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Internationalization of SMEs: Market Selection for Inlife Portugal

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Abstract

The following work project focuses on the market selection in the internationalization process for Inlife into the markets of the European Union. Inlife is a SME, providing student housing for international students. The work project evaluates the European market with a quantitative model. The model tries to find the right markets in the European Union for the internationalization process. Thence, it identifies possible future markets and analyses the most promising markets.

Keywords: Internationalization, Market Selection, SMEs, Inlife

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Introduction

In a globalized world, in which companies obtain information about new markets as easily as never before, international market selection is the first and most relevant issue for a firm whilst assessing internationalization opportunities. Moreover, international market selection positively affects the success chances of internationalization, however, false choices can harm the company (Papadopolous et al, 2002).

Inlife, the object of this project, was founded in 2013 by three Portuguese entrepreneurs in Lisbon, Portugal. Inlife can be classified as a micro firm. Micro enterprises are classified by the European Commission as SMEs with less than 10 employees (Eurostat, 2016). The company is part of the real estate market, more specifically the student housing market. Inlife offers housing options for foreign, incoming exchange students. The company's major mission is to enable international students a perfect stay, providing fully personalized services, from the moment they arrive until taking the flight back to their home countries. Whilst offering housing options, Inlife works with a different approach to allocate the right room to the right person. Instead of choosing a room or an apartment online before arrival, Inlife's approach includes a housing tour on the arrival of their client at the airport and offers up to five different housing opportunities per tour. Therefore, their customers do not need to choose their apartment or room without inspecting it first. Inlife's profit is generated through a commissions fee from the landlord and a service fee for the housing tours by the student. The next step in their business development is the extension of their services to other Portuguese cities. Whilst this process is already in motion, future plans involve the internationalization of the company in 2018.

The company is confident that their business model can be adapted and successfully implemented in foreign markets. The following describes its competitive advantage. Since Inlife's business model objective is to enhance international students' housing experience in a

foreign country, it is based centrally around customer interaction and satisfaction. The greatest strength of Inlife is their very customer-specific, unique way of offering housing options. Research has shown that increased customer service and quality lead to competitive advantages (Dominic, Goh, Wong, Chen; 2010). Maclaran and McGowan's research (1999) showed that customer satisfaction is especially important for small firms' competitive advantage.

Nowadays, around 99,8% of European companies are classified by the European Union as small or medium enterprises (from hereon called SME). Moreover, over two thirds of the European labour force are employed by a small and medium enterprise (Eurostat, 2016). Since, the European economy relies heavily on SMEs, this thesis is trying to elaborate on internationalization processes of a Portuguese SME. Especially, focusing on mechanisms for the market selection process of Inlife as a micro firm.

In general, former research shows the lack of systematic approaches in international market selection processes by SMEs in the early stages of internationalization (O'Farrell & Wood, 1994). Which in turn, can lead to not fully utilising the merits of right market selection. Thence, for Inlife to not make the same mistakes in their internationalization process as most of the SMEs, this work project evaluates possible future markets in the context of the European Union. The project approaches IMS with a mixture of existing theoretical models.

Firstly, the report starts by introducing the company for which the market selection is made. Secondly, the paper gives an overview of the existing international market selection literature. Moreover, the model, methodology and the data collection is evaluated on. Subsequently, the findings of the model will be discussed. Concludingly, the work project gives final recommendations for the company. Eventually, limitations of this research are pointed out and suggestions for further research are given.

Main Part

Literature Review

Even though there is a great array of research in the area of internationalization, covering different approaches towards internationalization, the topic of this work project requires more specific literature. Therefore, the literature review focuses on the existing literature of international market selection. The theoretical approach to international market selection has given the academic community a lot of ground for discussion.

According to Papadopolous and Denis (1988), international market selection (IMS), or country screening, in general is the first objective of a firm after deciding to expand their operations into foreign markets. Papadopolous and Martin (2011) point out the opportunities and challenges, IMS adduces. Research on IMS shows that IMS is complex due to its intrinsic characteristics, is difficult to approach in practice, is nonetheless very important and should be part of every internationalization decision. Though, IMS research in general is very fragmented and under-researched, hence, the development in this area should be accelerated. Besides the theoretical complexity that IMS offers, the main divergence in IMS is, which approach for foreign market selection to use. The two main approaches are the qualitative (non-systematic) approach and the quantitative (systematic) approach. On the one hand, qualitative IMS involves the gathering of information in the light of established objectives regarding target countries. This information is based on different sources, like government authorities or expert's opinions. Whilst, the qualitative approach might give important intelligence, it is also subject to bias, since the delivered information might be subjective (Papadopolous & Denis, 1988). Brewer (2001) elaborates more closely on the influence of informants on IMS. Informants are able to accelerate the process of knowledge accumulation, which in turn increases chances of successful country selection.

On the other hand, the quantitative approach uses the analysis of secondary data sets for market selection. The quantitative approach can be divided into market grouping (country clustering) and market estimation (country ranking). Cavusgil, Kiyak and Yeniyurt (2004), define clustering as a measure to align countries according to similarities and characteristics. On the contrary, ranking evaluates country attractiveness based on predetermined criteria. Notwithstanding, Cavusgil et al. (2004) articulate that both approaches should only serve as a start for a firm's IMS and further analysis should be conducted afterwards. Papadopolous, Chen and Thomas (2002) point out that both approaches include country specific (macro) factors and industry or company specific (micro) factors. In consequence, Gaston-Breton and Martin (2011) propose a two stage IMS model based on the macro and micro segmentation. However, in their model the micro segmentation is based on consumer values. Gaston-Breton and Martin identify market attractiveness as a general factor which is often used to assess the macro segmentation. Market attractiveness is often referred to as being two dimensional, including market size and market development.

Research especially focusing on SMEs has brought up some valuable information concerning the internationalization and market selection processes of SMEs. Westhead, Wright and Ucbasaran (2002) give an overview of IMS specifically focused on micro and small firms. Small firms might face four types of obstacles whilst internationalizing. Firstly, strategic obstacles led on by limited resources. Secondly, operational obstacles through existing high costs and low profits. Thirdly, informational obstacles through limited knowledge of opportunities. Fourthly, process based obstacles, which evolve from the inability to maintain contact with key players. To overcome these barriers for SMEs to internationalize, the authors suggest gaining experience in seizing unsaturated markets in the domestic market in order to replicate the experience of internationalizing and thus, gaining more knowledge about those

processes. Micro firms with limited resources may need to internationalize later, as soon as they have developed in their domestic markets.

Based on the existing literature, this paper uses an adapted IMS model for Inlife and even though, this project might not be able to explain or give more insights into the general theme of market selection, it might still give valuable insights into the market selection process of micro firms in the European context. Hence, the following gives an overview of the adjusted model, which is used for this specific case.

Data and Methodology

The model used in this paper, can be classified as a systematic approach, which is then further divided into a macro and micro analysis of the data . This quantitative approach uses a market estimation by ranking the countries against each other. The data which is used for the implementation of the model is substracted from different sources. Information about the countries´ GDP is taken from the World Databank. Furthermore, the data about the possible customer base for Inlife´s services, is extracted from the statistics of the Erasmus students and is retrieved from the European Commission. The data for rent availability is retrieved from Housing Europe. The factors personal network and public network are developed in accordance with the CEO of Inlife and available data of Turismo Portugal. Moreover, data about the cultural distance is retrieved from Hofstede´s website.

The following gives an overview of the chosen variables which are included in the country ranking model.

Market Attractiveness

Research has shown that the main factor for a country market selection model is market attractiveness. Market attractivness is then divided into two single factors, market size and

market development (Gaston-Breton & Martin, 2011).

Market Size

Since the main customer base for Inlife is the international student, the market size for this model is approximated by the number of Erasmus students who study in the specific country. To simplify this model, only data of European international students is used, because the existing data only allows comparability for this customer base. Numbers of non-European students are therefore, excluded for simplicity reasons.

Market Development

Market Development is estimated by using the growth numbers of the last years of international students as a forecast for the future. These growth numbers are extracted from the existing numbers of international students per country and per year.

Willingness to spend on rent/Purchasing Power

This factor includes the analysis of the GDP per capita between the receiving and the top five sending countries of international students. Inlife's experience has shown that especially students from wealthier countries are willing to spend more on the rent per month than domestic students and therefore, are a completely different customer segment for companies working with student accommodation (Gancho, 2016). These higher paying international students might be more valuable for landlords to rent appartements to rather than to domestic students. Therefore, the difference in GDP per capita should be used as an approximation for the willingness to spend more money on rent than domestic students, and thence, is the possible purchasing power of our model.

Rent Availability

Rent availability analyses the housing market in the countries and is composed of the difference between housing which is occupied by their owners and housing available for rent. The data is

based on a housing report of the European Union countries. It shows the availability of rental units in the markets and is used to approximate how easy it would be to find possible rental units for foreign students.

Personal Network

According to Johanson and Vahlne (2009), it is crucial for successful internationalization that a firm needs to overcome the liability of outsidership, which is defined as not being part of firm-specific, and relevant networks. Thence, it needs to create business relevant networks to succeed in internationalization. These networks can either be personal or public. Brewer (2001) suggests that personal networks include informants, which companies should use in order to gather information about possible market suitable for internationalizing. It can be seen as an accelerator for the internationalization process and moreover, might increase chances of success.

Public Network

Due to the fact that Inlife has a close relationship to the Portugese governmental agency for tourism Turismo Portugal, Inlife can use their public network to accelerate their internationalization process. Research suggests that public networks can be helpful whilst, searching for internationalization opportunities as well as giving valuable information about markets to Inlife (Brewer, 2001). According to Turismo Portugal (2016), Portugal has several brand ambassadors in a number of countries which can help Inlife in their development of market opportunities in their domestic markets. Since some of these offices are located in one specific country, but are responsible for more than one country, we factor the country of localization higher than the other linked countries. Moreover, the number of brand ambassadors is considered in our weighting of the quality of public networks.

Cultural Distance

As shown earlier, cultural distance can be a crucial success factor for companies to internationalize. Therefore, this paper uses Geert Hofstede's cultural dimensions in order to calculate the cultural distance from Inlife's home country Portugal. Higher cultural differences might make it more difficult for Inlife to gain access to that market and be able to do business.

The cultural dimensions consist of six factors; power distance, individualism, masculinity, uncertainty avoidance, long term orientation and indulgence. These factors are compared to the base country, Portugal and the accumulated absolute value is used as the factor measuring cultural distance (Hofstede, 2016).

All factors included in the market estimation model have been standardized by converting them into an index by the following formula (proposed by Cavusgil, Kiyak & Yeniyurt, 2004), so that each factor has a value between 0 and 100:

$$x'_{ij} = \left[\frac{x_{ij} - \min_i}{R_i} * 99 \right] + 1$$

Where x'_{ij} is the final index for the country j on factor i . x_{ij} is the score of factor i of country j , \min_i is the minimum score for factor i . R_i is the range of values for factor i .

Thereafter, the countries are ranked using the indices based on their performance on each factor.

Results

The following paragraphs show the findings of the country ranking model. The possible countries are screened, hereafter, possible markets for the internationalization of Inlife are identified and the two most promising countries are selected and analysed in more depth.

	Market Size		Market Development		GDP Comparison		Rent Availability		Personal Network		Public Network		Cultural Distance		Market Potential	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Austria	17	15	16	24	0	16	88	3	0	10	60,4	13	13	26	23	26
Belgium	25	10	21	20	0	16	64	10	0	10	70,3	7	38	14	27	17
Bulgaria	3	27	44	15	65	4	32	25	0	10	0	16	64	8	30	14
Croatia	3	27	75	5	36	8	18	28	0	10	0	16	70	4	35	11
Cyprus	3	27	61	7	0	16	57	14	0	10	0	16	0	31	24	25
Czech Replul	18	12	35	17	9	14	80	4	0	10	70,3	7	47	12	33	12
Denmark	16	16	1	32	0	16	90	2	0	10	70,3	7	9	27	19	30
Estonia	4	25	45	12	39	7	31	26	0	10	0	16	33	17	25	22
Finland	19	11	2	31	0	16	60	12	60,4	5	60,4	13	42	13	26	21
France	76	3	9	28	0	16	77	5	80,2	3	80,2	4	51	11	49	5
Germany	79	2	20	21	0	16	100	1	57,925	9	90,1	3	21	23	50	4
Greece	9	19	14	26	3	15	48	17	0	10	0	16	71	3	19	29
Hungary	13	17	48	10	76	3	13	30	0	10	0	16	30	20	30	15
Iceland	3	27	45	12	0	16	48	17	0	10	0	16	32	18	22	27
Ireland	18	12	19	22	0	16	54	16	0	10	70,3	7	14	24	21	28
Italy	52	5	8	29	0	16	59	13	75,25	4	70,3	7	36	15	38	9
Latvia	4	25	76	4	40	6	75	6	0	10	0	16	28	22	37	10
Lithuania	7	20	53	9	36	8	1	31	0	10	0	16	32	18	24	24
Liechtenstei	1	32	27	19	0	16	19	27	0	10	0	16	0	31	11	32
Luxembourg	2	31	68	6	0	16	56	15	0	10	0	16	35	16	29	16
Malta	6	22	100	1	35	10	42	21	0	10	0	16	56	10	43	7
The Netherk	28	8	14	26	0	16	73	7	0	10	70,3	7	14	24	25	23
Norway	13	17	29	18	0	16	63	11	60,4	5	60,4	13	30	20	31	13
Poland	31	7	61	7	78	2	44	20	0	10	0	16	64	8	45	6
Portugal	50	6	95	2	12	12	48	17	100	1	100	1	100	1	72	1
Romania	7	20	41	16	54	5	1	31	0	10	0	16	65	7	26	20
Slovakia	5	24	45	12	12	12	14	29	0	10	0	16	7	28	18	31
Slovenia	6	22	48	10	0	16	41	22	0	10	0	16	73	2	27	19
Spain	100	1	16	24	14	11	37	23	85,15	2	100	1	66	6	58	2
Sweden	26	9	7	30	0	16	69	8	60,4	5	80,2	4	3	29	27	18
Turkey	18	12	91	3	100	1	33	24	0	10	0	16	70	4	51	3
UK	70	4	17	23	0	16	65	9	60,4	5	80,2	4	1	30	41	8

Exhibit 1: Complete Ranking

To ensure comparability, the data set was composed with the information given by the European Commission on the Erasmus+ programme. However, before discussing the results for the macro level analysis of the international market selection, the data set needs to be adjusted. Macedonia is excluded due to missing and incomplete data. Exhibit 1 shows the complete ranking for our study and includes Portugal as the base country for comparability reasons. Therefore, the analyzed data set consists of 32 countries.

Market Attractiveness

As mentioned earlier, market attractiveness consists of market size and market development.

Market Size

Market Size					
Spain	Germany	France	UK	Italy	Poland

Exhibit 2: Market Size: Top Six Countries

Analyzing the market size, it becomes obvious that countries with the biggest communities of international students are the bigger European countries like Spain, Germany, France, UK and Italy. Exhibit 2 shows the six countries with the biggest student bodies of international students. In real numbers the formerly mentioned countries are way ahead of the following countries like Poland Sweden, the Netherlands and Belgium. For a micro firm with scarce resources to analyse their possible internationalization goals, the first group of countries might be the obvious choice. But it might leave out potential candidates for the market selection.

Market Development

Market Development					
Malta	Turkey	Latvia	Croatia	Luxembourg	Poland/Cyprus

Exhibit 3: Market Development: Top Six Countries

Market development should be included in the analysis as well, it shows how much growth potential specific countries bear. Exhibit 3 identifies the growth potential of the European market. Countries like Malta and Turkey are growing the fastest over the last years. The second highest group consists of Latvia, Croatia, Luxembourg, Cyprus & Poland.

Weighing both factors equally, we can see that in regards of market attractiveness, Spain, Turkey, Malta, Germany and Poland are the leading countries in our ranking. If the analysis would end here, those markets would be the most attractive markets for Inlife’s internationalization strategies. However, the internationalization process might be more challenging than the obvious choice of markets, hence, this paper analyses the further impact of other factors as well.

Willingness to spend on rent / Purchasing Power

Willingness to spend on rent/ Purchasing Power					
Turkey	Poland	Hungary	Bulgaria	Romania	Latvia

Exhibit 4: Purchasing Power: Top Six countries

After comparing the purchasing power of the potential market with the top five sending countries of students, our model shows that there are only a few countries with positive values. Hence, the willingness of foreign students to pay more for the rents is only given in a few countries. The countries with a comparable relatively low GDP per capita are therefore, markets in which international students might be willing to pay more rent than domestic students and is therefore a good indicator of finding markets with the right customerbase. Exhibit 4 shows that countries like Poland, Hungary and Turkey can be seen as the most relevant group in which the potential of having a more wealthy customer base.

Rent Availability

Rent Availability					
Germany	Denmark	Austria	Czech Republic	France	Latvia

Exhibit 5: Rent Availability: Top Six Countries

The rent market in Europe is very heterogenous, that means that the availability for apartments open for rent differs heavily throughout the European countries. The model identifies a group of countries with higher percentages of rent apartments versus owner occupied housing. Exhibit 5 shows the countries like Germany, Denmark and Austria that have relatively high numbers of apartments available to rent. In those countries it will probably increase Inlife’s chances to find apartments to rent to international students, whereas in countries with very low numbers of rent availability, the chances to get a working network of landlords offering apartments for rent might become more difficult. Those countries are for example Romania, Hungary or Slovenia.

Personal Network

Personal Network					
Spain	France	Italy	Finland	Norway	Sweden

Exhibit 6: Personal Network: Top Six Countries

The personal network of Inlife plays an important role in the market selection process. As formerly mentioned in the literature review, overcoming the liability of outsidership is one of the objectives an internationalizing firm should tackle (Johanson & Vahlne, 2009) Thus, market entry in countries where personal relationships exist, may accelerate the process of entering the markets and increase the rate of success of the internationalization. The countries with the highest levels of relationships can be seen in Exhibit 6; they are Spain, France and Italy. Medium levels of personal relationships can be found in the Scandinavian countries and Germany.

Public Network

Public Network					
Spain	Germany	France	Sweden	UK	Italy

Exhibit 7: Public Network: Top Six Countries

The public networks are measured by the existing contacts of Turismo Portugal and the most promising countries are featured in Exhibit 7. The availability of those networks ties, can be used to accelerate the internationalization of Inlife, and thus, might be a valuable factor to take into consideration whilst searching for international markets. Even though, they might not be as valuable as personal relationships, public relationships are pretty strong in the following group of countries: Spain, Germany and France. Besides those, other countries like the Netherlands and the Scandinavian countries score lower, whilst ties with other countries do not formally exist in the public network.

Cultural Distance

Cultural Distance					
Slovenia	Greece	Croatia	Turkey	Spain	Romania

Exhibit 8: Cultural Distance: Top Six Countries

Cultural Distance is measured by the six factors of Hofstede and the countries with a lower cultural distance might be easier to internationalize into. The absolute value of difference in all

six factors is the lowest for Slovenia, Greece, Croatia, Turkey, Spain and Romania as shown in Exhibit 8.

General Evaluation

Weighing of Factors	
Market Size	27,5%
Market Development	27,5%
GDP Comparison	10,0%
Rent Availability	10,0%
Personal Network	10,0%
Public Network	5,0%
Cultural Distance	10,0%

Exhibit 9: Weighing of Factors

Each of the factors is weighted differently and Exhibit 9 shows the percentages allocated to each factor. The percentages are approximated by the importance of factor suggested by the literature and the company's information. Exhibit 1 shows the overall score for each country in our market selection. Whilst, the high potential countries such as Spain, Turkey, Germany, France, Poland and Malta are the target countries Inlife should focus on, there might be other countries with high potential for Inlife to keep in mind for future evaluations. Notwithstanding, our model shows that Inlife's market selection should focus on the countries with the highest potential, considering the outcome of the quantitative model evaluation.

Identification of possible markets

After evaluating the possible target countries on a macro scale, the next part will evaluate the six most promising target markets, generated by our model. The following paragraphs evaluate the results of the model and try to give a brief overview and the special advantages of each of the possible target markets.

SPAIN: According to the model, Spain itself should be the most attractive market for Inlife to enter. Spain has the highest total number of international students in the whole Erasmus+

programme and thus, is the most attractive country for international students. The GDP comparison shows that the majority of Spain's incoming students come from countries with an on average higher GDP per capita and therefore, Spain has the potential of international students spending more money on rent than domestic students. The personal and public network scores are the highest for Spain and these network relationships could be very beneficial to overcome the liability of outsidership. Moreover, whilst doing business in culturally different countries might be hard for micro-firms, the difference of cultural dimensions based on the Hofstede model between the domestic and foreign market is relatively low, and thus, the psychic distance between Spain and Portugal should not be a difficulty for Inlife. Accordingly, Inlife's internationalization might be more successful in countries with a lower psychic distance.

TURKEY is one of the countries with the highest growth rates in the model at a rate of 25% each year, it shows the possibilities of market development over the next years. Turkey is the country with the lowest GDP per capita in comparison to the countries sending the most international students to Turkey. Therefore, Turkey has the highest potential of international students paying more for housing and in turn shows a good opportunity to rent appartements to international students rather than to national students. Next to Spain and Greece, Turkey is the culturally nearest country to Portugal and thus, doing business in Turkey could be a good opportunity for Inlife. However, the internationalization to Turkey might include several disadvantages or risks. The political situation in Turkey might be the highest barrier to entry. Since Turkey is not part of the European Union and the current entry discussion were stopped after difficulties between the Erdogan-led country and the European Union (BBC, 2016).

GERMANY has the second highest number of international students per year after Spain. Moreover, Germany is the country with the highest percentage of rental objects in Europe in comparison to owner occupied housing and thus, shows potential to have a huge supply of possible appartements or houses for rent. Inlife's privat and public network is relatively high in

Germany and therefore, could be an accelerating factor for Inlife's internationalization to Germany.

FRANCE has the third highest number of international students after Spain and Germany. The availability of rental objects is also pretty high for France. Moreover, the personal and public networks from Inlife to France are the third highest of the whole data set. Thus, they might be a valuable option for Inlife's internationalization process.

POLAND's yearly growth rate of 18% is one of the best in the model and shows the potential for an even growing market. Moreover, the market in Poland might give the opportunity of international students paying higher rent than domestic students, thus, gives the market of Poland a favourable situation. Furthermore, Poland is relatively close to Portugal, thence, Inlife would not need to adapt their way of doing business in Poland.

MALTA's market for international students is still relatively small, but has the highest growth rates of all compared countries in the data set. Moreover, on the scores for purchasing power and cultural distance, Malta scores relatively good. But rent availability is pretty low for Malta, and there do not exist any personal or public networks of Inlife into Malta.

In general we can group the six highest ranked countries in two different categories. Firstly, Spain, Germany and France can be assorted into one group. Secondly, Turkey, Poland and Malta can be assembled into the second group. Both groups have their advantages and their disadvantages. The first group offers high numbers of international students and a high number of personal and public relationships, which are crucial for the success of internationalization. But it also includes higher levels of competition of other companies and especially in the case of Germany and France, the demand of national students who might be willing to pay more than the international students. The other group of countries offers Inlife more potential for growth and higher levels of potential success for their business model. Even though, these

outlooks might be valuable for Inlife, the internationalization process might be way riskier, because of missing networks and relationships.

The two most promising countries to internationalize into, at the moment, are Spain and Germany, leaving Turkey out due to political risks. Thence, the following gives a deeper analysis of the two possible markets.

In Depth Analysis

The last part of this section focuses on the in-depth analysis of the two most promising markets; Spain and Germany. In general, trade barriers in between European countries have been repealed and therefore, it might seem that internationalization might be easier for intra-European countries, but there might occur other difficulties for Inlife to enter foreign markets (Chen & Novy, 2008). Regulation is one of the major barriers to enter a different market (de la Mano, 2016). Exhibit 10 shows a head to head comparison between Germany and Spain.

	Spain	Germany
Yearly Erasmus Students	39277	30964
Growth	6%	7%
Purchasing Power	Positive	Negative
Rent Availability	relatively low	very high
Private Network	high	moderate
Public Network	high	high
Cultural Distance	low	high
Doing Business Score	20th	8th
Days to Open a Business	13	14,5
Corporate Tax Rate (SME)	25%	29,72%
Minimum Wage per hour	4,96 €	8,84 €
Political Climate	relatively stable	stable
Cities with the highest # of Erasmus Students	Madrid, Granada, Valencia, Sevilla	Berlin, München, Köln
Competition (Biggest Competitors)	Uniplaces, Spotathome	Uniplaces, Studentenwerk
Special Notes	bureaucracy different from region to region	due to change in law, profit model not valid

Exhibit 10: Comparison Spain/ Germany

The comparison of the two most attractive markets show that both countries have high numbers of international students with relatively low growth rates. On the one hand, the purchasing power in Spain is positive for the Spanish market and negative for the German market. On the

other hand, the German market has the advantage of having a high number of housing objects available for rent. The cultural distance to Portugal is low in Spain and high in Germany and therefore puts Spain as a possible target for internationalization in a better position.

According to the world bank's report "Doing Business" (2016), which analyses the processes of starting a new business, Spain is ranked badly in comparison to other European countries (ranked 20th in Europe), moreover, it takes at least 13 days to fulfil all bureaucratic procedures to start a new company. Regarding the "Doing Business" report by the World Bank (2016), Germany is ranked 8th in Europe and it takes around 14,5 days to start a new business.

The comparison for corporate tax rates show that Spain has lower corporate tax rates with 25% and Germany is now at a rate of 29,72% (KPMG, 2016). Hence, Inlife would be able to pay less taxes in Spain, which can be an important factor, especially for a micro firm. Moreover, whilst comparing the minimum hourly wage, it becomes obvious that the minimum wage in Germany is nearly double the minimum wage of Spain, which could especially be critical for a micro firm like Inlife, due to limited financial opportunities.

After one year of political uncertainty due to a missing government in Spain and the newly elected government, now both countries have a stable political environment.

According to Eurostat (2016), the cities imbedding the highest number of Erasmus students in Spain are Granada, Madrid, Valencia and Sevilla. Oddly, Barcelona, the second biggest city in Spain is not included in the list of the university cities receiving the most international students. The statistics for Germany show that the highest number of international students are in Berlin, München and Köln.

Inlife's success in entering a new market could heavily depend on its personal and public network, as research has shown, internationalization also includes overcoming the liability of outsidership (Johanson & Vahlne, 2009). Inlife has personal contacts in Madrid and Barcelona

and the office of its public network is also based in Madrid. Even though, other cities, like Granada, Valencia and Sevilla, have a high number of international students as well, these markets can be captured in the future internationalization process. Inlife has some private relationships in both cities in Germany and the office of its public network is located in Berlin. Therefore, the target cities to start internationalizing could be Madrid in Spain and Berlin in Germany.

When searching for international student housing opportunities in Madrid, it becomes obvious that there are a couple of different companies offering student accommodation. In general, the biggest players on the European online rental market are Uniplaces and Spotathome. Both companies offer their services in Madrid, but offer solely online solutions to the accommodation search.

Whilst analysing the competitive situation in Germany it becomes obvious that Uniplaces is already situated in the market besides the Studentenwerk Berlin (which is a governmental institution that is offering accommodation solutions for international students on a non-profit basis). Moreover, there is another company on the German market, which is called Nestpick. Whilst analysing the German market and one of Inlife's possible competitors, one issue arises regarding the profit model of Inlife, since there was a change in the law in 2015 in Germany. The change in the law §2 of the WoVermittG prohibits companies to take provisions from tenants, when the company is an intermediary between the tenant and landlord. It is only allowed to take a provision from the landlord. Therefore, it might be harder for Inlife to internationalize into Germany with the present business and profit model. It would likely be illegal to use the current profit model in Germany.

Whilst analysing the Spanish market it becomes obvious that one of the major characteristics is that regulation differs heavily between regions and municipalities. Therefore, a uniform

approach of doing business in Spain cannot be made available (World Bank, 2015). According to TMF (2015), Spain is a very bureaucratic country to start a new business. Moreover, procedures regarding tax payments might be very complex, since for example it is required that a Spanish resident is needed for non-domestic companies as a tax representative.

All in all, Inlife should grow domestically and gain experience in the development of their skills and abilities to adapt their business model to other cities and environments. As discussed earlier, research suggests that domestic experience might be a valuable factor to increase skills and knowledge to internationalize (Westhead, Wright, Ucbasaran, 2002). Thereafter, the internationalization could start in Madrid, Spain and from there increase its operations into other cities and hereafter, countries. The internationalization to Germany needs to be put aside after closer examining the market and its laws, since Inlife's business and profit model would not be applicable for the German market.

Conclusion

The proposed model based on the theoretical background shows possible markets for Inlife's internationalization process. After the first screening of the European market, the six best performing countries of the model are identified, which include Spain, Germany, Turkey, France, Poland and Malta, the two most promising countries are selected and analysed in more depth.

After a closer look at the possible markets in Spain and Germany, it becomes obvious that Spain comprises better internationalization opportunities. The personal and public networks could be crucial for the successful internationalization. Those relationships are stronger in Spain than in Germany and the change of the law in Germany make it very hard to internationalize into Germany. Therefore, Inlife should focus its internationalization firstly to Spain, Madrid and from there on go further in their internationalization process. In general, though, as research

suggests Inlife should gain more experience whilst entering new markets in their home market Portugal and then, further develop their internationalization process into the European Union.

Limitations and Implications for Further Research

The following paragraphs focus on the limitations which this paper and the constructed model inhibit. Moreover, implications for further research are given. Firstly, the chosen variables will be inspected and the limitations they incorporate, shall be revised. Since, the variables are the major part of the market selection model, the limitations of each single variable also limits the explanatory power of the model.

Firstly, the variables market size and market development are simply based on the numbers of exchange students being part of the Erasmus+ programme. Therefore, the model excludes any other non-European, international students, which could also be valuable customers for Inlife in the foreign markets. Thence, the market sizes could be valued differently when including non-European students. Moreover, the student number only predict the general attractiveness of the country, but does not specifically shows the most important cities in the target countries. The market development variable might be incorrectly calculated, since the average growth over the last 7 years is taken as a predictment for future growth rates. This might not be the case and the growth numbers can therefore, only be an indication for future growth potential. Future research could be obstructed with more detailed numbers of international students, in order to predict market size and future growth more precisely.

Secondly, the variable for the willigness to spend on rent might be false for other countries, because it is based on the experiences of Inlife and their clients in Portugal. Future research could include more elaborate analysis of each customer (the international student from a specific country) to find out how much students are willing to spend on rent each month.

Thirdly, the difference in cultural distance might need to be analysed in more depth regarding Inlife's business model and regarding the importance of each factor on their success rates to internationalize.

In general the internationalization of SMEs, especially of micro firms should be the objective of further research and could give valuable information for the successful market selection and internationalization.

Moreover, the specific case for Inlife's internationalization exhibits more possibilities for further research. The specific market entry modes should be elaborated on in a practical and theoretical manner. Furthermore, the role of private and public network in internationalization strategies, especially for micro firms can be examined.

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