Forming a base for a market entry decision into an emerging country market
A case study of a Swedish SME

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Thomas Steinschaden  Frank Pellhammer
ABSTRACT
Gradually, Swedish SMEs are expanding into emerging markets in order to seize superior opportunities of growth. Within these internationalization efforts, identifying and selecting the most promising foreign target markets is regarded to be a critical success factor. The external business environment, the attractiveness of the targeted market segment in terms of the competitive situation, and the match between the customers’ needs and a company’s resources and capabilities are major factors which determine the prospects of success of establishing business in an emerging market.

By applying an abductive research approach, the authors conducted a holistic single-case study of a typical case for Swedish SMEs internationalizing into emerging markets. Through that, the authors were able to answer the research questions of the paper. A theoretical framework was synthesized, combining latest research on emerging country markets with classical models. The framework guided the authors through the entire research process.

Several propelling, as well as hampering factors for the case company’s prospects of success in the targeted market segment were identified. Based on the analysis of the empirical findings, the authors found that there are clear opportunities for the case company to increase its business. This conclusion is due to a weak threat of competitors in a broader context, which were regarded to not being able to satisfy the customers’ needs of key importance sufficiently. Competitors in a narrower context were regarded to not have a significant competitive advantage compared with the case company.

Keywords: Metalcolour Sverige AB, Brazil, emerging market, market entry, external business environment, industry attractiveness, customer needs, organizational capabilities
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>FGCN</td>
<td>Shipbuilding Guarantee Fund</td>
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<td>FMM</td>
<td>Merchant Marine Fund</td>
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<td>IMO</td>
<td>International Maritime Organization</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<td>MSAB</td>
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<td>SME</td>
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1 INTRODUCTION

In order to get an overview about the subject studied in the present thesis, an introductory background on the issue is provided. Subsequently, a central research problem and research questions are stated, as well as the research purpose. The chapter ends with a limitation of the subject and an outline of the thesis.

1.1 Background

Within a company’s internationalization efforts, identifying and selecting the most promising foreign markets is a critical success factor. Due to the impracticality of attempting to enter all 193 nations of the world, selecting the markets with the highest prospects of success is critical, in order to use limited resources as effectively as possible (Alon, 2004). When entering a foreign market, a company faces a different external business environment in the targeted market, which inter alia influences the company’s entry strategy into the specific market segment. Understanding and analyzing the external business environment is especially relevant when entering an emerging market, since markets of this category are characterized to be more complex and dynamic than mature markets (Jansson, 2007).

Despite the complexity and instability faced, emerging markets have become increasingly attractive for doing business, inter alia due to the fact that growth rates in forthcoming years will be significantly higher than in mature markets (Cavusgil et al, 2002). Brazil was the latest country being affected by the worldwide financial crisis triggered in 2008, and Brazilian economists expect the country to be among the first managing to come out of the financial crisis (Palmeus, 2009).

When establishing business in an emerging market, understanding the external business environment is not the only critical component. The attractiveness of the targeted market segment in terms of profitability prospects is a major parameter for deciding on whether to enter the market. Analyzing and being aware of the forces driving competition in the targeted emerging market is a critical factor, since they provide opportunities and threats for growth and determine the attractiveness of the targeted market segment (Thompson & Martin, 2005). If a company lacks experiential knowledge in a volatile and unstable foreign market, accurate market segment
evaluation is a challenging process. Nevertheless, being aware of the attractiveness of the targeted segment in an emerging market is a precondition for deciding on whether to enter the foreign market (Pehrsson, 2002).

Furthermore, customers in emerging markets are classified to have requirements differing from Western European markets (Jansson, 2007). Therefore, it is of critical importance to evaluate the match of a company’s resources and capabilities with the prevailing requirements of customers in an emerging market (Grant, 2008).

The international market selection process is often different between SMEs and MNCs. If a SME’s process of internationalization does not follow the traditional pattern, starting to enter psychic close markets and sequentially entering psychic more distant markets, export to a foreign market is often the reaction to an external stimulus. This stimulus can appear in form of an unsolicited order, through government agencies or chambers of commerce. This is in contrast to MNCs, which often apply a systematic approach to international market selection (Hollensen, Stern & Doyle, 2007).

To conclude, evaluating the external business environment and the market segment attractiveness in an emerging market, as well as evaluating the match between a company’s resources and capabilities with the customers’ needs in an emerging market illustrate critical tasks for a SME intending to further internationalize its business. These three factors are of major importance for a company’s prospects of success in an emerging market. For this reason, it is inevitably an important and current research topic. The issue might become increasingly important in future, since SMEs are more and more expanding into emerging markets in order to seize opportunities of growth (Jansson, 2007).

1.2 Problematization

Based on the discussion above, the authors address the following central research problem in the thesis:

How can a Swedish SME, operating in the sheet-steel industry, decide on whether to continue its entry process into a defined market segment in an emerging country market?
The central research problem examined in the present thesis is a SME’s uncertainty whether to continue its entry process into a defined market segment in an emerging country. Entering the wrong market bears the threat of ineffective usage of limited marketing resources (Haine & Carson, 2007). Therefore, selecting the right markets to enter can be a major determinant for a company’s prospects of success in exporting, especially during the early stages of a company’s internationalization process (Hollensen, Stern & Doyle, 2007).

According to Jansson & Sandberg (2008), SMEs’ resources for entering foreign markets are limited. Therefore, SMEs have less flexibility in choosing appropriate markets and modes of entry in comparison with MNCs (Alon, 2004). Furthermore, international market selection influences the nature of the international marketing mix for the selected countries. The geographic location of the selected foreign markets affects a company’s ability to coordinate these marketing operations. Consequently, operating in geographically and psychically highly distant markets bears the risk of a differentiated marketing approach, which might leave the company with a very fragmented international strategy (Hollensen, Stern & Doyle, 2007).

The central research problem addressed in the present thesis is classified to be a marketing problem, occurring during the internationalization process of a SME. The target of the thesis is to find answers to the stated research problem by conducting a case study. Metalcolour Sverige AB (MSAB), a Swedish SME producing laminated steel, was chosen as a case company. MSAB currently supplies one customer in Brazil, and is discussing whether to increase the effort of doing business in the Brazilian market, i.e. whether to continue its entry process into an emerging market.

1.3 Research questions

In order to solve the research problem stated above, the authors identified three sub-research questions. Through answering the sub-research questions stated below, the central research problem addressed in the thesis can be solved. Each research question is looked upon separately, even though they are highly interrelated.
How does the external business environment in the Brazilian maritime industry look like?

When entering a foreign market, a SME can face opportunities and threats related to differences between the home country market and the foreign market in terms of the external business environment surrounding the company, e.g. differences among the institutional business environment. Therefore, understanding and analyzing the institutional business environment is a critical factor for a Western company’s prospects of success in the targeted segment in an emerging market. Additionally, macroeconomic indicators and growth rates of the targeted market segment need to be taken into account.

The institutional business environment in an emerging market is often complex and dynamic, which can hamper the understanding and analysis of the business environment. By conducting an analysis of the external business environment, complexity can be reduced and predictability of the target market can be increased. Not identifying and taking into account the institutions which are related to the sales process of a Swedish SME and analyzing these institutions can lead to a failure in the emerging market, since the quality of market entry decisions might be hampered (Jansson, 2007).

How attractive is the Brazilian maritime industry in terms of the competitive situation?

After having understood the external business environment in the emerging market, a company can begin to evaluate whether the targeted market segment is attractive enough for entering. Since the competitive situation in a market segment influences its attractiveness, understanding the forces driving competition is an essential base for strategic decisions (Porter, 2008). The consequence of not appropriately evaluating the attractiveness of a targeted market segment in an emerging market can be the lack of a suitable base for deciding on whether to continue the entry process. This can lead to failure in the targeted market.
How is the match between the case company’s resources and capabilities, and the Brazilian customers’ needs?

Identifying customers’ needs is a difficulty which companies face when seeking to enter an emerging market. A company’s lack of experiential knowledge in terms of specific customer needs in an emerging market is a factor hampering the evaluation of prospects of success in an emerging country market (Prasad & Ghauri, 2004). Therefore, analyzing the match of a company’s resources and capabilities, and customers’ needs is a critical factor influencing a company’s prospects of success in an emerging market.

Thus far, research on the internationalization of SMEs aiming to expand their business into industrial emerging markets has not been conducted extensively. In research, focus has been laid on MNCs and their internationalization into emerging markets. The core issue – evaluating foreign industrial markets for international marketing decisions – has been left relatively under-researched and not as well understood as it needs to be, when considering its importance. This indicates a gap in research, which might be subject to further research.

1.4 Research purpose

The purpose of the paper is to conduct theoretical and empirical research in order to form a base of information on which MSAB is able to decide on whether to continue the entry process into the Brazilian maritime industry. The target is to give the company a better understanding of the external business environment it would face, the attractiveness of the targeted market segment and the match of the company’s resources and capabilities with the customers’ needs in Brazil. The purpose of the thesis is threefold:

Describing how the external business environment in Brazil looks like as well as describing how attractive the Brazilian maritime industry is in terms of the competitive situation. Additionally, the match between the case company’s resources and capabilities with the customers’ needs is described.
Analyzing the specificities of the Brazilian maritime industry regarding the external business environment, segment attractiveness and match between the case company’s resources and capabilities with customers’ needs in Brazil.

Recommending whether MSAB should continue its entry process into the Brazilian maritime industry.

1.5 Delimitations

Due to limited time- and financial resources and, the authors limited the scope of the research as follows, in order to maintain the overall scope of the research:

- Scaling down the steps in the institutional business environment analysis (identification, description, explanation and prediction) to the description of the most relevant institutions in the societal sectors and organizational fields
- Focusing on customers and competitors as major actors on the product market, therefore excluding intermediaries and suppliers
- No development of a matching- or market entry strategy
- No development of a strategy improving the match of organizational capabilities and customers’ needs
- Examining only the relevant segment in the Brazilian maritime industry, no consideration of potential land-based customers

1.6 Outline of the paper

Chapter 1: Introduction

Chapter 2: Methodology

Chapter 3: Theoretical framework

Chapter 4: Case study

Chapter 5: Analysis of empirical findings

Chapter 6: Conclusions and recommendations
2 METHODOLOGY

This chapter is aimed to explain and justify the methods which the authors chose for researching in order to answer the central research problem and the formulated sub-research questions of the present thesis. The chapter starts with a clarification of the research strategy and approach applied. Subsequently, the case study design is elaborated on, followed by a section about the data collection and analysis. Finally, the quality of the research is discussed in a critical manner.

2.1 Research strategy

According to Yin (2003), there are several ways of how to gather information and conduct research in social science. There are five strategies which can be used for conducting research: experiment, survey, archival analysis, history and case study. Each of these strategies is a method for collecting empirical evidence, which is characterized by different advantages and drawbacks. Yin (2003) suggested that the choice of the research strategy is dependent on three factors: the control which the researcher has over the actual events, the time focus (either historical or contemporary), and the kind of research questions.

"In general, case studies are the preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over other events, and when the focus is on a contemporary phenomenon within a real life context.” (Yin, 2003, p.1)

However, Yin (2003) identified several drawbacks of case studies. A case study is often time consuming and requires a huge amount of documents. A common pitfall is if the researcher does not follow a systematic procedure during the investigation. Additionally, it provides only a limited basis for scientific generalization. Dubois et al (2002) emphasized the latter drawback and stated that case studies are often too specifically developed, and therefore not appropriate for academic generalization.

Merriam (1998) described a case study as a strategy to gain in-depth understanding of a specific situation of an organization. The central research problem of the present thesis is a "how"-problem: "How can a Swedish SME, operating in the sheet-steel industry, decide on whether to continue its entry process into a defined market segment
in an emerging country market?” In order to find answers to the central research problem, the authors mainly examine present, real life phenomena in the targeted market segment which are complex and multiple. The authors do not have control over these phenomena, which is in favor of the decision of conducting a case study. Since the authors aim to understand how these external factors influence the case company’s prospects of success in a targeted market segment, a case study was regarded to be the most appropriate means of research. As a case company, MSAB was chosen, a Swedish SME operating in the laminated steel industry.

Creswell (2003) argued that basically there are two different ways of conducting research: quantitative and qualitative research. Quantitative research is based on standardized methods, through which different perspectives and experiences of subjects can be analyzed, according to predefined criteria. In contrast, the qualitative research method is more open and allows for the generation of both subjective and objective information. Through that, in-depth analysis in a specific research area is enabled. The authors apply a qualitative method in order to address the research problem.

2.2 Research approach

According to Merriam (1998), a case study can be inductive, deductive or abductive. A case study is inductive, if no specific theories exist on which the case can be built on, and the researcher therefore uses the case study for developing a new theory. A deductive case study is based on “grounded theories”, i.e. developing propositions from current theory and testing them in the real world (Dubois & Gadde, 2002). When a researcher bases a case study on existing theory, and additionally is open to new theoretical directions during the research process as well as develops own theories, the research approach is named abductive. Dubois & Gadde (2002, p.554) elaborated on the abductive approach and emphasized the concept of systematic combining, which is “a continuous movement between an empirical world and a model world.” The theoretical framework, the empirical study and the analysis of the case are conducted concurrently, i.e. going forth and back between theoretical framework, case study and analysis at the same time, illustrated in figure 1.
Before the central research problem and the research questions of the thesis were formulated, the authors conducted two academic assignments at Baltic Business School Kalmar (November 2008 – January 2009) on the case company, dealing with a matching strategy and an international business marketing strategy (Jansson, 2007). Therefore, the authors had already insight into the case company’s operations and their business in the targeted market segment. The empirical findings of those two assignments were used as an initial point in order to develop a research problem, research questions and consequently a theoretical framework. The synthesis of the authors’ own theoretical framework is illustrated in figure 6. Therefore, the authors regard the research approach of the paper to be abductive but closer to deduction than induction, with considerable elements of systematic combining.

Figure 1: Systematic combining (Dubois & Gadde, 2002)

There are several scientific approaches when conducting research. The initial scientific approach was exploratory in order to identify, define and structure the research problem. According to Fisher (2004) interviewing is the most commonly used method within exploratory research of Master’s level students. During the research process, the
authors used a descriptive approach when explaining and presenting the information gathered. Finally, the authors apply an explanatory approach when concluding and discussing the outcome of the analysis.

### 2.3 Case study design

“A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of the study.” (Yin, 2003, p.19) If empirical research has not an explicit research design, it has an implicit plan which guides through the research process. For determining the case study design, five components need to be taken into account: the study’s questions, its propositions, its unit of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings (Yin, 2003).

Yin (2003) argued that there are two general characteristics of case study design. The first concerns the number of cases included, and the second concerns the number of units examined. Elaborating on the number of cases, a case study can either consist of a single case or multiple cases. Regarding the number of units, either a single unit (holistic) or multiple units (embedded) can be analyzed, resulting in four basic types of designs for case studies (Yin, 2003).

Yin (2003) described five rationales for justifying single-case designs: critical case (if the case represents a critical test of an existing theory), extreme or unique case (if the case represents a unique or rare situation), representative or typical case (if the case represents a common or everyday situation), revelatory case (if the case serves as a revelatory purpose), and longitudinal case (if the case is studied at different points of time). Jansson & Sandberg (2008) observed that Swedish SMEs are increasingly internationalizing their business activities and entering emerging markets, such as Brazil. Therefore, the authors regard the case company to be a typical case for this phenomenon which justifies studying only one case company.

Furthermore, it can be distinguished between a holistic and an embedded case study design. An embedded case study design involves more than one unit for the analysis. If the global nature of an organization is considered for the analysis, the case study design is regarded to be holistic (Yin, 2003). The authors did not split the case
company into different units, since the case company by nature is of limited size and therefore did not require a division into logical subunits in order to enable the research.

To sum up, the authors regard the case study design of the present thesis to be a holistic single-case study.

2.4 Data collection

Merriam (1998) mentioned three strategies for researchers to collect data for case studies: interviewing, observing, and analyzing documents. When in-depth information is required, interviews are the preferred means of data collection.

Yin (2003) stated three principles for data collection within a case study, in order to conduct it in a valid and reliable way. Firstly, multiple sources of evidence are to be taken into account. This relates to the concept of triangulation, i.e. increasing the overall trustworthiness of the case study by analyzing different sources of information. Secondly, a case study database is to be created, in order to document and organize the gathered information. Thirdly, a chain of evidence is to be maintained, addressing the way of how data is collected.

Data can be divided into primary data, i.e. data which has not existed prior to the research, and secondary data, i.e. data which has existed prior to the research. The authors included both primary and secondary data in the case study, as described below.

2.4.1 Primary data

Dubois & Gadde (2002) distinguished between two kinds of data: active and passive data. Active data is discovered if the interviewer acts passively and is less predetermined. If a researcher acts actively by in advance setting out what to be found, passive data will be generated through this kind of active search.

The major sources for primary data in the present case study were observations and interviews during a study trip to MSAB’s headquarters in Ronneby on May 11th and 12th, 2009. The authors already conducted two unstructured interviews at the case company for mostly exploratory purposes in December 2008, which enabled the authors to formulate relevant questions and structure the interview based on the
information gathered before. However, the interviews were only semi-structured and conducted in a conversational manner. Therefore, the generation of both active and passive data was enabled in order to enhance our recommendations and conclusion. Through applying a semi-structured questionnaire emulating from the formulated research questions, questions could be adapted to new directions occurring during the interviews. Additionally, hidden questions were uncovered during the interviews and included in the documentation. Simultaneously, the authors took direct observations of the surrounding company environment during the study trip into consideration, in order to increase its validity and reliability.

As key informants, the Chief Executive Officer of the case company and the Area Sales Managers were available, representing employees at management level. The interviews were conducted face-to-face and recorded with permission of the interviewees, with the purpose of not losing any information and enabling deeper listening to the responses. Subsequently, the information gathered during the interviews was reorganized and transcribed.

Furthermore, a potential Brazilian customer was contacted via telephone for the purpose of concluding on the customers’ needs in the targeted market segment. This was done on May 15th and 20th, 2009 via a structured interview, based on the outcome of the semi-structured interviews with the key informants of the case company. Due to limited time- and financial resources, the authors were not able to conduct face-to-face interviews with potential Brazilian customers in order to identify their needs and analyze the prevailing external business environment. Therefore, the authors relied also the profound understanding of the Area Sales Manager, who has built up knowledge about the customers’ needs in Brazil and similar emerging country markets.

## 2.4.2 Secondary data

In order to complement the information gathered during the study trips in Ronneby, the official company homepage, company internal documents and descriptive company information were taken into consideration. For enabling the analysis of the external business environment in the targeted market segment, secondary data from journals, books, newspapers, web-pages, and official documents and reports from inter alia the World Economic Forum and Transparency International were included. Through the
support of a Brazilian fellow student, the collection of specific information for the targeted market segment in terms of the external business environment and the competitive situation was enabled.

2.5 **Data analysis**

According to Yin (2003, p.109), “data analysis consists of examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study.” He regarded the data analysis to be the most difficult aspect when conducting a case study, because strategies and techniques have not been well defined.

Merriam (1998) suggested three steps to analyze the gathered information. Firstly, the data is sorted, organized and presented in a descriptive way. Secondly, the data is categorized into groups. Thirdly, inferences are made and models developed.

Since the authors applied an abductive research approach, they have gone continuously back and forth between the theoretical framework, the empirical part and the analysis. The synthesized theoretical framework was used as a guideline during the data analysis. It stimulated the authors to formulate conclusions and recommendations for the case company.

2.6 **Quality of research**

Researching requires the presentation of valid and reliable data. Yin (2003) suggested four tests in order to assess the quality of research: construct validity, internal validity, external validity, and reliability. In order to enhance the trustworthiness of the conducted case study, the concepts mentioned by Yin (2003) are discussed below in a critical manner.

2.6.1 **Construct validity**

According to Yin (2003, p.34), construct validity concerns “establishing correct operational measures for the concepts being studied.” The construct validity is a critical parameter especially for case studies, because the gathered data is by nature subjectively interpreted by the researchers.
In order to counteract this threat, the authors took various sources of evidence including both primary and secondary data into consideration, i.e. applying triangulation. For evaluating the profitability of the targeted market segment, an in-depth web-research was conducted. However, the fact that web-pages not only from official and worldwide known organizations were included constitutes a potential source for errors. Additionally, Portuguese web-pages were included which might result in a risk of translation errors, which could reduce the construct validity of the case study. Through critically re-questioning the gathered information by the Brazilian fellow student regarding the gathered information, this risk was minimized. The fact that key informants at the case company were available, who have a deep knowledge about the company’s operations, contributes to higher construct validity, as well as the record and transcription of the interviews. Additionally, the customers’ needs in the target market were identified via conversation with a key informant. The chosen person has long experience in the maritime industry, through working in a management position in the naval & offshore division of a Brazilian company.

Through these measures, the potential bias could be minimized. Therefore, the authors regard the construct validity to be acceptable.

2.6.2 Internal validity

Yin (2003, p.34) described internal validity to concern “establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships”. Merriam (1998) described internal validity to be the degree of match between the findings and the reality. Hence, a high level of internal validity leads to recommendations which are strategically important for the case company.

The fact that the concept of triangulation was applied contributes to high internal validity. For analyzing the external business environment in the targeted market segment, official reports from legitimate organizations were included. Moreover, the long term contact with the case company and the informal and trustful atmosphere during the interviews increased the internal validity of the case study. The fact that the authors applied theoretical frameworks which they were well aware of from previous university courses, contributes to high internal validity as well. According to Jansson
Methodology

(2007), Porter’s five forces can be utilized for analyzing the product and service market in an emerging country. Therefore, the authors regard the synthesis of these two models to be acceptable. Furthermore, the supervision by university professors who both are well aware of the phenomenon studied, and the case company’s business increases the internal validity of the conducted case study.

Through applying the various measures mentioned above, the authors regard the internal validity to be acceptable.

2.6.3 External validity

External validity concerns the degree to which the empirical findings can be generalized. Hence, high external validity implies high generalizability (Yin, 2003). However, case studies provide a rather limited basis for generalizability, since research questions are usually tailored to a problem of a specific case company. Merriam (1998) suggested two strategies to counteract low external validity: rich thick description and modal category. The first regards a thorough, in-depth description of the data in order to enable better understanding of the case study. The latter describes how typical the studied phenomenon is.

The authors aimed to describe the case as extensive as possible, following the guideline of the synthesized framework. Jansson & Sandberg (2008) observed that Swedish SMEs are increasingly internationalizing their business activities and entering emerging markets, such as Brazil.

Therefore, the chosen case company was regarded to be a rather typical case company for the phenomenon studied. The authors’ findings may be applied and may be relevant for other Swedish SMEs, which are operating in related industries and intending to enter emerging markets. However, the research questions examined were to a certain extent tailored to the case company, which lowers the external validity of the study. Still, it was regarded to be acceptable.

2.6.4 Reliability

According to Yin (2003), a case study is reliable if it would lead to the same findings and conclusions if another researcher would conduct the study again, i.e. being
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replicable. Yin (2003, p.37) defined “the goal of reliability is to minimize the errors and biases in a study.”

A potential source of error could have been the language barrier. The authors were not capable of speaking the country language of the targeted market segment, Portuguese. In order to get access to relevant secondary data for determining the industry attractiveness, a Brazilian fellow student assisted in gathering information via an Internet research. The good English skills of the student reduced the threat of lower reliability caused by the language barrier. Also the Brazilian manager was capable of speaking good English, which reduced the threat of lower reliability due to the language barrier. Furthermore, the authors counteracted low reliability with the concept of triangulation, and carefully documenting the conducted field study for minimizing the risk of misinterpretation. Moreover, the informal and trustful atmosphere during the face-to-face interviews reduced the threat of errors.

Due to the above mentioned issues, the authors regard the case study to be reliable. If conducted by other researchers again, the same conclusions might be found.

2.7 Summary

Since the authors’ research problem required in-depth understanding of a certain phenomenon, the authors regarded a case study to be the most appropriate research strategy, being a qualitative method. As a case company, MSAB was chosen, a Swedish SME operating the laminated steel industry. An abductive research approach was applied, with elements of systematic combining. This approach was obvious, since the authors were writing two academic assignments on the case company before the present thesis was initiated. Hence, the theoretical framework, case study and analysis were evolving concurrently.

The authors regard the case study design to be a holistic single-case study of a typical case for Swedish SMEs internationalizing into emerging markets. This fact justified looking at one single case only. Since the size and structure of the case company did not require a logical division into sub-units, the case company was looked upon holistically. The authors included both primary data (interviews, observations) and secondary data (journals, books, newspapers, web-pages, official documents and
reports). When collecting the data and performing the analysis, attention was given to achieve a high construct validity, internal validity, external validity and reliability. The synthesized theoretical framework was used as a guideline during the data analysis.
3 THEORETICAL FRAMEWORK

The present section is dedicated to describe the theoretical framework of the thesis. The authors use three different models as a base for developing an own research model with the objective of evaluating the prospects of success of the case company in the targeted market segment. The models for answering the research questions and eventually solving the central research problem are Jansson’s basic institutions model (2007), Porter’s five forces (2008) and Grant’s frameworks for strategy (2008).

Companies operating internationally must be aware of the fact that their operations are influenced by societal institutions and organizational fields in a specific target market. Therefore, the authors chose the basic institutions model (Jansson, 2007) as a general framework for analyzing the institutional business environment of the targeted market segment. The external business environment analysis is complemented by macroeconomic data and data about the shipbuilding industry in Brazil. Subsequently, the authors lay focus on the product and service market within the organizational fields, in order to address the central research problem of the paper. The competitive situation is evaluated deploying Porter’s five forces model (2008) and the match between the company’s resources and capabilities, and the customers’ needs in the external environment (Grant, 2008).

Based on the application of the three models, the prospects of success for the case company can be derived in order to decide on whether to continue the entry process into the targeted market segment.

3.1 External business environment

The present section is divided into the description of a theoretical model for analyzing the external business environment, and the discussion of its application to the case company.

3.1.1 Describing a suitable model

Jansson, Johansson & Ramström (2007) argued that business environments in emerging country markets might be different from Western markets due to differences
among institutions. Large emerging markets are regarded to be uncertain and complex. Therefore, the business environment is regarded to be relationship-oriented and institution-building, which results in the characteristic of being a network society. By using the institutional network approach, the description and analysis of these uncertain and complex business environments can be enhanced. The institutional network approach aims to reduce the risk of doing business in an emerging market by making environmental factors more transparent and predictable before entering the foreign market (Jansson, 2007).

According to Jansson’s (2007) basic institutions model, the company’s internal and external environment can be divided into three layers of description for the rules prevailing for the institutions in the respective layers, which are embedded into each other. Institutions are characterized by predictability and standardized behavior. Uncertainty can be reduced by anticipating recurring behavior. Furthermore, institutions are described to be stable which results in established patterns of behavior (Jansson, 2007).

The central layer contains micro institutions, e.g. the MNC, which is surrounded by institutions impacting on it. These institutions can be divided into two layers. Firstly, the meso institutions level is represented by the organizational fields. Meso institutions such as the government, the financial market, the product and service market and the labour market have a direct impact on the MNC but are also characterized by influencing the societal institutions. Secondly, the societal institutions contain macro institutions, influencing the MNC in one direction, from the sector via the organizational fields towards the MNC. This layer contains the country culture, the educational and training system, the political system, the legal system, professional and interest associations, business mores, the religion and family/clan (Jansson, 2007). The institutional network approach is visualized in figure 2 by the basic institutions model, illustrating the constellation of the three layers and the institutions which they contain.
Figure 2: The basic institutions model (Jansson, 2007)

The analysis of the different institutions and their interaction in an emerging country market is based on four stages, containing the identification stage, the description stage, the explanation stage and the prediction stage. By using these four stages during the analysis, the influence of single institutions on the company as an institution, as well as interdependences between single institutions can be better examined and more reliable predictions for future impacts can be made (Jansson, 2007).

Jansson (2007) described network mapping as an additional tool in order to understand the business network and the relationships between the company, its customers and suppliers but also the connection to competitors, financiers and the government in an emerging country market. In the vertical dimension, the value added product chain is described, the horizontal dimension illustrates direct and indirect network ties to competitors. In the diagonal dimension, the relations to financiers and the government are described.

Network mapping enhances the description and understanding of the relevant nodes and linkages between the different actors, but also the type of relation within the network (e.g. hierarchical network or arm’s length network). A determinant of the
complexity of the network is the complexity of the company’s product, since a complex product requires a large number of suppliers and relationships to actors in the diagonal dimension of the network map (Jansson, 2007).

### 3.1.2 Discussing the application of the model

The above described theoretical framework is aimed to answer the following research question: “How does the external business environment in the Brazilian maritime industry look like?” In order to enable the analysis, delimitations of the model regarding its application for the case company of the present thesis need to be discussed.

Jansson (2007) developed the basic institutions model for analyzing the external business network based on studies of big MNCs in emerging country markets. The case company of the present thesis is classified to be a SME, operating as a pure seller in a targeted segment in an emerging country market. Therefore, the commitment of the case company in the examined target market is regarded to be rather low, being a pure seller. The product and service market was identified to be the institution having the highest impact on the case company’s prospects of success in the emerging market. Therefore it will be the core of the analysis.

Jansson (2007) suggested the outcome of the application of the basic institutions model to be the base for formulating a matching strategy. The target of formulating a matching strategy is that a MNC is enabled to link its internal institutional framework with its diverse external institutional framework in order to gain sustainable competitive advantage.” (Jansson, 2007, p.81) Since the above mentioned low commitment of the case company in the emerging market is a barrier for developing an entire matching strategy, the authors only evaluate the match between the case company’s resources and capabilities and the customers’ needs in the target market, described in detail below.

Jansson (2007) proposed four steps in order to analyze the institutions within the basic institutions model. Since the scope of our research objective is to evaluate the case company’s prospects of success in an emerging country market, the authors use the institutional network approach as a takeoff for understanding how the institutions
Theoretical Framework

influence the case company’s prospects of success. The analysis will be scaled down to
describing institutions having a direct impact on the operation of the case company in
the target market. The analysis of the external business environment is complemented
by macroeconomic data and data about the Brazilian shipbuilding industry.

Interpreted from an institutional perspective, Porter’s (2008) five forces can be used
for analyzing the product and service market concerning rules determining the level of
competition, and therefore influencing an industry’s level of profitability. Additionally,
large organizational fields can be divided into certain submarkets (e.g. market
segments) and subdivision according to stakeholders, e.g. the competitor’s field
(Jansson, 2007).

The network mapping is a tool for handling the complexity of the marketing process in
emerging country markets. Jansson (2007) suggested that network mapping is the base
for the development of a network strategy of a MNC. However, the authors use the
model for the illustration of the relations between the actors involved in the case
company’s marketing process in order to understand the decision making process in
the targeted market segment. Due to the case company’s characteristics, being a direct
exporter, the authors focus on the customer in the vertical dimension.

3.2 Industry attractiveness analysis

The present section is divided into the description of a theoretical model for analyzing
the attractiveness of the targeted market segment, and the discussion of its application
to the case company.

3.2.1 Describing a suitable model

Competition is often defined too narrowly, not taking into account forces except from
today’s direct competitors (Porter, 2008). In order to formulate market entry strategies,
understanding and coping with different forces influencing the level of competition is
essential. Porter (2008) argued that the profitability of an industry is determined by
five forces. Except from rivalry between existing competitors, industry attractiveness
is additionally influenced by the four following forces, illustrated in figure 3:
customers and suppliers in the vertical dimension, potential market entrants and
substitute products in the horizontal dimension. Whether the forces are intense or
benign, determines the extent to which a company earns returns on investment (Porter, 2008).

Figure 3: Five forces that shape industry competition (Porter, 2008)

**Rivalry among existing competitors**

Price discounting, innovation, service improvements and advertising campaigns are major forms through which existing competitors in an industry compete against each other. High rivalry among competitors leads to low attractiveness and profitability of an industry. The degree of rivalry depends on the intensity with which companies compete and on the base on which they compete.

The intensity of competition is high, if: there is a high number of competitors which are equal in size and power, industry growth is low, exit barriers are high, competitors are highly committed to the industry and seek industry leadership, and firms have
different business models or different goals. These factors lower the profitability of an industry. Furthermore, industry profitability might be decreased by high price competition, which is most likely to occur, if: an industry’s products are homogenous and switching costs for customers are low, fixed costs are high, economies of scale are important, and the product is perishable (Porter, 2008).

**The bargaining power of suppliers**

Through charging higher prices, and limiting quality or services, powerful suppliers can capture more value for themselves. Usually, companies depend on a wide range of inputs from different groups of suppliers.

A supplier group is powerful, if: it is more concentrated than the industry it sells to, the supplier group does not depend heavily on the industry for its revenues, industry participants face switching costs when changing suppliers, suppliers offer products which are differentiated, there are no substitutes for what the supplier group provides, and the supplier group can credibly threaten to integrate forward into the industry. These factors can increase the power of supplier groups, which negatively influences the level of attractiveness and profitability of an industry (Porter, 2008).

**The bargaining power of customers**

Powerful customers can play industry participants off against each other, at the expense of industry profitability. Powerful customers are able to capture more value by demanding lower prices, higher quality and more services. The higher the negotiating power and the higher the price sensitivity of a customer, the lower the profitability of the industry examined.

Customers have a high negotiating power, if: there are few customers, the industry’s products are standardized or undifferentiated, customers face switching costs in changing vendors, or customers can integrate backward into the industry. A customer is price sensitive, if: the product it purchases accounts for a significant share of its cost structure or procurement budget, the customer earns low profits or is under pressure to lower purchasing costs, the quality of the end-product is little affected by the industry product and if the product has low effect on the customer’s other costs (Porter, 2008).
Threat of entry

If new companies enter an industry, they aim to gain market shares which puts pressure on costs, prices and the rate of investment necessary to compete in the industry. There are seven major sources for entry barriers, which have the potential to prevent companies from entering an industry and therefore contribute to high industry profitability: supply-side economies of scale, demand-side benefits of scale, high switching costs of customers, high capital requirements, incumbency advantages independent of size, unequal access to distribution channels, and restrictive government policy. Additionally, a company’s decision to enter or stay out of an industry is influenced by the anticipated reaction of incumbents (Porter, 2008).

The threat of substitutes

Substitute products are present for any product, but they are likely to be overlooked in a competitive analysis, since they can be very different from the industry’s product. A substitute product is characterized by having the same or a similar function as an industry’s product by a different means. The higher the threat of substitutes, the lower is the profitability of the industry. The threat of a substitute is high, if: the customer’s costs of switching to the substitute are low, and if the price performance trade-off to the industry’s product is attractive (Porter, 2008).

3.2.2 Discussing the application of the model

The above described theoretical framework is aimed to answer the following research question: “How attractive is the Brazilian maritime industry in terms of the competitive situation?” In order to enable the analysis, limitations and adaptations of the model for its application to the case company of the present thesis need to be discussed.

After having defined the industry or market segment to be analyzed, critical steps within the application of the model are identifying customers, suppliers, competitors, substitutes and potential market entrants. Subsequently, both positive and negative parameters in each force are subject to be identified and analyzed. When conducting the analysis, common pitfalls are: defining the industry too broadly or too narrowly, concentrating on the most important forces instead of paying attention to all of the
forces, and paying low attention to industry trends. The outcome of the analysis should be used to understand the underpinnings of competition and the causes for the attractiveness and profitability level, which can be used as a base for strategic decisions (Porter, 2008).

The five forces model by Porter (2008) does not include industry growth rates as a force determining industry profitability. Porter (2008) argued that a strategist should not stick to single factors, but rather consider the five forces to have the overall structure of the industry in mind. Elaborating on the industry growth rates, Porter (2008) argued that high growth rates tend to mute rivalry, and therefore do not automatically lead to high industry profitability. However, the fact that in emerging markets growth rates will be significantly higher than in mature markets in forthcoming years is a major argument for why doing business in emerging markets has become increasingly attractive (Cavusgil et al 2002). Therefore, the authors pay attention to industry growth rates and include general macroeconomic data as well as data about the shipbuilding industry in Brazil as factors in the external business environment. They are not included as forces in the analysis of the industry attractiveness according to Porter’s five forces.

The theoretical framework described was mainly developed to analyze the profitability of an industry (Thompson & Martin, 2005). The initial step in industry analysis is defining the relevant industry in terms of products and geographic scope (Porter, 2008). Thompson & Martin (2005) emphasized the definition of the industry boundaries as a critical issue for accurately analyzing the attractiveness of an industry. The profitability of a market segment is determined by the same forces which determine the profitability of a whole industry. “As a result, Porter’s five forces of competition framework is equally effective in relation to a segment as to an entire industry.” (Grant, 2008, p.113)

The five forces framework by Porter (2008) has not been fully proved empirically (Clegg et al, 2006). Misangyi et al (2006) have shown that industry influences account for only 4-18% of overall variance in company profitability. Schmalensee (1985) estimated that 19.59% of the total variance of company’s profitability level was due to industry effects. Grant (2008) concluded that differences between companies in terms
of profitability can only to a little extent be related to industry factors (below 20% throughout all conducted studies), while firm effects and unexplained variables account for a significantly higher influence on a company’s profitability. However, Galbreath & Galvin (2008) argued that in service industries a company’s resources are more important for performance than in manufacturing industries, where industry structure tends to be more important for a company’s profitability. Additionally, Grant (2008, p.98) stated that “we need to disaggregate broad industry groupings and examine competition at a level of particular segments and strategic groupings of firms” in order to counteract the fact that industry attractiveness has only little impact on company profitability. Therefore, the authors regard Porter’s five forces model being most suitable to evaluate the attractiveness of the targeted market segment of the case company to be applied, in order to conclude on the case company’s prospects of success in the market.

The potential entry role of the case company in Brazil is a pure seller, hence being a manufacturer or customer is not subject to be discussed. Therefore, one of the five forces of the theoretical framework discussed above, the power of suppliers, can be excluded from the analysis of the case company.

Several authors suggested adding an additional force to Porter’s five forces model in order to consider further impacts on the attractiveness of an industry. Brandenburger & Nalebuff (2006) suggested adding complements as a sixth force to Porter’s five forces model in order to consider products which have the potential of increasing the value of a company’s product, resulting in a higher attractiveness of an industry. The presence of substitute products decreases the profitability of an industry, whereas the presence of complementary products increases the profitability. Grant (2008) also proposed to add a sixth force to the model.

Gordon (1997) considered the government to be a sixth force shaping industry attractiveness. He argued that the government has the potential to impact on all five forces of Porter’s model. He both described the direct impact of the government on the profitability of an industry, as well as the indirect impact via the five forces on industry profitability.
Carr (2005) argued that, since the public interest becomes an economic interest, public interest cannot be segregated from strategic decision-making. He suggested expanding Porter’s framework in order to view the public interest as a sixth force of competition.

A further central criticism of Porter’s framework is that it is static, not taking into full account the competitive interactions among firms (Brandenburger & Nalebuff, 1995). Therefore, they suggested taking up the idea of the game theory in order to address strategic competition among players in an industry.

De Wit & Meyer (1998) argued that satisfying customers’ needs is a prerequisite to the viability of an industry and the firm within it. Therefore, customers must be willing to pay a price for a product which is higher than the production costs in order to enable the survival of the industry in the long run. The satisfaction of customers’ needs is regarded to be fundamental for being successful in doing business, which however is not taken into account in Porter’s five forces model (De Wit & Meyer, 1998).

3.3 Match between a company’s resources and customers’ needs

The present section is aimed to describe and discuss the application of a theoretical model for analyzing the match between the case company’s resources and capabilities and the customers’ needs in the targeted market segment.

3.3.1 Describing a suitable model

In order to analyze the match of a company’s resources and capabilities with externally given requirements, Grant’s (2008) basic framework of strategy as a link between the firm and its environment is used, illustrated in figure 4. According to Grant (2008), successful implementation of a strategy requires consistency between the external and internal environment, resulting in a state which is described as strategic fit.

Figure 4: Strategy as a link between the company and its environment (Grant, 2008)
According to Grant (2008), a company’s internal environment consists of three sets of elements: goals and values (“simple, consistent, long-term goals”), resources and capabilities (“objective appraisal of resources”), and structure and systems (“effective implementation”). In order to match them with the external environment, a profound understanding of the environment out of the perspective of competitors, customers and suppliers is necessary. The analysis of the fit between the internal and external environment is regarded to form the necessary link and provides the base for strategy development and (Grant, 2008).

Figure 5: The links among resources, capabilities and competitive advantage (Grant, 2008)

Figure 5 illustrates Grant’s (2008) framework linking resources, capabilities, and the competitive advantage gained through a strategy connecting industry key success factors with a company’s organizational capabilities.

It emphasizes the importance of industry key success factors in order to gain a competitive advantage by using a company’s resources appropriately. According to the framework by Grant (2008), resources can be divided into: tangible resources,
Theoretical Framework

consisting of financial and physical assets, intangible resources consisting of technology, reputation and culture, and human resources consisting of know-how, capacity for communication and collaboration, and motivation. Barney (1991, p.101) defined a company’s resources to include “all assets, capabilities, organizational processes, firm attributes, information, knowledge” which are controlled by the company.

Building on a company’s resources, Grant (2008, p.135) defined an organizational capability as a “firms capacity to deploy resources for a desired end result”. Winter (2003, p.991) described a capability as a “high-level routine (or collections of routines) that, together with its implementing input flows, confers upon an organization’s management a set of decision options for producing significant outputs of a particular type”. A company’s strategy is aimed to connect its organizational capabilities with the key success factors in an industry, which are dependent on the industry environment, emphasizing the importance of the customers, competitors and suppliers (Grant, 2008).

Through responding to customers’ needs, a company can create customer value. “Customer value is the customers’ perception of what they want to have happen in a specific use situation, with the help of a product and service offering, in order to accomplish a desired purpose or goal.” (Woodruff & Gardial, 1996, p.20).

It is necessary to understand what the customer value dimensions are, i.e. what customers want to get out of a relationship with a supplier. A customer value dimension can be a component or feature of the product (e.g. quality, durability, price) or services (e.g. the completeness of an order, on-time delivery). Additionally, there are intangible customer value dimensions, such as reliability in times of difficulty or a customers’ feeling of trust.

According to Gadde & Håkansson (1993), companies offering complex high quality products and focusing on fast delivery need to cooperate closely with suppliers as well as customers. In comparison to consumer markets, customers’ needs in business-to-business markets are more complex and therefore more difficult to evaluate. Buying decisions of organizations often involve a group of people with different characteristics. Additionally, these decisions often are time demanding and concern complex and technically advanced products (Webster & Wind, 1972).
Customers’ needs in an emerging country might be different from customers in Western markets. Western companies need to take into account the lower spending power, e.g. through giving a lower price in an emerging market. Nevertheless, a shift in demand in emerging country markets is observed, from price orientation to quality orientation (Jansson, 2007). Multinational companies may have to adapt to the circumstances in an emerging country product market, but still retain their core business propositions and adhere to their unique selling proposition (Khanna et al, 2005).

3.3.2 Discussing the application of the model

The above described theoretical frameworks by Grant (2008) are aimed to answer the following research question: “How is the match between the case company’s resources and capabilities, and the Brazilian customers’ needs?” In order to enable the analysis, limitations and adaptations of the models for their application to the case company of the present thesis need to be discussed.

Mohr et al (2004) argued that in the process of creating a competitive advantage, a company needs to understand the key success factors in an industry (e.g. customers’ needs) but also have the resources for fulfilling them. Therefore, the authors examine the match of the prevailing customers’ needs in the targeted market segment with the case company’s resources and capabilities. Grant’s (2008) models connecting the internal environment of a company with the external industry environment provide the base for the analysis. In the framework illustrated in figure 4, the authors lay a focus on resources and capabilities within the internal perspective, and on the customers in the external perspective. As stated above, there are no suppliers to the case company in the target market, and the competitors are analyzed according to Porter’s five forces. Therefore, the authors focus on the customers and their needs in the target market. Due to the scope of the thesis, structures and systems as well as goals and values of the case company are not addressed in the analysis and therefore excluded from the model presented above.

Since the scope of the thesis is to evaluate the match between the case company’s resources and capabilities with the customers’ needs in the target market, the focus within the internal perspective is laid on the case company’s resources and capabilities.
In order to enable the analysis, the authors additionally use the framework illustrated in figure 5 for connecting a company’s resources with industry key success factors derived from customers and their requirements for the product. The analysis of the internal perspective is focused on tangible, intangible and human resources of the case company.

In a world where customers’ needs are volatile and rapidly changing, having a market focus might not be a source for sustainable business (Levitt, 1960). Not only customer needs are different in emerging markets, but these markets are also classified to be volatile and unpredictable (Jansson, 2007). Therefore, understanding customers’ needs is a challenging process. According to Wernerfelt (1984), the base for the competitive advantage of a company lies mainly in the disposal of a company’s resources and capabilities, described as the resource based view of a company.

Grant’s models (2008) provide the base for developing a strategy, connecting the internal environment of a company with the external industry environment. Due to the scope of the paper, the models only provide the base for illustrating the examination of the match of a company’s resources and customers’ needs in a target market. Therefore, active strategy development leading to a competitive advantage is not part of the present thesis and excluded from the models described. The outcome of the application of the model is aimed to be an evaluation of the current match between resources and capabilities and customers’ needs, on which recommendations on whether to continue the entry process into the Brazilian maritime industry can be based.

3.4 Summary and synthesis of an own research model

The present chapter is dedicated to sum up the above described theoretical frameworks and integrate them into an own research model which the authors apply to the case study and analysis in the following chapters. Through the application of the model, the authors will be guided to find answers to the central research problem: How can a Swedish SME, operating in the sheet-steel industry, decide on whether to continue its entry process into a defined market segment in an emerging country market? The synthesis of an own research model is illustrated in figure 6, which sets the above described and adjusted theoretical models into interrelation.
The theoretical framework of the research model is based on the basic institutions model by Jansson (2007). This model is used to describe the external institutional environment of the targeted market segment, addressing the research question: “How does the external business environment in the Brazilian maritime industry look like?” The authors identified the government, the business mores, the country culture, and the legal system within the framework as the most influential institutions on the entry mode discussed for the targeted market segment. The analysis of these institutions provides a general overview of the external business environment, which is necessary to understand when deciding on entering an emerging market. The institutional business environment and its main impacts on a MNC is a factor to be considered when evaluating prospects of growth of a company in an emerging market. Additionally, macroeconomic data and data about the Brazilian shipbuilding industry are taken into account when analyzing the external business environment in Brazil. Since the basic institutions model is a theoretical framework only providing limited understanding of the interaction between major actors in a targeted market such as customers and competitors, the authors scale down the four steps of the analysis as suggested by Jansson (2007) to only describe the most influential institutions, and go deeper into the customers and competitive situation by applying complementary models.

The institution with the highest impact on the case company’s business was assessed to be the product and service market. The authors split up the analysis of the product and service market into two scopes: competitors and customers. The role of suppliers in the targeted market is not considered in the thesis, since none of the case company’s suppliers are located in the target market, and no plans for establishing any production facilities abroad do exist.

Jansson (2007) regarded Porter’s five forces as a suitable framework for analyzing the product and service market. Therefore, Porter’s five forces model was regarded to be a suitable framework for answering the research question: “How attractive is the Brazilian maritime industry in terms of the competitive situation?” Since there are no suppliers to be considered in the target market, the case study and the analysis will exclude the bargaining power of suppliers. Several authors suggest additional forces, e.g. the government, the public or complements.
Theoretical Framework

The authors connect the suggestion that the government has major influence on the level of competition and therefore the profitability of an industry (Gordon, 1997) with the government as an institution within the basic institutions model (Jansson, 2007).

The authors address Gordon’s idea by including the government as an institution in Jansson’s (2007) framework, which allows the non-consideration of this sixth force in Porter’s framework.

Apart from the external business environment and the industry profitability, the match between customers’ needs in an emerging market and a company’s resources and capabilities is a critical factor as well. Therefore, the authors lay a further focus within the analysis of the product and service market on the customer. Grant’s models (2008) provide the theoretical framework for connecting customers’ needs with the case company’s resources and capabilities. However, the lack of suppliers in the targeted market and the fact that competitors in the target market are deeply analyzed in the step before, the model needs to be considerably adjusted to the scope of the research.

From the analysis of the customer’s needs, key success factors can be derived which are examined on compatibility with the case company’s resources and capabilities. Suppliers are not taken up in the analysis since the case company is not supplied by companies from the target market, and the competitive situation is examined in depth by applying Porter’s (2008) five forces of competition.

Evaluating the strategic fit between customers’ needs and the company’s resources and capabilities contributes to the decision on whether to continue the entry process, by deriving prospects of success for the case company. No active strategy development for the case company is conducted which is the fundamental scope of the models by Grant (2008). A match between the external and internal environment can be a base for developing a suitable strategy leading to a competitive advantage, building on the outcome of the conducted research.

For the evaluation of the case company’s prospects of success in the targeted market segment, the analysis of the external business environment (Jansson, 2007), the industry profitability (Porter, 2008) and the match between the company’s resources and capabilities and the customer’s needs are taken into account (Grant, 2008).
Theoretical Framework

The authors derive eight sub-parameters from the models described above. Through identifying opportunities and threats within the eight categories, the case company’s prospects of success can be determined. They are aimed to motivate the final conclusion on whether to continue the entry process into the Brazilian maritime industry. Figure 6 illustrates the composition of criteria influencing the case company's prospects of success in the targeted market segment.

Figure 7 illustrates the authors’ own research model which connects the problematization and research questions with the chosen theoretical frameworks. The target is to clarify how these theoretical frameworks relate to each other for answering the central research problem of the thesis: How can a Swedish SME, operating in the sheet-steel industry, decide on whether to continue its entry process into a defined market segment in an emerging country market? By conducting a case study and analyzing the data, the authors provide conclusions and recommendations in order to enable the decision on whether to enter the targeted market segment or not.
### External Business Environment

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<th>Macroeconomic data</th>
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<td>GDP growth</td>
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<td>Macroeconomic stability</td>
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<td>Business sophistication</td>
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<td>Market size</td>
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<th>Shipbuilding Industry</th>
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<tr>
<td>Degree of internationalization</td>
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<tr>
<td>Growth rates</td>
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<td>Future order volume</td>
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<th>Institutional Business Environment</th>
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<td>Country culture and business mores</td>
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<td>Legal system</td>
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<td>Government</td>
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### Industry Profitability

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<th>Industry rivalry</th>
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<td>Concentration</td>
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<td>Diversity of competitors</td>
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<td>Product differentiation</td>
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<td>Excess capacity</td>
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<td>Exit barriers</td>
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<td>Cost conditions</td>
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<th>Threat of Entry</th>
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<td>Capital requirements</td>
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<td>Economies of scale</td>
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<td>Absolute cost advantage</td>
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<td>Product differentiation</td>
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<td>Access to distribution channels</td>
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<td>Legal- and regulatory barriers</td>
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<th>Substitute products</th>
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<td>Customers' propensity to substitute</td>
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<td>Relative prices and performance of substitutes</td>
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<th>Bargaining Power of Customer</th>
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<tr>
<td>Cost of product relative to total cost</td>
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<td>Product differentiation</td>
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<td>Competition between customers</td>
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<td>Size of customers relative to producers</td>
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<td>Customers' switching costs</td>
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<td>Customers' information</td>
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<td>Customers' ability to backward integrate</td>
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### Match: Needs and Capabilities

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<th>Flexible delivery time</th>
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<td>Flexible order amounts</td>
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<td>Certified high quality</td>
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<td>Wide product portfolio</td>
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<td>Cheap price</td>
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<td>Communication in native language</td>
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Figure 6: Composition of criteria influencing the case company's prospects of success
Theoretical Framework

Figure 7: Synthesis of an own research model
4 CASE STUDY

In the present chapter, the empirical findings are presented in order to address the formulated research questions. The synthesized research model illustrated in figure 7 will be the guideline through which the authors organize and describe the gathered data relevant for answering the research questions. At first, the case company is described, with a focus on the company’s resources. Subsequently, the external business environment by which the case company’s operations would be surrounded is described. Finally, the relevant product and service market is described, by dividing it into a competitor- and a customer dimension.

4.1 The case company

The description of the case company includes a section with general information about MSAB, a description of the market segment in which the company is operating in and a section about the company’s resources. Eventually, an outlook on how the company intends to countermeasure the financial crisis is provided.

4.1.1 General information

The case company of the present thesis, MSAB, is Scandinavia’s largest manufacturer of film-laminated sheet steel and the world’s leading producer for the maritime sector, based in Ronneby (Blekinge län, Sweden). The core business of MSAB is producing laminated sheet steel for interior design, the marine- and the manufacturing industry. The manufacturing process demands the resources glue, film and steel for the production of the product, which is sold under the brand name “Dobel” (Nord, interview 2009a).

The company describes itself as a highly flexible partner. This is achieved through offering flexible order volumes (starting at 10m²), and having short delivery times, being MSAB’s unique selling proposition. The delivery time usually accounts for two to three weeks. Delivery times of approximately six months are typical in the in the industry (Forsberg & Nord, interview 2008).

The core values of the company include “flexibility”, “innovation” and “high quality”. MSAB is described as an organization with short routes of decision making, and
straight and open communication. MSAB has been working with laminated steel since 1978. Hence, the company has gained knowledge and experience in the technique of laminating for three decades. Early company history dates back to 1975, when Stora Kopparberg Domnarvet set up a lamination line in Ronneby. In 2003, SSAB Laminated Steel AB was formed, a fully owned subsidy of SSAB Tunnplåt AB (Metalcolour Sverige AB, 2009). On March 1st, 2009, Metalcolour Denmark based in Nykobing took over 100% of the shares of SSAB Laminated Steel AB. Through that, two of the most flexible producers of painted and film laminated steel have joined their forces. SSAB Laminated Steel AB was renamed to Metalcolour Sverige AB, their product name Dobel remained the same. Through that, the range of products of the group had become more complete. No cannibalization effects were expected, since Metalcolour Denmark is serving different customer segments (Nord, interview 2009a).

MSAB had 32 employees in May 2009, of which 22 were working in the factory. The office staff, consisting of ten employees, was dealing with administrational tasks, purchasing, the actual sales process and innovation. In 2008, the company’s turnover accounted for 195 million SEK. The export ratio of the company accounts for approximately 75%, highlighting its strong international focus and dependence on foreign markets. Currently, MSAB is dealing with one customer in Brazil, Danica-Norac. The delivery of the product is conducted via container ships leaving from Gothenburg to Brazil, leading to a delivery time of ca. six weeks (Nord, interview 2009a).

Eight customers account for ca. 80% of total sales, illustrating the company’s dependence on few customers. Therefore, MSAB intends to increase exports in order to secure sustainable business. Markets taken into consideration for exporting are Asia and Brazil for the marine industry; and Russia, Czech Republic, Slovakia and Turkey for land based customers (Nord, interview 2009a).

4.1.2 Market segments
MSAB operates in two segments, a segment including land-based customers and a segment including suppliers to the maritime industry, inter alia producing panels, which is the most important segment. Suppliers to the shipbuilding industry account for approximately 75% of MSAB’s total turnover. In the Brazilian market, the only
customer is operating in the maritime industry. It is the scope of the thesis to evaluate the prospects of success within that industry. Therefore, potential land-based customers in Brazil are not considered in the paper.

The laminated steel market in the maritime industry can be divided into a segment demanding large quantities of standardized products, resulting in long delivery times and low prizes, and a segment with customers requiring highly flexible delivery times, a high degree of product customization and flexible order amounts. MSAB is only serving customers operating in the latter segment (Nord, interview 2009a).

The relevant segment for MSAB can be limited to suppliers to big and international shipbuilding projects, which require certified material inter alia due to requirements of insurance companies and the International Maritime Organization (IMO). Especially certifications concerning fire security are of importance. Standards are set by international certification organizations, which suppliers have to fulfil. The most important organizations include Det Norske Veritas, American Bureau of Shipping, The Russian Maritime Register of Shipping, and the Bureau Veritas Marine Division/USCG. MSAB’s product Dobel is certificated according to the standards of the above mentioned organizations (Metalcolour Sverige AB, 2009).

In order to define the industry boundaries in terms of competitors, competitors in a broader and in a narrower context are examined. Competitors in a narrower context include companies which are able to provide certified products with flexible delivery times and order amounts. Competitors in a broader context include companies which offer uncertified material at inflexible conditions.

4.1.3 Resources of the case company

The resources of the case company MSAB are described below, distinguishing between tangible, intangible and human resources.

Tangible Resources

The financial resources of MSAB were regarded to be good due to the acquisition of the company by Metalcolour Denmark, a financially strong company. Physical assets were observed to be the Ronneby-based production plant, where worldwide requests
for laminated steel are processed. In the production plant, machines are operating which were rather old but well maintained. They were regarded to be sufficient for fulfilling requested orders, but might be a barrier for innovation, since the range of possibilities for product development is limited. Furthermore, the stock of sheet steel in different sizes and thicknesses, as well as the stock of a huge variety of approximately 400 types of film were observed.

**Intangible Resources**

Regarding the technology of MSAB, the certification according to leading organizations for security and environmental issues was observed to be a major technological intangible resource. MSAB does not possess any patents, but the experiential technological knowledge of how to produce high qualitative laminated steel.

Concerning the reputation of the company, MSAB has built up a well known brand name (Dobel) within the maritime industry. Additionally, the good relationship with suppliers of steel and film is enhanced by regular technical meetings with MSAB. This results in a seamless information flow and a smooth integration in the value chain. The well-kept customer base of MSAB consisting of customers in 40 different countries, in combination with the industry-wide reputation of being a fair and reliable business partner provides a sustainable base for long-term relationships with customers.

Within the corporate culture, the focus on quality, reliability and flexibility is deeply rooted. The culture is reflected by the behavior of the workforce, and fostered by close communication and collaboration among the employees. Additionally, low hierarchies in the company enhance the innovative culture.

**Human Resources**

The relevant human resources of MSAB consist of knowledge, capacity for communication and motivation. The majority of the workforce has been working at the company for long time, resulting in a high level of gathered experiential knowledge within the production and marketing process. The level of English skills within the staff was reported to be good. However, none is capable of speaking Portuguese.
The internal flow of information and the collaboration between different functions were observed to be well working at MSAB, fostered by the flat hierarchy in the company and the good relationship between administration- and manufacturing staff. Additionally, the staff was observed to be highly motivated (e.g. working extra hours during weekdays as well as weekends) in order to fulfill targets and keeping delivery agreements. However, the staff was observed to work without extreme time-pressure, resulting in high accuracy and low error-rates.

4.1.4 Outlook

According to Nord (2009b), the worldwide financial crisis will gradually affect the shipbuilding industry and therefore the case company of the present thesis. It was observed that in 2008 and the beginning of 2009, the number of ordered ships has decreased worldwide, which will affect MSAB in future. However, these effects will not become relevant before 2010, since projects in the shipbuilding industry are large scale and require long-term oriented project-planning. According to Machado, the president of the federal energy company Petrobras (Business News Americas, 2009), the Brazilian shipbuilding industry is robust and will not be impacted from the crisis. He emphasized the huge demand for ships and the good future perspective for the shipbuilding industry.

Nord (2009b) mentioned four strategies in order to counteract these negative effects: to gain market shares of competitors, to find new markets for existing products, or developing new products compensating the decline of the maritime industry. Furthermore, adapting the company to lower sales is seen as a likely, but not desired.

4.2 External business environment

This chapter starts with a brief overview about major economical macro data of Brazil’s economy and continues with a more detailed description of the Brazilian shipbuilding industry, in order to understand the relevant industry for the case company. Subsequently, the identified relevant institutions are described, divided into societal institutions and organizational fields. Finally, the network map for the case company’s operations in the targeted market segment is described.
4.2.1 Economical macro-data

The impact of the financial crisis, triggered by the sub-prime mortgage crisis in the USA, caused a forecasted decline of Brazil’s GDP for 2009 by a small margin (figure 8). Through fiscal countermeasures introduced by the government (e.g. tax cuts, capital injections and public investment), the forecasts predict a GDP growth of 3.8% for 2010 (figure 8). As stated by the OECD (2009), Brazil’s recovery process is dependent on further deterioration of the global financial outlook as well as on the pace of recovery of Brazil’s trading partners, influencing the export outcome (OECD, 2009). Palmeus (2009) stated that Brazilian economists expect the country to be among the first managing to come out of the financial crisis.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Real GDP growth</td>
<td>3.8</td>
<td>5.4</td>
<td>5.1</td>
<td>-0.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>3.1</td>
<td>4.5</td>
<td>5.9</td>
<td>4.3</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Figure 8: GDP growth and Inflation in Brazil, 2006-2010 (OECD, 2009)

According to the Global Competitiveness Report published by the World Economic Forum (2008), macroeconomic stability can be divided into five sub-factors: governmental surplus/deficit, national saving rate, inflation rate, interest rate spread and government debt. Apart from the inflation rate, all sub-factors were ranked between position 85 and 131 out of 134 countries. Brazil’s inflation rate was forecasted to account for 4.3% in both 2009 and 2010, which illustrates an absolute decrease of 1.6% compared to the rate in 2008 (OECD, 2009). According to the World Economic Forum (2008), Brazil’s inflation rate was ranked on position 54 out of 134. Brazil’s macroeconomic stability was evaluated with a score of 3.91. The average of efficiency-driven economies accounted for 5.0 (World Economic Forum, 2008).

Business sophistication was regarded to be a further major determinant for companies aiming to export into an emerging country. According to the World Economic Forum (2008), business sophistication can be divided into nine sub-factors out of which seven were assessed to be strong in Brazil: local supplier quantity, local supplier quality, 1

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1.0=unstable, 7.0=stable
state of cluster development, control of international distribution, production process sophistication, extent of marketing and willingness to delegate authority. Only the nature of competitive advantage and value chain breadth was assessed negatively for Brazil (World Economic Forum, 2008).

The GDP of Brazil at official exchange rate was estimated to account for 1.665 trillion USD in 2008. Labour costs in Brazil were regarded to be significantly lower compared to Western European markets (World Economic Forum, 2008). The total population of the country accounted for approximately 199 million inhabitants (CIA, 2009). According to the World Economic Forum (2008), Brazil’s domestic market size was ranked on position 9 out of 134 markets. The foreign market size was ranked on position 23 out of 134 domestic markets (World Economic Forum, 2008).

4.2.2 General description of Brazilian shipbuilding industry

The maritime construction industry is the central pillar of MSAB’s business in the Brazilian market. The company is delivering its products to sub-suppliers in Brazil, producing pre-products for shipyards in the Brazilian market. As a result, MSAB is highly dependent on the development of the maritime industry.

In mature markets like Europe and Japan, the shipbuilding industry is characterized by declining production volumes, while emerging country markets like China or Brazil have increased their volumes (Nord, 2009b).

In international comparison, the importance of the Brazilian shipbuilding industry has been rather low until ten years ago. In order to understand the development during the last decade, the reconstruction of the Brazilian maritime industry starting in 1999 is to be mentioned. The rebuilding of production capacities had been the challenge until a year ago. In 1999, approximately 2,000 workers were employed in the ship building industry. In 2008, this number accounted for more than 40,000 workers (Bloomberg, 2008a). Consolidation and expansion of the maritime industry are strategic phases for the forthcoming years. The order backlog is at historic levels, mainly propelled by the orders for vessels which are used in the oil industry (Da Cruz Nunes et al, 2008).

The high backlog is inter alia propelled by the plans of Petrobras, Brazil’s partly state-owned leading oil producing company, to spend 112 billion USD until 2012 to
increase its oil and natural gas production (Bloomberg, 2008ba). According to Petrobras, additional investments of 40 billion USD are necessary within the next few years in order to search for new oil fields (Navalshore, 2009). Petrobras plans to order numerous offshore oil service ships over the next six years from local shipyards in order to manage, supply and service offshore rigs and platforms (Zoltek, 2008). Through that, rising Petrobras oil production has contributed to the shipbuilding industry to revive. Additionally, Petrobras has the intention to offer easier access to long-term leases to companies which agree to build the ships in Brazil with local material (Bloomberg, 2008b).

In total, there are 28 shipyards established in Brazil, which process 570,000 tons of steel per year. The shipyards cover a total area of 4.7 million m². The shipbuilding capacity in Brazil includes 19 dry or floating docks, 22 slipways and 43 outfitting quays. Figure 9 illustrates the share of different types of vessels produced in Brazil. More than two thirds of the total production volume consisted of offshore service vessels.

![Figure 9: Type of vessels constructed in Brazil, 2003-2006 (Sinaval, 2007)](image)

There are already a number of international shipbuilding companies established in Brazil, including Singapore's Keppel Corp. and SembCorp Industries Ltd., Galliano, Louisiana-based Edison Chouest Offshore, and Oslo-based Aker Yards ASA. The most important Brazilian companies in the market include the construction companies Construtora Camargo Correa SA, Construtora Queiroz Galvao SA, Grupo Wilson, Sons, and Construtora Norberto Odebrecht SA (Zoltek, 2008). These companies have an international focus by serving the worldwide maritime market. Therefore, the products have to fulfil international standards concerning inter alia security issues.
The Brazilian government has been well aware of the importance of the shipbuilding industry through launching an industrial policy programme supporting the rebuilding of the maritime industry (Da Cruz Nunes et al, 2008). Furthermore, the government has sought to develop mechanisms fostering this industry and facilitate access to financial resources for the industry, e.g. the Merchant Marine Fund (FMM). Through that, cheap loans for shipbuilding companies are available. More than 0.8 billion USD were split up to shipyards in different regions. Figure 10 illustrates that the majority of the financial support was granted to the states of Rio de Janeiro and Santa Catarina.

<table>
<thead>
<tr>
<th>Region</th>
<th>Amazonas</th>
<th>Bahia</th>
<th>Pará</th>
<th>Rio de Janeiro</th>
<th>Rio G. do Sul</th>
<th>Santa Catarina</th>
<th>São Paulo</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Amount</td>
<td>37 Mio</td>
<td>2 Mio</td>
<td>9 Mio</td>
<td>550 Mio</td>
<td>8 Mio</td>
<td>148 Mio</td>
<td>47 Mio</td>
<td>801 Mio</td>
</tr>
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Figure 10: Resources from FMM for state – Shipyard/Contracted value, US$ – 2003 to 2006 (Sinaval, 2007)

### 4.2.3 Societal institutions

Within the societal institutions, the country culture and business mores, and the legal system were identified to have the highest influence on the operations of the case company in the targeted market segment. Below, these institutions are described.

**Country culture and business mores**

The authors regarded it to be most appropriate to give attention to the cultural aspects relevant for the paper, and therefore focus on values and norms of the Brazilian culture. Since the country culture highly influences the business mores and the separation between these two institutions is indistinct, the authors address the country culture and the business mores in Brazil in the present combined section.

Brazil is a mixture of races and ethnicities, resulting in a cultural conglomerate strongly influenced by European immigrants in colonial times. Unlike other Latin American cultures, intermarriage in Brazil is a common goodness, resulting in the fact that most Brazilians are a combination of African, European or indigenous ancestry. Catholicism is the predominant religion. Portuguese is the official and most widely spoken language, with moderate regional variation in accent and vocabulary. These variations tend to diminish, as a consequence of mass media (Kwintessential, 2009).
Hofstede (2009) described the Brazilian culture having a low level of tolerance for uncertainty, expressed by the high uncertainty avoidance index (score: 76; SWE: 29). In order to reduce the level of uncertainty, strict rules, laws, policies and regulations are adopted and implemented. This leads to risk avoidance and a low acceptance of change within the society (Hofstede, 2009)².

Brazil is a collectivistic country, indicated by a rather low (score: 38; SWE: 71) individualism (Hofstede, 2009). This relates to the family being the foundation of the social structure, which forms the basis of stability for the society. The families tend to be large and even the extended family is rather close-knit (Kwintessential, 2009), which provides the members with security and strong social background (Malinak, 2007). Nepotism is a predominant phenomenon in the Brazilian culture, illustrating the importance of trust within the society (Kwintessential, 2009).

According to Hofstede (2009), Brazil scored rather high (49; SWE: 5) in the dimension masculinity. Women are typically working in lower paid jobs such as teaching, nursing and administrative support. The only place where women are achieving equality is in politics (Kwintessential, 2009). Malinak (2007) highlighted class differences, which permeate almost every aspect of society. Despite the multicultural mix, there is a class system in Brazil based on skin colour and economic status. Social discrimination based on the skin colour is a daily phenomenon (Kwintessential, 2009).

Hofstede (2009) described Brazil as a rather long-term oriented culture (score: 65; SWE: 33). Values associated with long-term orientation are thrift and perseverance. Time in Brazil tends to be perceived in a cyclic and vertical way, punctuality and precise time-plans are uncommon. Hence, negotiations with Brazilian companies can take considerably longer than expected by Western companies (Malinak, 2007).

Face-to-face communication in Brazil has a high status, relating to the importance of trust. Communication is often informal and does not follow the rules of a protocol.

² Hofstede assessed culture differences according to five dimensions (Power Distance Index, Individualism, Masculinity, Uncertainty Avoidance Index, Long Term Orientation) and scored them on a scale ranging between 0 and 100.
Nevertheless, when it comes to contracts, Brazilians insist on drawing up agreements in detail (Kwintessential, 2009).

Since Brazil is a collectivistic country, blaming Brazilians needs to be avoided in front of others. The criticism of an individual in the presence of others leads to the loss of face. Also, the criticizer loses face, since a norm within the Brazilian culture is violated (Kwintessential, 2009).

According to the World Economic Forum (2008), corruption was regarded to be a major problematic factor for doing business in Brazil. Transparency International (2008) ranked Brazil on position 80 out of totally 180 countries in terms of corruption, accounting for a score of 3.5 in the corruption perceptions index. Sweden was ranked on position 1, scoring 9.3 in the index.

**Legal System**

The legal system in Brazil is mainly derived from the Portuguese legal system and therefore based on statutes. The judicial power is shared between the state judicial branch and the federal judicial branch.

The democratic state according to article 1 of the Brazilian constitution is founded on following fundamental principles: sovereignty, citizenship, the dignity of the human person, the social values of labour, the free enterprise and political pluralism. Besides the Federal Constitution, the most important documents are the Codes. The Civil Code, which is considered to be most important for business operations in Brazil, consists of more than 2,000 articles. These regulate inter alia obligations and contracts, business and corporations and related property rights (Marsiglia Law, 2009). In order to prevent unlawful competition in the Brazilian economy, the property right provides the legal background for protecting visible distinctive signs, used for the identification and distinction of goods and services in commerce. Thus, laws for trademarks, patents and industrial designs had been introduced (Carboni, 2009).

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3 1=highly corrupt, 10=clean
Brazil has difficulties in providing a sufficient legal framework and enough capacities for the judicial system concerning staff and its adequate training (Chene, 2008). The ineffectiveness of the legal system was also observed by the World Economic Forum (2008). Brazil was ranked on position 98 out of 134 countries (SWE: position 7). The ranking of Brazil’s legal rights index on position 119 out of 134 (SWE: position 29) provides an additional figure highlighting the weakness of the legal system. For foreign companies, the combination of a weak legal system and relatively high corruption (Transparency International, 2008) increases the risk of doing business in Brazil.

Until now, MSAB has not encountered problems in doing business in Brazil which would have required taking court action against a customer in Brazil.

4.2.4 Organizational fields

The case company does neither consider any foreign direct investment, nor any direct employment in Brazil. Apart from the product and service market, which will be analyzed in detail further below, the government was identified to be an institution with influence on the operations of the case company in the targeted market segment.

Brazil became politically independent from Portugal on September 7th, 1822. Before, Brazil was ruled by Portugal as a colony. The political system allows political participation including lobbyism, interest groups, and labour unions and also considers religious groups during the political decision-making process (Hudson, 1997).

The political system is based on pluralism, reflected in the fact that there are 22 parties acting in the political environment. The Federation of Brazil is based on three autonomous political entities: the states, the municipalities and the federal districts. The executive and the legislative are organized independently in all political entities, while the judiciary is organized only in the federal and state levels (Desposato, 2002).

Da Cruz Nunes & Da Silveira (2008) argued that the Brazilian government is well aware of the importance of the shipbuilding industry. It has always sought to develop strategies fostering the industry, e.g. through the Shipbuilding Guarantee Fund (FGCN). The purpose of the FGCN is to provide financial support for projects within the shipbuilding industry and to secure the credit risk underlying the financing.

Additionally, the government of Brazil launched a ship-building plan in order to support the expanding deepwater operations of Brazilian oil-companies. The ship-building plan is a part of an industrial policy program, announced on May 12th, 2008 by the Brazilian president (Bloomberg, 2008b). The strategy is to spur the maturity of the formerly mighty shipbuilding industry in Brazil (Woods, 2008). The government passed a national content law, requiring oil companies like the state-run Petrobras to “use more locally built ships and production platforms” (Reuters, 2008, p.1) in order to stimulate employment and revitalize the ship-building industry (Woods, 2008).

4.2.5 Network map

Through creating a network map, the relevant nodes and linkages of the case company with involved stakeholders can be better described and understood. In the vertical dimension, the relations to customers and suppliers are illustrated, and in the horizontal dimension the relations to competitors are described. Additionally, the diagonal dimension covers the relation to the government. The network map for MSAB and its stakeholders applied to the Brazilian market is described in figure11.
Vertical dimension

The vertical dimension within the network map illustrates the value adding process. Suppliers are not specifically relevant for the Brazilian market, since MSAB does not get any supply from Brazil. There are no plans within MSAB for establishing a production unit in Brazil. SSAB Tunnplåt is the exclusive steel supplier. After the acquisition by Metalcodurk Denmark, SSAB Tunnplåt and MSAB agreed on a three years contract for the supply of steel sheets. The films are supplied by the Sweden-based company Gislaved, to which MSAB has a very good and trustful relationship. The collaboration between these two companies is an enabler for developing new products, since R&D is only possible through close cooperation with film suppliers. Additionally, film is supplied by the Germany-based company Alkor. Gislaved and Alkor account for approximately 97% of the film supply (Nord, interview 2009a).

The relationship to Danica-Norac, MSAB’s currently only customer in Brazil, is a direct relationship, since the export to the panel producing company supplying to the maritime industry is organized without agents or intermediaries. The project leaders
and production managers within the project teams formed by shipbuilding companies are the connecting nodes to Danica-Norac. Within the project teams, managers responsible for the interior of the ship are involved in the procurement of laminated steel. Additionally, the procurement process is influenced by the requirements of interior architects, which connect the end-customer and the project team of the shipbuilding company. Therefore, the panel producers and subsequently MSAB are influenced by the decisions of architects. The establishment of a direct relationship between MSAB and Brazilian architects dealing with the interior of ships is seen as a very challenging task, but would be highly valuable for the company (Nord, interview 2009a).

**Horizontal dimension**

In the horizontal dimension, the connections to competitors are described. There is a weak tie to the Finland-based competitor Ruukki on top-management level, between CEOs. Apart from that, no connections to competitors were observed (Nord, interview 2009a).

**Diagonal dimension**

The diagonal dimension describes the connection between MSAB and the government. No direct connections were observed. However, the end customer of the case company’s product (ships-owners), are inter alia financially supported by the Brazilian government’s policies, e.g. through the FMM. Hence, MSAB is indirectly influenced by the policy of the government, since the demand for ships and subsequently the demand for laminated steel is expected to grow in the future (Nord, interview 2009a).

### 4.3 Product and service market

The product and service market in Brazil is described with a focus on the competitive situation and the customers’ needs in the targeted market segment in Brazil.

#### 4.3.1 Competitive situation

The competitive situation is described going beyond the industry rivalry, including the threat of entry, the threat of substitutes and the bargaining power of customers. In order to define the industry boundaries in terms of competitors, it can be distinguished
between competitors in a broader and in a narrower context. Figure 12 illustrates the classification of potential competitors in Brazil.

Nord (interview, 2009a) regarded the current four European companies providing certified material for flexible conditions to be the major competitors in the Brazilian market: Italian based Gruppo Robbiati – Plalam and Lampre Group, Finland-based Ruukki and Belgium-based D-Steel. Only these four companies can be regarded as competitors in a narrower context, since only they are able to satisfy the customers’ needs including the required certifications and flexible order conditions. Therefore, the authors include them in the analysis of the industry rivalry.

According to the Brazilian yellow pages NEI (2009), there are 104 companies offering laminated steel in Brazil. These companies are placed in a grey zone between industry rivalry and threat of entry. By imitating certificates, which is boosted by the high level of corruption in Brazil, these companies might be seen industry rivals. By getting certified by official certification organizations, they might be seen as threat of entry. Additionally, start-ups in the local market are considered as potential entrants.

![Figure 12: Classification of potential competing companies in Brazil](image)

4.3.1.1 Industry rivalry

Currently, there are no Brazilian companies which are able to offer certified laminated steel according to international standards. Moreover, similar conditions in terms of
flexibility are not offered (Nord, interview 2009a). The authors regard MSAB’s current four European competitors as well as Brazilian competitors with imitated certificates as industry rivals.

Concentration: According to the official Brazilian yellow pages NEI (2009), there are 104 companies offering laminated steel. The majority of these competitors in broader context are located in the federal state of Sao Paolo. The competitors in narrower context are located in Italy, Belgium and Finland, being subsidiaries of large groups.

Diversity of competitors: Among the competitors in broader context, there are SMEs as well as MNCs and daughter companies of Multinational steel companies. Therefore, the diversity of competitors can be regarded to be rather high (NEI, 2009). Competitors in a narrower context were regarded to be similar in structure (Nord, interview 2009a).

Product differentiation: For companies operating in the laminated steel industry, product differentiation can be achieved via certificates, branding, and flexibility in terms of order volume, delivery time and product portfolio. Among competitors in broader context, no high degree of product differentiation was observed, while competitors in narrower context offer comparable and standardized products (Nord, interview 2009a).

Excess capacities: Due to the impact of the financial crisis, excess capacities among competitors in a narrower context were described as growing in recent months (Nord, interview 2009a). The uncomplex production process in combination with flexibly usable machineries might reduce the threat. Data about excess capacities of competitors in a broader context was not available.

Exit barriers: The exit barriers were regarded to be rather low, since the amount of required fix costs and assets are not particularly high. Additionally, the flexible usage of production equipment for similar products enhances the possibility to exit the laminated steel business.

Cost conditions: Within the laminated steel industry, the variable costs were regarded to be predominant, due to high variable material costs (including steel and film) and
the uncomplex production process requiring only limited production assets. However, the need for a production plant and machineries as fixed assets needs to be considered.

4.3.1.2 Threat of entry

In order to analyze the threat of entry into the Brazilian laminated steel industry, the 104 Brazilian competitors were taken into consideration. These competitors in a broader context represent a threat of entry to the defined market segment, if they get certificated by international certification organizations. Additionally, local start ups might represent a threat of entry.

*Capital requirements*: The capital requirements for entering the industry are regarded to be rather high. A substantial steel stock and film stock, which is ruinous after four years, is necessary for potential start-ups. Additionally, production equipment, technical know-how and human resources are necessary as well as a well working logistics-system. However, the production process is rather uncomplex and the machines do not necessary need to be technically state of the art, motivated by the fact that MSAB produces with machines which are up to 30 years old (Nord, interview 2009a). Competitors in a broader context need a substantial amount of capital for getting certified and setting up stocks of film and steel for providing the required capabilities.

*Economies of scale*: Economies of scale were regarded to be of minor importance due to the fact that the business logic is to provide only small amounts of laminated steel, which contradicts the concept of economies of scale. Additionally, the low expenditure for R&D and marketing limit the importance of economies of scale (Nord, interview 2009a).

*Absolute cost advantage*: An absolute cost advantage for the production of laminated steel can be seen in a lower steel prize and lower labour costs in the Brazilian market. This advantage needs be considered for competitors in a broader context. Additionally, an absolute cost advantage could emerge if a company would start-up production facilities in Brazil.

*Product differentiation*: MSAB’s brand name “Dobel” is well known in the international shipbuilding industry, but rather unknown among local Brazilian
companies operating in the shipbuilding industry (Nord, interview 2009a). The nature of competitive advantage among local Brazilian companies is regarded to be cost based, which limits the opportunities to base a competitive advantage on differentiation.

Access to distribution channels: Competitors in a broader context in the Brazilian market would have an advantage in having access to distribution channels, due to their already established business in Brazil. Furthermore, e-commerce can be used as a distribution channel by existing competitors in a broader context. Start-ups might have an advantage of easier access to local distribution channels, due to their geographical location and easier access to business networks in the shipbuilding industry.

Legal/regulatory barriers: As regulatory barriers, the certificates for fire safety and environmental issues play a crucial role, which protects the targeted market segment from competitors in a broader context to enter the targeted market segment, as well as Brazilian start-ups (Nord, interview 2009a).

4.3.1.3 Threat of substitutes

The threat of substitute products is determined by the customer’s propensity to substitute and the relative price-performance of substitute products, which can be uncertified laminated steel or painted steel.

Customer’s propensity to substitute: Due to high quality requirements caused by insurance companies and the IMO, customers of laminated steel who manufacture panels for big vessels require certificated material. However, the weak legal system and the high level of corruption in Brazil increase the propensity that customers chose laminated steel with imitated certifications. Nevertheless, especially internationally operating customers are regarded to be not likely to manufacture material with imitated certifications due to security issues. A further substitute product would be painted steel. However, the perceived quality of painted steel is rather low compared to the case company’s steel sheets. Additionally, painted steel is not certified according to the required security standards. Therefore, the all over customers’ propensity to substitute the case company’s product is regarded to be rather low (Nord, interview 2009a).
Relative price-performance of substitutes: Both uncertified laminated steel and painted steel can be produced at a significantly lower cost level. However, the price-performance of the substitute products was regarded to be low. Firstly, manufacturing uncertified laminated steel would trigger problems when selling panels to companies which act according to international standards and aim to register the vessels internationally. Secondly, painted steel is perceived to have significantly lower quality, which makes it rather unlikely to e.g. manufacture it in luxury suites of captains. Furthermore, carbon compounds are regarded to be potential substitute products, which fulfill the required product properties. However, the production- and material costs are far too high, resulting in a weak price-performance (Nord, interview 2009a)

4.3.1.4 Bargaining power of customers

The bargaining power of customers depends on several factors, which are described below.

Cost of product relative to total cost: Nord (interview, 2009a) reported that the costs of laminated steel as a share of the total costs of a panel typically accounts for one third. Isolation material accounts for another third, as well as human working hours. Since the cost of laminated steel relative to total cost is substantial, the bargaining power of customers was regarded to be high in this context.

Product differentiation: The product differentiation of laminated steel was regarded to be rather high, due to possible certifications, brand advantage and flexibility in terms of order amounts and delivery time. Additionally, MSAB’s reputation is to be a reliable and fair business partner (Nord, interview 2009a). However, the fact that the product of MSAB needs to be transported via container ships to Brazil limits the advantage of the company to provide short delivery times, compared with competitors in broader context. Nevertheless, the bargaining power of customers was regarded to be low in this context, caused by the fact that the competitors in narrower context face the same delivery issues and the competitors in a broader context do not offer the same certified quality.

Competition between customers: Due to a low number of potential customers in Brazil, the competition between customers for customized laminated steel is not very likely to
occur (Nord, interview 2009a). Therefore, the bargaining power of customers was regarded to be high in this context.

*Size of customers relative to producers:* Nord (interview, 2009a) reported that typically, panel producers are significantly bigger in size than laminated steel producers. This results in a low bargaining power of the laminated steel producer in this context.

*Customers’ switching costs:* The customers’ switching costs were regarded to be low, due to the uncomplexity of the integration in the value chain of a customer. Only if a customer wants to purchase exactly the same surface again, the bargaining power of the laminated steel producing company would be high in the context of switching costs (Nord, interview 2009a).

*Customers’ information:* Due the fact that approximately one third of the product is caused by the steel prize, the customers’ information is regarded to be high (Nord, interview 2009a). The steel prize is easy to observe. This leads to the conclusion, that the customers’ bargaining power is high in this context.

*Customers’ ability to backward integrate:* The customers were regarded to be not able to backward integrate and produce laminated steel themselves. This is due to a considerable amount of capital required, in order to build up the organization for producing highly customized products (Nord, interview 2009a). Hence, the customers’ bargaining power was assessed to be low in this context.

### 4.3.2 Customers’ needs in Brazil

According to Nord (interview, 2009a), Dos Santos (interview, 2009) and Forsberg & Nord (interview, 2008), critical customers’ needs were identified: flexible delivery time, flexible order amounts, certificated high quality, a wide product portfolio, cheap price and communication in native language. Based on the interviews, the authors assessed the importance of the customers’ needs and divided the needs into needs of key importance and into needs of basic importance on which a customers’ purchasing decision is based on.
Flexible delivery time was assessed to be of key importance, since it enables flexibility of the customer in the purchasing process. Orders do not necessarily be planned in long-term. Therefore, the panel producer might fulfill the end-customers’ needs in a more flexible way, enabling shorter planning processes.

Flexible order amounts: was assessed to be of key importance, since customers do not need to set up stocks of laminated steel. It is especially important, if smaller amounts than the minimum order amounts offered by companies producing laminated steel in large volumes are needed. This is caused inter alia by the fact that laminated steel is often manufactured in luxurious suits, which require customization of the product.

Certificated high quality: was assessed to be of key importance. It is crucial for shipbuilding projects with end-customers which act according to international standards and intend to register the ships internationally. Through purchasing certified laminated steel, fulfillments of insurance companies and the IMO are met.

Wide product portfolio: was assessed to be of basic importance. Panel producers have to fulfill the esthetic requirements of interior architects, which emphasize the need of choosing from a wide range of different colours and patterns.

Cheap price: was assessed to be of basic importance. The customer’s decision mostly depends on the quality of the product and conditions offered regarding delivery time and amounts. However, tax regulations increase the price products in Brazil by 1.75, which results in a basic importance of the price for customers’ needs.

Communication in native language: was assessed to be of basic importance, since purchasers at international Brazilian panel producers are usually capable of speaking English, but prefer communication in Portuguese to lower the risk of misunderstanding.

4.4 Summary of the case study
MSAB’s most outstanding resources contributing to its unique selling proposition are the large stock of steel and film, as well as certifications for the product. The boundaries of the market segment were defined to be low delivery times and certification of the product due to requirements of insurance companies and the IMO.
These requirements are fulfilled by European competitors in a narrower context, not by competitors in a broader context. The worldwide financial crisis will not affect MSAB in short time, since projects in the shipbuilding industry are long-term oriented.

The macroeconomic data of Brazil was regarded to be sound. The shipbuilding industry is supported by the government, demand driven by the state owned oil company Petrobras. The high level of corruption and the importance of face-to-face communication were observed to be major characteristics of the Brazilian culture and business mores. The legal system was regarded to be weak.

To describe industry rivalry, the current four competitors in a narrower context were considered. Additionally, the 104 competitors in a broader context were included, which could become industry rivals if imitating certificates. If the competitors in broader context legally obtain certificates, they would enter the industry defined. Additionally, possible domestic start-ups were considered when describing the threat of entry. As substitute products, uncertified laminated steel and painted steel come into question. The bargaining power of customers was influenced by their rather high negotiation leverage and their rather high price sensitivity.

Flexible delivery times, flexible order amounts as well as certified high quality of the Product were regarded to be key customer needs, a wide product portfolio, cheap prize and communication in Portuguese to be basic customer needs.
5 ANALYSIS OF EMPIRICAL FINDINGS

In this chapter, the empirical findings of the case study described above will be analyzed. The analysis will provide the foundation for the authors’ conclusions and recommendations, by answering the research questions of the thesis. The empirical findings are discussed in an analytical manner, always aiming to conclude on the prospects of success of the case company in the targeted market segment. After having gone through the external business environment, the authors discuss the attractiveness of the targeted market segment. In order to analyze the match between the case company’s capabilities and the customers’ needs in the segment, the authors connect the case company’s resources described in chapter 4.1.3 with the Brazilian customer’s needs described in chapter 4.3.2. Finally, a summary of the essentials of the analysis is provided.

5.1 External business environment

Below, the gathered data regarding the external business environment is evaluated, analyzed and put into relation to MSAB’s prospects of success in Brazil. Through this, the research question “How does the external business environment in the Brazilian maritime industry look like?” can be answered. It is determined by three different criteria: macroeconomic data, the nature of the Brazilian shipbuilding industry and the institutional business environment.

5.1.1 Macroeconomic data

The authors assessed the fact that Brazil was regarded to be the last country going into the financial crisis and among the first to gain strength again and come out of the financial crisis as positive. This is emphasized by forecasted GDP growth rates. In 2009, Brazil’s GDP is expected to decrease marginally by 0.3%, which is rather little in comparison to mature markets. Already in 2010, the GDP is expected to grow by 3.8%, which was regarded to be a positive factor for MSAB’s prospects of success.

The macroeconomic stability of Brazil was regarded to be the most negative parameter within the analysis of macroeconomic data. This conclusion is based on the fact that five out of five factors which determine the macroeconomic stability of a country (according to the World Economic Forum) were regarded to be a competitive
disadvantage. Apart from the inflation rate, all parameters examined were classified to be significant competitive disadvantages, ranked far below the average of all efficiency-driven economies.

The business sophistication of the Brazilian market was regarded to be a competitive advantage, motivated by the fact that seven out of nine parameters were assessed positively. For the case company’s prospects of success in Brazil, the business sophistication was regarded to be a propelling factor. Additionally, Brazil is ranked among the largest economies in the world, which positively influences MSAB’s prospects of success in the targeted market segment.

5.1.2 Shipbuilding industry in Brazil

Recently, many international shipbuilding companies have established their business in Brazil, which was regarded to be a positive factor for MSAB’s prospects of success. This assessment is inter alia based on the fact that international shipbuilding projects require certified material which is offered by the case company. Additionally, international projects are reducing the risk of failure due to differing business mores and communication problems caused by cultural differences. On the other hand, these international companies might be more affected by the worldwide economic crisis than domestic companies, illustrating a threat for MSAB.

Within the last decade, the Brazilian shipbuilding industry has been growing substantially. The number of employees increased by 20 times in the last decade (from 2,000 to 40,000), which can be connected to a growing demand for pre-products and construction material in the industry. A major driver for this development was the Brazilian government, which has supported the industry inter alia through the launch of a ship-building plan. The combination of industry growth rates and the governmental support for a mid-term oriented industry was assessed to be a positive factor for the case company’s prospects of success. The tendency of declining production volumes in mature markets and increasing production in Brazil, inter alia due to cheaper labour costs, highly increases MSAB’s prospects of success in Brazil.

The future order volumes in Brazil were regarded to be high and therefore a propelling factor for MSAB’s prospects of success. Especially the announced orders of Petrobras.
boost the domestic shipbuilding industry. The fact that an international oil company is the major driver for future growth was regarded to be positive, since the ordered ships have to fulfill international standards concerning inter alia security aspects.

5.1.3 Institutional business environment

When dealing with Brazilian customers, face-to-face communication is crucial and agreements are often informal. Since MSAB does not have any representation in Brazil and no access to business networks, it was regarded to hamper the prospects of success. Competitors in a broader context and start-ups might have an advantage through being able to communicate face-to-face and use established distribution channels.

The fact that corruption in Brazil is omnipresent additionally hampers MSAB’s prospects of success. MSAB excludes corruption from its corporate culture and has not yet experience in dealing with corruption issues, which emphasizes the threat. However, MSAB’s targeted customers are mainly internationally operating and therefore regarded to be less corruptive, which reduces the threat of corruption.

The legal system in Brazil was regarded to be weak and therefore a competitive disadvantage for doing business in Brazil. This is a major threat for MSAB, since a considerable part of MSAB’s differentiation advantage is based on the brand “Dobel” and its certifications. A weak legal system in combination with high corruption in the country poses a threat for foreign companies and limits the chances to take court action in case of imitation of the brand or certificates.

The government in Brazil has supported the shipbuilding industry in the past decade, which is a propelling factor for MSAB’s prospects of success. The launch of a shipbuilding supporting policy and the facilitation of access to money were regarded to be positive for MSAB’s prospects of success. However, the state-owned oil company Petrobras emphasized that the target is to build the ships with local material in large part. This fact was regarded to not hamper the prospects of success in Brazil, since the case company is operating as a sub-supplier to the shipbuilding industry, to be precise as a supplier of laminated steel to panel-producers. Since the construction material
needs to fulfill international standards which only competitors in narrower context fulfill, it was considered to not be a threat.

5.2 Industry attractiveness analysis

The industry profitability is determined by forces going beyond the actual industry rivalry, by including the threat of entry, the threat of substitutes and the bargaining power of customers.

5.2.1 Industry rivalry

Currently, there are no Brazilian companies which are able to offer certified laminated steel according to international standards. The authors regard MSAB’s current four European competitors as well as Brazilian competitors with imitated certificates as industry rivals.

Concentration: Most shipyards are established in the federal state of Rio de Janeiro, and the Brazilian producers of laminated steel are mostly located in the geographically close federal state of Sao Paolo. This fact was regarded to hamper the prospects of success of the case company, since transportation distances are rather short. The fact that there are 104 companies offering laminated steel in Brazil illustrates a significantly higher concentration of competitors in a broader context in comparison to the concentration of competitors in a narrower context.

Diversity of competitors: The relatively high diversity of competitors in a broader context was regarded to hamper the prospects of success, since the high variety of the competitors’ origin, strategies and objectives lead to a higher intensity of rivalry. However, the relatively similar structure and size of the competitors in a narrower context counteracts the effect.

Product differentiation: Even though the possibilities for product differentiation were regarded to be rather high, the factor was not regarded to be fully positive for the company’s prospects of success. MSAB has already observed imitations of their products, including faked certificates. This threat in combination with the weak Brazilian legal system and the high degree of corruption causes a threat, because MSAB bases its competitive advantage on differentiation. Additionally, the nature of the competitive advantage in the Brazilian economy is based on cost-leadership, which
limits the prospects of success for an international company basing its advantage on differentiation. However, the fact that MSAB’s potential customers are suppliers to huge international shipbuilding companies reduces the threat for imitation and corruption, since international companies have to fulfill international standards and act accordingly to international business ethics.

*Excess capacities, exit barriers and cost structure:* Excess capacities and exit capacities were not regarded to be a threat for MSAB’s prospects of success, caused by the possible flexible usage of machineries for producing similar steel products for other markets. Additionally, the continuing growth of the shipbuilding industry reduces potential rivalry due to excess capacities. These factors were regarded to influence MSAB’s prospects of success positively. Moreover, the rather low proportion of fixed costs fosters the case company’s prospects.

### 5.2.2 Threat of entry

When analyzing the threat of entry into the Brazilian laminated steel industry, competitors in a broader context and potential start-ups are considered.

*Capital requirements:* In order to establish business in the targeted market segment, a relatively large amount of capital is required, applying for both competitors in a broader context and start-ups. Therefore, the capital requirements in comparison to the general characteristic of the shipbuilding industry, being long-term oriented (the planning horizon is three to five years) and the limited size of the market segment, are regarded to be a significant threat of entry. The fact that the film needed for the steel-sheets is ruinous after four years if not manufactured contributes as a threat of entry as well. Therefore, it propels the case company’s prospects of success in the market segment.

*Economies of scale:* Economies of scale are not of key importance, since the business logic is to provide small order volumes. This fact facilitates the threat of entrance and therefore hampers MSAB’s prospects of success.

*Absolute cost advantage:* Only in mid- and long-term perspective, competitors in a broader context are likely to take advantage of an absolute cost advantage in the Brazilian market by getting certified. Only in long-term perspective, start-ups might
take advantage of an absolute cost advantage. Therefore, this factor propels the prospects of success in the targeted market segment.

*Product differentiation:* MSAB’s brand “Dobel” is rather well known in the international shipbuilding industry. Companies entering the market would need considerable time until establishing brand recognition and good reputation in the Brazilian market. However, the fact that the competitive advantage among local Brazilian companies is cost based reduces the propelling influence on MSAB’s prospects of success in the market.

*Access to distribution channels:* Competitors in a broader context might already have access to distribution channels. Due to the geographic location, Brazilian start-ups might also have easy access to distribution channels. Therefore, the authors regard the access to distribution channels to be hampering the company’s prospects of success. The threat of e-commerce was regarded to be low, since the product requires a high degree of customization and a close contact between customer and supplier, which is especially important when dealing with Brazilian businessmen.

*Legal regulatory barriers:* The certifications as legal barriers can be regarded to be an effective measure to protect the market segment from new entrants. However, the high level of corruption and the weak legal system limit its effectiveness. Nevertheless, the authors regard the legal barriers to be a propelling factor for MSAB’s prospects of success, since most of the customers in the targeted segment are internationally operating and have to fulfill the required standards by insurance companies and the IMO.

### 5.2.3 Substitute products

The threat of substitute products is determined by the customer’s propensity to substitute, and the relative price-performance of substitute products, which can be uncertified laminated steel or painted steel.

*Customer’s propensity to substitute:* Both uncertified laminated steel and painted steel do not fulfill the safety requirements which are necessary for material manufactured in the panels. The perceived quality of the substitute product painted steel is regarded to be too low to serve the targeted market segment. Therefore, the customers’ propensity...
to substitute the product was regarded to be low, which propels MSAB’s prospects of success. However, the high degree of corruption in Brazil and the weak legal system might foster the usage of uncertified material, which negatively influences MSAB’s prospects of success.

Relative price-performance of substitutes: The relative price performance of potential substitute products was regarded to be low. On the one hand, the usage of painted steel and uncertified laminated steel increases does not fulfill the requirements of international insurance companies and the IMO, on the other hand carbon is too expensive for being manufactured in panels for the shipbuilding industry. Hence, the weak relative price-performance of substitutes was regarded to be a propelling factor for MSAB’s prospects of success in Brazil.

5.2.4 Bargaining power of customers

The bargaining power of customers depends on several factors, which are analyzed below.

Cost of product relative to total cost: The costs of laminated steel accounts for a significant share of panel producers’ costs. Therefore, the bargaining power of customers was regarded to be rather high which limits the case company’s prospects of success in the targeted market segment.

Product differentiation: Even though the certifications of the product and the brand can be imitated by competitors in a broader context, internationally operating customers are less likely to purchase imitated products. The high flexibility in terms of order amounts and delivery time are not able to be imitated. Moreover, delivery times of competitors in a narrower context face the same extension due to their location in Europe. Therefore, the product differentiation was regarded to be a propelling aspect for MSAB’s prospects of success in the Brazilian market.

Competition between customers: Due to low expected competition between customers about the product, the customers enjoy a high bargaining power which negatively influences the case company’s prospects of success in the target market.
Size of customers relative to producers: The high bargaining power in this context is caused by the fact that panel producers tend to be bigger size than laminated steel producers. Therefore, the authors regard the size of the customers relative to laminated steel producers to hamper the case company’s prospects of success.

Customers’ switching costs: The customers’ switching costs were regarded to be low, which results in a high bargaining power of customers in this context. Only if a customer requires exactly the same surface of a steel-sheet again, switching costs might be high. Therefore, the low switching costs of customers in general were regarded to be a factor hampering the case company’s prospects of success in the target market.

Customers’ information: Since the prize of laminated steel is considerably dependent on the steel prize which is easy to observe, the customer’s information is high. Hence, the case company’s prospects of success are influenced negatively.

Customers’ ability to backward integrate: Due to the fact that panel producers would need a substantial amount of capital for setting up an organization producing highly customized products, they were regarded to be not likely to integrate backward and produce laminated steel themselves. This is a factor which positively influences the case company’s prospects of success in the targeted market segment.

5.3 Match between customers’ needs and capabilities

In order to examine the match between the customers’ needs and the case company’s resources and capabilities, the authors connect the resources of MSAB (described in chapter 4.1.3) with the assessment of the Brazilian customers’ needs (described in chapter 4.3.2). The authors conclude on organizational capabilities based on relevant tangible, intangible and human resources. Through evaluating the match, the authors evaluate the influence of the stated needs on the case company’s prospects of success in the targeted market segment. Figure 13 provides an illustration of how customers’ needs, capabilities and resources are connected.
Figure 13: Match between customers' needs and the case company's resources and capabilities
Flexible delivery time: The capability of how to process an order quickly covers the customers’ needs of flexible delivery times. The capability is based on MSAB’s stock of steel and film located in Sweden, the close contact to suppliers of steel and film, and the effective collaboration of functions within the company, as well as the interface between the case company and the logistics companies. The authors regard the capability formed by these resources to be sufficient to fulfill the specific need. However, the fact, that the transport of the product takes approximately four weeks, limits the potential to fulfill the specific need. This was regarded to apply for competitors in a broader context, but not for competitors in a narrower context, because their production units are also located in Europe and therefore face similar extensions of the delivery time. Therefore, the authors regard the match to be a propelling factor for the case company’s prospects of success, slightly limited by the geographic location in Sweden. The factor was regarded to be of key importance.

Flexible order amounts: The capability of how to offer small order units covers the customers’ needs of flexible order amounts. The capability is based on MSAB’s stock of steel and film, the company’s reputation and its loyal customers. The authors regard the capability formed by these resources to be sufficient to fulfill the specific need. Therefore, the authors regard the match to be a propelling factor for the case company’s prospects of success in the targeted market segment. The factor was regarded to be of key importance.

Certified high quality: The capability of how to produce high quality covers the customers’ needs of certified high quality. The capability is based on MSAB’s reliable and well-maintained production facilities, the experiential knowledge within the company, the holding of certificates, the corporate culture emphasizing quality, the strong brand name and the highly motivated and well trained staff. The authors regard the capability formed by these resources to be sufficient to fulfill the specific need. Therefore, the authors regard the match to be a propelling factor for the case company’s prospects of success in the targeted market segment. The factor was regarded to be of key importance.

Wide product portfolio: The capability of how to offer many different products covers the customers’ needs of having a wide product portfolio to choose from. The capability
is based on MSAB’s stock of steel and film, the good contact to suppliers of steel and film, the acquisition by Metalcolour Danmark through which customers can also order painted steel, and MSAB’s endeavor to provide innovative products. Additionally, the organizational integration into the Metalcolour-group contributes to the discussed capability. The authors regard the capability formed by these resources to be sufficient to fulfill the specific need. Therefore, the authors regard the match to be a propelling factor for the case company’s prospects of success in the targeted market segment. The factor was regarded to be of basic importance.

Cheap prize: The capability of how to be the cost leader in the industry covers the customers’ needs of getting a cheap price offered for laminated steel sheets. The capability would require low stock- and material costs, as well as low labour costs. MSAB does not possess these resources, which results in a weak base for the necessary capability to fulfill the specific need. Therefore, the authors regard the match to be a factor hampering the case company’s prospects of success in the targeted market segment. However, the factor was regarded to be only of basic importance.

Communication in native language: The capability of how to communicate in Portuguese covers the customers’ needs of communicating in native language. The capability would require Portuguese speaking staff. MSAB does not possess this resource, which results in a lacking base for the necessary capability to fulfill the specific need. Therefore, the authors regard the match to be a factor hampering the case company’s prospects of success in the targeted market segment. However, the factor was regarded to be only of basic importance.

5.4 Summary of the analysis

Within the macroeconomic data, the GDP growth, Brazil’s market size and to a lesser extent the business sophistication were regarded to propel MSAB’s prospects of success in Brazil. The macroeconomic stability was regarded to hamper the prospects. The future order volume, the growth rates and to a lesser extent the degree of internationalization of the Brazilian shipbuilding industry were regarded to propel MSAB’s prospects of success in Brazil. Within the institutional business environment, the differences caused by the countries’ cultures and business mores, as well as the weak legal system were regarded to slightly hampering MSAB’s prospects of success.
in Brazil. However, the government’s support of the shipbuilding industry was regarded to propel the case company’s prospects of success in Brazil.

In order to determine the industry attractiveness, the industry rivalry, the threat of entry, substitute products and the bargaining power of customers were considered. Within the industry rivalry, the exit barriers and cost conditions were regarded to propel the case company’s prospects of success in Brazil. Industry concentration, the diversity of competitors, product differentiation and excess capacities were regarded to be slightly propelling factors. The high capital requirements, and to a lesser extent the product differentiation and legal barriers were regarded to propel the case company’s prospects of success in Brazil, minimizing the threat of entry. However, the low importance of economies of scale, and to a lesser extent the possible absolute cost advantage as well as better access to distribution channels were regarded to hamper the case company’s prospects of success in Brazil, enhancing opportunities for start-ups or competitors in a broader context to enter the defined industry. Both the customers’ low propensity to substitute as well as the relative prize performance of potential substitute products were regarded to slightly propel the case company’s prospects of success in Brazil. The customers’ information, and to a lesser extent the cost of laminated steel relative to the total cost of a panel, the low competition between the customers, the size of customers relative to MSAB as well as the low switching costs of customers were regarded to hamper the case company’s prospects of success in Brazil, by increasing the bargaining power of customers. However, the customer’s inability to backward integrate and the high product differentiation were regarded to propel the case company’s prospects of success in Brazil, by lowering the bargaining power of customers.

When analyzing the match between the Brazilian customers’ needs and MSAB’s resources and capabilities, flexible order amounts, certificated high quality, a wide product portfolio and to a lesser extent flexible delivery times were regarded to be customers’ needs which MSAB is able to fulfill sufficiently, propelling the prospects of success. Only the need for communication in native language and to a lesser extent a cheap prize were regarded to not be potentially fulfilled by MSAB, hampering its prospects of success.
6 CONCLUSIONS AND RECOMMENDATIONS

In the final section of the thesis, conclusions will be made based on the analysis of the empirical findings. Through that, the central research problem and the formulated research questions can be answered. Finally, recommendations for the case company will be given.

6.1 Academic conclusions

This chapter provides a solution for the central research problem, as well as answers to the three research questions, following the theoretical framework.

The central research problem of the present thesis is: How can a Swedish SME, operating in the sheet-steel industry, decide on whether to continue its entry process into a defined market segment in an emerging country market?

Through connecting a model based on latest research about emerging country markets with a classical model for analyzing industry attractiveness, the central research problem of the thesis can be addressed. Additionally, the resource based view was taken up for analyzing the match between the customers’ needs in the targeted market segment and the case company’s resources and capabilities. Through conducting an analysis according to the models described in the theoretical framework, the formulated research questions can be answered.

In order to answer each research question, the authors created separate tables which connect the empirical findings with the case company’s prospects of success. A green upturned arrow illustrates a propelling, a yellow half upturned array a slightly propelling factor, a red downturned array a hampering factor and a yellow half downturned array a slightly hampering factor for the case company’s prospects of success in the targeted market segment. In order to understand the argumentation, it needs to be stated that not the absolute number of positive or negative factors determines the assessment, but their relative importance.

The first research question stated was: “How does the external business environment in the Brazilian maritime industry look like?” In order to answer the question, the parameters illustrated in figure 14 need to be taken into consideration.
5.1.1 **Macroeconomic data**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>Up</td>
</tr>
<tr>
<td>Macroeconomic stability</td>
<td>Down</td>
</tr>
<tr>
<td>Business sophistication</td>
<td>Up</td>
</tr>
<tr>
<td>Market size</td>
<td>Up</td>
</tr>
</tbody>
</table>

5.1.2 **Shipbuilding industry**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of internationalization</td>
<td>Down</td>
</tr>
<tr>
<td>Growth rates</td>
<td>Up</td>
</tr>
<tr>
<td>Future order volume</td>
<td>Up</td>
</tr>
</tbody>
</table>

5.1.3 **Institutional business environment**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country culture and business mores</td>
<td>Down</td>
</tr>
<tr>
<td>Legal system</td>
<td>Down</td>
</tr>
<tr>
<td>Government</td>
<td>Down</td>
</tr>
</tbody>
</table>

Figure 14: External business environment influencing MSAB’s prospects of success

The answer to the first research question has been found through analyzing macroeconomic data, the nature of the Brazilian shipbuilding industry and the institutional business environment. Therefore, the analytical findings and subsequently the conclusion can be generalized to a rather big extent, namely to Swedish SMEs targeting the Brazilian maritime industry.

The major differences of the Brazilian with the Swedish institutional business environment were found to be a weak legal system, a high level of corruption and Portuguese as an official language in combination with a low level of English within the country culture and business mores. The government supports the highly internationalized shipbuilding industry, which leads to high future order backlogs resulting in promising future growth rates of the industry. Even though Brazil has a low macroeconomic stability, the forecasted GDP growth rates are promising despite the financial crisis.

The second research question stated was: “How attractive is the Brazilian maritime industry in terms of the competitive situation?” In order to answer the question, the parameters illustrated in figure 15 need to be taken into consideration.
Conclusions and Recommendations

5.2.1 Industry rivalry

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td></td>
</tr>
<tr>
<td>Diversity of competitors</td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td></td>
</tr>
<tr>
<td>Excess capacity</td>
<td></td>
</tr>
<tr>
<td>Exit barriers</td>
<td></td>
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<tr>
<td>Cost conditions</td>
<td></td>
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</tbody>
</table>

5.2.2 Threat of entry

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
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</thead>
<tbody>
<tr>
<td>Capital requirements</td>
<td></td>
</tr>
<tr>
<td>Economies of scale</td>
<td></td>
</tr>
<tr>
<td>Absolute cost advantage</td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td></td>
</tr>
<tr>
<td>Access to distribution channels</td>
<td></td>
</tr>
<tr>
<td>Legal- and regulatory barriers</td>
<td></td>
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</tbody>
</table>

5.2.3 Substitute products

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers’ propensity to substitute</td>
<td></td>
</tr>
<tr>
<td>Relative prices and performance of substitutes</td>
<td></td>
</tr>
</tbody>
</table>

5.2.4 Bargaining power of customer

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of product relative to total cost</td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td></td>
</tr>
<tr>
<td>Competition between customers</td>
<td></td>
</tr>
<tr>
<td>Size of customers relative to producers</td>
<td></td>
</tr>
<tr>
<td>Customers’ switching costs</td>
<td></td>
</tr>
<tr>
<td>Customers’ information</td>
<td></td>
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<tr>
<td>Customers’ ability to backward integrate</td>
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</tbody>
</table>

Figure 15: Industry attractiveness influencing MSAB's prospects of success

The answer to the second research question has been found through analyzing industry rivalry, threat of entry, potential substitute products and the bargaining power of customers which impact on the attractiveness of the targeted market segment. Therefore, the analytical findings and subsequently the conclusion can be generalized to a rather low extent, namely to companies exporting certified laminated steel to the Brazilian shipbuilding industry.

The industry rivalry was regarded to be low, resulting in a force increasing the industry attractiveness. This assessment is inter alia due to the fact that the competitors in
narrower context do not have a substantial competitive advantage. To a large extent, industry rivalry is influenced by the highly differentiated product, which prohibits competitors in a broader context to shape rivalry, especially due to the certifications of the product. Due to requirements of insurance companies and the IMO, the threat of imitated products is low, regardless of the high level of corruption and the weak legal system. Therefore, the prospects of competitors in a broader context to impact on industry rivalry are limited.

The threat of entry was regarded to be low, resulting in a force which increases industry attractiveness. Competitors in a broader context would need substantial capital in order to provide a product of same quality in terms of flexibility and certifications. For potential Brazilian start-ups, these capital requirements would be even higher, inter alia due to the need for know-how, and resources for establishing networks and production facilities.

Potential substitute products were regarded to not be affecting industry attractiveness negatively. Carbon compounds fulfill quality requirements but are significantly more expensive, painted steel is significantly cheaper but does not fulfill the product requirements. Imitated products were regarded to be a potential threat, but especially in ships which will be registered internationally, the requirements of insurance companies and the IMO were regarded to extinguish the threat.

The bargaining power of the customers was regarded to be rather high, resulting in a force reducing the industry attractiveness. This assessment is due to the high costs of laminated steel as a share of the total costs of a panel producer. Moreover, the steel-price, as a major determinant for the costs of laminated steel, enhances the customers’ information due to the easy observability. Additionally, customers’ switching costs were regarded to be low.

The third research question stated was: “How is the match between the case company’s resources and capabilities, and the Brazilian customers’ needs?” In order to answer the question, the parameters illustrated in figure 16 need to be taken into consideration.
Conclusions and Recommendations

5.3 Match: customers' needs and MSAB's capabilities

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<table>
<thead>
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<tbody>
<tr>
<td>Flexible delivery</td>
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<tr>
<td>Flexible order amounts</td>
<td></td>
</tr>
<tr>
<td>Certificated high quality</td>
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<tr>
<td>Wide product portfolio</td>
<td></td>
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<tr>
<td>Cheap prize</td>
<td></td>
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<tr>
<td>Communication in native language</td>
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</table>

Figure 16: Evaluation of factors influencing MSAB’s prospects of success

The answer to the third research question has been found through connecting MSAB’s resources and capabilities with the customers’ needs in Brazil. Therefore, the analytical findings and subsequently the conclusion can be generalized to a low extent, since the resources of MSAB to satisfy the customers’ needs were regarded to be rather unique and not comparable with other companies in the industry.

The match between the customers’ needs in Brazil and MSAB’s resources and capabilities was regarded to be sufficient for all identified needs of key importance. However, the geographical distance limits the possibilities for fulfilling the need of flexible delivery times. The needs of basic importance, communication in native language and a cheap prize, were regarded to not be fulfilled. This is due to the fact that the case company is not able to communicate with Brazilian customers in Portuguese, and the competitive strategy is not low cost oriented. However, the internationally oriented Brazilian shipbuilding industry decreases these problems, since managers responsible for procurement are usually capable of speaking Portuguese, and the requirements of insurance companies and the IMO do not allow for the substitution of certified and therefore more expensive laminated steel by potential substitutes discussed above.

6.2 Recommendations for the case company

General entry decision
After conducting the study, the authors found that there are clear opportunities for MSAB to increase the volume of sales in the targeted market segment. This conclusion is based on a low threat of entry of competitors in a broader context and the limited focus of the competitors in a narrower context on the Brazilian market. Additionally, the external business environment was observed to be propelling for MSAB’s prospects of success, as
well as the sufficient fulfillment of customer needs of key importance. However, the following case specific recommendations need to be taken into consideration, in order to increase the competitiveness of MSAB in the Brazilian maritime industry.

**Country specific issues**

Due to the macroeconomic instability of Brazil, it was regarded to be necessary to constantly observe key macroeconomic figures, namely the government surplus/deficit, national savings rate, inflation, interest rate spread and government debt. This observation can be based on information released by the World Economic Forum or the OECD.

The authors recommend trying to circumvent taking court action, due to the weak legal system in Brazil in combination with the high level of corruption. Additionally, corruption issues during the sales process need to be avoided, in order to maintain MSAB’s reputation of being a reliable and trustworthy partner for doing business.

In spite of promising forecasts for the Brazilian shipbuilding industry, the authors recommend to constantly observe latest developments in the industry, especially the future impact of the current financial crisis. This observation can be based on information released by the IMO and Sinaval.

**Certification and technology**

The authors recommend communicating the existence of imitated products, in order to protect MSAB’s competitive advantage producing certified quality. In this context, it should be taken into consideration to support lobbyism within the IMO or Sinaval, which addresses certification issues in the international shipbuilding industry.

Due to the threat of imitation, MSAB should focus on international companies operating in the shipbuilding industry in Brazil, which are regarded to request certificated material and to be less affected by corruption.

The authors recommend considering the threat of imitation caused by competitors in a broader context. Therefore, relationships with these competitors should be handled carefully, especially issues concerning technology and know-how.

In order to protect MSAB’s reputation, the brand name “Dobel” should be used as an additional measure to counteract imitation. Therefore, the protection of the brand by industrial property rights should be taken into consideration in a mid-term perspective.
Conclusions and Recommendations

Fulfilling customers’ needs
In order to better meet customers’ needs in Brazil, a number of adjustments are recommended. In order to reduce the language barrier, the authors recommend providing the customer with the possibility to handle orders via a Portuguese speaking person in their native language.

Since distribution time is critical for MSAB doing business in Brazil, it is recommended to maintain close relationships with logistic companies, in order to secure a smooth distribution process. Additionally, the current stock keeping policy should be maintained in order to secure low delivery times.

In order to avoid the mismatch of the customer’s need of getting a cheap price, the authors recommend emphasizing MSAB’s differentiation advantage and communicating it within the marketing communication for the Brazilian market. However, in a long-term perspective, the absolute cost advantage in Brazil should be monitored in order to evaluate opportunities of cutting down production costs by offshoring.

Future market entry decisions
The authors regard the developed theoretical framework to be a suitable model for Swedish SMEs in an early stage of internationalization, being sub-supplier to the shipbuilding industry in an emerging country market. Therefore, using the model for MSAB’s future entry decisions into shipbuilding industries in emerging country market is recommended. However, the importance of the customers’ needs in specific emerging country markets might need to be adjusted.
7 REFERENCES

7.1 Books


References


### 7.2 Journals


References


7.3 Web-Pages


References


7.4 Interviews and other sources


8 APPENDIX

Interview Metalcolour Sverige AB: May 11th and 12th, 2009; Ronneby

General Issues:

- Have you gained further experience with customers in Brazil in the last months? What are your new findings concerning their needs?
- Have you discovered any recent trends or tendencies concerning customer needs?
- How did the acquisition affect SSAB Laminated steel?
- How is the relationship to the previous mother company now?
- Are there any better prospects for the operations in Brazil through the acquisition?
- Does Metalcolour Danmark have any operations in Brazil?
- How did the acquisition change the resources of the company?

External business environment

- Does the way of doing business with the Brazilian customer differ from other customers in emerging markets?
- Have you experienced any difficulties when dealing with the Brazilian customer?
- If Metalcolour Denmark serves customers in Brazil: Have they experienced any troubles?

Network Mapping

- How is the connection to competitors?
- Can your business be influenced by the Brazilian government?
- Has the supplier situation changed after the acquisition?
- How is the relation to the customer?
- How does the decision making process look like in the targeted market segment?
- How do the actors involved relate to each other?
Appendix

- Where does an order come from?

Industry attractiveness – industry rivalry

- Concentration: How many competitors do you have and how similar are they in size and power?
- Industry growth: How fast is the industry growing?
- Exit barriers: Are there any barriers for companies operating in the laminated steel industry to exit the industry?
- Diversity of competitors: How similar are the business models of competitors?
- Product differentiation: How identical are the products?
- Switching costs: Are there any costs for a customer who switches from you to another company?
- Economies of scale: How important are economies of scale in your industry?
- How are the cost conditions in your industry?
- Excess capacity: How large would you evaluate the excess capacity in the industry to be?

Industry attractiveness – bargaining power of customers

- Cost fraction: How big is the share of laminated steel on the total costs of your customer?
- Customers’ profits: are the potential Brazilian customers operating under cost pressure?
- Competition between customers: Do you expect competition among your customers to buy your product?
- Effect: How is the end-product’s quality affected by laminated steel?
- Number of customers/amount of orders: Are there many potential customers in the target market? How large are the amounts they buy?
- Standardization: How standardization are the products?
- Are there possibilities for differentiation?
- Backward integration: Would it be possible for the panel producer to produce laminated steel themselves?
- Customers’ information: Is the customer aware of your cost structure?
Appendix

Industry attractiveness – threat of entry

- Access to distribution channels: How easy would it be for a new entrant to access distribution channels?
- Have you discovered any distribution channel in Brazil?
- How would you assess the power of e-commerce to enhance distribution in your industry?
- Did you get any opportunities (synergy effects) for distribution through the acquisition?
- Legal barriers: How is the role of legal barriers in the industry?
- How important are patents?
- How important are certificates
- Restrictive government policy: Have you observed any trouble caused by the Brazilian government?
- Capital requirement: Is there a need for huge financial investment to start up in Brazil?
- Absolute cost advantage: Could the lower steel price in Brazil be the reason for fierce competition?

Industry attractiveness – substitute products

- Are there substitute products?
- Customers’ propensity to substitute: How likely is your customer in Brazil to substitute your product?
- Prize performance: how much lower is the prize of substitute products in Brazil?
- How much lower is the quality?
Interview Eduardo Dos Santos: May 15th and 20th, 2009; telephone

- If you want to buy laminated steel, what is important for you?
- How important is:
  - the order amount?
  - the prize?
  - the delivery time?
  - Communication in native language?
  - the certificated high quality?
  - the wide product portfolio?
- Are there Brazilian companies offering laminated steel?
- How important are the certifications according to international certification organizations in the maritime industry?
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