in Mumbai, on a first stage, a wider presence across Indian States was also favoured, since the higher this is, the bigger the possibility to reach more consumers and create brand awareness in future stages. Finally, players that already have a business relationship with Renova were also prioritised, since these will be easier to reach, as they are already familiar with the products. Consequently, the preferred wholesalers are *Walmart* and *Metro*. A detailed assessment of the several chains is disclosed in the *Appendix 16.*

In the future, Renova should also consider to use the online segment, since it will grow significantly[211]. *Flipkart* is the best choice in this segment, since it is the market leader and it has a strong offer of Tissue & Hygiene products and deals with international brands[212].

Observing the places where the selected distributors are present, and starting with retailers, it is possible to observe that *Spencer's* does not have neither hypermarkets nor supermarkets in Mumbai; therefore, *More* should be Renova's selection when entering the Indian market. Regarding wholesalers, and for the same reasons mentioned above, both *Walmart* and *Metro* should be prioritized, as they are located in Mumbai. In the future, as Renova's brand strengthens in the Indian market, the selected chains (including *Spencer's*) can be used to introduce the products in other favourable locations (as seen before, in Delhi for example), performing an "organic growth", which will likely be controlled by the chain itself.

7.2.4 Promotion

Renova's promotion tools are focused on strengthening the brand to gain credibility, through innovation and differentiation. In India, promotional strategies will be based on three main channels: online marketing, in-store campaigns, and presence in key locations/use of celebrity endorsements. Due to lack of resources and market experience, the first two tools will be the only ones used upon entry. An investment in presence in key locations/use of celebrity endorsements will only be made later on, when the firm already has some presence in the market. This is aligned with the standard market strategy of Renova: this type of larger investments are typically used to "make a statement" of commitment to the markets, letting consumers know that the firm aims at exploring it for long - thus, creating brand legitimacy[213].

Social media presence and SEO/Google Ads/Content campaigns are essential to reach consumers and draw attention to the brand, as these tools can have a great impact in India. In 2016, around 63% of media consumption in India occurred online, even though internet penetration stood at 26%. Among the Indian internet users, 98% use social media and the time they spent on social networks has grown by 43 minutes a day between 2012-2017[214]. Furthermore, besides the advantage of reaching the market quickly, the use of online tools facilitates the measurement of impact (use of Google analytics), allows for real-time management of campaigns and provides important data to the company. Besides, it is a popular tool among consumers in the targeted segment[215]. At the same time, communication in-store must be executed, to allow the trial and rotation of products. In-store marketing consists in vouchers (which give potential customers the chance of trying Renova's products for free), shelves' decoration to grab attention, and coupons with special discounts. Finally, for later stages, campaigns and activities in important locations (such as metro stations or outdoors in busy areas), involving decision-makers and influencers (namely bloggers or Bollywood stars) might deliver better results on user engagement[216]. These are also popular promotion tools among the targeted segment[217]. Additionally, to foster word of mouth, investment in traditional media (for e.g. print press) may be useful, but with less emphasis, as this channel consumption has a modest value, comparing with all the other media forms[218].

Most of the promotional strategies have as main goal to boost brand awareness and build reputation, to achieve share of mind and heart among consumers. Despite this, Renova will be successful in India if, among other factors, it becomes part of clients' portfolio after temporary "in and out" experiences. Moreover, the success of its promotional campaigns will be greater if it leads to new opportunities, such as the approach from other players in India.

8. Operations

8.1 Modes of Operating in a foreign market

There are a few ways a company can choose to operate by when exporting to a market, mainly: Ex Works, FOB (Free on Board), FCA (Free Carrier), CIF (Cost Insurance and Freight) and DDP (Delivery Duty Paid). These are explained in detail in *Appendix 17*. Renova usually prefers two[219] of these to conduct its exporting processes - Ex Works and CIF. In the case of India, it should use the *CIF - Cost Insurance and Freight* one, as mentioned previously in Price section. This requires the seller (Renova) to arrange for the carriage of goods, by sea, to a port of destination, and to provide the buyer (client in India) with all the documents necessary to obtain the goods. The buyer assumes all risk once the goods are on-board of the vessel, but does not bear costs until the freight arrives at the port of destination. The choice of CIF requires Renova to engage in additional efforts to arrange all the necessary legal documentation for the buyers. Yet, it enhances firm's control over the supply chain: by managing the merchandise until the Indian ports, it is less conditioned to delays of intermediaries and other constraints. CIF also diminishes the risks arising from the low development of infrastructures in India, once Renova is not responsible for distributing the merchandise when it reaches the target country.

Hence, the company is able to share risk with its clients, benefiting from their network, reputation and nationwide know-how.

8.2 Renova's Supply Chain from Portugal to India

The supply chain of Renova, from production until the arrival of products at the chosen Indian ports, will consist of three key stages (see *Appendix 18).* Firstly, arrival of raw materials to the Portuguese factories, followed by indoors production. Secondly, storage of final products in a "rotation warehouse", which is organized according to levels of rotation, volume of sales, categories and brand name specificities[220]. Thirdly, transportation by two steps: initially, from the firm's factories until the Portuguese port of Sines, by trucks; then, from this departure location until the chosen Indian port, by boat, in containers. As the merchandise arrives at its destination, the clients will sign the necessary documentation[221], previously sent by Renova, and consequently assume the leading role of the process. Afterwards, these will distribute the products to their stores in India.

8.3 Bureaucracies and other considerations

Any commercial player that intends to export to India must manage documents concerning customs' clearances[222], such as the bill of landing, the commercial invoice and the bill of entry. These customs regulations are the same throughout India[223]. Moreover, according to the Directorate General of Foreign Trade (DGFT), in India "No person or entity shall make any Import or Export without IEC (Importer Exporter Code) Number", an unique 10 digit code[224]. Also, as Renova is responsible for the transportation of the products up to the Indian port, this may imply additional costs, such as clearance delays, which are frequent in India. Additionally charges may arise, levied by the shipping line[225]. Examples are charges of detention (if a full container is taken for unpacking, but has not returned to the appropriate empty depot before the free days allowed expire), and charges of demurrage (if the delivered container has not been taken for unpacking or removed of the port area, in the period allowed) (*Appendix 19).*

8.4 Negotiation Processes

Renova should consider several factors when negotiating in India[226]. Firstly, as said in previous chapters, Indian people value interpersonal relationships: to build trust with an Indian company, a foreign firm must show commitment towards long-term goals, and be prepared for a lengthy process. Moreover, hierarchies are important and masculinity is still ingrained in the society, meaning Indians often prefer to negotiate with men. Additionally, there is extended reliance in indirect communication, and body signals are often used to convey messages. Also, Indians keep verbal communication friendly and polite, and criticism may be done only indirectly, through a third partner. Consequently, Renova should approach prospective clients carefully, by sending company representatives to face-to-face meetings with them. On a first stage, it should attempt to hire an individual specialized in the country's negotiations and culture, to make the initial contact with the prospect clients, and help company representatives to interpret the Indian communication style. Besides, later on, a Key Account Manager should be hired to oversee the relationships with Indian clients at all times, making frequent contacts to build long-term trust. Further recommendations are to maintain politeness and friendliness at all times, avoiding discussing sensitive topics in public and use of aggressive negotiation techniques, as well as, always trying to save face.

9. Financials

This chapter's goal is to analyse the financial viability of Renova's expansion to India, within a five-year horizon (2018 to 2022). The reasoning behind most of the performed calculations (detailed in *Appendix 20*) resulted from assumptions based on market benchmarks and information shared by the company. Nonetheless, the company disclosed few information, which implies that this analysis has some limitations. One key objective was to reach the *NPV (€) – Net Present Value* of this expansion process, which indicates whether the project is viable or not. To compute NPV, Cash Flow projections were made, for which several figures were computed. This process is described below.

Starting with revenues, these will depend on price and quantity sold. The process to compute price was already disclosed, resulting in *0,74€* for Napkins (N)*; 2,73€* for Toilet Paper (T)*;* and *1,56€* for Facial Tissues (F). For quantity, on the other hand, a simulation for the demand of Renova's offerings in India was conducted, built on the *BEP – Break Even Point*. The *BEP* was computed to understand how many containers the firm had to export to the Indian market per year, to have null profit. The following formula was used: *BEP = Total Fixed Costs / Contribution Margin per Unit = Total Fixed Costs / ((Price per Unit – Variable Costs per Unit); unit* .This resulted in a *BEP ~ 2*. Afterwards, it was assumed that the firm would set internal goals for sales (a target of number of containers per year, above the *BEP*), for each year. These objectives incorporate a growth in the demand for Renova's products in India, derived from the acquisition of new clients and growth in the volume of items to be exported (meaning that the target number of containers will increase each year). It was assumed this will be achieved thanks to Renova's efforts in the internationalization process: namely, hiring extra working force. The goal for 2018 was 4 set of containers. From this starting point, one container was added every year, reaching 8 by 2022 - the double of containers, when comparing with the initial year of activity. Considering the goals for containers per year and using the product proportions uncovered in the pricing section – *37% (N), 24% (T), 39% (F),* the yearly quantities were computed for each product. Then, revenue was reached by multiplying quantities and prices.

Following this, costs had to be estimated. Variable costs were divided into several categories: production, transportation, tariff and labelling. Both transport and export tariff costs were previously explained. Production costs were assumed to correspond to a % of the factory price Renova charges: *25%* for napkins and facial tissues and *20%* for toilet paper. Label costs were considered to be *0,05€* for all items. Regarding fixed costs, these were considered to be working force salaries (and taxes) and marketing tools (social media presence, SEO/Google Ads/Content campaigns and in-store promotions[227]). SEO and similar costs decrease throughout the years, as the impact of these ads on consumers diminishes with time; and in-store promotions increase progressively, to enhance brand legitimacy.

Afterwards, the *Gross Profit (€)* for all the categories within the years of activity was calculated. To this, total fixed costs were subtracted, leading to the annual *EBITDA (€).* As mentioned, Renova's products are not perishable, so the level of depreciation is mostly linked with the machinery used in the production process, which is insignificant for this project. In this specific expansion, no additional CAPEX in the supply chain will be pursued, so *EBITDA = EBIT (€)*. Also, it is important to highlight the costs the firm will face every year regarding taxes: Renova must pay *IRC expenses (21%)*[228] over the *EBIT* result/year, and an amount of *TSU (23,75%)*[229] over the expenditure with working force salaries/year[230]. These taxes were discounted to the *EBIT* results and the total fixed costs, reaching the *Net Income (€).*

In parallel, the Working Capital Requirements (WCR) had to be computed, based on: *Δ WCR (€) = Δ Cash + Δ Account Receivables + Δ Inventory – Δ Accounts Payables*. It was assumed that both *Cash and Accounts Payables* are null, the company will pay its suppliers within *0 days*. For the Inventory, it was assumed that Renova will produce *10%* extra of the total quantities inside 1 container, and so the production costs associated with this were used to compute inventories. Moreover, to reduce the inherent risk of the process, the clients' terms of payment will be *0 days* during the 3 initial years; after the 4th year, an allowance of *30 days* will be given to *50%* of the existing customers. This strategy means that, by 2021, *4.2% = (30/360)*50%* of the total sales revenues will be received 30 days after the purchases. Finally, the Incremental Free Cash Flows (IFCF's) for each year were calculated, with the *Net Income + Incremental Depreciation - Δ Working Capital Requirements – Investment Expenses*. Using the growth rate of the Tissue & Hygiene Industry in India (2017-2021) - *9.2%* - and the IFCF's, it was possible to compute the *NPV*, which is *215,565.66€ (> 0)*. This result shows that Renova should internationalize to India, since this project is profitable.

10. Implementation and Control Plan

10.1 3M's Analysis – Men, Money and Minute

The 3Ms methodology is a tool used by companies to analyse not only the required human and capital resources involved in an expansion, but also the timeline of all the processes occurring throughout it. Therefore, it can be applied to Renova's internationalization to India. Starting with Men, apart from the usual team that the company has allocated towards international businesses, two key figures will be added. The first one will be an Intern, either of Indian origin or specialized in India's culture or negotiation processes, to be hired for the first year. The second one will be a Key Account Manager, that will manage the Indian market at all times from the second year onwards. Regarding Money, no significant investments will be required due to the nature of the entry mode (exporting). Yet, additional costs may arise during operations, namely expenses associated with transportation delays, bureaucratic concerns or promotional campaigns - both from online and offline marketing. Finally, focusing on Minute**,** a timeline is depicted in *Appendix 21*, presenting the key milestones of the project within a 5-year horizon, and in the future.

10.2 Uncertainties and Risks related with the expansion

Renova should manage the potential risk exposure associated with its expansion to India, since this can help it to anticipate developments and understand trends at an early stage, ensuring proactive decision-making and securing profitability. Starting with local instability and cultural discrepancies, the company should evaluate the influence of the caste system, corruption levels, governmental constraints, taxation and legal bureaucracies for foreign companies. Focusing on challenges related with the timing and commitment of the entry mode, Renova may find difficulties associated with developing good relationships with local players and maintain control over its assets when reaching India. These issues are aggravated with the possibility of client's bankruptcy, risk of not meeting payments' terms and damaging the brand's reputation. Here, the process of choosing local partners and understanding the local market flows is key to make the expansion easier and less risky. Further uncertainties are linked with India's specific market and competition volatilities; for instance, customers' misperceptions regarding Renova's products; lack of information about the local market trends; boom of private labels; and competition from already established international branded players. It is important to mention market positioning challenges, namely lack of adjustment of the products' portfolio to local needs and preferences; lack of distinction from competitors' value proposition; issues with price sensitivity; and buyers' purchasing power.

10.3 KPI's: Key Performance Indicators

It is key to assess the course of this project at all times, to ensure that the company succeeds in implementing and developing it. To do so, some KPIs were defined. Firstly, regarding the financial outlook: *gross margin* for the Indian market alone, by product and product category; *net profit* from the Indian market, as a % of total profits from Asian markets covered. Secondly, concerning client outlook: number of *clients* served; number of Indian *geographies* covered; *market share* for each product category, per client; % of *shelf space* for each product category, per client; number of *orders* by product, from each client; number of *stores* offering Renova's products, per client; types of *channels* by which Renova's products are transactional. Thirdly, regarding consumer outlook: % of consumers that, shopping in the client store, *recognize the brand Renova*; % of consumers that, shopping in the client store, *buy the brand Renova*.

KPIs for the 1st category should be assessed on a monthly basis: it is crucial that the company is aware of what is happening, since these translate the impact of the project in an area where the company has limited resources. KPIs for the 2nd category should be assessed on a quarterly basis, since it is unlikely that major changes in this field occur in a short time span. Lastly, KPIs for the 3rd category should be computed on a biannual basis. Supporting this are reasons similar to the ones stated for the second category, and also the fact that the needed data to come up with these figures is harder to retrieve. For instance, it could be unveiled by doing short Yes/No surveys to customers, as they pay their products (such as “Do you know what the brand Renova is/what it sells?” and “Do you buy products from the brand Renova”). Yet, this would have to be agreed upon and negotiated with clients, which implies additional efforts.

11. Closing Remarks

Concluding, although the Porter’s Five Forces Analysis suggests that the Tissue & Hygiene Industry in India is unattractive for the mass consumption market, it presents opportunities for the high-end one. Therefore, if Renova is able to adapt to these local conditions, it should go ahead with the internationalization to India. The firm should enter India by doing direct exporting, and target *Empowered Activists* belonging to the *Brahmins*, *Kshatriyas* and *Vaishayas* castes, who live in Mumbai. It should serve this segment by marketing toilet paper, napkins and facial tissues of its *Red Label* line, making no adaptations on the product features, on a first stage. Prices per product package, computed assuming the exporting agreement will result in the use of CIF, and before retailers’ margins are added, are 2.73€, 1.56€ and 0.74€, for toilet paper (6 units), facial tissues (100 units) and napkins (70 units), respectively. These products should be offered in the retail chain *More*, and wholesale chains *Walmart* and *Metro*. Social media, along with SEO/Google Ads/Content campaigns and in-store actions should be used as promotion techniques. Furthermore, Renova should hire an Intern specialized in Indian culture/negotiations for its first year of market approach, and a KAM from the second year of operations onwards. Finally, financial analysis shows that this is a viable project for the firm: the break-even occurs at 2 containers, and the NPV, within a 5 year horizon, is 215,565.66€.

In addition, there are some future steps that Renova may take, after its position in the market is consolidated (after the year 2022). Firstly, besides targeting Mumbai, it should expand to other strategic locations, such as Delhi. Also, concerning product specificities, it should broaden its offer, by introducing feminine hygiene products, as well as other labels - more standardized ones, of white tissue - of toilet paper, facial tissues and napkins, to add volume in sales. Regarding this last point, it can opt for its *Green* (ecological) product line, or other ones that offer high quality, such as the *4D* one, since *Empowered Activists* show concerns with the environment and look for quality. Moreover, it can adapt the packaging, by introducing designs that appeal to the Indian culture, or sizes that stand more in line with what is offered in the market (e.g. pack of 4 units for toilet paper, 100 units for napkins and 200 units for facial tissues). Furthermore, regarding place, Renova should evaluate the option to offer its products in other channels, such as the online one and Health & Beauty Specialists, since some distribution already occurs through these[231]. Regarding promotion, the company can create legitimacy and show its commitment to the market by partnering with famous *Bollywood* actors, and sponsoring events such as the *Holi Festival* which, besides being a major occurrence in India, has a theme that is connected to what the brand represents - liveliness and colour. Finally, further recommendations are considering the option to partner with a distributor to aid with future market expansion, and for an audit company that, similarly to what is done in Mexico, performs check-ups to ensure clients are delivering on their promises (once this will become more important after new locations added).

Compiling all the points that were mentioned throughout this paper, one may say that this project is promising. Despite the multiple risks and uncertainties intrinsic to its market, India presents a wide range of opportunities, not only now, but also in the future. In addition, the company’s resources and capabilities are tools it can use to surpass the difficulties that may arise in time. Concluding, Renova will “bring colour, light and movement” to the Indian Tissue & Hygiene Industry.

12. Appendix

Appendix 16 - Place

(Source: Websites of each of the considered Retailer and Wholesaler chains)

	Player						
	Convenience Stores				Ecommerce		
Key criteria	In&Out Convenience Stores	Easy Day Convenience Stores	Twenty-Four Seven Convenience Stores	J-Mart	Amazon	Jasper Infotech Pvt (Snapdeal)	Flipkart
Main consumer target	All consumer types	All consumer types	All consumer types	Middle and high-income consumers	Middle and high-income consumers	Middle and high-income consumers	Middle and high-income consumers
International presence	No presence outside India	No presence outside India	No presence outside India	No presence outside India	Global presence	No presence outside India	Global presence
Presence across India (1/2)	157 stores	13 States	45 stores in the Delhi NCR region.	More than 40 outlets in Delhi NCR	Online	Online	Online
Presence across India (2/2)	Neighbourhood/gas stations	Neighbourhood/gas stations	Neighbourhood/gas stations	Neighbourhood/gas stations	Online	Online	Online
Interaction with Renova	N/I	N/I	N/I	N/I	Already interacting with Renova	No interaction so far	No interaction so far
Openness to negotiate with foreign companies	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness exists	Motto "International shopping experience" suggests openness exists	Partnerships suggest openness exists	Reputation and portfolio suggest openness exists	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness
Presence of Tissue & Hygiene products in its portfolio	N/I	N/I	N/I	N/I	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products
Ownership	Bharat Petroleum Corp Ltd	Future Retail Ltd	Godfrey Phillips Group (Modi Enterprises)	Alisha Retail Pvt (RJ Corp)	Amazon	Snapdeal	Flipkart
Benefits sought (price, product quality, service, relationship)	Service; product quality	Service; product quality	Service; product quality	Service; product quality	Price; Product Quality	Price; Product Quality	Price; Product Quality

	Player								
	Hypermarkets and Supermarkets					Wholesalers			
Key criteria	Big Bazaar	D-Mart	More Supermarkets	Reliance Smart Supermarkets	Spencer's Hypermarkets	Metro Cash & Carry	The Booker India	Walmart India	Reliance Cash & Carry
Main consumer target	Low and middle-income consumers	Low and middle-income consumers	Middle and high-income consumers	Middle and high-income consumers	Middle and high-income consumers	All consumer types	All consumer types	All consumer types	All consumer types
International presence	No presence outside India	No presence outside India	No presence outside India	No presence outside India	No presence outside India	Present in 25 countries	Global presence	Global presence	No presence outside India
Presence across India (1/2)	289 stores across 137 cities (26 States); also operating by ecommerce	140 locations, 45 cities across 11 States	509 supermarkets and 20 hypermarkets across 5 States; also operating by ecommerce	13 States; also operating by ecommerce	36 stores across 8 States; also operating by ecommerce	23 stores across 14 States	2 States	19 cities in 9 States	37 cities across 9 States the country
Presence across India (2/2)	Rapidly growing areas in India	Suburbs of the metros; II and III tier cities	High streets and malls, especially in metropolitan areas	Shopping malls and other shopping complex in big cities	Upscale neighbourhoods in India's large cities	N/I	N/I	N/I	N/I
Interaction with Renova	No interaction so far	No interaction so far	No interaction so far	No interaction so far	No interaction so far	No interaction so far	No interaction so far	Interaction in other countries	No interaction so far
Openness to negotiate with foreign companies	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness exists	Offer of foreign products brands suggests openness exists	Ownership suggests openness exists	Reputation and portfolio suggest openness exists	Offer of foreign products brands suggests openness exists
Presence of Tissue & Hygiene products in its portfolio	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products	Offer of several Tissue & Hygiene products
Ownership	Future Value Retail Group	Avenue Supermarts Group	Aditya Birla Retail Group	Reliance Retail Ltd	RPG Group	Metro AG Wholesale&Food Specialist	Booker Group (UK)	Walmart	Reliance Retail (Reliance Industries)
Benefits sought (price, product quality, service, relationship)	Product; Quality; Relationship	Price	Product quality	No distinctive preference	No distinctive preference	No distinctive preference	No distinctive preference	Price;quality	Price; Relationships

13. Individual Case Studies

(*Appendix 6)*

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

The world of Renova

- Internationalization Process to Canada -

Adapting Products to Foreign Markets

Individual Case Study

Rita Craveiro – 22181

An Individual Case Study carried out on the Export and Internationalization Field Lab with respect to the company Renova, under the supervision of Professor Pedro Pereira Gonçalves and Professor Pedro Teixeira Santos

January 2017

1. *Abstract*

This paper examines the internationalization of Renova to Canada, highlighting the main learnings the company withdrew from it, so that these can be applied to its future internationalizations. These learnings revolve around the successful design of a new product line, the *Red Label*, born from the need to adapt the firm's offerings to the Canadian market. By assessing this company's move using literature on product adaptation to foreign markets, it was concluded that Renova already exhibits most of the desired behaviors in what this process regards. Thus, when internationalizing to other markets, the company should follow its standard procedures, and reflect on two main topics – whether its portfolio is suitable for the internationalization, or not; and if it has the capabilities to adapt it, in case this is needed.

Key words: Internationalization, Product adaptation, Exporting to foreign markets

2. *Introduction*

Renova established a presence in the Canadian market before 2012; yet, this was the year in which this presence became more significant, due to a partnership with *Walmart*. By that time, the market was attractive, and the firm decided to tackle it by offering its premium line – the *Black Label*. However, consumers did not react positively, which led Renova to design and launch a new line, the *Red Label*, in response. This is currently one of its most successful lines. This case study studies this process, to provide Renova with applicable recommendations to future internationalizations. It is divided in four sections: the first one comprises a literature on product adaptation to foreign markets, which is the core issue in the Canadian expansion. The second one discloses the internationalization to Canada in detail. The third examines this internationalization process in the light of the literature; and the fourth discloses the conclusions from the previous sections, used to draw learnings for Renova's future expansions.

3. Literature Review

This literature review will address three sub-issues of the main topic (product adaptation to foreign markets). The first one discusses whether a firm should adapt its products to serve foreign markets. The second regards the impacts for a firm's exporting strategy of making this adaptation. And the third elaborates on how a firm should proceed when developing new products for foreign markets.

Starting with the choice between adaptation and standardization, there are no clear agreements on which is best for a firm. Standardization consists in offering indistinguishable product lines to different markets, at identical prices, distribution systems and promotional programs (*Levitt, 1983*). Proponents of this strategy state that it is viable because, due to globalization, consumer needs and preferences converge, markets become more similar and technology uniformizes (*Levitt, 1983*). Also, it brings advantages: it unlocks scale economies in activities like marketing, R&D and production; it enables a firm to have a consistent global image and branding; and it reduces managerial complexity (*Levitt, 1983; Douglas & Craig, 1986; Yip, Loewe, & Yoshino, 1988*). Adaptation, on the other hand, is defined as the change in attributes, such as label or brand name, to fit the idiosyncrasies of a market, being either its macroeconomic situation or consumer preferences, among others (*Shoham, 1999*). Advocates of this strategy claim it is preferable because, despite globalization, countries still differ, namely in consumer needs and purchasing power (*Terpstra & Sarathy, 2000*). Others claim that standardization oversimplifies reality, contradicts the marketing concept (*Boddewyn, Soehl, & Picard, 1986; Douglas & Wind, 1987*) and pursues the wrong advantages for the firm (*Onkvisit & Shaw, 1990; Whitelock & Pimblett, 1997*). In the middle of these two strategies stands the one of contingency. Supporters of this approach state that standardization and adaptation are two ends of the same continuum, and that the firm's strategy can range between them. The decision to choose one over the other depends on each situation's peculiarities, and the impact of each one on the performance of the company in international markets should be assessed. It is paramount that the firm determines which elements to adapt, and which ones to standardize (*Quelch & Hoff, 1986; Onkvisit & Shaw, 1987; Jain, 1989; Cavusgil & Zou, 1994*). Other authors develop ideas that go in line with the contingency theory. For instance, for a company, achieving superior performance does not depend on adapting or standardizing the marketing strategy, but on reaching a fit with the market context (*Theodosiou & Leonidou, 2002*). Moreover, to state whether a firm should or not adapt its product and positioning, one must observe the firm, its product and industry, and export market characteristics. It is suggested that managers may opt to adapt when the industry is not technologically intensive, product is culture specific, competition is intense, and management has international expertise, as well as in formulating and implementing adaptation strategies (*Cavusgil, Zou & Naidu, 1993*).

Regarding the second topic – impact of adapting products to foreign markets on the exporting strategy – some authors claim that a strategy revolving around world orientation, product adaptation and market segmentation has a strong connection with export performance. Firms with this approach have higher export levels and export growth; and, when compared to others, this strategy generates a bigger share of firms performing highly, in terms of the two mentioned criteria (*Cooper & Kleinschmidt, 1985*). Also, *Madsen* (*1989*) states that, for experienced exporters, the policy of export marketing is what impacts export performance the most, particularly if this is measured using export growth and profitability. Other authors claim that a strategy of product adaptation associates positively with export performance (*Calantone, Kim, Schmidt & Cavusgil, 2005*). Finally, *Lages & Montgomery* (*2003*) discuss that SMEs' past performance greatly influences their commitment to exports. The latter, by its turn, is one of the most crucial factors influencing product strategy adaptation. *Navarro, Losada, Ruzo & Díez (2009)* also corroborate this view, stating that firms with higher commitment towards their foreign markets are more prone to adapt their marketing elements. When they do so, they reach perceived competitive advantage in these markets, which has a positive influence on the firms' export performance.

Lastly - how should the firm proceed when developing new products for foreign markets. Firstly, the bigger the cultural differences and market perceptions between the home market and the host one, the more likely it is that a product needs to be adapted (*Barbu, 2010*). Moreover, speed of new product development matters to generate export involvement and competitive advantage in international markets (*Lim, Sharkey & Heinrichs, 2006*). Furthermore, it is easier to introduce new products in foreign markets if there is a good relationship between the selling firm and the host market's client (*Griffith, 2014*). Also, being technology and market oriented is important for a firm to successfully export new products (*Jaferian & Rezvani 2014*). The performance of a new product in a foreign market is also influenced by the firm's marketing-R&D interface, because the latter impacts new product performance (*Li, 1997*). Moreover, Managers should consider that, when tackling export markets using new products, they may be overconfident, due to the performance of new product development processes; the fact that these processes function does not imply that products will perform well in host markets (*Atuahene-Gima, 1995*). Besides, when customizing their offerings to foreign markets, Managers typically do less adaptations than those that would be necessary to achieve optimal performance (*Dow, 2006*). Finally, recommendations to successfully conduct new product development projects include: having adequate processes in the firm; evaluating the project throughout its course; creating a cross-functional, project management team; involving senior management in the project; and integrating the customer in early project stages, among others (*Ernst, 2002*). Guidelines for successful product launch are related to displaying superior skills in certain areas, from marketing research to distribution; having cross-functional teams; involving logistics in planning early; and having adequate timing of launch, for instance (*Benedetto, 1999*). Also, *Narver, Slater & MacLachlan (2004)* mention that, to generate and maintain success around new products, a firm cannot simply have a responsive market orientation; it must exhibit a proactive market orientation.

4. Case Study – Renova's Internationalization to Canada

Canada is one of the more than sixty markets served by Renova. Although not being one of the major drivers for the company's business[1], the firm's Management still appoints it as an important example, due to the learnings that resulted from the internationalization process[2].

Renova's expansion to Canada begun prior to the year 2012, when its Management encountered the possibility to export, working with an Importer who was already familiar with the company. This Importer was crucial for the firm: by 2012, he was able to reach Walmart, presenting its Management with Renova's products, following which the two firms started to conduct business with one another[3]. By that time, the Canadian Tissue & Hygiene market was an attractive one, with value sales of CAD 3,619.5M, growing at 2.9% YoY (slightly above the historical average of 2.5%). Most of the distribution (99.5%) occurred through store-based retailing, particularly grocery retailers (69.4%). International players dominated the market (P&G had a 27.4% value share, followed by Kimberly Clark with 17.6%), which was a concentrated one (the top 3 companies held 58.2% of the total value share)[4]. Given this, commercializing products through a well-positioned retailer was essential; and here, Walmart played a key role. In 2012, this player celebrated 50 years of existence, operating over 10,000 retail units in 27 countries and counting with net sales of over USD 400B[5]. This success echoed throughout Canada: in the period from January 2011 to January 2012 alone, the retailer planned to open 40 supercenters in this country[6]. Thus, this was a partnership of interest to Renova. Yet, due to its small size and lack of credibility in the Canadian market, the firm had to comply with some requirements to do business with Walmart. Renova had to assemble a structure exclusively for this market, which consisted in resorting to an operator, which stayed in charge of logistics and invoicing. This actor buys the products from Renova - which is responsible for delivering them in Canada - and then resells them to Walmart, charging a fee per unit sold. Under this scheme, Renova defines the strategy and attends meetings with the client; but the operator is the one that interacts with it the client the most. While this is still the main way under which the firm operates in Canada, serving other retailers besides Walmart (such as Loblaws), it is also an expensive one, due to high transportation costs and fees paid to the operator, among others. For this reason, the company's Management considers this a non-optimal operating model, which hampers market competitiveness[7]. Besides this, Renova commercializes its products to Canada via other scheme: using two distinct distributors. One of them covers a "Mercado da Saudade" and other small ethnic retailers, selling products from standard labels; and the other one serves proximity stores[8].This way, Renova covers several parts of the country, although in an indirect manner, and with low control (once, often, the distributors are the ones that select the locations in which the products are sold). To mitigate difficulties associated with this lack of proximity and facilitate communication, the firm employs a Key Account Manager of Canadian nationality[9].

Although Canada may not be one of Renova's best examples of operational efficiency, it certainly contributed to the firm's current success, for a simple reason: it was its internationalization for this market that gave origin to the well-known *Red Label*[10].

Red Label: "A new generation of colorful products"

While there is a "Renova before" and a "Renova after" the launch of the *Black Label* [11], which brought the *Sexiest Paper on Earth* to the world, the firm did not always have an easy time commercializing this product line. Similarly to what had been done in previous internationalizations, when exporting to Canada Renova decided to introduce this label first, to generate awareness. Yet, consequently, two problems arose: due to their high costs and exclusivity, the products had low rotation; and there was a belief that their colorful features had damaging effects on health[12]. Since this was detrimental for sales, Renova launched a new product line – the *Red Label* one. Unlike what happened with the *Black Label*, products of the former label are constituted by both colorful and white leaves (the white one being on the inside of the product, and only showing when one uses it), which makes them cheaper and solves health concerns (although these were proven to be unsupported). Hence, while solving Renova's problem and combining decoration with functionality, these products filled a void in the market – a need for colorful products, under accessible prices. Moreover, the firm quickly understood that this gap was not exclusively present in the Canadian market, since this category's success spread to other locations. Rapidly, the *Red Label* became one of the flag product categories of Renova, and it currently is the one that the company chooses to first tackle a new market with[13]. Currently, although the *Black Label* remains the unquestionable game-changer for the firm, it is less commercialized, being sold mostly in ultra-premium channels[14]. Regarding the Canadian market case, after the *Red Label* was launched, the *Black Label* one continued to be sold; yet, in diminished quantities, and mostly online. Nowadays, most of the sales in this market come from either the *Red Label* category or from other, more "standardized" labels, being napkins the product that is sold the most[15].

Concluding, the internationalization process to Canada was of uttermost importance for Renova, since it enabled it to realize that there was a need in the market for a different category of products. The learnings the company's Management retrieved from this expansion played a fundamental role in the history of the firm, which is continuously evidenced, each time Renova receives a new order for *Red Label* products.

5. Discussion and Application of Theory to the Case Study

Starting with the first issue discussed in the literature: the question of whether Renova should adapt its products to serve foreign markets, or not. From the three possible choices – adaptation, standardization and contingency – contingency is the most adequate: as stated in the literature, it is critical to achieve a fit between the firm's strategy and the conditions of the market that it is exploring, which will vary from country to country, and from time to time. Under a contingency approach, the firm avoids the lack of flexibility associated with the other alternative strategies, and the risks that come with it: namely, for standardization, the one of not satisfying customers' needs, due to lack of customization of the products; and, for adaptation, increased costs and managerial complexity. This choice stands in line with the companies' current practices, since it opts for tailoring products for some markets, while introducing standard lines in others.[16] In the case of Canada, adaptation was the right choice.

Going through the second issue – impacts for Renova's exporting strategy of adapting its products. Literature indicates that product adaptation has a positive impact on export's performance. While some authors state only that a positive relationship exists between the export marketing policy and export performance, others detail this connection, saying the impact is translated by higher export levels and export growth. It is also claimed that this relationship is mediated by the company's commitment to its foreign markets: the higher the commitment, the higher the willingness to adapt, which influences positively export's performance. This analysis shows that Renova will likely experience positive effects on its export's performance, if it adapts its products to foreign markets. And this was the case for the Canadian market; the firm faced issues before adapting its product portfolio, and its performance improved after this adaptation.

Lastly, the third issue: how should the firm proceed when developing new products for foreign markets. The literature yields several insights: namely, the greater the cultural differences between home and host country, the bigger the need for adaptation. Also, the better the relationship between selling firm and host market's client, the easier it is to introduce new products. Furthermore, the marketing-R&D interface influences new product performance in foreign markets. In addition, the firm should be both technology and market-oriented, to successfully conduct new product exports. Moreover, the length of new product development cycle should be kept short, since this influences perceptions around a company's competitive position. Managers should keep in mind that they may be overconfident when tackling export markets with new products; and that they typically under-adapt products. Finally, the firm should have a proactive market orientation, instead of just a responsive one, and should implement some procedures to conduct new product development projects, and launch new products, with success. Observing the case of Renova, one can say that the firm is already aware of these issues, and acts on them. For instance, it is concerned with maintaining good relationships with its clients: it does personal meetings from time to time, tailors its contracts to client's preferences, and has Key Account Managers allocated to certain markets[17]. Also, its marketing-R&D interface is sound; the company has teams dedicated to both these issues, which share the same working space, favouring exchange of ideas[18]. Moreover, Renova is technology-oriented. It is also market-oriented, not only responsive but also proactively: it continuously investigates and develops new products, using advanced technology[19]. Lastly, it already has many of the recommended procedures to successfully develop and launch new products in place: it has cross-functional teams, it displays superior skills in areas like promotion, it involves logistics in planning at several stages of product development, and its senior Management gets involved in the development projects, among others. These examples show that Renova already implements the mentioned optimal procedures, and that it has the capabilities to so. These and other procedures were the ones that aided the firm to successfully design and launch the *Red Label* line, and consequently to thrive in the Canadian market.

6. Conclusion and Learnings for future Internationalizations

Concluding, Renova should adopt a contingency strategy for future internationalizations, meaning it will adapt its products only if market and firm's conditions support this choice. When done, this adaptation will likely exercise a positive influence in the company's export performance. Finally, when adapting, the firm must have a series of procedures in place, and its Management should pay attention to a few key issues.

Currently, Renova exhibits most of these behaviors, meaning it is well-equipped to both develop and launch successful new products to foreign markets, and to assert when or not it should do so. Therefore, its general lines of its product adaptation strategy to foreign markets should continue to be followed future expansions. Yet, when approaching new market, the company should review the main topics studied in this paper: it should assess if its product portfolio is suitable for the internationalization, and if it maintains the abilities to adapt it. Going through these two areas will contribute to the design of a sound internationalization plan.

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The world of Renova

- Internationalization Process to China -

Cultural Impact in Business

Individual Case Study

Catarina Leitão – 27290

An Individual Case Study carried out on the Export and Internationalization Field Lab with respect to the company Renova, under the supervision of Professor Pedro Pereira Gonçalves and Professor Pedro Teixeira Santos

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1. *Abstract*

Nowadays, more than 20,000 multinationals[1] are operating in emerging economies, forecasting 70% of their future growth there[2]. Notwithstanding such trading opportunities, the issue of facing different cultural backgrounds needs to be considered, as it will influence the success a firm may achieve internationally. What allowances should exist to deal with the complexity of merging corporate cultures? This, among other questions will be covered in this paper, based on the existing *Literature* and the experience of Renova in China. It highlights the approaches applied by the company while operating in this market and suggests strategies to mitigate cultural issues that may arise during negotiations in future international expansions.

Key words: Cultural Issues; Corporate Cultures; Cultural Backgrounds

2. *Introduction*

Back in 2013, Renova's CEO Paulo Pereira da Silva, together with the International Business Director Mário Lopes, were wondering if it would be a good idea to accept the *High Hope Group's* proposition. Entering in China has always been one of the firm's goal, but the risks and uncertainties inherent to this market, were creating a sense of doubt regarding this expansion. Both were reflecting about the necessary conditions to succeed in this location, not only by that moment in time, but also in the future. Besides, they were considering whether the company had the tools to achieve this success and to keep a competitive position in the Chinese market. On top of their concerns was the influence of culture during negotiations. How should Renova overcome the existing cultural barriers? Which strategies needed to be developed to adapt to the Chinese way of doing business? How can the firm enhance its local knowledge?

3. *Literature Review*

In the existing *Literature*[3], there are several theories related with the analysis of cultural and behavioural dimensions affecting the business landscape. Management styles differ across locations due to both internal and external factors. Considering *internal-oriented* factors, a firm's present and future goals should be clear, consistent and easy to communicate to the individuals involved throughout the expansion process. As mentioned in the Behavioural Theory[4] (*Erramilli, Krishna; 1990)*, the level of involvement & commitment towards the entry strategy, is in line with the enterprise knowledge regarding the target market and resources (tangible and intangible) that may be used. Moreover, as present in the Transaction Cost Theory[5] (*Ghosal, Sumantra; 1996)*, the degree of control over operations, decisions and assets is associated with the risk a company faces, while entering and keeping operations in a foreign market. Respecting *external-oriented* factors, the Eclectic (OLI) Paradigm[6] (*Dunning, John H.; 1970*) theorizes that an enterprise should choose an entry strategy that effectively adds value not only internally, but also to the foreign market, through the providence of differentiated and innovative products (objective is to build competitive advantage). Likewise, is the Market Failure Model[7] (*Cowen, Tyler; 1988*), which explains that differences in ways of negotiating are highly affected by externalities and country's inherent risks.

More than simply analysing the holistic circumstances, understanding cultural diversity[8] requires acceptance, sensitivity and respect to others – from a Harvard Business School study, "An open mind is perhaps the most important asset anyone can bring to emerging markets". Renova's team should ask itself, why should the *High Hope Group* be chosen? What are the goals and interests of each party within the partnership? How to build additional synergies with other players? Although there is not a single answer to these questions, many theoretical models support managers to make decisions and adapt, according to the business context *(Appendix 1*).

The Bargaining Power Theory[9] (*Fagre, Nathan, Wells; 1983)* studies the relationship between the firm that intends to expand and the host country in terms of market accessibility, exploration of resources and cultural familiarity. In the same line arises the Cultural Distance Theory[10] (*Hofstede, Geert; 1976*), which analyses the influence of cultural differences, in the course of how businesses are conducted. Furthermore, the Hall's Cross Cultural Model[11] *(Hall,* *Edward; 1966)* classifies individuals and corporations according to three factors – time, context and space. The understanding of these features is key to align priorities, perceive non-verbal communication, measure the degree of commitment in relationships and adapt to all the disparities concerning space. Additionally, the Khuckholn and Strodtbeck's Dimensions of Culture[12] (*Kluckholn and Strodtbeck; 1961)* groups cultural dimensions in five sectors: privacy of space; the nature of people in terms of personality and behaviours; duty and concerns towards others; the relationship and connection with nature, organizational and societal position; and temporal orientation (past, present or future). Still focusing on the same subject, is the Hofstede's Cultural Dimensions Theory[13] *(Hofstede, Geert; 1980),* which is used for cross-cultural communication. It describes the effects of a society's culture on its members' values and how these values are related to behaviour. The five perspectives in analysis are power distance; collectivism vs. individualism; femininity vs. masculinity; uncertainty avoidance and long-term vs. short-term orientation. To complement the analysis of having disperse cultural backgrounds while doing business, a firm should also look into the Trompenaars Seven Cultural Dimensions Theory[14] *(Trompenaars and Hampden-Turner; 1998)* and to the interpretation of *Tönnies*[15] concepts, namely the *Gemeinschaft* and the *Geselleschaft* (*Appendix 1).* As the effects of Globalization rise, so does the urge for worldwide corporations to understand how to deal with different ways of doing business. During the 90s, the Lewis Model[16] (*Lewis, Richard; 1954)* was developed and is now, one of the most commonly used tools, to assess the importance and influence of cultural dimensions at a professional level. Having as main goal the simplification of inter-cultural relationships, it is applied to improve the interactions and synergies between the involved foreign parties. The model divides humans into three categories: the *Reactive*, the *Multi-active* and the *Linear-active (Appendix 2).* Compiling all that was mentioned above, and independently from the sector a firm is operating in, to succeed in international business, it is essential to understand the role of culture, as this will have a direct impact in the flow of operations and profitability.

4. Case Study – Renova's Internationalization to China

China is a land of promising opportunities that has been challenging the existing paradigm of how to do business. International companies still raise several concerns regarding this country's specific factors[17], namely the slowdown in economic growth, the frequent change in regulations, the unclear timeframe for announced stationary reforms and the openness towards foreign investment. Moreover, China was ranked[18] 78th in the *Ease of Doing Business Index,* 130th in terms of *Mandatory Payment of Taxes* and 97th (all out of 190)[19] in matters of *Trading Across Borders,* which enforces the idea of being a difficult place to do business. However, in 2016, the Chinese Government implemented the "Five Year Plan" (2016-2020), with policy reforms that aim to boost the country's growth, counting on new practices[20] to enhance internal innovation and promote balanced prosperity across industries. Furthermore, China's increasing domestic consumption, growing middle class and rising disposable incomes are spreading wealth[21] among its citizens that may lead to market opportunities, within different industrial sectors. In addition, although the pace of growth of the Tissue & Hygiene Industry[22] in China is slightly slowing down (in 2016 was 7.545% and in 2021 is expected to be 5.893%; *Appendix 3)*[23], the amount of revenues is forecasted to increase in the upcoming years (in 2016 was USD 36.094M and in 2021 will be USD 49.533M; *Appendix 4).* This industry's growing pattern is mostly derived from the rising hygiene awareness in rural areas, the ageing population, the rapid urbanisation and the increasing sophistication of consumers, who are more willing to invest in these categories (*Appendix 5).* In terms of sales within this industry, sanitary protection presents the highest value, followed by toilet paper and facial tissues (total sales' value and prices per unit can be seen in *Appendix 6).*

The year 2013, signs the entrance of Renova in China, after an initial approach from a local player, showing interest on distributing some of the firm's products around the country. From that moment, a commercial partnership with *Jiangsu High Hope International Corporation* was born, being the only distributor yet supporting Renova's presence in this geography. Even though not finalized, Renova has been trying to arrange contracts with other local players, namely *Walmart China* and international specialized trading partners, who could open the possibility of reaching almost 400 Chinese stores. More known as 江苏汇鸿国际集团股份有限公, the *High Hope Group*[29] is the largest provincial state-owned enterprise, present in the top 500 Chinese foreign trade and service companies. It is recognized as one of the most important distributors of exports and imports in China, both for Retailers (*Carrefour China* is a key customer) and AFH clients (such as restaurants, hotels, offices, among others). (*Appendix 7).*

As a result, Renova's entry strategy and ongoing operations in China are flowing by exports, using the aforementioned local distributor. The existing contract is based on a CIF condition[30] – *Cost of Insurance and Freight*, which means that the firm is not only responsible for the production and packaging of the final products, but also for managing the legal documentation derived from sending the merchandise until the Chinese ports, where the distributor will pick them. This is not Renova's preferred way of doing business, as it increases the complexity of the process, which is upcoming from the additional bureaucracies imposed by the Chinese trading market (for e.g. templates, payment terms and arbitration clauses). Renova is present in China with its *Red Label*, offering a portfolio that covers toilet paper, facial tissues and pocket tissues, in all the available colours apart from black[31] (with negative connotations in the Chinese culture), but also with white and simple lines, to increase the volume of sales. Facial and pocket tissues account for almost 50% of Renova's sales in China, along with a growing rate of sanitary protection products, which goes in line with the forecasts previously discussed.

As mentioned before, the current operational mechanism is not Renova's favourite option, as it involves intermediaries and lacks direct contact with final clients. However, the firm has chosen this way to overcome the inherent cultural challenges faced in China. For Renova, the involvement of a local distributor (as the *High Hope Group),* is a key factor, as this player possesses local market knowledge, can solve language barriers, understands the way of doing business and may help on the mitigation of risks related to governmental and financial constraints. Moreover, the brand Renova is unknown in the region, therefore having the opportunity of using this local distributor's network is essential for reputation and credibility purposes. In addition, it may be vital to build additional partnerships with other local players, in order to get an easier access to required materials – for instance, labelling and translating products' specificities in Mandarin, which may enhance brand awareness. Finally, it is beneficial to learn from its tacit knowledge concerning the Chinese consumer, namely in terms of tastes, preferences, needs, shopping habits & behaviours, influence in the purchasing process and reactiveness towards marketing campaigns.

5. Discussion and Application of Theory to the Case Study

Most of the factors explained in the mentioned theories can be discussed and applied to the case of Renova. Starting with the Transaction Cost Theory[32], the firm's main goal is to enhance its brand awareness and reputation in the Tissue & Hygiene Industry, at a global scale. By expanding through exports, it can maintain a high degree of control over production and involvement on managerial decisions, although loosing influence at the distribution stage. Moreover, focusing on the Eclectic (OLI) Paradigm[33], the market attractiveness of the Tissue & Hygiene Industry in China is likely to be high, but the existing difficulties linked with fierce competition and risk of imitation must be considered while doing business in this location. In addition, looking into the Market Failure Model[34], to be able to negotiate with local distributors, Renova has to be constantly scrutinizing which are the local financial, political, legal, social and industry-specific trends that are influencing the most (and will likely impact in the future). Considering the Bargaining Power Theory[35] and the Cultural Distance Theory[36], the interpretation of these two models can help Renova in the way it approaches Chinese corporations. The quality of outcomes for all the parties involved may improve by having more insights about the current/prospect distributors' goals and forms of negotiating. Furthermore, putting the Hall's Cross Cultural Model[37] at glance, Renova is a Portuguese company, structured according to Western characteristics; therefore, the divergence related to the topics presented in Hall's model pays a significant role while internationalizing to Eastern countries. In this case, China is recognized for being highly context oriented, valuing the establishment of social trust, building strong personal relations and involving ritualistic traditions during negotiations. The importance of the use of the Khuckholn and Strodtbeck's Dimensions of Culture[38] and the Hofstede's Cultural Dimensions Theory[39] increases, as the level of cultural differences is higher. For instance, the Chinese represent a collective society, where business is a fundamentally cooperative experience, the power distance is high and conformity help maintaining harmony. Finally, interpreting the Lewis Model[40], on one hand, China is perceived as a *Reactive* country, who acts intuitively, favours courtesy and prefers to listen first, only then reacting according to personal opinions. Generally, Chinese harmonise, are patient, assess feelings, challenge others holistically and act under long-term orientation. On the other hand, Portugal, and in this case Renova, is seen as a *Multi-Active,* being loquacious, multitasking and emotionally oriented. Portuguese are talkative, enthusiasts, tend to prioritise work based on feelings and, usually create a positive social atmosphere through the promotion of dialogue.

6. Conclusion and Learnings for future Internationalizations

In light of what was previously mentioned in the *Literature* Review, one may say that in the Chinese market Renova is taking some of the theoretical learnings into account, although adapting according to its managerial style and internal capabilities. Despite the macroeconomic differences that may exist between a future target and the Chinese markets[41], the new country will challenge Renova in the adaptation to its culture and traditions. Moreover, if the conditions of the internationalization process are similar to the ones of China, the company may consider entering with the same entry mode as the studied case, therefore, the main take-outs from the Chinese experience, should be considered while approaching that prospective market.

Starting with the choice of exports, which is a low risk entry mode, allows the firm to maintain high control and involvement over the supply chain. Additionally, the strategy of using a local distributor, like in China, could also be applied to a similar country, as Renova may benefit from the partnership's advantages that were mentioned in the section above. For instance[42], dealing with communication issues; overcoming fluctuations of exchange rates; paying attention at timings for negotiations; and building trust to expand its network around. As seen, while entering a new country, the firm prefers to establish direct contact with possible clients and to lower the dependency of intermediaries, almost customizing the procedures according to the clients' requests. However, in China, the company loses operational control, as it does not know what happens to its products after the distributor picks them. Aligned with this issue, is the risk of damaging the brand and not meeting the requirements assigned. By using the same approach in a prospect market, these concerns would most likely, also be raised; therefore, there is a need to understand them and build blocks to mitigate their impact.

The stage of choosing local partners is also key to make the international experience easier and less risky. Consequently, Renova should strengthen its tools of communication with the local agents, by including at least one person on the team who is able to speak the native language, or that has some kind of linkages with the local culture. Moreover, after collecting and analysing the insights regarding these markets and competitors capabilities, Renova should develop tools to adapt its portfolio according to local customers. For instance, adjusting its portfolio to future clients' tastes, as an attempt to differentiate its value proposition from the existing competition and to benefit from a potential competitive advantage.

According to a Harvard Business School project[43], Western companies face many difficulties while entering in markets with different cultures, for not being able to adapt their business models. The study suggests a reinvention of a firm's business model, under a process consisting on three steps. At first, the stage of gathering market knowledge regarding ways of approaching local citizens; search for possible *niche* markets; and identification of target customers' needs and preferences. Secondly, learning how to do business in that specific location in terms of negotiations about price, quantities and distribution channels. Finally, developing a specific network of suppliers to enhance the flow of operations in the forthcoming market and to, carefully test the reactions of customers to its products, in distinct points of sales.

As emphasized before, one of the highest challenges in a culturally different market is communication[44]. For Renova, it has not been easy to connect with the Chinese, as they have a more indirect trait, lack trust in foreign players and filter the information shared to protect their businesses. This issue is reinforced by the physical distance between the two countries; therefore, it is vital that Renova tries to go there (or them to Portugal) and have face-to-face meetings. As seen before, the Lewis Model classifies China as *Reactive* and Portugal as *Multi-active*. It is key that Renova understands where the target market in positioned in this model and, therefore, adapt according to its cultural features. For instance, if the country of future expansion is a *Linear-Active*, their people are likely to be polite, but direct; job-oriented; relying on facts; and strictly separating personal to professional life. The opposite happens if it is a *Reactive* one, which they tend to be indirect; value interpersonal relationships; and decisions are long-term orientated. The country may also be a *Multi-Active*, from which its people are warm, emotional and tend to mix personal with professional life. Based on this model, a tool is suggested for Renova *(Appendix 2)*, where the firm can add the factors influencing its internal culture, and do the same, for the ones affecting its partners. The main idea with this appliance is to enhance the relationships with the existing foreign clients and improve the ones deriving from future expansions. This tool should help on the analysis of how the involved parties negotiate, how to identify cultural commonalities and suggest ways of strengthening boundaries, trust and empathy. Recognizing the importance of culture in the business world is paramount to succeed in the global market[45], as it enhances communication channels, supports the understanding of different time perceptions and improves the outcomes of decision-making.

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

The world of Renova

- Internationalization Process to Jordan -

The importance of Distributors in Internationalization Processes

Individual Case Study

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An Individual Case Study carried out on the Export and Internationalization Field Lab with respect to the company Renova, under the supervision of Professor Pedro Pereira Gonçalves and Professor Pedro Teixeira Santos

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1. *Abstract*

The purpose of this Case-Study was to study key aspects of Renova's internationalization to Jordan – its Entry Mode, and to apply the main learnings to future internationalizations. After going through Literature and Case-Study analysis, it became clear how exporting through a distributor contributed to Renova's success in the Middle East, and can contribute to success in further internationalizations: it allows to reduce transaction costs, and to conquer new markets through a partner's network. However, when considering a distributor in internationalizations, Renova should analyse some factors, such as: level of commitment to the partner, external uncertainties, and degree of control, since it will affect the effectiveness of the relationship.

Key words: Distributor, Network, Internationalization, Transaction Costs

2. *Introduction*

In 2014, Renova faced the opportunity of entering into a new market in the Middle East - Jordan. By that time, Jordan was a land full of opportunities for Renova - the population registered growing Western habits, and beauty and health concerns were increasing exponentially[1]. Some months later, the firm decided to enter the market through a local distributor in Jordan - *Ivy Trading Company*. This distributor played a major role not only in this internationalization, but also in further expansions in the Middle Eastern region; therefore, the Literature Review will be focused on this latter issue, followed by a Case-Study on the Internationalization to Jordan, and its analysis. The main goal is to take insights regarding the importance of distributors in internationalization processes, and use them as main learnings for future internationalizations of the company.

3. *Literature Review*

This section will present the existent Literature and research on a matter of Renova's Internationalization to Jordan. Therefore, the literature will be focused on the firm's Entry

Mode in the country - Exporting with a distributor, and its implications in the firm's activity and in further internationalization processes.

3.1 - Entry Mode: Exporting through agent/distributor

Firstly, a definition of the correspondent entry mode will be made: 'Direct agent/distribution exporting' can be described as "*when the middleman in the foreign country handles all the marketing for the producer*" (*Root 1994*). For Bello and Gilliland (*1997*), exporting through a distributor is a simple way to enter foreign markets, particularly for companies with low market knowledge or low capital, operational, and strategic resources. Due to these low requirements, exporting via a distributor can be a suitable solution for SME's who are looking to expand its business off borders (*Madsen et.al.,2012; Grunig & Morschett, 2012*)[2].

For some authors (*e.g Cavusgil et al. (1995), and Madsen et. al (2012*)), the basic reasons for a firm to enter in a relationship with a distributor are the low investment requirements, as mentioned before, but also the risk reduction and fast market access. However, there are some risks associated with these partnerships: *Czinkota and Ronkainen (2007*) argue that an inefficient distributor may weaken business opportunities, and in that case the firm would be better off by entering the market on its own[3].

3.1.1 - Channel integration - Transaction Cost Analysis (*Williamson, 1975*)

Firms usually like to be in full control of its activities, where 'control' is mostly related to the division of tasks and to decision-making authority in relationships with partners. However, by engaging in a relationship with a distributor, firms might have to renounce some of that control to obtain reductions in transaction costs. These latter, according to Literature, imply all the resources that must be sacrificed to get an agreement for the exchange of goods between two parties (*Christian Kirchner and Arnold Picot, 1987*)[4].

In 1975, Williamson offered a new perspective to clarify questions concerning what levels of integration firms should use within its channels of distribution in foreign markets. According to the Transaction Cost Analysis (*Williamson, 1975*), firms internalize activities that can perform at lower costs, and delegate decision rights for activities in which other external parties have an advantage. In this analysis, external parties can be defined as "*specialized agents selling services which reduce the transaction costs of producers"* (*Christian Kirchner and Arnold Picot, 1987*); consequently, in an efficient trade channel, total transaction costs of producers, traders, consumers, and production costs of traders, should not exceed total transaction costs of producers and consumers without trade (*Christian Kirchner and Arnold Picot, 1987*). As a result, producers and consumers are only willing to engage in trade if total transaction costs saved are greater than the price of the distributor's services (*Christian Kirchner and Arnold Picot, 1987*).[5]

Governance structures between firms and external parties might be more or less effective, according to the Transaction Cost Analysis, depending on: transaction-specific investments – the human capital dedicated to a particular relationship; internal uncertainty - if the company is able or not to measure the performance of the agent; and external uncertainty - whether the country presents some risks or not (*Heide, 1994; Anderson & Gatignon, 1986*). Moreover, firms are more likely to prefer an intermediary when the production volume is low, since they do not have scale to perform those activities by themselves (*Williamson, 1985*).[6]

When working with a partner in distribution the loss of control is inevitable, as they are responsible for activities related to logistics, sales, marketing, among others (*Madsen et. al, 2012*). Thus, working with a distributor in a foreign market can be considered as a low control strategy from the exporter's perspective (*Bello, Urban, & Verhage, 1991; Roath & Sinkovics, 2006; Root, 1994; Hill, 2009*); as such, delegating control should be a balanced consideration.

3.2 - Network-based Internationalization Approach (*Johanson and Mattsson, 1988*)

In 1988 one more Internationalization theory was born - the Network-based Internationalization Approach (*Johanson and Mattsson, 1988*). It was presented and developed by Johanson and Mattsson, and takes in consideration the influence of external actors in the internationalization process of the firm. This approach challenges the Uppsala-model (*Johanson and Vahlne, 1977*)[7], arguing that firms nowadays do not follow an incremental and slow internationalization process as stated in the model; instead, they experience faster internationalization through resources and experiences of network partners (*Mitgwe, 2006*). Therefore, due to the weakness of the Uppsala-model – considered outdated by some authors, and the rapidly changing environment, the need for this new model arose. Network-based Approach explains the internationalization of firms through a different approach, where the environment is considered as being a business network[8]. These networks are a source of market knowledge, and begin when a firm establishes relationships with a firm which belongs to a network in a foreign market (*Ojala, 20109*).

Johanson and Mattson argue that this approach is divided in three main stages: firstly, as firms internationalize, the number and strength of relationships brought in the networks increases, which helps towards international extension. Later on, by increasing commitment in external networks and showing trust, the firm gains penetration. After having some penetration, firms can achieve international integration by using the network and its resources, and consequently get access to other countries (*Johanson and Mattsson 1988*)[9].

According to the theory, the position of the firm in the network is the most important driver for internationalization. This position isdefined based on two elements: degree of internationalization of the firm, and degree of internationalization of the network. As such, four different market positions for firms were identified (*Johanson and Mattsson 1988*):

- **Early starter:** the firm is positioned in a market where its suppliers and other cooperative companies have few international relationships, and the firm does not have access to global markets. At this stage, firms start internationalization in markets nearby by using, for example, an agent (*Johanson and Mattsson 1988*);

- **Lonely international:** the firm is highly internationalized and already has established nets, but the market environment is not. When the firm has knowledge to operate in foreign countries through relationships, the entrance is more favourable than staying in the domestic market (*Johanson and Mattsson 1988*);

- **Late starter:** the firm is in an environment where supplier and other cooperators have international relationships, but the firm has low knowledge about foreign markets. These firms have indirect relationships with foreign partners through their cooperators, and by making use of these relationships firms can internationalize faster. In this position, it may be difficult for firms to establish a position in the foreign network, given their late entrance (*Johanson and Mattsson 1988*);

- **International among others:** both the firm and the environment are internationalized. In this position, firms can have strong networks, which provides opportunities and enables them to enter to third countries via cooperation (*Johanson and Mattsson 1988).*

Considering these four stages, 'International among others' is where the firm can take highest advantage of its partner's network. Even though network-based approaches argue the positive impact of networks towards SME's internationalization process, some negative implications may arise (*Ojala, 2009*). It happens, for example, when firms follow the network into a new market, which might have low business opportunities, and miss other market opportunities in locations with higher potential (*Ojala, 2009*).

4. Case Study – Renova's Internationalization to Jordan

It all started in 2014, when Renova added one more country – Jordan, to its long list of internationalizations. However, this time Jordan meant more than just a regular internationalization process for Renova; attached to it could arise new opportunities from neighbouring countries in the region, and Jordan could work as an entry gate to reach them, due to its strategic location in the Middle East.

In 2014, Jordan had approximately 8.8M inhabitants, with a total consumer expenditure on Household Goods and Services[10] (which comprise Tissue & Hygiene products) of 997.2 USDM. The Amman governorate, which includes the country capital city Amman, accounted for half of total consumer expenditure in the country[11]. Regarding geographic distribution of the population, about 80% of the country had less than five inhabitants per square kilometre, with 90% of the population located in the North of the country[12]. Despite these disparities among regions, in 2014 more than 83% of the population was '*urban population'* and the highest social class was rising[13], which created demand for Renova's products in Jordan.

The first contact for the internationalization process was not made by the Portuguese firm, as Jordan was the one approaching Renova due to its good reputation in foreign markets[14]. This contact was made through a buyer - *Ivy Trading Company*, located in Amman, that gained exclusivity to work with Renova later – *"Ivy Trading Company is the sole dealer of Renova in the Hashemite Kingdom of Jordan"* (RenovaJo Facebook page, November 2017).

To further extend its presence to other countries near Jordan, Renova has been negotiating two possible options with the distributor, with the aim of minimizing costs of entering new markets[15]. The first option considers that the dealer in Jordan delivers the products to the final distributor, and Renova pays a commission fee for that service; the second option considers that Renova continues to work with the same dealer in Jordan, who oversees negotiations related to new clients, but the firm is the one who delivers the products directly from Portugal to the destination. The second option might reflect some savings in commission fees paid to the distributor, due to the fact that it might be easier to ship the products to other countries in the Middle East than to Jordan in particular[16].

When Renova entered the Jordanian market, in 2014, the strategy used to position its products was the same as in previous internationalization processes[17]: introduce first the *Black Label* and *Red Label* products as ice-breakers, and later introduce new lines of products from the White label to create volume for the firm. The coloured products from Renova caught the attention from Jordanian consumers rapidly; they had higher standards of personal care and hygiene, and were willing to spend an extra on products with superior quality and design[18].

In 2017, Renova's brand was present in some of the largest and most exclusive retail chains in Jordan, such as: Cozmo Supermarket (leading premium supermarket chain in Jordan), Carrefour, CTown, and Safeway. Most of these retail chains are in the north of Jordan, as it is where consumers with highest purchasing power are concentrated[19].

The assortment of products sold by the retailers included toilet paper, napkins, facial tissues, kitchen towels, pocket tissues and hand care gloves. Yet, there was one product that stood out and was considered a 'best seller' in Jordan: boxed facial tissues[20].

Jordanian consumers use facial tissues daily, and the standard 70 pulls package was not enough for their needs. As a result, Renova realized it had to adapt the package to fulfil the customers' needs of this market. Within a short period of time the firm created a larger package specifically designed for the Jordanian market, with an extended size of 200 pulls, and is considering doing changes again. This comes from strong consumer preferences towards plastic instead of card, and from cost savings the company can achieve by doing this[21].

Concerning the negotiation process between the firms, both parts were open to negotiations and fully committed in maximizing the outcome of the deal. Jordan experiences a warm and friendly culture, also when doing business[22]; as such, they like to see the people they are doing business with, and put more focus on people and relationships than on schedules[23]. Additionally, Jordanians have deep knowledge on how to do business and how to satisfy the needs of consumers[24]. Given all the previously mentioned factors, Renova considers Jordan a pleasant country to do business with[25].

The agreement between both parties stated that the distributor in Jordan would be the one responsible for all the operations between Portugal and the final destination. This means that the *modus operandi* chosen was Ex Works (EXW)[26], which places minimum responsibility on Renova. The seller only has to make the goods available, packaged, and ready for pick up at the factory, while the buyer is responsible for loading the goods and all the other export procedures[27]. The buyer in Jordan can do so by working closely with a logistics operator in Portugal[28], whose responsibility is to collect the goods and place them in shipping containers, with final destination the port of Aqaba.

Regarding marketing efforts, to strengthen the brand in the country and create a connection with its clients, Renova used some promotion tools. At a first stage, personalized web ads were the main channel used to create brand awareness, followed by in-store promotions; on a later stage, to gain credibility and show commitment, Renova was present in some events, such as exhibitions or fairs happening in the country[29].

Currently, in 2017, Renova still works with the same distributor in the country. It remains the exclusive distributor in the Hashemite Kingdom of Jordan, and in the past years enabled Renova to reach new markets in the Middle East such as, for example, Kuwait; in this latter country, the same distributor retains exclusivity over the brand: *"Ivy Trading Company is the sole dealer of Renova in Kuwait City."* (Renova Kuwait Facebook Page, November 2017).

In the forthcoming years, Renova aims to increase its presence in Jordan and in the Middle Eastern market; to do so, the firm plans to strengthen the relationship with its current distributor in Jordan, and take further advantage of its large network in that region[30].

5. Discussion and Application of Theory to the Case Study

In 2004, Renova entered the Jordanian market through a local distributor, which allowed the firm to gain fast market access without making any significant investment. As stated in Literature, it is the most suitable way for SME's with low resources, such as Renova, to expand internationally (*Madsen et. al., 2012; Grunig & Morschett, 2012*).

In this internationalization process, Renova was willing to sacrifice total control of operations and let the distributor manage the procedures related to the internationalization. When going through the Transaction Cost Analysis Literature, it is seen that Renova acted according to the author's perspective (*Williamson, 1975*): the firm decided to internalize activities which it performs at lower costs - production, and delegated the rest of the activities to the distributor, which was more efficient performing them. As such, it can be assumed that total transaction costs for Renova, distributor, and customer, were lower with trade than total transaction costs without trade - this is, if the firm would sell its products directly to the client. Also, considering that the volume exported to Jordan is relatively low, Renova is better off by engaging in a relationship with a specialized agent (*based on Williamson 1975, TCA*).

Moreover, the governance structure between both parties is effective. According to the TCA Literature, effectiveness derives from three factors: firstly, the firm is committed to the relationship; secondly, there is good communication flow between both parties, which enables a close monitoring of activities; and lastly, external uncertainties in Jordan are at a medium level (Doing Business 2018 Rank: Jordan ranked103rd out of 190 countries).[31]

By working closely with a distributor, Renova was able to take advantage of its partner's knowledge regarding the Jordanian market, and of its extensive network. According to the Network-based Approach Theory (*Johanson and Mattsson, 1988*), it can be said that the firm's internationalization to Jordan was influenced by the resources of its distribution partner. In 2017, Renova was positioned in the market as "International among others", which enabled the firm to take advantage of its partner's network to reach third countries (e.g. Kuwait).

In the future, the firm should be open to new possibilities to mitigate risks arising from this choice; as Renova starts expanding its business to new countries in the Middle East, other options for distribution should be considered. To reduce full dependency on only one importer, Renova could consider approaching another distributor in the Middle East. This will avoid the total loss of business in the region if there is any issue with the current distributor, and allow the firm to have contact with different partners and networks. If the volume exported to the region increases exponentially, Renova could consider doing the distribution activities by itself; by increasing the degree of channel integration, the firm would be able to achieve scale economies and potentially reduce costs[32].

6. Conclusion and Learnings for future Internationalizations

Concluding, it is clear that Renova has been able to be successful in the Jordanian market mainly due to its local distributor, which reinforces the importance of considering a local partner when doing future internationalizations. Also, by using the distributor in Jordan as a hub to reach new markets in the Middle Eastern region, Renova has proven how a network can turn into a powerful tool when internationalizing to new markets. Yet, the effectiveness of this partnership depends on some factors, such as: commitment to the relationship, possibility to monitor the partner's performance, and external uncertainty of the foreign country.

To be successful in future internationalizations, Renova should bear these previously mentioned learnings in mind; also, the firm should always maintain flexibility when dealing with external partners, since different markets require different approaches.

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

The world of Renova

- Internationalization Process to Mexico -

The importance of branding and its control

Individual Case Study

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An Individual Case Study carried out on the Export and Internationalization Field Lab with respect to the company Renova, under the supervision of Professor Pedro Pereira Gonçalves and Professor Pedro Teixeira Santos

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1. Abstract

This paper studies the entry of Renova into Mexico as a basis to gather information and inputs that can be generalized into key factors to consider when expanding. It was observed that Renova adapted its brand name in Mexico and hired an external company to compensate for the lack of control inherent to exports. Due to these customized strategies, the company has been performing well and is on the right path to become a powerful global brand, as it already excels various strategies, common to successful international companies. This paper therefore, recommends that for future internationalizations, Renova should adapt the control level/tasks of its brand to ensure always its primary goal: increase its brand awareness.

Key words: global brand, internationalization, branding strategy

2. Introduction

The ultimate purpose of this case study is to provide Renova with suggestions regarding possible strategies to implement in India. These suggestions are derived from the analysis of the firm's past experiences, more specifically, in Mexico - which provides insights about the way Renova is used to work, its preferences when going abroad, and from which some recommendations are highlighted through the study of existing literature. Simultaneously, a brief analysis of Mexico is presented to understand the country's existing conditions, at the time Renova started to do business there.

3. Literature Review

Brand equity consists in an intangible asset dependent of consumers' associations, while brand awareness induces the perception of quality, essential features and finally leads to brand loyalty (*Raluca-Dania Todor 2014*)[1]. Over the years, it has been verified that the quality of products alone is not enough to ensure companies' success anymore, meaning that, firms planning to strive internationally, must consider branding efforts. (*Douglas, Craig, and Nijssen 2001*)[2]. This is so because a strong global brand improves the efficacy and efficiency of marketing efforts, the capacity to charge higher prices and the firm's leverage with suppliers and clients; boosts brand loyalty; and stimulates trust and confidence in products (*International Business course's slides, 2017)*[3]. There are several theories that study in detail the factors responsible for the creation, development and success of global brands. Most of the authors agree with the same topics, and for this reason, only three theories are highlighted in this paper.

For instance, *Martin Roll* in "The Future of Branding"[4] defends the following five steps as crucial enablers of powerful brands in developing economies: 1-create a strong differentiation, 2-create a solid distribution network, 3-glocalize, 4-leverage cross-border synergies and 5-collaborate and co-create. More specifically, the author stated that 1-Western brands should foster differentiation and leverage their brand equity, as emerging countries' consumers desire to possess global brands, but fierce competition and imitation from local firms exist; 2-emerging countries are vast and even though main brands, usually, do not cover rural areas difficult to access, as most consumers live there, it is vital to thrive in these areas, with distribution decisive to succeed; 3-as demand for localized products tailored to consumers' preferences has been growing, global brands must retain their branding identity's methods, while localizing implementation approaches, as communication, product offerings, for example. This combination of global brands with local products enables companies to incorporate their brands into the local society, making part of the community. In the same manner, companies must acknowledge and respond to culture and heritages, patterns of consumption, and other special market situations. With a fast evolution and integration, the mentioned challenges and countries' conditions are dynamic, which means that companies must acquire flexibility to react and adapt to market' variations with tactics to be successful in it; 4-firms can leverage operational and supply chain's skills abroad, to optimize their profits. By standardizing most of the products' components and adjusting the ultimate offerings to local sensitivities, firms minimize costs and gain scale; 5-collaborating in new markets and leverage local companies' resources by combining brand equity and financial expertise with local networks, established distribution channels and strong knowledge of domestic consumers of local companies, offers a winning outlook. Such collaboration would not only facilitate a quicker entry into the market, but would also enable the learning of the nuances of local business markets. The same author also proposed a *four-step brand leadership model*[5] that suggests four key elements to be a global brand successful worldwide, namely innovation, collaboration, sustainability, and strategic leadership. For instance, innovation in this context means the investment in both the enhancement of companies' current situation and in the production of wholly new products, services or technologies. A company that strives to create iconic brands should have innovation as the core of brand strategy. Moreover, since competitive advantages are mostly of short-term and easy to replicate, to tackle competition, collaboration (establishing a partnership with another company for mutual benefits) may be more effective. Collaboration may be with customers, external stakeholders (suppliers, distributors) or with competitors. For example, by forming strategic networks with external stakeholders, firms ensure easier access and availability of resources; and collaborating with competitors may be at the same time beneficial, enabling companies to use more resources, gain scale, decrease costs and address competition, but also challenging, mainly in terms of the share of strategies. Furthermore, for most industries sustainability is evolving as a strategic requirement, and has been a priority from the procuring of raw materials to the type of goods produced. Indeed, sustainability when combined with innovation and collaboration, facilitates brand strong positioning to achieve leadership worldwide. Besides that, top managers should assume the strategic leadership of brands, i.e. to form, orient and implement branding's strategy, rather than relegating it to middle level and functional managers. Therefore, companies can achieve brand leadership, when brands are oriented by experienced and passionate top leaders that invest in innovation and collaboration, which are sustainable in the long run.

Additionally. even though it is evident that there is no "one size fits all" strategy, *Srivastava, Rajendra K., Thomas and Gregory Metz* analysed the organic, the alliance and the acquisition growth strategies adopted by companies in their pursuit of building global brands and their advantages and disadvantages[6]. In particular, with an organic growth strategy, companies grow their brands based on their own potential, without exploiting possible synergies of other established brands. Companies strive to grow organically by expanding in other markets and exerting full management control over their brands. This is positive as it provides freedom in deciding on its positioning and personality, as well as, independency to invest and constantly manage its brand at all touch points. However, companies may not have the resources to cover certain product categories and market segments, being difficult to introduce new offerings that entail huge investments, to establish and communicate this. On the other hand, with an alliance strategy, companies form advantageous strategic agreements that strengthen both brands, with synergies between the two companies. However, this may be hampered if the two brands represent and target distinct needs and consumers, with the risk of a confused positioning and inefficient management of brand's identity. Finally, companies may opt for an acquisition strategy, which not only requires huge investments from the acquirer, but it is also highly demanding after the acquisition, in the integration phase. The latter entails challenges as the incorporation of people, methods, operations, and brand strategy of a company. Yet, even if consuming, this strategy eases the undertaking of new markets through established brands (*Srivastava, Rajendra K., Thomas, Gregory Metz 2016*)[7].

Nonetheless, despite the positive associations with global brands, efficient brand building and management in SMEs implies using greater creativity, focusing on strong associations developed by the firm itself or through partners and finding low cost communication schemes to enhance the brand. Also, it is important to understand that a single brand strategy does not fit all SMEs given their heterogeneous nature and the specificity of their clients (*Krake, 2005*)[8].

In terms of entry mode's strategies, export entails minimal costs and risk, allowing firms to test new markets before committing more resources, with high flexibility. However, control over their brands and foreign operations is smaller than in other entry strategies. Regarding this matter, *Päivi Karhunen, Joan Löfgren and Riitta Kosonen*[9] developed a conceptual model that connects the resources stipulated for entering in new markets (ownership) and resources allocated to control operations, reaching the conclusion that higher ownership does not always imply higher control, and vice-versa**.** Also, it is recognised that the (financial) resources allocated to approach a market are not necessarily connected with the managerial resources committed to the operations (*Yan and Child, 2004*)[10]. For instance, the investment in non-equity operations does not entail financial resources but rather a significant managerial time dedicated to control the operations. Hence, not only the level of control, but the scope (the areas in which control is exercised) and the mechanisms of control matter (*Geringer and Hebert,1989*)[11].

4. *Case Study – Renova's Internationalization to Mexico*

Renova operates in Mexico since 2014, which was at that time a growing emerging economy, industrializing rapidly.[12] According to the *Business Dynamics in Mexico* Euromonitor report, this country was the easiest place to do business in Latin America and its infrastructure was relatively advanced[13]. Nonetheless, the timeliness of international shipments combined with a high tax burden, a weakening legal system and deeply entrenched corruption were unattractive aspects Renova had to face.[14] Indeed, Mexico was the 103rd out of 175 countries in the *Corruption Perceptions Index*.[15] The expansion to this country followed a request from Walmart, as Renova was already working with this chain in Canada, which was considered and evaluated by the company as an opportunity to reach other Latin America's countries and their medium to high-income consumers, of meaningful size. Indeed, despite income disparities (the lowest income earners still represented 38% of population aged 15+)[16] and a constrained market growth in 2014, Mexico's middle class was expanding[17] with consumers not simply looking for the cheapest products, but rather demanding quality and design at a fair price.[18] Additionally, although the consumption in this industry (highest value for toilet paper) was well below the one of developed markets such as Western Europe, it offered considerable opportunities to grow[19]. As a matter of fact, Mexican consumers enjoy indulging themselves with toilet paper, being often willing to pay more for superior benefits.[20]

Therefore, Renova decided to enter in Mexico through exports, and since then, has been continuously growing, being already present all over the country. At first, however, Renova encountered some adversities, notably the impediment of operating under its name, as this was already being used by other companies in the country. To overcome this obstacle, the company rebranded to *novaRe* solely in Mexico, allowing one person that looks at its products' packages together in a store shelf, to read and identify *Renova's* name in the same way as before (see Appendix). Moreover, the products initially exported to the country were the ones incorporated in its *Red Label* category (differentiated products with colors and printed designs); after a while the white ones were introduced, and now the Mexican portfolio corresponds approximately to 50% *Red Label* and 50% "white label" products. A further hurdle there continues to be the exchange rate fluctuations, as the volatility of the Mexican peso against US dollar negatively impacts prices in the country, eroding consumers' purchasing power. For instance, Renova used to share the distribution with a local partner in Mexico, but this one had to withdraw from the market and to cease operations, due to negative consequences following the dollar's appreciation. From that point on, the contact between Renova and its clients was always direct, to avoid intermediaries (distributors or others). By doing this - direct exports - incremental costs and complex operations were avoided[21]. However, Mexican business comprises a non-quantitative and non-reporting culture, meaning that business relationships there require closer supervision and direction, and a clear negotiation of expectations.[22] In line with this, as controlling operations and its brand management in an ambiguous and corrupt country proved to be challenging, Renova opted to hire a firm to audit and to guarantee that products are placed correctly in store, that promotions and campaigns are being executed as negotiated with clients and to send reports with the findings. This is particularly important to avoid clients' charging for products or services that do not exist or for campaigns that are not working well. Also, a company representative visits the country often, to either approach potential clients or to assure the compliance with existing contracts, as face-to-face meetings and direct contact are preferred. In addition, with the purpose of mitigating culture barriers and to facilitate relationships with clients, a Mexican native Key Account Manager was hired, who is responsible for managing this country's operations. Finally, regarding clients, Walmart is the biggest one, but Renova also works with the largest remainder retailers in the country (Soriana and Chedraui) [23], and other regional chains. This evidences Renova's focus in the middle to high-end retailers in Mexico, which target affluent consumers, offer high quality products and vast assortment of products and brands [24].

Even though it has so far been successful in this country, in the future the company aims to continue to expand in this country, to reach new clients and more final consumers, while being able to respond to the possible challenges ahead.

5. *Discussion and Application of Theory to the Case Study*

Following the analysis of Renova's internationalization process in Mexico and of the literature review, some aspects became clear. First, it is understood that the company is focused on promoting its brand always and increasing brand awareness - branding is the core of Renova's strategy. This is positive, as brand awareness fosters quality's perceptions, essential features and leads to brand loyalty. However, the need to change its name in Mexico seemed to be a threat to accomplish the company's goal. Yet, the rebranding process was properly done by simultaneously responding to the legal issues and ensuring its brand recognition, without deviating from its primary goal. Second, it is evident that the company strives to exert full management control over its brand, without being willing to share that with other firms and exploit possible synergies. This behaviour therefore indicates that the company follows an organic growth strategy, which provides freedom in deciding on its positioning and personality, as well as, independency to invest and constantly manage its brand at all touch points.

More than that, literature suggests that Renova shares some of the key principles to become a powerful brand, namely a strong differentiation (with its appealing and innovative *Black* and *Red Label* lines) and a "glocalization" strategy, being already present in several countries and tailoring marketing (promotion, some products' features, price and distribution) in all of them. In the same way, theory suggests that Renova can achieve brand leadership, as it is oriented by experienced and passionate top leaders that invest in innovation and collaboration, which are sustainable in the long run. Indeed, Renova has both sustainable and innovative products and production processes; as well as, top managers accountable for the branding strategy. Nonetheless, as purchasing power is not significant in Mexico, premium prices are not enormous, exchange rates are volatile and having intermediaries is costly, the company decided to give up on collaborating with intermediaries. Even though the costs are the justification of the firm's caution, as literature states, engaging in efforts to increase its distribution network and collaborate enable the increase of scale and decrease of marketing costs, by taking advantage of established distribution channels and strong knowledge of domestic consumers from local companies. Yet, it seems that Renova prefers to protect its operations in detriment of collaborating with external parties. The same is evidenced from its expansion to Mexico, which due to limited resources consisted in exporting directly to clients. However, with direct exports the company needs to incur in extra efforts to ensure control over operations and assets, mainly the protection and management of its brand. In fact, effectively collaborating with clients in low ownership operations may require more control from the company, due to the relative undeveloped institutional structures, enforcement of laws and respect for rules.

Therefore, and according to what is mentioned in literature, if the company is not able to commit more (financial) resources at the entry level, it can, and it should commit more managerial resources to the operations.

6. Conclusion and Learnings for future Internationalizations

Over the years, Renova has been successful in Mexico, evidenced by the number and category of clients it works with (main retailers), but also in terms of its performance, due to the several strategies elaborated to respond to market conditions. Likewise, even though this country has no Portuguese market - it does not have a considerable number of Portuguese in Mexico that would eventually buy Renova's products merely due to their affection to Portugal - Renova has been able to draw attention from Mexican native people, showing positive outcomes. Consequently, based on this expansion's analysis, it is possible to draw some conclusions and suggestions generalizable to future expansions.

For instance, Renova management should continue to be highly involved and focused on branding strategy implementation, compliance and growth. Furthermore, as Renova's brand is its most powerful tool, exercising the maximum control possible is a priority, and the company should not take risks in this field. Indeed, given the impossibility of exerting full control over its brand in most of the countries it operates in, Renova needs to implement alternative strategies to guarantee the accomplishment of its goals. In Mexico this was resolved with an audit firm, compensating for the lack of control inherent to exports. Thus, as keeping track of the way Renova's brand is used abroad is crucial to achieve its primary goal - increase brand awareness and globalize its brand - the company should adapt its control level/tasks whenever its brand is exposed, especially in risky and volatile countries. This is possible, for example, by using the same monitoring activities employed in Mexico, as those proved to be successful and are already familiar to Renova.

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