

University of Economics, Prague

International Business – Central European Business Realities



MASTER'S THESIS

**Foreign Market Entry Strategies and Challenges
that Enterprises May Face:
Turkish Leather Manufacturer`s Entry Into The
Czech Market**

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Academic Year: 2018/2019

ACKNOWLEDGMENT

I hereby wish to thank to my thesis supervisor, Ing. Markéta Lhotáková, Ph.D for guiding and helping me. Also, I would like to express my gratitude towards my mother Hulya Aktas, my father Musa Aktas, as well as to my fiancée Oguz Aslay for their support during my studies.

DECLARATION OF AUTHORSHIP

I hereby declare that I am the sole author of the thesis entitled “Foreign Market Entry Strategies and Challenges that Enterprises May Face: Turkish Leather Manufacturer’s Entry Into The Czech Market”.

I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague, on June, 2019

Signature

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INTRODUCTION

The global economic policies and the global expansion of the market economy have made competition a key element. Increasing number of countries in the market economy plays a big role in the idea that competition is an important tool in increasing the efficiency and dynamism of the economy. This increasing potential in the world market has led corporations which have sufficient power in their markets to operate in markets abroad. Many corporations and enterprises are making great efforts to grab a share from this increasing potential and conduct extensive researches on markets whether they can be able to be competitive or not.

It can be seen that, these developing and integrating world markets have caused major changes in the marketing strategies of corporations and international enterprises. A revision of the researches and methods are inevitable after the decision of entering foreign market. Economical and demographical structure, legal and political factors, cultural and social situation and technological factors in the foreign market have to be taken into consideration during the large scale researches. After all these researches, a company should decide and implement the appropriate strategy.

Clothing industry is one of the important sectors in the world and leather sector does particularly deserve a special attention. Turkey has remarkable position in the leather manufacturing. Considering the quality and cost factors, it is highly logical and reasonable for Turkish leather manufacturers to enter foreign markets, especially into the markets where leather goods are being priced high.

In this study, the main objective is to investigate and try to find an answer to the strategy which a Turkish leather manufacturer should choose and the obstacles to be encountered during the entrance into the Czech market particularly. In order to find these, both Czech market overview including economic, demographic, political and technological factors is performed with secondary data found on numerous resources, and a survey has been conducted to be able to understand the consumer behaviors in the Czech market.

The secondary objective will be to state the advantages and possible positive outcomes of a foreign market entry for an enterprise as well as try to stress out and understand foreign

market entry strategies with identifying problems that enterprises may face during this whole entrance process.

Initial motivation of this thesis are the cost and possible profit analysis of a Turkish manufacturer could enjoy in the Czech market. Since Turkish manufacturers has the ability the produce good quality goods with low-cost raw material and labor, entering a foreign market that has leather goods demand could be highly profitable. Therefore these featured inspired the author to conduct a research with the purpose of illustrating all the aspects of a Czech market entry as a Turkish leather goods manufacturer. Enterprises which are not sure about foreign market entry and having concerns or fear of ending up with failure, will definitely benefit by taking this study as a primary resource. Broad literarute review has been done and numerous valuable and must-read researches has been utilized as references. With the aim of easing the foreign market entry, this study broadly point out international marketing and characteristics, foreign market entry strategies and possible barriers encountered in a theoretic. Additionally, in-depth analysis of the target market Czech Republic has been performed and questionnaire survey has been conducted in order to understand the consumer behavior as well as preferences in the market.

RESEARCH QUESTIONS

This study primarily aims to find out whether the Czech market entrance is feasible for the Turkish leather manufacturer and to illustrate the best possible market entry mode. Hence the first research question is as following:

RQ 1: Should the enterprise enter the Czech market? What would be the best entry mode strategy of leather manufacturer which plans to enter Czech market?

While reaching to the primary objective of this study, different topics related to foreign market entry such as entry types, main factors, advantages, possible problems encountered will be analyzed. Hence, the secondary objectives of this study are as following:

RQ 2: What are the different foreign market strategies?

RQ 3: What are the main factors affecting the foreign entry strategy?

RQ 4: What are the main problems that enterprises may face in this process?

METHODOLOGY

Economic situation of Turkish and Czech economies and the role of Turkish leather sector in the world market will be analyzed by secondary data that will be obtained from the federal government sources as well as additional sources such as World Bank, OECD, Eurostat, IMF, WTO, WEF and others' statistical data will be utilized. Additionally, in order to understand the consumers' behaviors and problems which may arise that the enterprises may face from the consumer side will be identified by utilizing survey and secondary data.

1. INTERNATIONAL MARKETING AND CHARACTERISTICS

1.1. International Marketing and Marketing Concept

In today's globalized business world, enterprises tend to try or at least have a big desire for expanding their markets internationally with the purpose of protection from the risks that may arise in the domestic market, increasing the profits, utilizing the idle resources in production, depleting the surplus inventories and etc. However, although expanding the market internationally has many benefits, it also has several obstacles and disadvantages. These obstacles and disadvantages mainly arise from the fact that domestic and international markets for an enterprise have differences than each other. In order to achieve success while entering a new international market, it is very important to detect and analyze these differences in detail.

In the literature, there are numerous studies regarding the international marketing and foreign market entry of a domestic enterprise. Indeed, it is one of the most widely studied topics in marketing field. Therefore, international marketing is defined by many academicians and researchers. One of the broadest definitions are made by Ghauri and Cateora (2009). They define international marketing as the performance of all activities in terms of business that generates a flow of a company's either goods or services to its consumers or users in more than a country. In other words, international marketing differs from the domestic marketing only due to the fact that international marketing takes place in abroad and at least more than one country.

Another definition is made by Albaum, Strandkov and Duerr (1998). They state that international marketing can be defined as an enterprise's not only existence at an international market but also attempts to improve and sustain the business activities.

According to Karafakioglu (2000), international marketing is the marketing activity of either international or multinational enterprises which has already passed the phase of ordinary exporting and does not differentiate the markets as domestic or foreign. International enterprises are the ones which have business activities in many foreign countries as well as manufacturing, but run the general management activities and mostly concentrate in domestic markets. On the other hand, multinational enterprises are the ones

which run business activities all around the world and almost lost their domestic features as an enterprise. In other words, international enterprise can be defined as locating between an exporter and multinational company, but being very close to a multinational rather than just an exporter.

1.2. Factors Affecting International Marketing

Enterprises that would like to enter foreign markets should take into consideration numerous factors. Entry strategies will be discussed in the further chapters in detail. However, factors which may have an effect on these expansion decisions deserve to be mentioned. Cengiz et al. (2003), listed four phases while selecting the proper foreign market to enter:

- Deciding the candidate markets
- Pre-selection phase
- Detailed selection phase
- Final selection

At the first phase, potential accurate markets for expansion are listed. At the second phase, some of the features, or say drivers, that may have an impact on the decision, are listed such as political stability in the market, geographical distance, and macroeconomic indicators to be able to compare with the other markets. After pre-selecting or eliminating the improper markets to enter, at the third phase, remaining markets' economic growth rate, the whole market's value and the size, competitiveness, possible entry barriers are listed and used as a filter. Finally, the most proper foreign market for the enterprise to enter is found (Cengiz et. al., 2003).

Another point of view for the same subject comes from Mc Dermott and Chan (1995). According to them, after the markets are analyzed as per the market's environment, some markets should be selected and then for every single market selected, following points should be analyzed and taken into consideration:

- Market entry strategy should be decided according to the desired cost, control and risk combination.
- Goods and services that are going to be served in the selected market should be decided as well as positioning and reshuffling the product.

- Promotions or campaign that are going to be used should be carefully examined and applied.
- In order to meet the demand for the product, proper and well-organized distribution channels should be set.
- Proper and accurate pricing mechanism should be implemented.

Both Cengiz et al. (2003) and Mc Dermott and Chan (1995) list the important points to taken into consideration before and after entering into the foreign market. However, analyzing the environmental factors that Cengiz et al. (2003) state in their four phases, deserve more attention. After the international expansion decision of an enterprise, following environments` factors should be analyzed carefully and the most accurate market to enter should be selected based on these analyses:

- Economic environment
- Demographic environment
- Sociocultural environment
- Legal environment
- Political environment
- Technological environment
- Financial environment
- Ecological environment
- Competitive environment

This chapter reps up these nine different environmental factors listed above and all will be consolidated under four subchapters in the following.

1.2.1. Economic and Demographic Factors

Economic and demographic environmental factors are one of the most important factors affecting the foreign market entry decision. In a foreign market, there is no doubt that the number of the potential consumers have a huge impact and one of the main drivers of the products sale amounts. In other words, if a particular market has a huge customer base, a product would have a chance to be sold much more. For example, if we compare USA and

Czech Republic, there is a huge difference between two countries' population, one is 326 and the other is 10.6 million (2016), and therefore, it is reasonable to think that in U.S. market, a product might be sold more than in Czech market. That's why, during many international expansion decisions, enterprises initiate the selection procedure by population and the age distribution of the population.

According to Kotler and Armstrong (2001), if historically analyzed, it will be seen that the main reason leading countries to start trading with each other is due to their differences in terms of economic structure and wealth. Factors that have an impact on the economic environment, shape and sculpt the consumers' purchasing power and consumption levels and trends.

After understanding the international economic environment's importance and drivers, a detailed analysis should be conducted for the market that is going to be entered as mentioned above, and to be able to successful, most suitable way of entry should be decided. Many research firms such as IBS Global Consulting, Cross Border Partners Advisory Services, Avascent and many others assist the enterprises which have a desire for international expansion in terms of statistical data and analysis for the particular market. These kind of consultancy may be very helpful for the enterprises, since sometimes it may be hard to find the most relevant data by the enterprise itself and it may have a significant impact to decrease the possible risks and uncertainties.

Another point is that, while examining and analyzing the economic level of development of a market, natural resources, demographic structures, infrastructure systems, economic policy and regulations should be taken into consideration, too. In the light of this, in terms of the production structure of all the countries, we can divide the economy types into four (Alkhafaji, 1995):

- **Barter Economies:** These types of economies solely involve in agriculture and do not have sufficient natural resources and additionally may have some obstacles. Examples can be African and South American countries.
- **Raw Material Exporter Economies:** These countries enjoy the richness of natural resources that they have and export it to international markets. However, they mostly import almost everything other than their natural resources. For example; Arabic countries are a perfect fit for these type of economies since have

been enjoying their very rich oil reserves for centuries, but they import even the equipment and systems which are necessary to drill for and bring up the oil to the ground.

- **Industrializing Economies:** These type of countries have the capability to produce at least some part of their needs on their own, but still are vulnerable to import from international markets. Turkey is a great example for this kind of economies. Although Turkey is able to produce many things on its own, vulnerability to import energy and in the last decade IT are inevitable for the Turkish economy.
- **Industrialized Economy:** These types of economies have many multinational and international enterprises and are expert on selling products and services to the other countries. Examples can be USA, Germany and Japan.

Another economic factor to take into consideration is the foreign market's economic phase. In which phase is the market is a highly important point to analyze. There are typically four phases of an economy which are generally accepted in the literature. These are: Growth, Peak, Recession and Depression. At the growth phase, increase in the investments, growth in the domestic demand and both household and general consumption can be observed. After that, an economy get into the phase of peak, or say climax. At this phase, production is at its maximum level and new investments might be less attractive and financing costs for the new investment might be very high. At the recession and depression phases, increase in the unemployment and inflation is observed which brings inevitably the decline in the purchasing power of the households in the country. Therefore, it is very important for a firm with a desire for international expansion has to detect the market's economic phase accurately, in order to increase the chance of success.

1.2.2. Political and Legal Factors

The investigation of the political and legal environmental factors of the international marketing environment has become another very important concept with the international dimension gained by exceeding the national boundaries of the company's activities. The political and legal factors that occur around the international market where companies are operating or planning to be a player in are the factors that companies cannot directly control

and the realization and have an important effect on the company's success. Therefore, companies must analyze the political structures, ideologies, economic policies, prevailing political power, legal legislation and compliance with international law in the countries where the enterprises have a desire to expand internationally.

According to Kotler and Armstrong (2001), marketing strategy decisions are being affected too much by the political factors in the market and therefore political environment has a very important role in the whole business world.

In another point of view, Albaumb, Strandskov and Duerr (1998) state that in terms of both import and export, prevailing political powers have many negative effects like restrictions that even lead a negative impact on the quality and quantity of the exported or imported goods or services. Political powers can implement quotas, tariffs or even anti-dumping restrictions, which may have both direct and direct impacts on the international expander firm. Therefore, it is very import for the enterprises to take political factors seriously and analyze the political environment in detail.

1.2.3. Cultural and Social Factors

Although the culture can be and has been defined in several ways; Geert Hofstede's definition is widely accepted as the broadest definition: "Culture is the collective programming of the mind that distinguishes the members of one group or category of people from others." (Hofstede, 2011). Cultures have been created by the people themselves and cannot be separated as good or bad. However, every culture can have its relatively own good or bad parts. Cultural environment is the environment which has been least paid attention compared to other environment factors such as economic, political, technological and legal. However in the 1990s, there are many big firms including Kellogs, Whirlpool and Mercedes Benz that suffered from several highly costly failures during the introduction of their products to newly expanded international markets (Tellefsen, 1999). "Avoiding these kinds of mistakes is possible by analyzing the cultural and socio-economical structure of the target countries seriously and introducing such products that are appropriate for this structure or making the required adaptation on the products to adapt it to this structure" as Taskin, Ozyasar and Sener (2009) state.

Kotler and Armstrong (2001) state that the cultural environment consists of the various factors that affects the people's fundamental values, habits, preferences and attitudes.

Albaum, Strandskov and Duerr (1998) group the cultural elements that sculpt the socio-cultural environment as follows:

- Religion
- Language
- Education
- Values, Habits and Behaviors
- Social Organization
- Technology
- Politics
- Law

Language is one of the most important cultural factors which have a significant impact on the international marketing. Enterprises should pay extreme attention while communicating with the potential consumers. A very bad example of this happened in South Africa. A company named Parker Pan's expanded to the market and made an advertisement campaign on TV, which was totally misunderstood by the audience and people thought that the product is for undesired pregnancy, although it was not at all (Boone and Kurtz, 1999).

Another example can be given for the different habits and behaviors that cultures may have. In Tanzania, mothers do not prefer to feed their children with eggs, since they think that egg causes baldness and even weakness of muscles and bones (Kotler and Armstrong, 1994).

1.2.4. Technological Factors

In the digital age that we are living on now, technology has a huge impact on the international marketing. Many firms are transforming their business by utilizing or at least get an assistance from the digital marketing. Therefore, it will not be a good idea to not to take technological environment into consideration. Besides, technological improvements and innovations may lead to and create new opportunities and even new markets. On the other hand, old technologies are taken over by the new ones, therefore marketing professionals should closely monitor the technological developments in the market and

analyze the technological environment carefully in order to decrease the possible negative impact of the technological factors. Additionally, technological advantages may lead a firm to be highly competitive and even may help to be the pioneer, or the leader of the market.

1.3. Importance of International Markets and General Characteristics

Globalization has been eliminating the difference between internal vs. external markets in today's world, and rather it has been replaced by the fact that opportunities which has been raised both internal and external markets, should be detected and caught in a timely manner. To be able to successfully analyze, take actions for and catch these opportunities, an enterprise should decide and choose its market entry strategy in line with the characteristics of that particular foreign market.(Cengiz et. al., 2003). In other words, enterprises should be able to change and be dynamic in order to be successful at international market.

According to Stumpf and Mullen (1992), enterprises are encouraged to change by the four motives of the market: Internalization or so-called globalization, deregulation, customer's increasing awareness, keeping up with technology and innovations. In the Table 1 seen below these market motives including the dynamics of change and the results can be seen.

Table 1. Four Market Motives Leading the Change of Enterprise

MARKET	DYNAMICS OF CHANGE	RESULT
Internationalization	Global Markets, Global Factories & Manufacturing	<ul style="list-style-type: none"> • Increased ambiguity • Increased uncertainty
Deregulation	Decline in Entry Barriers	<ul style="list-style-type: none"> • Increased currency fluctuations • Increased uncertainty
Increased Customer Awareness	Conscious and Smart Customers	<ul style="list-style-type: none"> • Deterioration in the market stability
Keeping Up with Technology and Innovations	Digitalization and Rapid Innovations in Technology	<ul style="list-style-type: none"> • Decline in the usage of regulations and old ways to predict future

Source: Stumpf & Mullen. Taking Change: Strategic Leadership in the Middle Game (1992)

In the recent years, enterprises efforts for internationalization led the establishment of global enterprises and reformation of the organizational structure as well as creation, composition and application of the suitable marketing strategies. With the support of deregulation, entry barriers which was one of the biggest obstacles for an enterprise started to be eliminated and made the international marketing activities much easier than before. Moreover, with the ease of communication and transportation in today's world, consumers started to be much more conscious and smart, which made them to make much more clever decisions in terms of consumption. Additionally, technological innovations has been spreading all around the world rapidly and technology transfer has been ongoing in the recent years from developed markets to developing or undeveloped markets much faster which led enterprises to think globally and try to do their best to internationalize their markets (Stumpf and Mullen, 1992).

1.3.1. Main Reasons of Entering Foreign Markets

Enterprises may have both advantages by expanding their market internationally and on the other hand may benefit from running manufacturing activities domestically. They may enjoy the advantages of manufacturing and running business domestically such as less competition, less cost and less customs duty due to not participating any export activities. Additionally, enterprises might be encouraged by knowing the domestic market better, less risk, unnecessary of foreign exchange and even foreign language which can be counted as a significant barrier while entering a foreign market. These can be either accepted as advantages or disadvantages and it depends on the point of view of the enterprise. An enterprise's strategy, or say preference, will decide whether these are advantages or disadvantages. While some firms prefer to stay in domestic market only to not be affected by international market's negative effects, some others prefer the opposite to overcome the domestic market's disadvantages. This preference relies on the fact that how much and enterprise think globally.

Main reasons for an enterprise to decide or at least have a desire for entering a foreign market can be summed up as below:

- Huge potential in international market in terms of new opportunities
- Geographical diversification of markets for long-term high profitability (Market improvement)

- Improving manufacturing capacity
- Enhancing the resources that the enterprise utilize for new products or ideas
- Utilizing the advantages of having international activities
- Entering other markets much faster than competitors and gaining the competitive advantage much more than them

Additionally, exogenous factors may force an enterprise to decide entering a new foreign market. According to Cengiz et al. (2003), some of the factors that might lead an enterprise to internationalize can be listed as below:

- By the entrance of other global companies', much cheaper goods and services in the domestic market
- Attractiveness of foreign markets than domestic
- Need to find more customers to be able to utilize and benefit from the economics of scale for manufacturing
- Government incentives for exporter companies
- Partnership offer from a foreign company
- Economic slowdown or recession in the domestic market as well as low internal market demand
- Unutilized capacity or production surplus

Both endogenous and exogenous factors listed above might motivate an enterprise and can be a trigger for international expansion. Some of these factors could also be seen as a clear advantage, or some of them at least offer competitive advantage if the foreign market entry ends up with the success.

1.3.2. Advantages of Entering Foreign Markets

Main purposes of establishment of an enterprise are to make profit, to be sustainable and to fulfill their social responsibility duties such as producing, adding value to the economy, providing employment etc. By entering new international markets, enterprises may have a chance to increase their profits and be sustainable. Besides, enterprises that increases their profits with sustainability, can be able to fulfill their social responsibility duties much more than the others. In other words, expanding the market internationally helps the company to

meet their main purpose for existence and provides advantages for the company to meet its goals.

Some of the advantages of entering foreign markets can be listed as follows:

- **Utilizing comparative advantages:** Principle of comparative advantage has been found by David Ricardo in 1817 and it still exists and being accepted as a very important theory of international trade. Basically, it holds that under the assumption of free trade, a company will produce more of and consume less of a good for which they have a comparative advantage (Dixit and Norman, 1980) In other words, companies tend to be in the business that they have the comparative advantage than their peers.
- **Competing successfully and/or avoiding the competition:** Entering foreign market may provide benefits or protection for a company if the domestic market is highly competitive or does not provide benefits at all. For example, Japan automobile industry has enjoyed being the world's biggest exporter for many years. Strong automobile manufacturing brands such as Toyota, Honda and Nissan had a very narrow and therefore highly competitive domestic market within Japan. However, once they expanded their markets internationally, they started to increase their profits substantially and to gain significant market share globally (Shioji, 2012). Although Japan automobiles' global market share has started to decrease in the last years, their success in the international markets is undeniable (Sentaku Magazine, 2018).
- **Gaining tax advantage:** Some countries may provide tax incentives to foreign firms and does not demand too much tax or even provide tax exemption. For example, Malaysia and Singapore, grant special tax incentives if the enterprise is a pioneer. To be able to be defined as a pioneer enterprise, either manufactured products or produced services should be unique and should not be already produced domestically, or should be highly beneficial to the country (Easson and Zolt, 2002).
- **Increasing the lifetime of a product:** A good or service may lose its importance in a domestic market. However, by entering a foreign market, that particular good or service may extend its lifetime by finding new consumers.
- **Increasing sales and profits:** By expanding the markets that an enterprise run business, new customers will be gained, which will lead increased sales and hence may end up with increased profits. For example, Nike, a U.S. based company, run its

business mainly in the Netherlands to stay close and to be able to reach around 200 million European easily and less costly. Not surprisingly, UPS, one of the logistics industry leaders, has announced expansion to Dutch market around November 2017. UPS will launch a new facility in Eindhoven, which will cost around 130 million Euros and accounts for the company's one of the biggest investments in Europe (UPS, 2017).

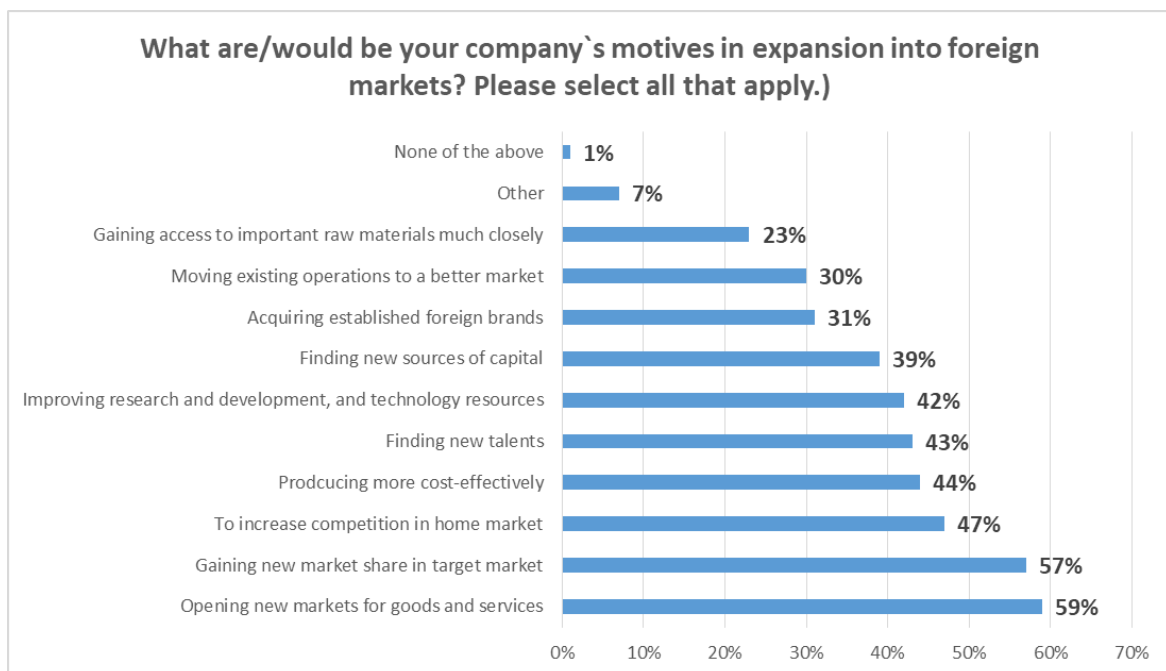
- **Providing diversification:** Entering a new foreign market may provide benefits to companies in terms of diversifying the customer and market portfolio as well. This may give a chance to a firm to mitigate its risks that may arise from a particular market. In other words, companies which operates international can have a chance to offset a negative result or even a loss in one particular market by being successful in another. For example, during the mortgage crisis around 2008 and 2009 which arose from the United States, led the Canadian exporter companies to be highly sensitive to the risks of existing in only one single foreign market. The crisis led the U.S. demand from Canadian firms to fall dramatically as well as the Canadian dollar to appreciate against US dollars, which led the Canadian exporters to suffer a lot. If the suffering firms have had other markets to trade with, they might had a chance to offset the negative consequences of the U.S. based crisis much easily (Export Development Canada, 2012). On the white paper that was published by the Export Development Canada (EDC) in 2016, it is stated that “Canadian companies have recognized the need to diversify and are taking advantage of evolving trade patterns that offer new supply, production and partnership opportunities beyond those of our traditional U.S. and European markets.” (EDC, 2016, p. 3). Moreover, market diversification enables an enterprise to mitigate not only the business risk and economical risk but also the political risk that may arise in a particular country.
- **New investment and partnership opportunities:** Enterprises, which consider expanding their market internationally, should take into account the possibility of reaching new foreign-based additional investment opportunities. Operating in a foreign market may give a chance to improve business networks and even may provide partnership that may end up with increased profit, decreased costs or even significant exponential business-wise growth.
- **Gaining competitive advantage:** Companies which choose international expansion may gain a competitive advantage than their competitors. Imagine that a company expand its markets where its competitors do not exist yet. This may provide a huge

advantage for expander company by being the first that can help either to build a strong brand awareness before competitors or accessing new technologies and innovations with the possibility of even improving operations globally (Rossum, 2017).

- **Accessing new skills/talents as well as learning new cultures:** Entering a new foreign market may give a chance for an enterprise to get access of potential employees with unique skills and mindsets that are difficult to find in the home country (Dynamic Language, 2014). Another benefit of a company might be to get a chance to learn new cultures which may bring diversity within the company ending up with variety of ideas, experiences and characteristics.

To illustrate the main motives of a company's expansion into a foreign market, in August-September 2015, Economist Intelligence Unit (EIU) with the sponsorship of TMF Group surveyed more than 150 senior executives who are involved in the process of their company's international expansion into foreign markets. Survey respondents were mainly the companies' CFOs, COOs, CLOs, CPOs, senior payroll executives etc. Moreover, 30% each of the respondents were from North America, Europe and Asia-Pacific, and the remaining 10% were from the rest of the world. Industries of these companies were selected very widely, including manufacturing, IT, professional and financial services, retailing, transport and tourism, construction and real estate, and energy.

Figure 1. Main drivers of international market expansion



Source: Economist Intelligence Unit survey, August-September 2015.

As seen on the above Figure 1, opening new markets and gaining new market share in the new targeted market are the most important motives of the enterprises. Following these two, increasing home market competitiveness, producing more cost-effectively, finding new talents and improving research and development as well as technology are motives that encourage the companies to expand internationally.

All the advantages of entering foreign markets listed above can be defined as enterprise-level advantages. However, it is not limited to only firm-level but also it has country-level advantages. International expansion of a local enterprise has advantages on both the domestic and the foreign economies. Especially, it will have a serious positive impact on the both local and foreign economies' developments. These positive outcomes are fulfilling manufacturing and resource shortages, finding market for a domestic market product that is on surplus, a broader and much wider market volume, increased and healthier competition, developing the domestic market demand and improved economic dynamism.

2. FOREIGN MARKET ENTRY STRATEGIES AND POSSIBLE BARRIERS ENCOUNTERED

2.1. Foreign Market Entry Strategies

We have mentioned in the previous chapter that there are differences between domestic and international markets. These differences have inevitable impacts on the foreign market entry decisions in terms of marketing strategies. Hence, enterprises amend and adapt their domestic market strategies to the international markets to be able to successful, and after careful and detailed analysis, they need to make a strategy choice which fits best for their firm's character and needs.

If a company is willing to expand its business to the international markets, an entry strategy have to be decided upfront, and this decision should be taken by considering market potential, enterprise's capacity and market's needs. Which strategy could be more profitable question depends on the enterprise's own business field and the character of the market generally. Moreover, an enterprise while entering the market should take into account the quality of its products or services, available resources of the firm and how to connect these resources to the necessities of the market. Regarding the possible entry options, "Exporting" that needs minimum level of commitment and resource allocation, "Foreign Direct Investment" which needs the highest resource-wise and effort-wise investment, and "Contractual Entry" strategies that stands in-between these two different types could be listed. What should be carefully considered here is that although foreign direct investment is seen as the most risky option, it provides the highest return and maximum possible control during the new market entry (Cateora and Graham, 1999). It should not be forgotten that enterprises, while entry into the international markets, should pay attention to the following two factors: the control in the market that is created by the entry strategy and the resources of the enterprise (Ertman, 2006).

2.1.1. Exporting

A lot of enterprise have been choosing “Exporting” as an entry strategy. Given the facts that exporting needs minimum commitment and capital allocation, it is found to be the safest and least-resource-demanding strategy than the others. Exporting can be defined as the trading activity of a local firm in a foreign market within the framework of exporting and custom laws. As another definition, according to Cengiz et al. (2003), exporting that demands lower administrative and financial resources than the other market entry strategies, is the presentation and selling activity of domestic products or services in an international market.

Many countries and their markets do not provide enough growth opportunity for domestic manufacturing. However, exporting may help the manufacturers to utilize the economies of scale by enabling the local firm to sell its products at higher volumes in different markets as well as giving a chance to expand its vision globally by learning.

This thesis will try to illustrate a Turkish local leather manufacturer’s journey during the entry to the Czech market in the following chapters. Hence, this Turkish manufacturer could be defined as an exporter company by the Turkish authorities and Government of Turkey provides numerous incentives to the exporters in order to boost the country’s economy. For such an economy, which is import-vulnerable like Turkey as an emerging or say developing market, improving the export activities for sustainable and economic growth is crucial. Effective as of 1 January 2012, Turkish Ministry of Trade announced the “Investment Incentive Program” which includes tax and customs duty exemptions and refunds, supports for social security premium, interest support and free land allocation (Invest In Turkey, 2012). In the macroeconomic point of view, these incentives provide not only an opportunity to fix the current account deficit problem that Turkish economy has been facing for decades but also give a chance to decrease the unemployment rate and add more value to the economy as well as reducing the regional differences in the country.

During the international expansion, companies have two different types of exporting to choose. These are indirect and direct exporting.

2.1.1.1 Indirect Exporting

Indirect exporting, as it can be guessed from the word “indirect”, means selling to an intermediary in the local market, which then sells the indirect exporter firm’s goods in the international market. As mentioned above, exporting is the safest strategy with minimum commitment and capital allocation needs, but indirect exporting particularly is the safer way of exporting. It enables the firm to have minimum involvement in the exporting activity and provides a couple of advantages such as no responsibility for payment collection from the foreign (importer) company which could create a receivables collection risk, or even default risk of the counterparty, and no need for the marketing activities, logistics planning and shipping etc. Although this form of exporting does not let the manufacturer company to be able to get to know its customers by losing the control in its foreign sales activity as well as lowering the profit as opposed to direct exporting, it is commonly used by the companies which have no expertise in foreign trade or knowledge about foreign markets, have limited capacity to grow or have non-competitive products.

- **Export Management Companies:** These companies act as an intermediary for the firm willing to expand to international markets and sell its products in abroad. They enable the indirect exporter firm by creating new and foreign distribution channels, introducing products to new markets as well as creating and increasing brand awareness. In other words, they connect manufacturers to the global markets as one of the most famous export management companies in the world, Frederick Export defines. They provide a variety of services such as marketing research, advertising, channel and distribution management, exhibiting at international trade shows logistics and warehousing, customer relationship management, legal and tax consultancy etc.
- **Export Trading Companies:** These companies are also intermediary and acting almost the same role like Export Management Companies. However, they generally work on a more demand-driven basis. The possible demand in the market may make the trading company to act as a business partner of the firm and even may lead to involve in investing activities in case any need to make the business partnership more successful and profitable. Another difference of Export Trading Companies from the Management Companies is that they tend to have customers with more

long-term relationships for whom they source products on a much more regular basis (Delaney, 1998).

- **Export Associations:** These associations are basically exist for easing the exporters business. They mainly collaborate with exporters to share their expertise, networking and provide consultancy. Two examples of well-known export associations are The British Exporters Association (BExA) of UK and American Association of Exporters and Importers (AAEI) of USA.
- **Piggyback Exporting:** This form of intermediation enables the exporter company to utilize a larger foreign company's already established distribution system. Foreign company acts on behalf of the exporter company during the selling and marketing activities in its own market. Although this type of market entry strategy does not let the exporter much control and huge profits as opposed to other way of entries, if the exporter does not feel confident about international marketing and trade or has lack of experience in this field, it could be fast and accurate option of an international expansion.
- **Commissioners and Foreign/Local Merchants:** In this form of intermediation, market entry is being held in an individual basis rather than building a partnership with much more commitments as with the Export Trading or Management Companies and Piggyback Exporting. Rather, individual commissioners approach the local manufacturer individually to perform foreign market entry and sell and market the local manufacturer's products, or vice versa.

2.1.1.2 Direct Exporting

As opposed to the indirect exporting, enterprises have a couple of business connections in abroad and also establish an exporting division or department specifically handling only the international trade activities. Moreover, direct exporting requires an in-depth expertise and specialization. With the support of this expertise and strong business connections, enterprises are able have more control over the foreign trade activity as contrast to indirect exporting (Hennessey and Jeannet, 1988).

Direct exporting is a widely used strategy as it provides several advantages such as higher chances of making more profits than indirect exporting, more hands-on approach, wider market to be able to sell great variety of locally-manufactured products, greater expertise in

the foreign market and learning possibility to achieve stronger and sustainable growth. Although it may lead higher expenses and demands much more effort and control on the whole trade activity and all transactions, it generates a much more confidence to the enterprise in the foreign market. What is important to keep in mind is that, eventually, all the business decisions are exposed to some risk and a reward in the exchange of that risk. In direct exporting case, it is obvious that the strategy will be much more costly than the indirect one, but at the end of the day, the possible reward, say profit, will be much higher as well as the probability of the market entry success.

An enterprise could use direct exporting as a foreign market entry strategy in the following different forms:

- **Locally-located Exporting Division:** Trading activities are being held by a department which is located in the manufacturer's local location.
- **In-abroad located Distributors or Agents:** In order to market and sell its products or services, enterprises may either establish or build a partnership with an abroad distributor or agent. These distributorships are not owned by the local manufacturer and may have either broad or limited control over the manufacturer's product or let's say brand.
- **Overseas Sales Branch or Affiliated Trading Company:** As opposed to in-abroad located distributors, Overseas Sales Branch enables the enterprise to have more control on the whole foreign sales activity and the branch is ultimately owned by the local manufacturer enterprise and can be defined as an affiliated Trading Company. This branch or affiliated company may be responsible of both sales and distribution activities as well as warehousing, fairs and customer relationship management for foreign customers.
- **Mobile Exporting Representatives:** Locally-located export sales representatives may be assigned as mobile and can be responsible from the foreign sales activities by visiting foreign countries to perform the sales.

2.1.2 Contractual Entry Strategies

Another way of foreign market entry is the contractual entry strategies, which can be defined as long-term contractual agreements between local manufacturers and foreign enterprises. These contractual agreements enable the enterprises to transfer technology, processes, labor capabilities and human resources, brand culture, quality management and business mentality between each other. (Cateora and Graham, 1999).

Contractual entry strategies consist of seven different forms. These are licensing, franchising, subcontracting, contracted manufacturing, turnkey operations, co-production agreements and management contracts.

2.1.2.1 Licensing

License agreements is one of the widely used contractual entry strategies. Licensing is basically an agreement signed between two parties. These two parties are named as “Licensor” and “Licensee”. According to this agreement, licensee is able to produce licensor’s products as well as authorized to use the name, copyright and patent rights, processes, supply chain or distribution strategy etc. Generally, licensee pays a royalty fee to the licensor in the exchange of the usage all of the mentioned rights. According to Cengiz et al. (2003), this royalty fee depends on both the agreement’s time length and brand value as well as the licensee’s home country’s local economic conditions.

Under licensing agreement, patent rights, trademark’s usage rights or manufacturing information of the particular products are shared with the licensee by the licensor, and licensee commits to use the licensor’s brand as per the agreement as well as undertakes not to breach the contract.

Among the contractual entry strategies, licensing could be defined as the least profitable one, however, it is less risky than the foreign direct investment that this thesis will mention separately in the upcoming pages. Besides, licensing enables the enterprise to have an advantage in terms of the custom tariffs as well as quotas that could be imposed to some particular product’s exporting activities (Cateora and Graham, 1999).

Another point of licensing that deserves to be mentioned is that licensor does not limit its revenue with the royalty fee taken from the licensee. There are other fees, which could be obligatory for the licensee under the contractual agreement such as:

- Technical aid
- Raw material or spare parts
- Technological feedback
- Engineering or mutual licensing fees
- Machine or equipment fees

A possible drawback of the licensing strategy could be the reputation risk of the licensor's brand that may arise. Licensee may not have the same expertise or even the same appetite about the brand as the licensor has or pays the same attention to the brand as licensor does. Licensee may not pay attention to the brand value and its reputation as much as licensor does. This arises a reputation risk for the licensor's brand and the brand may have a worse perception by the customers in the foreign market.

As example of a licensing, probably, Walt Disney may be defined as the most perfect example. The company earns its substantial amount of revenues from the license agreements. Numerous of its cartoon characters and movies are being sold as consumer products by the licensees of Walt Disney. According to CNBC's news (Handley, 2017), the company made \$56.6 billion from the licensed merchandise in 2016, which was \$4.1 billion more than in 2015.

2.1.2.2. Franchising

Franchising, which is quite similar to licensing in some aspects, is another form of foreign market entry via contractual agreement between two enterprises. One of the enterprises that sells its brand called "Franchisor" and the other enterprise that buys the brand's right called "Franchisee". In this form of contractual agreement, franchisor lets the franchisee to use its brand name and manufacturing concept as a whole in the exchange of a pre-defined fee. In other words, franchising is a special licensing agreement that lets the franchisee to use the franchised brand's logo, trademark, products and operations management (Hennessey and Jeannet, 1988).

In another perspective, franchising is a mutual business agreement. While franchisor feeds with its know-how, system and expertise as a whole by also providing trainings, franchisee puts its knowledge about market, capital, management and effort on the table to make the business profitable and successful (Cateora and Graham, 1999).

With the support of franchising, enterprises have a chance to enter a foreign market rapidly. Entrepreneurs that has experience and knowledge about the local market are selected and this strategy lets the franchisor not to struggle with the retailer-level daily routine activities. Hence, working with a franchisee enables the franchisor to decrease the risk in expanding internationally to the possible minimum levels. Moreover, it is one of the most proper ways of increasing the market share globally with less amount as opposed to foreign direct investment as well as it may limit or eliminate the chance of being imitated as a brand or product.

As per Cengiz et al. (2003), main differences between licensing and franchising are as follows:

- Licensing agreements are generally regarding particular products or sometimes even about one product, while franchising mainly covers the whole business concept.
- Licensing agreements give more freedom to the licensee, while franchisees are strictly tied to the franchised brand's rules and regulations to be able to run the business.
- License agreements tend to have longer negotiations upfront since licensees try to use their strength in market and knowledge as a bargaining power, while franchisee's hand is not that strong and may end up accepting the terms and conditions of the franchisor.

As an example of successful franchises, McDonald's takes the lead for years and runs business in more than 100 countries around the globe. At present, McDonald's has around 37,000 restaurants where only around 15% are company-owned and the rest are franchised. According to Franchise Direct, seven of the major food industry players enjoy being in the top ten positions in the famous Top 100 Global Franchises 2019 List (Retrieved from: <https://www.franchisedirect.com/top100globalfranchises/rankings>).

2.1.2.3. Subcontracting

Subcontracting is a contractual agreement that lets the exporter enterprise to have its facility fully ready for operation and to be designed, constructed and fully-equipped by a subcontracted foreign enterprise. Subcontracting is also named as turnkey projects. This form of entry is widely used by industrial enterprises, and commonly construction and industrial heavy-equipment companies prefer to make their factories or residential buildings and sites to be built by the subcontractor.

2.1.2.4. Contract Manufacturing

Contract manufacturing is another way of entering into foreign markets. In this form of market entry, the enterprise that is willing to internationally expand, agrees with the local enterprise and let its products to be manufactured locally. This contract only gives the manufacturing right but not the marketing or sales activities.

Contract manufacturing is also known as outsourcing and does not bind the enterprise to sell the manufactured products only in the local manufacturer's market. In most cases, main motivation to choose contract manufacturing is the cost minimization. Enterprises tend to choose cheap labor force countries in order to have a comparative advantage. However, there are other possible savings than labor cost, which can be listed as tax advantages, lower energy and raw materials costs etc. (Kotabe and Helsen, 2010).

Many enterprises utilize this form of market entry and Apple is a famous one of them. The company has made its decision many years ago to produce its products via contract manufacturing in foreign countries. At present, Apple works with four different contracted manufacturers which all located in Taiwan and have several factories based in China, Malaysia, Mexico and many others cumulatively employing more than 500,000 people worldwide. Main motivation of Apple to select this entry strategy is mainly to utilize low-cost labor force, cheap raw material and taxation benefits where all enables Apple to reach higher gross margin.

2.1.2.5. Assembly Operations

In the assembly operations strategy, an enterprise produces some or majority of its product's parts in home country, but then sends these parts to another country for the assembly purposes to reach the end-product. Primary motivation of this strategy rather than doing direct exporting is the fact that assembling parts or all the inputs in a foreign market is much less costly than directly manufacturing and exporting the end-product in the brand's home country. Another motivation could be the tax and customs tariff advantage of spare parts and inputs as opposed to whole end-product.

Assembly operations strategy is widely used by the motor vehicle companies. For instance, Renault, which has an affiliated company named Oyak Renault in Turkey, produces variety of Renault models by assembling the bodywork of the car with in-abroad-manufactured spare parts to reach the final end-product. Indeed, this strategy does not only bring tax, customs, logistics or labor cost advantages to Renault, but also creates an enormous positive impact on the Turkish economy. Turkish automotive sector contributed to the economy with 31.5 billion dollars of net exports in 2018, which constitutes around 19% of the Turkey's whole net exports (Dailysabah, 2019).

2.1.2.6. Management Contracts

Management contracts is another form of contractual market entry strategy. In this form, a local firm provide knowledge transfer in terms of management to the foreign enterprise that supplies the capital to run the business in subject. Local enterprise is responsible of managerial activities rather than working on the product or service itself and this type of contracts are common in hotel management. For instance, Hilton Hotels & Resorts prefers to run its hotels and facilities with management contracts in all over the world (Kotler and Armstrong, 1994).

Management contracts are mainly used when the foreign company has better know-how or expertise in its own area than the actual owner of the business. These agreements contain a fee paid to the business owner in the exchange of the management services. However, the fee can either be a dividend or commission from the revenues, or percentages from the profits, too.

Although management contracts enable the enterprise to enter a foreign market fairly simple with less risk, in the long-term perspective it may not be as much profitable as franchising or licensing. Moreover, the enterprise may use this form of market entry as an opportunity to get to know the new market, but at the same time this strategy may arise a risk of your local contractor to get to know your business and to expertise on the field, too.

2.1.3. Investment Entry Strategies

Among the foreign market entry strategies, investment entry is the strategy that enables the enterprise to get the highest return in the exchange of higher risk involved. As opposed to the indirect and direct exporting as well as contractual entry agreements, investment entry requires more capital injection and needs more involvement in all the transactions of the trade. Main motivations of enterprises to prefer this strategy are more control on the trade provided and higher market potential.

Enterprises tend to strengthen their market share in both horizontal and vertical ways. Horizontal investments aim is to sell the locally-manufactured products in the foreign markets. For example, Electrolux, which is a Swedish multinational home appliance manufacturer, used foreign direct investment strategy with their investments in the Central Europe and Asia in the last 15 years. On the other hand, vertical investments are mostly in the purpose of raw materials or other inputs' procurement for the enterprise's main manufacturing activities (Hill, 2004).

Investment in a foreign country as an entry strategy can be performed in three different ways: by constructing or establishing the business facilities from let's say scratch that is called "greenfield strategy", by buying the ready-to-operate facilities via "merger" or "acquisition", and lastly by building business partnership with a local enterprise that is called "joint ventures".

2.1.3.1. Foreign Direct Investment

Enterprises that have already gained the necessary experience in terms of exporting and think that the targeted market have enough potential as well as growth, may choose the foreign direct investment strategy in order to create advantages by building assembly or direct manufacturing facilities (Kotler and Armstrong, 1994).

Main driver to utilize this entry strategy by an enterprise is to understand the demand for its products or services and indeed to be quite sure about this demand level in the targeted foreign market. Reasons behind this requirement are that the foreign direct investments are more serious and involved approach than the other foreign market entry strategies in all aspects and the allocated capital for the investment is enormous.

Foreign direct investments' advantages can be listed as following:

- Savings arising from both low-cost labor force, raw materials and logistics as well as the possible investment incentives in the targeted foreign country
- Expanding distribution and logistics channels as well as improving the relationship with local government and authorities that have positive impacts on the adaptability of the enterprise's product's or services' into the local market
- Building positive image towards the enterprise since the foreign direct investment is a high-scale investment and creates additional employment as well as provides technology and long-term financing to the especially developing economies
- Providing risk diversification for especially multinational enterprises by giving a chance to diversify the business portfolio
- Enabling to set long-term business goals by having much more control than any other entry strategy that lets the enterprise to plan whole manufacturing and marketing strategies and policies

There are also possible disadvantages of the foreign direct investments. First of all it may arise a couple of risks. Foreign market's local monetary and fiscal policy changes, political risks that may arise due to the political instability or possible government changes, and financial risk that may occur due to foreign exchange depreciations Hence, enterprises tend to make foreign direct investments in the countries which have both political and economic stability. On the other hand, countries try to eliminate the bureaucratic boundaries and

decrease the risks that may arise and is exposed to foreign investors. These kind of efforts inevitably creates savings advantages and multinational companies like Hyundai for example, choose this strategy to enjoy the costs savings arise from manufacturing abroad. Hyundai particularly entered into the Turkish market in 1990 once the neo-liberal policies have been imposed by the Turkish government in late 1980s. Only seven years later than the entrance as a direct exporter, Hyundai built its first manufacturing plant that is a profitable foreign direct investment for both the country and the company. This strategy of Hyundai is a clear example of “greenfield investment”, which is basically constructing the plant or factory from a scratch and start the business in Turkey from no premises for manufacturing purposes.

Foreign direct investments does not only provide benefits to enterprises but also to economies especially that are defined as developing and medium-scale like Turkey and Czech Republic respectively. For example, Turkey has enjoyed substantial improvement in its foreign direct investment inward flow. It has increased by 633% in the last 15 years, from 1.8 billion dollars in 2003 to 13.2 billion dollars in 2018. (Tradingeconomics.com, 2018).

2.1.3.2. Merger and Acquisition

Merger and acquisitions as a form of foreign direct investments, which can be defined as a faster way to enter a market rather than greenfield investment, does not require building the manufacturing or services facility on your own as an enterprise. In many cases, merger and acquisitions are confused with each other. Acquisition itself represents the share sales of a company in the controlling interest that lets the acquirer company to act independently on its decisions. On the other hand, merger means combination of two or more companies to act as one individual company. For example, in 2006, telecommunications sector giant Vodafone acquired Telsim, which is one of the only three players in the sector in Turkey, and in those days were the second in the market (Vodafone, 2006). Primary motivations of Vodafone’s acquisition decision are the fact that Turkish telecommunication sector was offering huge profit as well as market share potential and market entry for Vodafone was extremely fast. In only six months, all the procedures regarding the acquisition were completed. The old company Telsim’s name changed to Vodafone Turkey and started the business immediately.

An enterprise can choose the acquisition strategy for many reasons. These can be listed as major growth opportunity in the foreign market, geopolitical diversification to diversify the business risk, increasing the variety of services or products, buying strategic tangible or intangible assets, technology transfer etc. On the other hand, acquisitions arise many advantages to an enterprise such as faster and easier penetration into a new foreign market with maximum control in the operations as mentioned above in the Vodafone's acquisition in Turkey, gaining local market and business knowledge as well as local management disciplines and governmental connections which may provide benefits for the acquirer enterprise, obtaining the expertise in both labor-wise and manufacturing point of view etc. Besides its numerous reasons and advantages, there are 4 different forms of acquisitions, namely horizontal, vertical, concentric and conglomerate:

- **Horizontal:** Acquisition of a company with similar product line and market
- **Vertical:** Acquired company is to be a supplier of a specific input, or be the customer of acquired enterprise
- **Concentric:** Acquired company running business in same market but has different technology or having similar technology and operating in a different market
- **Conglomerate:** Acquired firm operating in a totally different sector than acquirer

Merger is another form of foreign direct investments and means consolidation of two or more companies into one as an individual stand-alone company. However as opposed to acquisition, merger has 3 different forms: horizontal, vertical and conglomerate (Straub and Attner, 1985):

- **Horizontal:** Merged companies manufacture similar products and main motivation of merger is to increase the market share and decrease the competition in the market
- **Vertical:** Merged companies could have similar products but have completely different strategies in both manufacturing, selling and distributing the products
- **Conglomerate:** Merge of the companies that are operating in completely different markets and manufacturing different products or offering different services

2.1.3.3. Joint Venture

Joint ventures are another form of international form of foreign direct investments. It is widely popular way of international expansion since it gives foreign investor the ability to share the control and ownership of the new venture. This form of entry is mainly being chosen due to the economic or political reasons. A local enterprise might not find sufficient financial or resource-wise strength and operational or managerial expertise to enter a foreign market. On the other hand, governments could oblige foreign investors to build this form of partnership with the local enterprise to enter the market or the foreign market might have extra tariffs or quotas for importing activities for the local enterprise (Kotler and Armstrong, 1994).

The important point of this form of entry is the operations control issue between two partners. Even though joint venture is kind of similar to licensing as a way of market entry for manufacturing firms in terms of cooperation between local and foreign enterprises, it has a big difference in ownership mentality due to the fact that both firms have interest in ownership and has a right to intervene to the management decisions. Important thing here is the relationship between the international partners should be healthy and none of them should take an important business decision on their own and without getting the other ones thoughts or approval.

Joint venture's advantages can be listed as risk mitigation during the foreign market entry and the positive addition of local firm's expertise on raw material, market, consumers, distribution channels etc. A successful joint venture could be established by summing up these intangible resources and the capital in the best way which enables both parties that cannot afford all the needs for this kind of an investment (Kotabe and Helsen, 2010).

2.1.4. Strategic Alliance

Strategic alliances can be defined as a special form the joint ventures. It can be established by two or more companies having the same purpose, which can be growth, increasing the market share or to gain expertise in a new field like technological know-how as well as to ease the distribution with lower costs. Major industries preferring this kind of market entry are automotive, technology and airline industries, in which the global competition is extreme as well as the demand for capital and know-how is highly crucial. KMPG (2018)

conducts a survey with more than a thousand CEOs in biggest 11 economies of the world to illustrate the leaders' appetite on growth specifically international expansion or partnerships. According to the survey, 33% of the CEOs is interested in strategic alliances in the upcoming years while 16% might consider merger and acquisitions and 13% joint ventures. It is stated in the report that enterprises are able to add extra capabilities to perform better in the long-term or improve their value chain in the future by establishing strategic alliances, while mergers and acquisitions seem to be beneficial for strategic asset purchases in many cases.

2.2. Foreign Market Entry Barriers

International trade certainly has advantages in both micro and macroeconomic point of view for both the countries and enterprises. However, there are many obstacles and burdens of during the export and import activities in practice. In some cases, governments implement measures to restrict importing for some particular products in order to protect local enterprises in a particular sector as well as support some sectors via subsidies to keep an important sector alive. Moreover, especially emerging countries tend to implement precautions to protect their newly-established or strategic sector from the cruel international competition. Inevitably, all of these measures lead barriers during the foreign market entry. These barriers can be summed up in two topics in general: political and legal, and cultural and social barriers.

2.2.1. Political and Legal Barriers

Every country has different way of running and ruling the business, hence different priorities as well as different point of view for foreign investors. These differences lead many problems by creating barriers for the enterprises. Especially, political and legal barriers may have restriction effect on the trade between two countries. These barriers can be listed as customs tariffs, non-tariff barriers, embargos, boycotts, foreign currency controls and domestic support obligations.

2.2.1.1. Customs Tariffs

Customs tariffs are the oldest and the simplest one of the trade policies and tariffs. These tariffs are applied to the imported goods leading both the domestic enterprises due to the protection against foreign companies and the country itself due to the tariff revenues on the imported goods. In both EU and Turkey, imported goods are being taxed as per ad valorem tariff meaning that all the duties and related charges levied on the basis of the product's value no matter what the its quantity, weight, size etc.

2.2.1.2. Non-Tariff Barriers

Governments are not only implementing customs tariffs but also utilizing non-tariff barriers to protect the domestic enterprises from the severe global competition. Non-tariff barriers are the measures to protect the domestic economy other than tariffs as can be understood from the name. These barriers can be summed up in 5 general topics namely quantity restrictions such as quotas and import prohibitions, voluntary export restraints, prices controls and monitoring.

Quotas: It is basically retriecting the quantity of the import in order to limit the quantity supplied with imported goods. The primary purpose is to protect the domestic economy and specifically local currency, domestic manufacturers and employment (Kotler and Armstrong, 1994).

Import Prohibitions: It enables the country to totally forbid a particular product's import. This barrier is regulated by GATT and it is only allowed at the times of public security or health. This way of barrier also enables the government to control outflow of the limited foreign exchange reserves by banning very luxurious or unnecessary products for the economy.

Voluntary Export Restraint: It is an agreement between the exporter and importer countries in order to restrict the exported volume or quantity (Cateora&Graham, 1999), which is quite similar to Quotas. For instance, in the 1980s, Japanese automotive industry has agreed to voluntarily restrict its exports to both US and England to be able to prevent both governments' possible customs tariffs implementation for their Japansese car imports. That's why, it is called voluntary restraints in the exchange of possible worse outcomes.

Price Controls: This way of barriers consists of additional variable taxes like *advolerem*, minimum sales price and voluntary export price regulations. In minimum sales price regulation, no matter what the imported product's price is, it is being sold at the domestic product's price level by levying with *advolerem* in order to control the increase of import. In the voluntary export price, a mutual agreement is signed between exporter and importer to set the imported goods price.

Monitoring: This barrier is due to the investigating activity of quantity and prices of the importing goods leading slow-down of the importing. By this, especially quotas, minimum price regulations, voluntary export quantities can be detected. Additionally, it is useful for detection of dumping, which is defined as the selling of a product in foreign market below its actual costs. Countries tend to use dumping in order to gain new markets or to get rid of their production surplus. However, governments are very sensitive against dumping and implement high anti-dumping taxes or compensatory subsidies to domestic enterprises. According to GATT, dumping activity have to be proved via investigation to be able to implement anti-dumping taxes by the country.

2.2.1.3. Embargos

Embargos are the prohibition activity of a country or a specific product completely. For example, United Nations implemented an embargo on Iran due to the nuclear manufacturing activities and prohibited supplies for uranium and nuclear ballistic missile production.

2.2.1.4. Boycotts

Boycotts are generally implemented due to a political or strategical conflicts between two or more countries. For example, as a retaliation to the sanctions of Arab League's sanctions against Israel, US Treasury announced boycott against these Arab countries on February this year (<https://www.govinfo.gov/content/pkg/FR-2019-02-06/pdf/2019-01136.pdf>).

2.2.1.5. Foreign Currency Controls

Foreign currency controls are one of the most unpopular barriers to encounter during the market entry since they are quite outdated way of trade barriers especially in the age of free trade. By this way, a local government may set the foreign currency rate and in most cases underrate the actual. Hence, an exporter's profit may be much lower than expected. Although it is quite uncommon in today's global trade atmosphere, it worths keeping an eye on the government's policies and tendencies especially if the traded country has low institutionalization and less trustworthy government.

2.2.1.6. Domestic Support Obligations

Domestic support obligations are frequently used in emerging economies by keeping the foreign investor's manufacturing facilities in the local market in order to strengthen the added value to the economy, especially employment. In other words, foreign enterprises are obliged to produce reasonable part of their end-product in the domestic.

2.2.2. Cultural and Social Barriers

Enterprises planning to enter a foreign market should definitely pay attention to the sociocultural factors and possible barriers that have an impact on the consumers' buying decision in the market. Especially, culture, language, social norms, traditions, education and religion play a very significant role on shaping the marketing and trade standards in the particular country. It is very likely to face failure if an enterprise does not carefully analyze all these aspects before the market entry. Although language barriers could be overcome with the support of today's technology for almost-simultaneous translation applications, culture should be highly paid attention. For example, Japanese people tend to use body language around 70% during a communication, while in United States communication is being held orally around 70% (Straub&Attner, 1985: 571). Even colors differ from culture to culture. For instance, blue is the symbol of masculinity in Sweden, while on the contrary it represents femininity. Therefore, it is important for an enterprise planning to create a new logo for its brand at a new foreign market, definitely should take these into consideration.

Education level should also be analyzed before the market entry. If an enterprise sells a complex product, it could be difficult for its new consumers to get used to or understand the product easily. For example, in countries like Germany and Japan, people can adapt the new developments much earlier and easier than other countries with the support of the better education system. Moreover, both education level and religion can sculpt the culture could have an impact on the women`s role in the society. In low-educated and religious countries, women tend to have a mother role as opposed to the developed countries. Hence, the consumer behavior and needs of women change substantially between these kinds of countries.

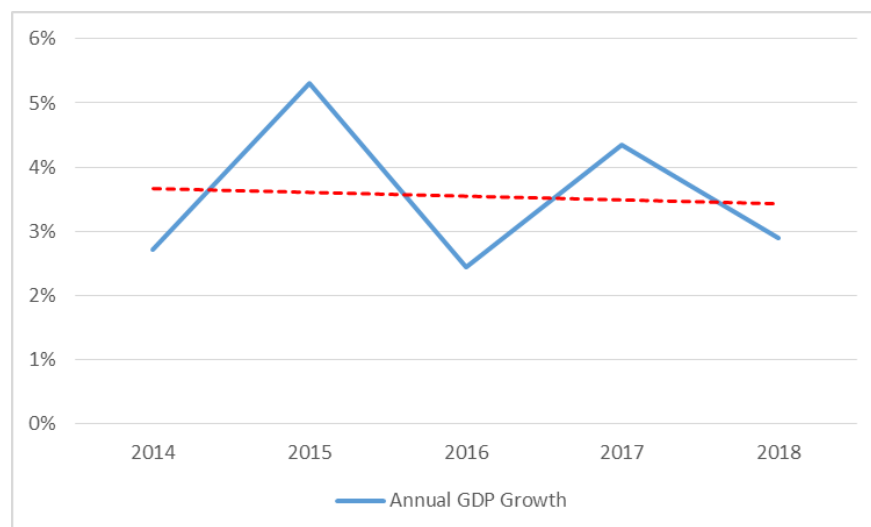
3. CZECH MARKET OVERVIEW

Czech Republic, or by its new short name Czechia, is located in the Central Europe, and bordered by Germany on the west, Austria on the south, Slovakia on the east and Poland on the north and northeast. Czech Republic's official currency is called Koruna since the establishment of the country in 1993. Although the country is a EU member, country hasn't joined the Eurozone yet and a mutual agreement between EU and Czech Republic has been made to switch the country to Euro at the best possible time economically. In this chapter, Czech market is analyzed respectively in terms of economic, social and cultural, demographic and technological factors that may have impact on Turkish leather manufacturer planning to enter Czech market.

3.1. Economic Facts

From the macroeconomic point of view, Czech Republic has a strong position among the Central and Eastern European economies, or so-called Emerging Europe economies. In 2018, Czech Republic's Gross Domestic Product (GDP) is around 242 billion USD (5,310 billion CZK), which makes the country the 46th biggest economy in the whole world and 3rd within its peer group that is being led by Russia and followed by Poland. Back in 2016, it was ranked on 50th position and in 2017 on 48th, which shows a clear signal of a growing economy.

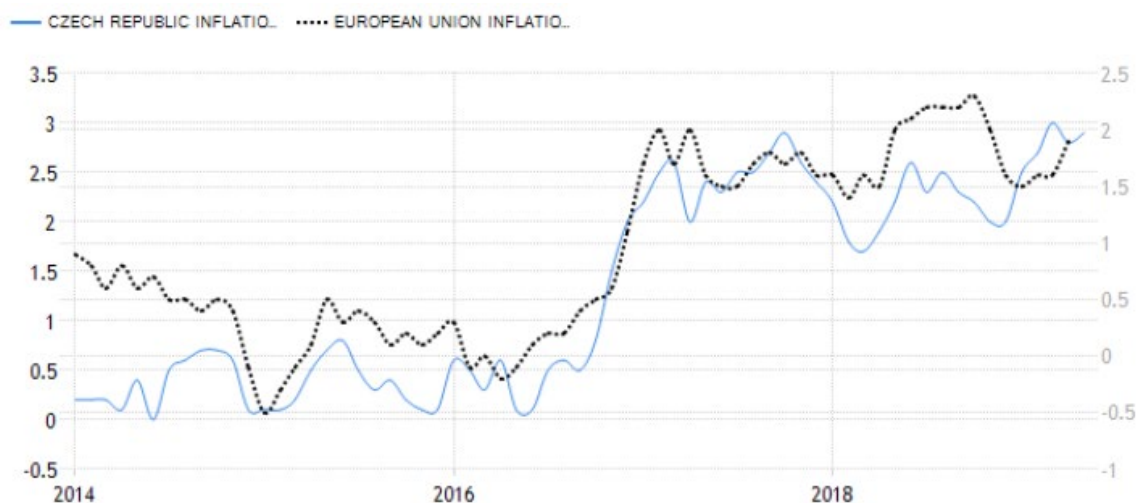
Figure 2. GDP Growth of EU average and Czechia



Source: World Bank. <https://data.worldbank.org/country/czech-republic>. 2019.

Regarding the inflation, Czech Republic has slightly underperformed than the European Union average of 1.9% and the consumer prices increased around 2.5% in 2018. However, as can be seen on the below Figure, historically Czechia's inflation was in line with EU average. After the second half of 2018, it started to increase and exceeded the EU's level.

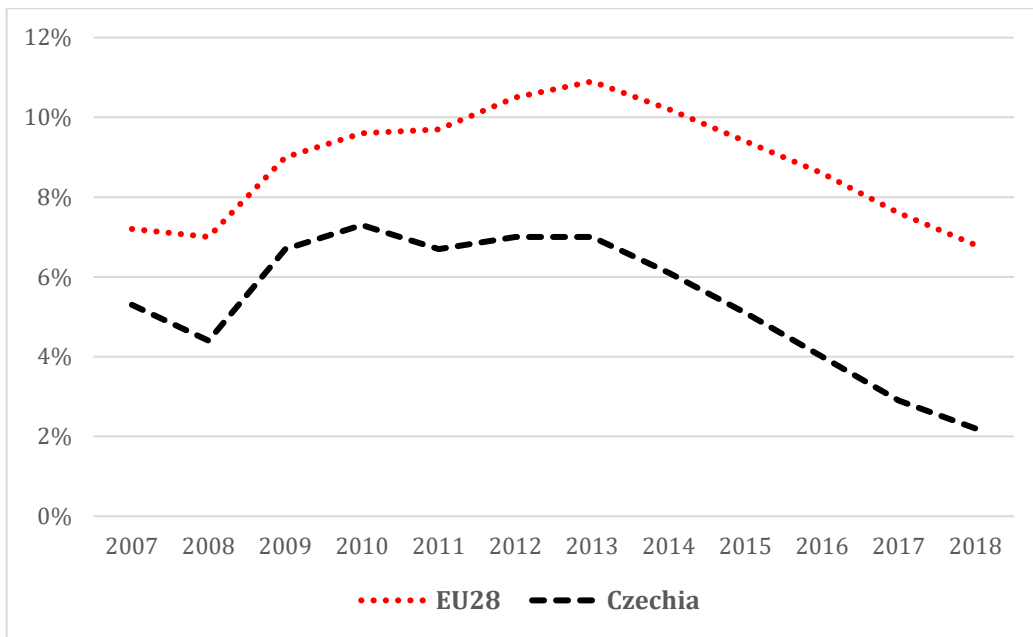
Figure 3. Inflation of EU average and Czechia



Source: [Tradingeconomics.com/Czech-republic/inflation-cpi](https://tradingeconomics.com/Czech-republic/inflation-cpi), 2019.

Although Czech economy contributed in a negative way to the EU's average inflation rate, it has a very serious positive contribution to EU's average in another significant indicator: unemployment rate. On the Figure 4 below, the progress of unemployment rate for both 28 EU member countries average and Czechia particularly is illustrated. Thanks to the nature of Czech economy, it is always better than the EU average regarding the employment in the last decade, but since 2010 Czech Republic's figure has been positively diverging from the EU's figure. The latest annual unemployment rate from the year 2018 is 2.2% for the Czech Republic which is the lowest rate within the whole EU, while the EU's average is 6.8%.

Figure 4. Unemployment of EU average and Czechia

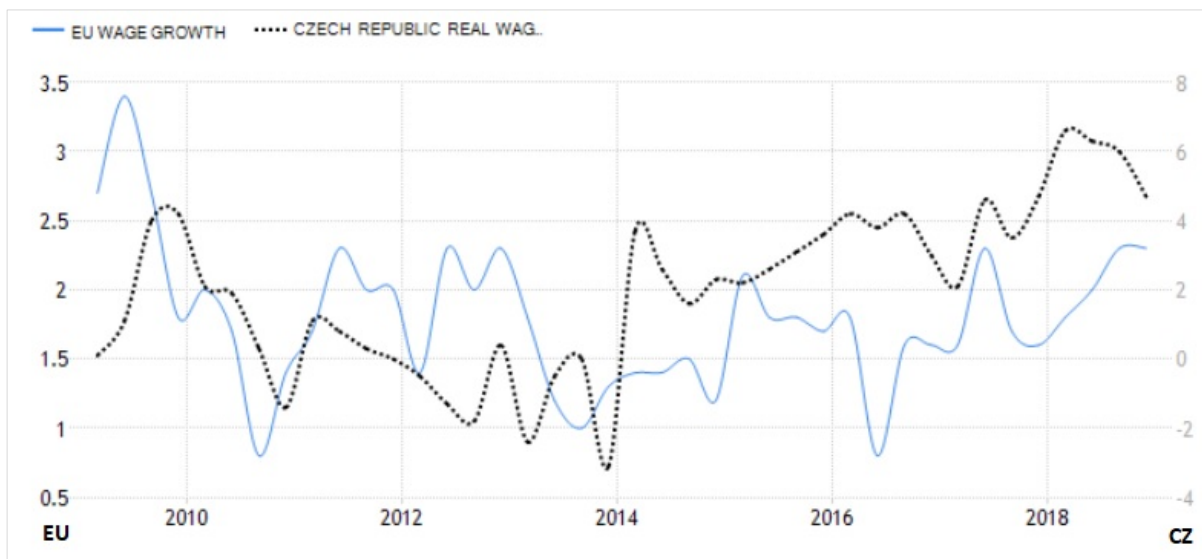


Source: ec.europa.eu/eurostat/tgm/table.do?tab=table&language=en&pcode=tps00203, 2019.

Czech Republic has not only the lowest unemployment rate within EU but also has the lowest “youth” employment rate, which takes into account only the people between 18 and 25 years old. While Czech Republic has 6.1% youth employment rate and is the second after Germany with 6% as per the January 2019 data, EU average is 14.9% and Italy and Spain the rate exceeds 30% (Statista, 2019)

As mentioned above, Czech Republic’s currency is Koruna and is around the rate of 25.80 on May 2019 as opposed to EUR, which indicates that Czech Koruna is less valuable than EUR not surprisingly. However, Czech republic has a big advantage in terms of wage growth and income inequality figures compared to both EU average and any European country. On the below Figure 5, both EU average and Czech Republic’s wage growth can be seen as percentage. Since 2014, Czech Republic has enjoyed a substantial increase in wage growth from 4 to 6% each year, while EU average has stayed around 0 to 3% and even decreased by 3% around the second quarter of 2016. As per the latest data from the first quarter of 2019, monthly average net wage is around 24,500 CZK.

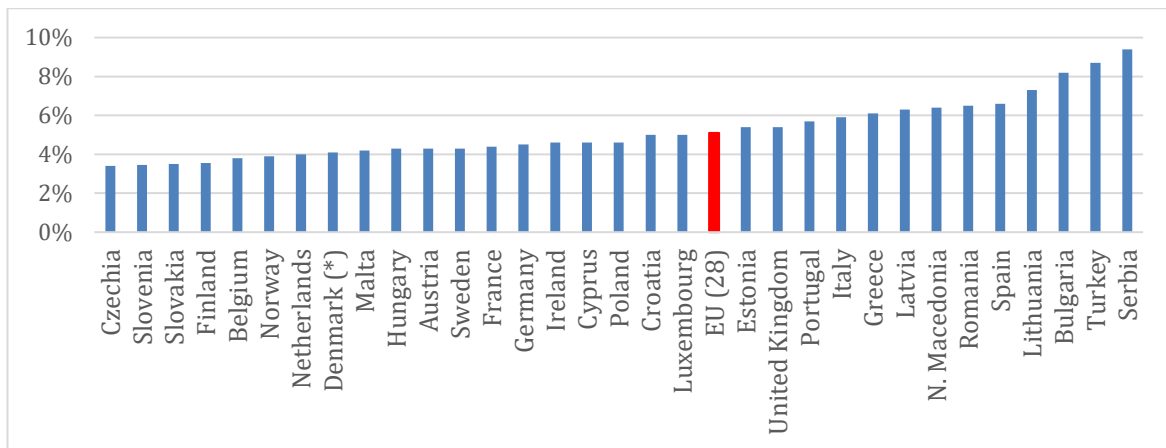
Figure 5. EU and Czechia Wage Growth (%)



Source: [Tradingeconomics.com/czech-republic/wage-growth](https://tradingeconomics.com/czech-republic/wage-growth), 2019.

Regarding the income inequality, Eurostat has conducted an informative research about the income-wise inequality between European countries including non-EU countries like Turkey, Serbia etc. This research found that Czech Republic has been enjoying the top positions for many years and as per the latest figures from 2017, it is the best country income-inequality-wise. As can be seen on the below Figure 6, While EU average has above 5% and Turkey has almost 9%, Czech Republic has around 3.3% of income inequality ratio. This can be interpreted as the Czech Republic residents do not have huge gap in terms of income between each other, or say does not have as much difference as Turkey and even better than Germany. In other words, income isn't distributed as much unequal as in the other countries of Europe. As an example, Turkish people tend to see much more unequal income distribution as opposed to Czech Republic and all the EU member states.

Figure 6. Income Inequality - quantile share ratio 2017



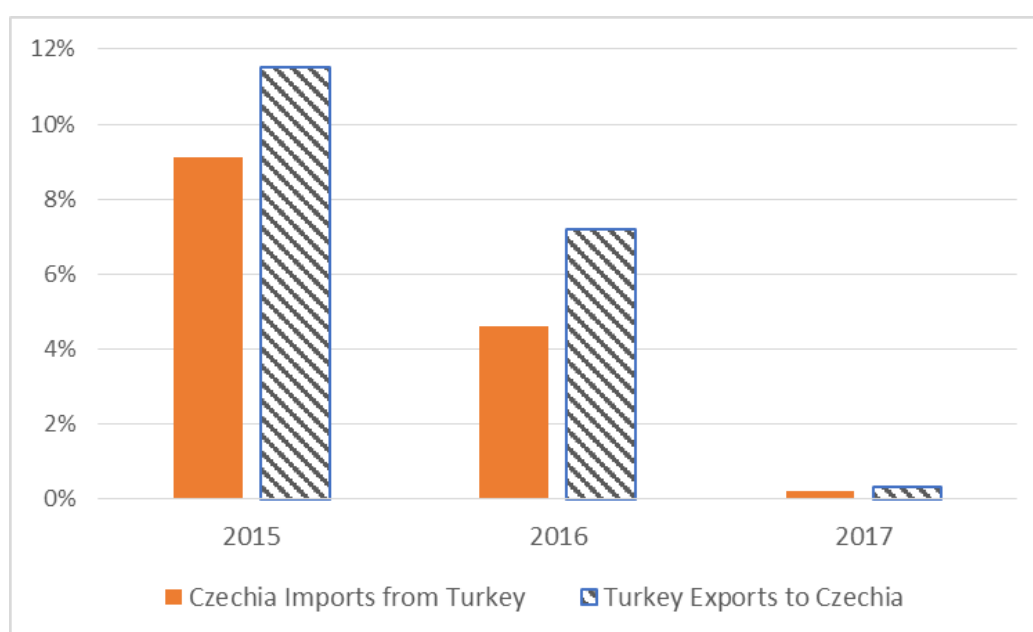
Source: ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20180426-1, 2017.

Now, we know that Czech residents have the lowest income inequality within EU as well as their wage growth is much above than the EU average, but what about Czech residents consumption preferences? How much of their salary they tend to spend on their clothing. In order to understand this, we need to take a look at the household surveys. Thanks to Eurostat's Household Budget Survey's (2018), we are able to know the final consumption expenditure of households by the consumption purpose. As per the latest data from November 2018, Czech households spend 3.7% of their salary for clothing and footwear, while EU average is around 4.8%. However, in the last 6 years, Czech households' consumption on clothing and footwear from their monthly budgets have increased by more than 19% since 2011, while EU average has increased around 10% indicating that Czech households have started to be much more interested in spending for clothing than in the past.

From the international trade point of view, Turkey and Czech Republic are pretty insignificant trade partners for each other. They do not constitute an important portion of their export or imports. For example, in 2017, Turkey constitutes only 0.97% of the Czech Republic total imports, where in 2016 it is around 1.04%. The other way around, Czech Republic constitutes around 0.6% of Turkey's total exports in 2017. Another important point to mention is that in 2017, Czech Republic's total imports has increased by 9%, while Turkey's exports to Czech Republic has increased only 3.3%. A similar situation has seen in 2018, too. While total imports of Czech Republic has increased by 5.5%, Turkey's total exports to the country has increased again only 3.3% (Eurostat, 2019).

In particular, leather clothing, footwear and accessories export of Turkey to the Czech Republic decreased by 43% from 2015 to 2016, and more importantly it decreased by 97% within 2 years from 2015 to 2017. In another point of view, as illustrated on below Figure, Czech Republic constitutes 11.5% of the Turkey's total leather clothing, footwear and accessories exports in 2015. This figure decreases to 7.2% in 2016 and to 0.3% in 2017. Moreover, Turkey constitutes 9.1% of the Czech Republic's total leather clothing, footwear and accessories imports in 2015, which makes Turkey the 3rd biggest import counterparty of Czech Republic in terms of leather clothing goods. In 2016 the figure decreases to 4.6% and to 0.2% in 2017, even though from 2015 to 2017 total imports of Czech Republic for the same goods from the whole world increased by 35%.

Figure 7. Czechia Turkey Leather Goods Trade Relation Amount



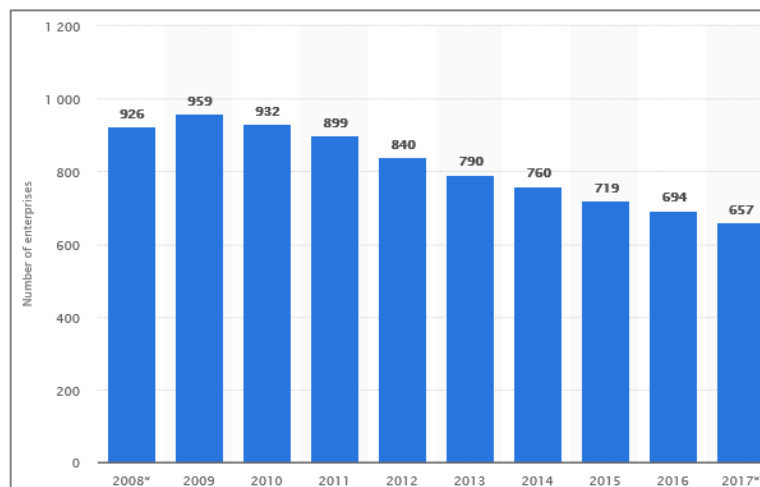
Source: www.intracen.org/itc/market-info-tools/trade-statistics, 2018.

Czech Republic has mainly shifted its importing to Germany, Croatia, Poland and China respectively in the last three years. Germany, Croatia and Poland have enjoyed the advantage of being an EU member providing customs, taxes and other possible additional costs as opposed to Turkey. Moreover, China seemingly attracted Czechia with its cheaper products by utilizing its widely-known low-cost but low-quality manufacturing capability. Although the trade figures between two countries signal a challenging environment for a

leather goods manufacturer, Czech Republic's demand for these goods is at positive trend since 2012 and has increased by 79% since then. Additionally, the latest figures are from 2017 trade data and since the beginning of 2018, Turkish currency has depreciated more than 60%, which made Turkish exporters much attractive and Turkish goods much cheaper for a European country.

Regarding the leather market in Czech Republic, there is a decreasing trend in the last decade as can be seen below Figure 8 in the leather goods manufacturers. Around 30% of a decrease has been seen since 2008 indicating Czech leather goods sellers are more into importing rather than buying from local suppliers given the fact that leather goods market has not faced a decrease and the leather goods import levels are continually increasing in the last years as mentioned above. This information could be utilized and be useful for the Turkish manufacturer planning to enter the Czech market, since seemingly the Czech leather goods sellers or say retailers have already switched to foreign manufacturers.

Figure 8. Number of Leather Manufacturers in Czechia



Source: Statista.com/statistics/371671/

3.2. Demographic Factors

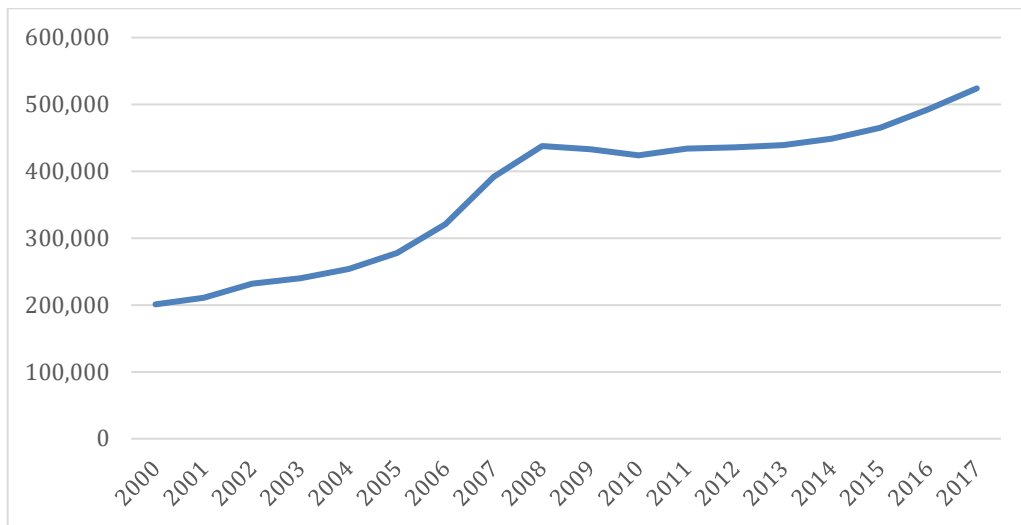
In terms of demographics, based on the latest figures from 2017, Czech Republic's population is slightly above than 10.5 million ranking 87th in the world. It's largest and the most crowded city as well as the capital is Prague with its more than 1.3 million residents in the center and the second biggest city is Brno with around 370,000 residents. Regarding

the age structure, more than 30% of the population is above 55 years old and around 19% is over 65 years old, which leads the country to have a 42.2 years median age ranking 30th in the world, where Germany ranks 3rd with 47.1 median age in the population. Additionally, almost half of the population is between 15 and 45 years old, so-called Generation X and Y. According to recent researches on population, Czech Republic is getting older and has one of the lowest fertility rates, which is below the replacement of deaths and the growth in the last 15 years mainly driven by the immigration (<http://worldpopulationreview.com/countries/czech-republic-population>, 2017).

According to the Czech Statistical Office's (2017) population researches and publications, around 64% of the Czech Republic's population is Czech, followed by Moravians (5%) and Slovaks (1.4%). As per the last census conveyed in 2011, "nationality" field was optional and about 26% of the respondents did not answer and left the field blank.

The latest researches of Czech Statistical Office estimate that the Czech Republic is home to more than half million foreigners, where the largest group being Ukrainian (around 140,000) followed by Slovak, Vietnamese and Russian. Due to the fact that a lot of business support centers of multinational enterprises have been established in Czech Republic in the recent years, the country has been attracting many foreigners. Due to the tax advantage as well as lower labor costs, enterprises find Czech Republic highly attractive and tend to move some part of their businesses to the country. In the last 15 years, number of foreigners living in Czech Republic has more than doubled as can be seen on below Figure, where around 90% of the foreign residents are employed supporting the argument that Czech Republic is attractive for foreigners in terms of employment thanks to several companies' business support centers and hubs located in the country.

Figure 9. Number of Foreign Residents in Czechia

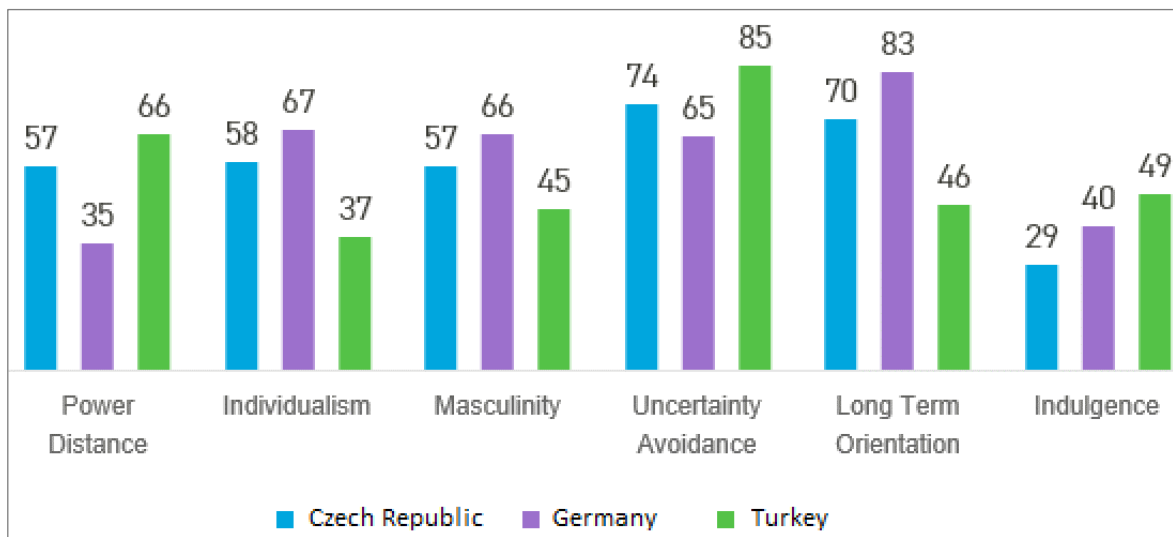


Source: CZSO. https://www.czso.cz/csu/cizinci/1-ciz_pocet_cizincu. 2017.

3.3. Social and Cultural Factors

Given the increase in foreigners in the recent years and diversity in the population as mentioned above, Czech Republic inevitably might have affected in terms of socially and culturally. Furthermore, there should be a clear difference between the Czech and Turkish cultures which is due to the different religions, history and social norms. To be able to understand the differences between cultures, Geert Hofstede, a popular academician and Dutch psychologist, developed the cultural dimensions theory in 1970s by conducting global surveys on IBM employees. It is accepted as the first theory trying to explain the differences between cultures and has been used widely in numerous fields such as international business, cross-cultural communication and psychology. In order to detect and identify cultural differences between societies, Hofstede developed six dimensions of culture, which are power distance, individualism vs collectivism, uncertainty avoidance, masculinity vs femininity, short-term vs long-term orientation, and indulgence vs self-restraint (Hoppe, 2004).

Figure 10. Hofstede's 6 dimension model for cultural differences of Czechia and Turkey



Source: Hofstede-insights.com, 2019.

To begin with the power distance, although it has been firstly applied by Hofstede in 1970s to differences between national societies, he also gives the credit to another Dutch experimental social psychologist Mauk Mulder (1960) for using this dimension before him to describe interpersonal power differences. Power distance as definition is the extent to which the less powerful members of institutions (like families) and organizations expect and accept that power isn't distributed equally. In order to measure the level of power distance and context of hierarchical relationships in a country, Hofstede developed Power Distance Index (PDI), which enables to compare countries in terms of power in societies by assigning a score to each country. PDI values are between 0 and 100 on a scale; where 0 shows small and 100 shows large power distance (Hofstede et al., 2010). As can be seen on the above Figure 10, Czech Republic scored 57 in the recent research indicating that Czech people feel inequality between individuals much more than Germany with 35 score on PDI. However, Turkey scored 66, which means that there is larger power distance between Turkish people and they accept hierarchical levels in the society more than Czech people. An interesting fact about the Czech Republic's PDI interpretation is, according to Hofstede high PDI societies tend to have more income inequality and narrower middle class in the economy, which indeed contradicts with the income inequality ratio mentioned above on the Figure 6. Germany has 4.5% and Czech Republic has 3.3% income inequality ratio, and the middle class is supposedly wider in Czech Republic.

Individualism is another dimension of Hofstede's theory. Societies which are individualist tend to have looser ties between the people, and collectivist ones are much prone to defending groups. In other words, interdependence of the individuals is being studied by this dimension trying to explain whether people say "We" as a collectivist or "I" (including very close family, too) as an individualist. On the Figure 10, a big difference between Czech Republic and Turkey is visible. While Turkey is highly collectivist scoring 37, Czech Republic is individualist on the scale of Hofstede. For example, neighborhood is highly important in Turkey and relationship between neighbors are quite close and warm. There is a famous saying in Turkey indicating the collectivist manner in the society "If your neighbor is hungry while you are full, you are not from one of us." On the contrary, Czech people expect everyone to fulfill his/her own needs and neighbors relationship are quite loose. In terms of the consumer behaviours, according to Kotler et al. (1999), bonds between an individual and his socially-interacted groups like family, organizations etc. are being defined by either individualism or collectivism, and have significant impact on consumer choices. Hence, it can be expected from the Czech consumers to not get affected by their social groups as much as in the Turkey, since Czech people are much less collectivist than Turkish people. Specifically, leather goods purchases of Czech people could be much more impulsive and independent than Turkish people, which can be accepted as a slight advantage of the Czech market.

Another dimension according to Hofstede is Masculinity, which tries to understand whether a society is success-driven and a competition is important. Figure 10 illustrates that Czech Republic has higher score in Masculinity than Turkey, which indicates that Czech people are ambitious to gain success, but Turkish people give importance to their leisure time much more and they even have sympathy for the underdog rather than the most successful person. Another possible impact of this cultural difference between two countries could be that consumers tend to buy more status-symbolizing products in masculine societies as a way of showing their wealth or income-level and sometimes even when they are not earning that much. It can be also expected that people belonging to masculine societies prefer foreign goods much more than in feminine ones since they find them more attractive and valuable. In terms of leather clothing and accessories purchasing decision, these features of the Czech culture could be another advantage for an exporter firm.

Fourth dimension is namely Uncertainty Avoidance, which shows whether a society is comfortable in uncertain conditions or in ambiguity. Countries having higher uncertainty avoidance tend to rely on laws and regulations in order to deal with the uncertainty. Although there isn't too much difference between Czech Republic and Turkey, index indicates that Turks scored higher and are much more interested in planning and putting rules than Czechs to avoid the uncertainty. Regarding the consumption behaviors, it can be expected that cultures hesitating to be in uncertain situations tend to be more loyal to known brands, since they are already knowledgeable about the brand and particular product's quality or so on. Therefore Czech society is less risk-averse than Turkish people and seemingly slightly more open to try a new brand or product, which could be counted as another positive point to take into account for entering the Czech market.

Long-term orientation is the fifth dimension and described by the Hofstede et al. (2010) as, "how every society has to maintain some links with its own past while dealing with the challenges of the present and future". As can be seen Figure 10, Turkey scored 46, where Czech Republic scored 70 indicating that Czech people has more long-term orientation in its culture. Turks are highly normative society living with their history and time-honoured traditions, while Czechs are more pragmatic and highly adaptable to change their traditions based on circumstances. Czechs' truths mainly depend on the situation, however Turks' truths are given by universal guidelines (Hofstede, 2011). Therefore, since Czech people are more forward-looking than the past, they tend to save more than Turkish people, which can be a possible obstacle of the Czech culture.

Sixth and the last dimension is Indulgence versus Restraint and tries to understand whether a society is more relax with their desires or controlling themselves by giving importance to social norms. Czech people are more restrained than Turkish people by scoring 29 compared to 49 on the Hofstede's scale indicating that Czech people tend to spend less for pleasure than Turkish people, which may create a problem for the leather market enterer if Czech people see the leather goods as a desire satisfaction rather than a normal clothing need.

According to all six dimensions, it is clear that Czech and Turkish cultures are quite different and do not have so much in common. Only PDI scores are close to each other (57 vs. 66) indicating both societies have large power distances and as per Hofstede, are prone to

frequent corruptions as well as covered-up scandals, which both countries are very popular with in the last decade.

3.4. Political, Legal and Regulatory Factors

Czech Republic is a EU-member state, however Turkey is not. This difference inevitably can create extra obstacles or burdens during the bilateral trade as well as lead different competitive environment within the countries. World Economic Forum (2018), prepares a highly valuable report every year called “The Global Competitiveness Report. According to the latest release in 2018, Czech Republic ranked 29th among 140 countries where Turkey ranked at 61th. Especially, there is a huge difference between the Institutions of two countries. Although Czech Republic ranked not so good, 43rd, Turkey is even worse than that by ranking at 71st, which clearly shows the lack of well-working institutional system, possibly highly beauracratic burdens, lack of transparency and corruption. On the other hand, there isn't too much of difference in terms of the ease of doing business in both countries. According to the World Bank's “Doing Business 2019” report, Czech Republic ranked 35th and Turkey 43rd among 190 countries. However, in terms of starting a business, Czech Republic by ranking 115th seems to be way difficult than Turkey that ranked at 78th. Main drivers of this difference as per World Bank's research are the higher paperwork and procedures as well as the time spent for incorporation. It takes 7 days on average in Turkey with 7 procedures to start a business, while in Czech Republic it seems around 24 days are needed on average for 8 different procedures. In order to be on the safe side and decrease the possible costs, an enterprise planing to enter Czech market should be well-planned.

Furthermore, registering an owned property are much easier in Czech Republic than Turkey. Also, in case of an insolvency, either a trade counterparty or the enterprise itself, it is way too easier in Czech Republic than Turkey thanks to being an EU member. In Turkey, it could take ages to recover your trade receivables or bad debts from your counterparty even though you raise the case to legal. Compared to Turkey ranking 109th with 5 years of the average case length, Czech Republic that ranked 15th with maximum 2 years of case length gives much more confidence to an foreign investor in legal point of view.

Although the taxation is less complex in Czech Republic, the average total tax paid by the total percentage of an enterprises' profit is around 46%, while in Turkey the average tax payment in total is around 41%. This percentage comes from the sum of different types of taxes in the year end such as; VAT (21%), Corporate Taxes (around 19%), Personal Income Tax (15%) and Customs, Tariffs etc. For example, according to the WTO(2017) (https://www.wto.org/english/res_e/statistics_e/daily_update_e/tariff_profiles/E28_E.pdf), EU has applied 4.2 on average and maximum 17 Tariff for Leather and Footwear product group and 25.7% was as duty-free in. However, while exporting from Turkey, the Turkish exporter enterprise will enjoy the 0% additional import tariff for leather footwear, clothing and accessories thanks to the Customs Union agreement between EU countries and Turkey since January 2006.

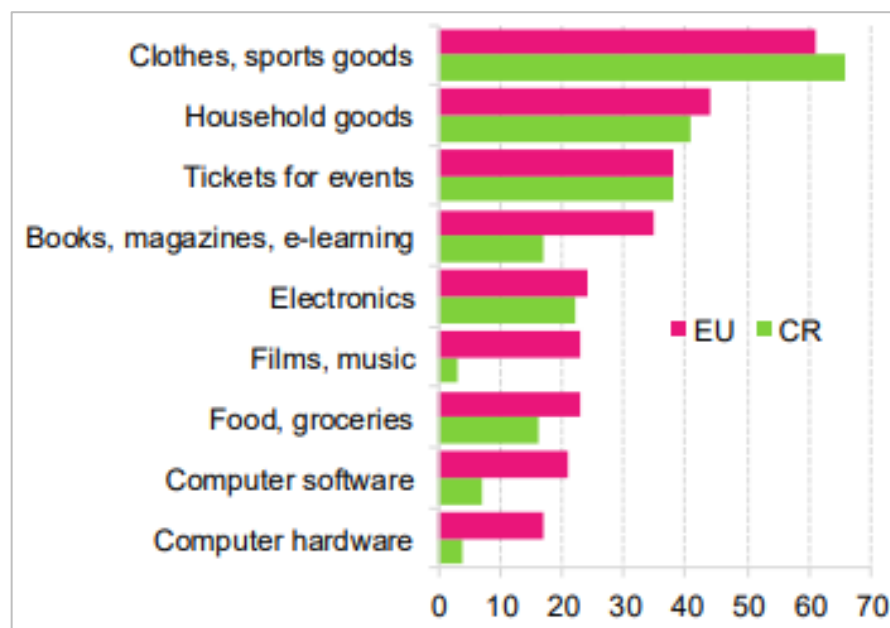
3.5. Technological and Technical Factors

Technology is another factor that might impact the market entry decision. Interest and attention of both consumers and the businesses in new technologies and ability to apply as well as implement are very important points to be taken into account before entering a new foreign market. Specifically, according to the latest figures, there are around 9.3 million internet users in Czech Republic leading around 82% of internet penetration indicating a good level of internet literacy. However, there are almost 7 million smartphone users in the country corresponding around 65% of smartphone penetration, which needs to be kept in mind during the selection process of the sales channel in the foreign market. European Commission (2017) conducts a research called Digital Economy and Society Index (DESI) and Czech Republic ranked 18th in 2017. Although the use of internet is below the EU average, Czech Republic scored better than EU average in terms of integration of digital technology. Especially 26% of Small and Medium Enterprises (SME) sell via online which is far better than the EU average of 17% and Czech Republic ranked 4th with continuous improvement in the last years. The figures are even more impressive in terms of e-commerce turnover percentage in total turnover of SMEs and cross-border online selling, by ranking the 2nd and 3rd respectively among 28 EU countries.

In the last two decades, technology has changed the consumption preferences substantially. People are more keen on shopping via online rather than physically visiting a store and leading the e-commerce sector to grow in the whole world as in the Czech market, too. As per the European Commission's DESI (2017), around 57% of the internet users shop online improved rapidly from 40% in 2010, which accounts for approximately 47% of the whole Czech population shop online. In terms of the online sales amounts, according to a report prepared by Ceska Sporitelna (2017) – one the Czech Republic's most famous banks – turnover of Czech e-shops hit the 100 billion CZK level in 2016 corresponding to around 4 billion USD and double-digit yearly turnover growth is expected to continue which the country has been enjoying for more than a decade.

Figure 11 below illustrates the product categories that are bought in online shopping in both EU and Czech Republic as per the product categories. According to the Eurostat (2016), 66% of the Czech internet users tend to buy clothes and sports goods, while around 60% of the EU internet users buy the same products. This clearly indicates that Czech residents are one of the countries that online clothing shopping is by far so popular, which should be taken into account by the Turkish exporter planing to enter Czech market. E-commerce could be an effective sales channel that will be analyzed further on this study.

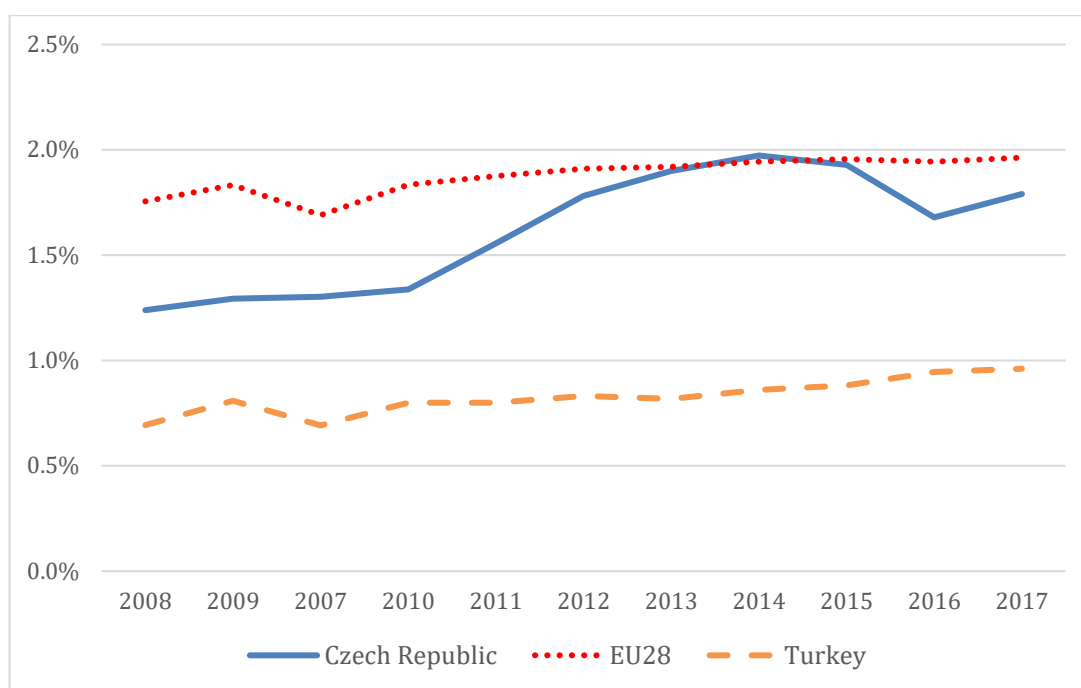
Figure 11. Percentage of Individuals who ordered in product categories (%)



Source: Eurostat, 2016.

In addition to the e-commerce and digital marketing, a macroeconomic indicator such as Research & Development (R&D) spending in a country could give a hint about the particular foreign market's perception towards investing into new ideas or appetite for continuous improvement in technology and systems. To be able to understand this, R&D spending as percentage of GDP ratio could give some insights. Below Figure 12 shows the R&D spending as percentages of both Czech Republic, European Union and Turkey's GDP. Although both lines on the graph have positive trend, Turkey's R&D spending is way too low than an average EU member country as well as Czech Republic. Although EU average stayed flat and Czech Republic's percentage negatively diverged since 2015, the country still has been giving more importance to R&D than Turkey. Additionally, given the fact that Czechs have been enjoying continuous GDP growth with an average of 3.5% since 2014 as mentioned on the economical facts chapter, R&D spending still remains at satisfactory levels than any other Emerging European economy.

Figure 12. Gross domestic spending on R&D Total, % of GDP

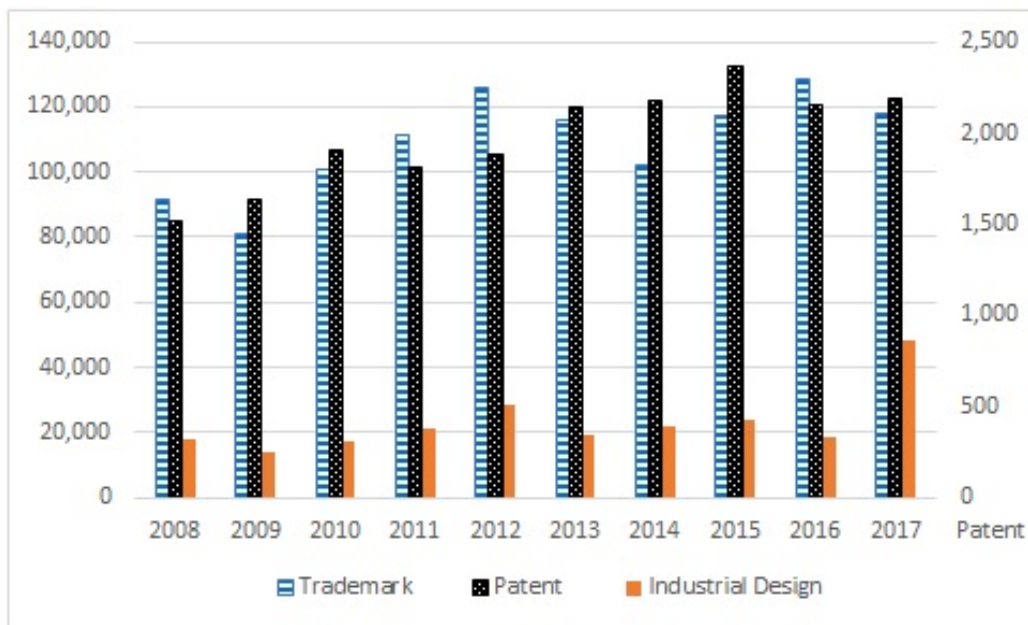


Source: OECD Science, data.oecd.org/rd/gross-domestic-spending-on-r-d.htm, 2018.

Another useful way to understand the development of the Czech market in terms of productivity of new ideas and creativity, is to check trademark, patent and industrial design applications. As can be seen on the below Figure 13 that is prepared with the data gathered

from World Intellectual Property Organization (WIPO), both trademark and industrial design yearly filings have been growing in the last decade. Yearly trademark filings have grown by 29% and industrial design filings have increased by 44% since 2008 where the biggest move was from 2016 to 2017 for industrial design filings, but the highest jump is on the patent filings. According to the WIPO's data, yearly patent filings have increased by more than 160% since 2008 that can be seen on the right y-axis of the Figure 13.

Figure 13. Intellectual Property Filings per year in Czech Republic



Source: WIPO, www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=CZ, 2018.

Almost in all of the technological factors mentioned above, Czech Republic seems to be a good choice for an international expansion for a leather clothing and footwear manufacturer, given the fact that both online marketing, R&D investments indicator and intellectual property filings figures are all better than Turkey – country of origin of the sample enterprise of this study. In the following chapter, the analysis will be more specific about the Turkish leather manufacturer via conducted researches and the suitable Czech market entry strategy for this firm.

4. RESEARCH ABOUT AN ENTERPRISE PLANNING TO ENTER CZECH MARKET

This study aims to find an answer to the entry decision into the Czech market of a Turkish leather clothing manufacturer that can be defined as a Small and Medium Enterprise (SME). According to the latest definition released on June 2018 by the Turkish SME Association that is backed by Turkish government (KOSGEB, 2018), enterprises with less than 250 employees are being defined as a SME no matter what its yearly net sales amount and size of the balance sheet. Below Table 2 illustrates the SME classification by KOSGEB, where this study positions its sample Turkish leather manufacturer SME entering into Czech market ideally around Small class.

Table 2. SME Definition in Turkey

	Micro	Small	Medium
Employees	< 10	< 50	< 250
Yearly Net Sales	< 0.5 million USD	< 4 million USD	< 20 million USD
Balance Sheet Size	< 0.5 million USD	< 4 million USD	< 20 million USD

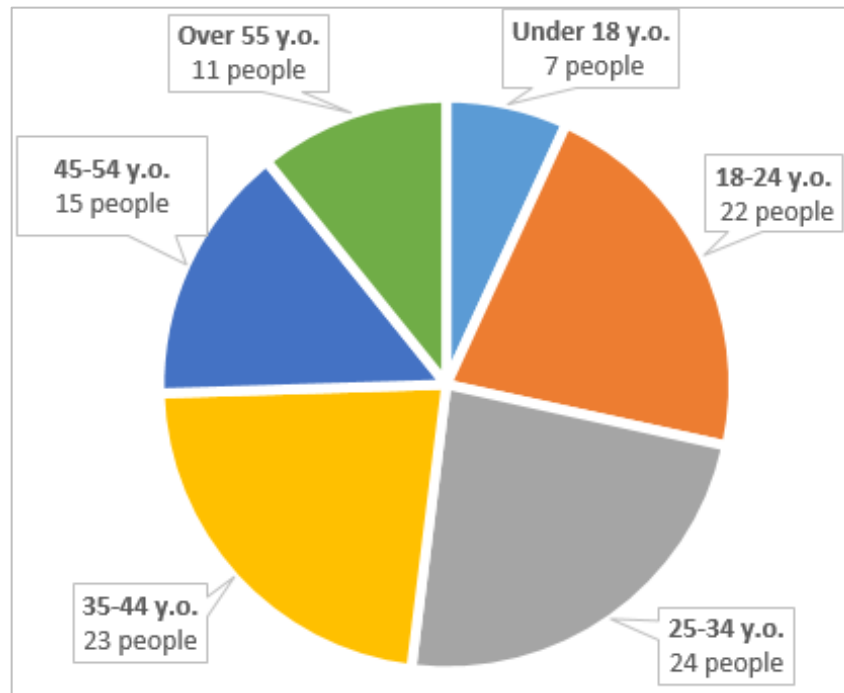
Source: en.kosgeb.gov.tr/site/tr/genel/detay/5667/definitions-and-regulations, 2018.

During the Czech market entry process, there is no doubt that a Turkish SME would face challenges and barriers in terms of political, economic, social, cultural, technological, which are all mentioned above chapters. However, the study would not be complete without a consumer behavior analysis. To be able to understand the Czech people's preferences regarding the clothing consumption as well as specifically leather goods consumption, an online survey has been conducted to the Czech residents – either Czech citizens or foreigners. This survey is a questionnaire that consists of 15 different questions trying to point out the characteristics of the respondents (e.g. gender, age), their monthly income and spending for clothing as well as preferences of leather goods and buying channel that may give inference about their buying behavior. Full questionnaire of the conducted survey can be found on the appendix of this study.

To begin with the descriptive and characteric statistics of the survey, 102 respondents valid answers have been collected via online survey method from almost equal amounts of

genders, which would give a more fair idea about the consumers. There are 52 female and 48 male, additionally 2 respondents preferred not to declare their gender. The majority of these 102 respondents are between 18 and 44 years old as can be seen on the below Figure 14, while respondents over 45 years old constitutes 25% of the sample pool.

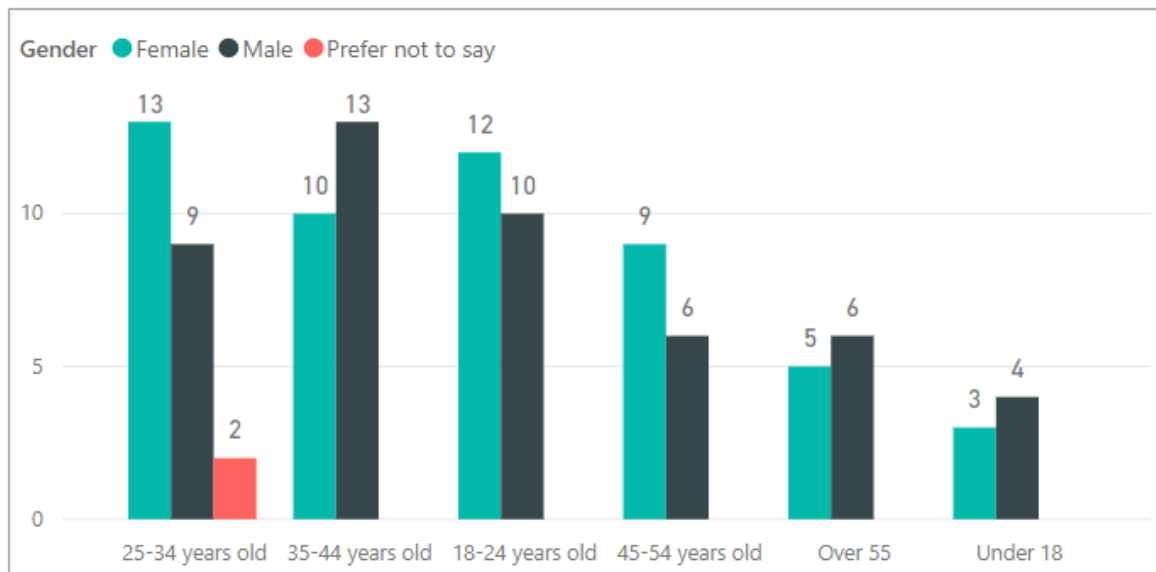
Figure 14. Number of Respondents by Age Groups



Source: Author's own survey results

Below Figure 15 illustrates the gender distribution among the age groups. Although there isn't too much difference in the distribution, a few response characteristics should be taken into consideration given the moderate number of respondents. First, among 25-34 years old age group, there are 4 more (corresponding 44% more) female respondents than male. Second, among 35-44 years old age group, there are 3 more (corresponding 30% more) male respondents than female. Third, among 45-54 years old age group, there are 3 more (corresponding 50% more) female respondents than male. For the rest of age groups, the distribution is closer, however there are fewer number of responses which may limit the explanatory power of this study regarding the people below 18 years old and above 55 years old. In other words, the inference from the survey analysis would not reflect the whole age groups' consumer preferences regarding the leather consumption.

Figure 15. Number of Respondents by Age Groups and Gender

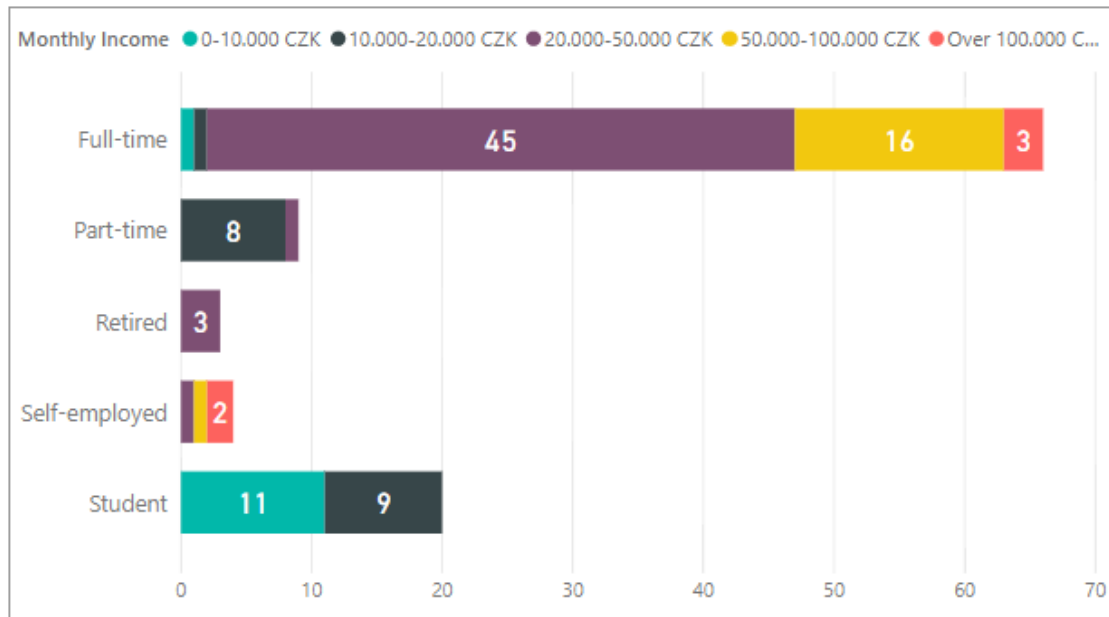


Source: Author's own survey results

Regarding the employment status, majority of the respondents (66) are full-time employed. Students (20), part-time (9), self-employed (4) and retired (3) are the following. On the below Figure 15, the distribution of monthly income group among the employment status is illustrated. According to the survey data, 19 of 66 full-time employed respondents (corresponding 29% of full-time and 19% of the total respondents) earn “above 50,000 CZK” per month and 45 of 66 full-time employed respondents (corresponding 68% of full-time and 44% of the total respondents) earn “between 20,000 and 50,000 CZK”.

Moreover, all of the part-time employed respondents (10) earn between “10,000 and 50,000 CZK”. Regarding the 20 student respondents, not surprisingly all of the respondents earn “below 20,000 CZK” monthly and the distribution is almost equal between “up to 10,000 CZK” and “10,000 to 20,000 CZK”. However, there is not enough number of observations in the survey data other than full-time employed respondents and students. Hence, another limitation of this study could be the lack of sufficient number of retired and self-employed respondents as well as even the part-time employed people.

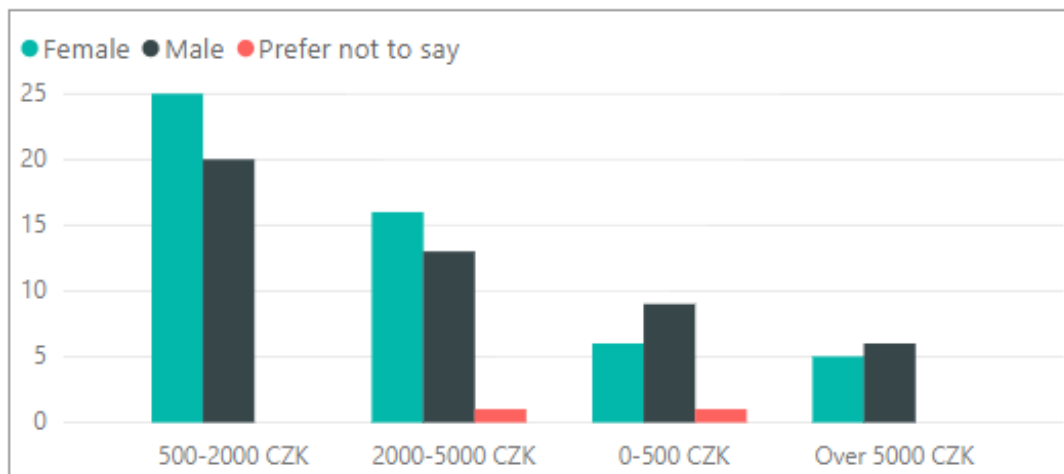
Figure 16. Number of Respondents by Employment Status and Monthly Income



Source: Author's own survey results

Figure 17 below illustrates the spending on clothing by the gender. According to the survey data, not surprisingly women are more interested in buying clothes or footwear than men. Around 73% of the all respondents spend between 500 and 5,000 CZK monthly and more than half of these respondents are female. As it is mentioned on the Czech economy factor analysis chapter above, Czech residents have been increasing their spending on clothing in the last years and according to the conducted survey data, 6.2% is the monthly spending on clothing from the monthly income of a Czech resident, which is quite higher than the Czech households surveys. Although Eurostat's Household Budget Survey (2018) states that Czech residents' spend 3.7% of their salary to clothing and footwear, the average monthly salary in their sample data was around 25,000 CZK, where this study has 35,000 CZK of monthly average salary among 102 respondents that could be interpreted as the more one earns the higher the clothing expenditure.

Figure 17. Number of Respondents by Gender and Spending on Clothing

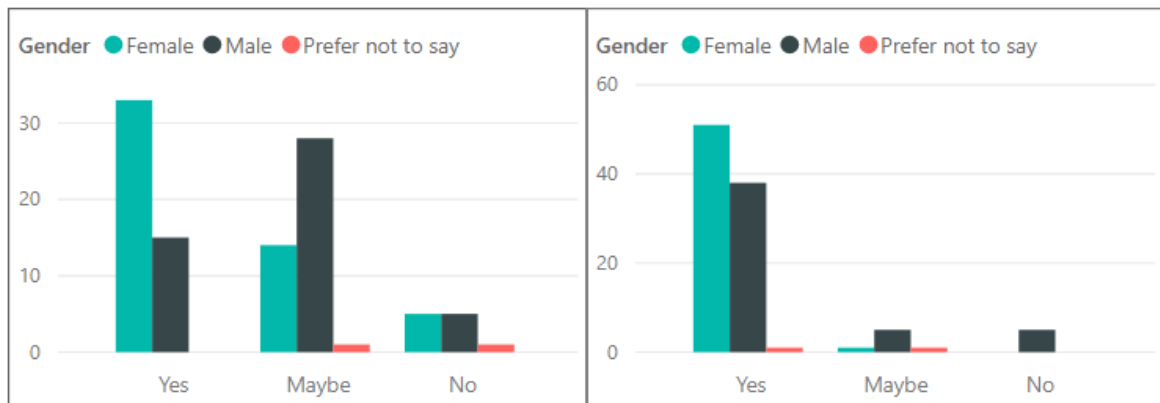


Source: Author's own survey results

After all the 5 questions on the survey to characterize the respondents based on their gender, age group, employment status, income level and monthly spending on clothing which all interpreted and illustrated, the remaining 10 questions are the ones addressing the consumer preferences in the Czech market.

To begin with the first two customer perception questions, both country of origin and material quality of the goods are asked whether these two features are taken into consideration before the purchase to be able to understand if the country and quality of the products have an impact on the buying decision of the consumer. Below Figure 18 illustrates that females are more tend to pay attention both material quality and goods' country of origin. Especially, where the goods are manufactured is much more important for women, while it is pretty indifferent feature for men. However, if we take a deep look at the data, it is seen that the higher the income and monthly spending on clothing the higher the intention of men to give importance to country of origin of the product. In terms of the material quality, almost all the female respondents say that material quality is important for their buying decision. However, similar to the country of origin, men tend to ignore the material quality more than women and often trade it off with cheaper products. Hence, the inference here could be the quality of the leather clothing products for women should be much more paid attention and cheaper product range should be wider for men since they are more price-sensitive and tend to spend less for clothing than women.

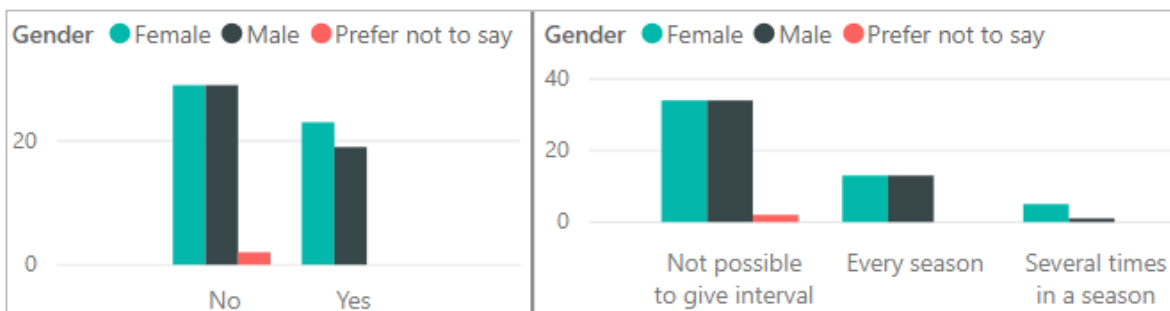
Figure 18. No. of People Considering Country of Origin (on left) and Material Quality (on right)



Source: Author's own survey results

Leather goods purchasing frequency of the consumers are another important point to look at. According to the conducted survey, both female and male participants have almost equal responses about not buying a leather good in the last 3 months. Although it is slight, the only difference is that more females bought in the last 3 months than males, which is not a surprise since women are following fashion and trends more than men. This argument is also visible on the right chart of the Figure 19 below. Although buying frequency of men and women defined as “not possible to give interval” and “every season” are equal, females are more into buying leather goods several times in a season. Another important observation from the survey is that all of the males responded that buy leather goods at least every season or several times in a season, earn more than 20,000 CZK, while regarding the females it is normally distributed among all income levels. Thus, a slightly more concentration on women leather products could be beneficial for the Turkish leather manufacturer while entering the Czech market.

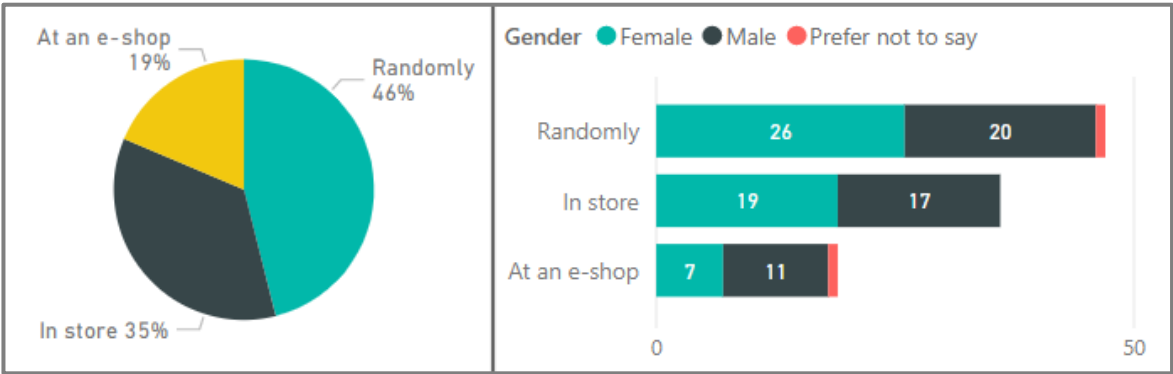
Figure 19. People Bought Leather Goods last 3 Months (on left) and Buying Frequency (on right)



Source: Author's own survey results

It is also important for the Turkish manufacturer to understand where people tend to buy leather clothing and footwear. Do they prefer to go to a store for the purchase or are they fine with buying a leather good without being able to try it? As mentioned in the Czech market overview chapter above, online retailing has been enjoying double-digit growth on yearly basis in the last years, therefore the result of this question could be critical for the Turkish manufacturer during the selection of accurate sales channel of its leather goods. As can be seen on the left chart of the Figure 20, people utilizing e-shops for leather goods purchases only is at 19%, where 46% people buy both from e-shop and store. Furthermore, males preferring to use only e-shops are more than the females.

Figure 20. Buying Channel Preferences as Percentage (on left) and as per Gender (right)



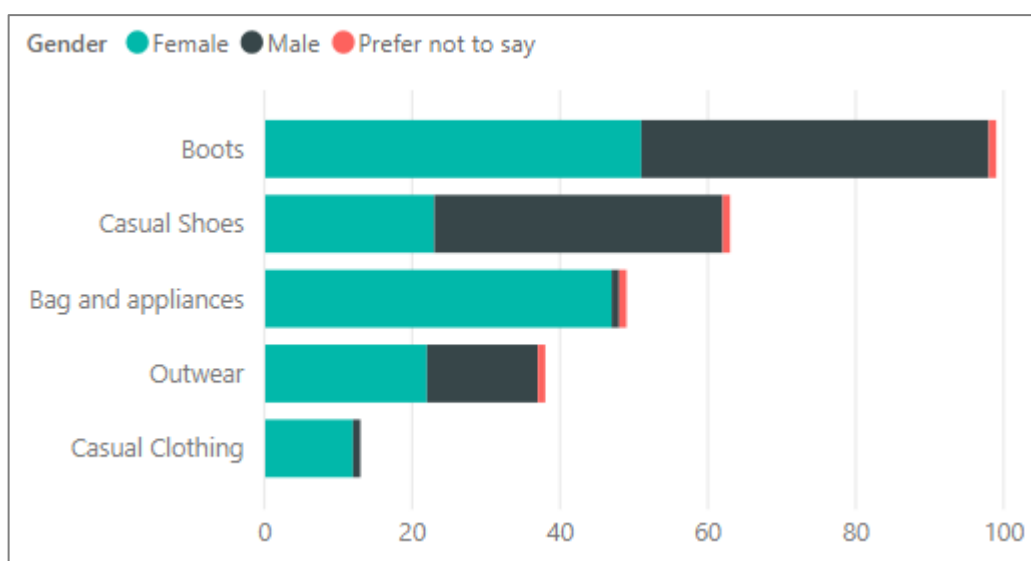
Source: Author`s own survey results

In another point of view, according to the survey data more than 90% of the respondents who only prefer stores to buy a leather good earn above 20,000 CZK monthly and almost all of the people earning above 50,000 CZK prefer visiting the store to purchase. Additionally, none of the respondents spending more than 5,000 CZK monthly for clothing prefer online retailer sites to buy leather goods. This could be a valuable information if e-commerce will be utilized in this business. During the product-mix determination, high-scale, too expensive or exclusive goods could be omitted for e-commerce, since these goods are generally being bought physically in stores.

To be more accurate about the product-mix determination before the entry as well as to understand the consumers` preferences specifically, respondents are asked about their leather goods preferences with the possibility of multiple answers selection. According to

responses illustrated on Figure 21 below, “Boots” are the most popular one and distribution among genders are almost equal. “Casual Shoes” comes the second with the support of the male respondents indicating males are more into casual leather shoes than women. “Bag and appliances” is the one which is highly dominated by the women’s interest as well as “Casual Clothing” although it is the one with the least interest by all the respondents, and “Outwear” has spreaded among both genders. Only 3 participants of the survey did not prefer buying leather boots accounting for 97% of interest and more than 60% of the respondents prefer buying casual leather shoes. This data indicates that boots for both genders should be definitely in the product-mix and bag and appliances as well as casual shoes could be added into the mix. If so, it would be a better idea to concentrate more on women bags and casual men shoes in Czech market.

Figure 21. Preferred Leather Products by Number of People and Gender

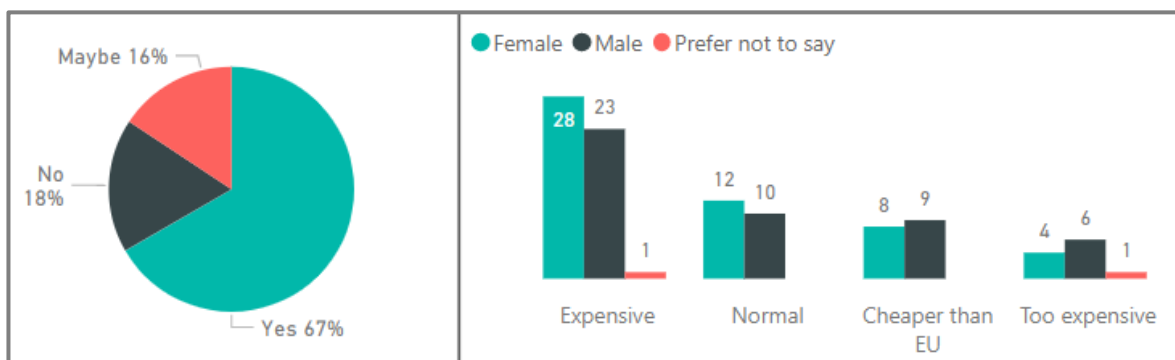


Source: Author’s own survey results

Another important thing to take into consideration is the people’s opinion about price levels in the market as well as their brand preferences. Hence, 13th question of survey gives a valuable insight to be able to accurately price the leather goods in the market before the market entry. If the consumers think that current price levels are high, it could be beneficial for the exporter to not overprice its products as well as carefully perform a market research to understand the price levels and then price its goods accordingly. Moreover, it is also

important to understand whether people in the Czech market pay attention to brands of leather products or not. Below figure 22 illustrates that around 67% of the people have brand preference and only 18% said they do not have. On the right chart below, it is seen that majority of the people, around 62% think the prices of leather goods are either expensive or too expensive. Surprisingly, more than half of these respondents have brand preference, presumably these people tend to buy quality leather products only at a good price. Another finding is that 95% of the respondents who do not have brand preference think the prices are expensive or too expensive. Furthermore, almost all of the respondents earning more than 50,000 CZK monthly have brand preference and 82% of them think that the prices of leather goods are either normal or cheaper than other EU countries. As mentioned above in the Czech market overview chapter, Czech Republic's monthly net average income is around 24,500 CZK., hence the income level "between 20,000 and 50,000 CZK" could give a better idea about the majority of the people in the Czech market. More than half of the respondents selected this income level have brand preference and 38% do not have complaints about the price levels. Therefore, a Turkish manufacturer planning to enter Czech market should pay attention pricing its products and can even establish a partnership with a well-known local brand or work as a subcontractor for the local enterprise.

Figure 22. Brand Preference as Percentage (left) and Opinion About Market Prices (right)

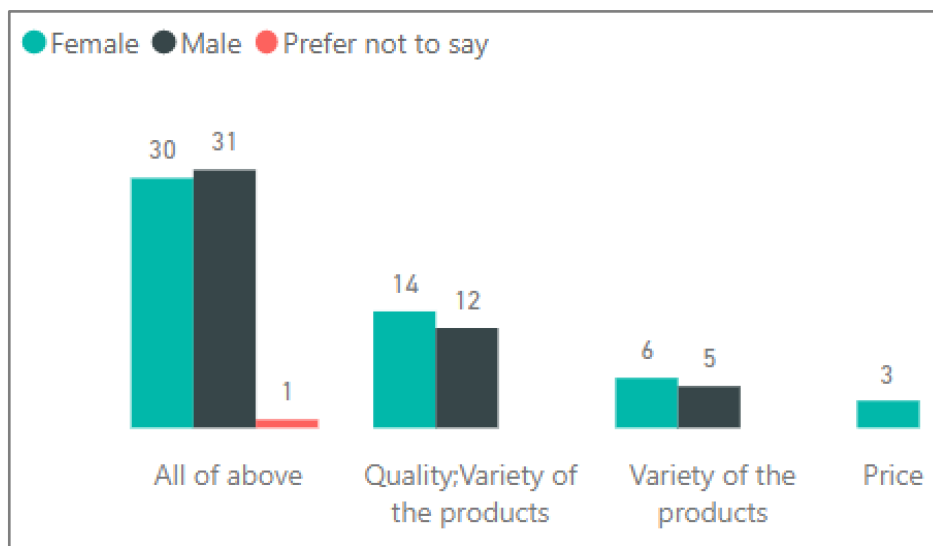


Source: Author's own survey results

In the last two questions, respondents are asked how well the current products on the market meet their needs and the possible reasons of their satisfaction such as the price, quality, variety of the product options, or all of them. The findings show that only 22% of the respondents feel satisfied with the leather goods market, while 78% said the current market

do not fulfill their needs. As illustrated on the below Figure 23, majority of the respondents have complaints about both price, product variety and quality, and 92% of these respondents earn up to 50,000 CZK. Moreover, variety of the products seems to be an important issue for the consumers in the Czech market, which a Turkish manufacturer planning to enter Czech Republic should take into consideration and ensure a wide selection of leather goods.

Figure 23. Reasons of the unsatisfaction with the products in the market



Source: Author's own survey results

All the questions asked in the survey provide a good overview about the consumer preferences in the Czech market for leather goods as listed above. It is highly important for the enterprise planning to enter the Czech market to take all the findings into consideration before choosing the best entry strategy as well as the target audience before making an investment. In the next chapter, the best possible entry strategy in order to succeed as well as other suggestions to decrease the risk of failure will be stated.

5. RESULTS AND REMARKS

This study's primary objective is to find whether a Turkish leather manufacturer should enter the Czech market and if so, to point out the best possible market entry mode. In order to choose the best mode, both Czech market overview and conducted survey will be utilized to understand the consumer behavior in the country.

To be able to understand whether Turkish manufacturer should choose Czech Republic to enter or not, environmental market overview has been performed in terms of economic, demographic, social and cultural, political and legal, and technological and technical factors. To begin with the economic factors, Czech Republic has several attractive figures that can attract the Turkish manufacturer a lot. Firstly, Czech Republic is the country with the lowest income inequality ratio as per Eurostat and far better than EU average and Turkey for example. While EU average is above 5%, Czechia's ratio is 3.3% indicating more equal distribution of income within the country than any other European country including Turkey. Secondly, Czech Republic has the lowest unemployment rate (around 2.2%) in EU as well as the second lowest youth employment rate (around 6.1%), where EU average is 6.8% and 14.9% respectively. This figures are also reflected in the wage growth. While Czechia has been enjoying yearly wage growth from 4% to 6% since 2014, EU average has been around 0 to 3% indicating substantial income improvement for Czech people in the last 5 years. Thirdly, according to Eurostat's Household Budget Survey conducted on November 2018, Czech households are spending 3.7% of their salary for clothing and footwear below the EU average of 4.8%. However, Czech households' monthly consumption on clothing and footwear have increased by more than 19% since 2011 well above than the EU average's increase around 10% indicating that Czech households are much more into spending for clothing in the last decade. Lastly, there is a decreasing trend in the number of Czech leather manufacturers since 2009. In the last decade, number of manufacturers decreased from 959 to 657 indicating that Czech market has slightly switched to importing these goods given the fact that leather goods imports of Czech Republic has been continually increasing over the last years. Given all the results listed above, there could be an opportunity for the Turkish manufacturer in many aspects economically. Hence, this study foresees increase in the domestic demand for leather goods and Turkish manufacturer could enjoy all the advantages of the Czech economy. Both household income and spending preferences improvements as well as the decrease in the local leather manufacturers indicate

that Czech market could be an accurate choice for the Turkish enterprise. Therefore, it is highly recommended for our sample Turkish leather manufacturer to enter the Czech market.

In terms of demographic factors, population is quite stable and around 50% of the population is between 15 and 45 years old. Median age is 42.2 years and below highly-populated countries like Germany. In addition to these, there is a huge increase in the number of foreigners in the country and around 90% of the foreign residents are employed thanks to Multinational Enterprises' business support center facilities located in Prague. Expats or foreign people working in these companies are more interested in spending for pleasure or fashion including clothing and footwear. Moreover, the number of foreigners that are earning more than an average Czech employee income, is expected to increase further leading the consumer demand to strengthen in addition to the expected increase in the Czech people's demand for leather products.

Regarding the social and cultural factors, Hofstede's model has been utilized to be able to understand and compare cultural differences both Czech Republic and Turkey. According to the model, Czech Republic is way more individualistic than Turkey which may lead Czech consumers to be impulsive and independent in the buying decision without getting effected by social groups or families. Compared to Turkish people following established routines and tend to buy familiar products as well as well-know brands, Czech consumers are expected to be more open to innovations or new products. However, according to conducted survey of this study, Czech people are found to be having brand preference as well. Furthermore, Czech culture is defined as more masculine than Turkish culture indicating that success and being appreciated is highly important. Hence, it can be expected that masculine societies prefer imported, luxurious or quality products more than feminine ones, which could be accepted as an advantage of Czech market for the Turkish leather manufacturer. Uncertainty avoidance also gives a similar inference. Czech consumers are less risk-averse than Turkish people which may lead Czechs to be more open to a new brand or product, although the conducted survey found out that they are paying attention to brands.

Political and legal factors are analyzed as well and the results are pretty negative for Czech market as opposed to other factors. According to the World Economic Forum report in 2018, Czech Republic is 29th among 140 countries in terms of competitiveness where Turkey is 61th. However, the ease of doing business in both countries are quite similar. Moreover, as

per the World Bank's "Doing Business 2019" report, Czech Republic is 35th where Turkey is 43rd among 190 countries, but surprisingly Czech Republic ranked 115th in terms of starting a business due to the higher paperwork and procedures. Hence, Turkish manufacturer should not be starting business on its own due to the difficulty and obstacles in the Czech Republic and definitely get a consultancy about the Czech market to ease all the processes and be successful which will be mentioned in more detail below.

On the other hand, Czech Republic has a few advantages for the Turkish exporters in taxation point of view. Both Turkey and Czech Republic are a member of EU Customs Union since 2006 enabling both countries to bilaterally trade without any additional import or export tariff including the leather footwear, clothing and accessories. This will lead our Turkish manufacturer to have less cost during the exporting activity, which could be an important barrier before the entry.

As per the technological factor analysis, Czech market seems to be attractive given the European Commission's Digital Economy and Society Index. 26% of the Small and Medium Enterprises use e-commerce, well above than the EU average of 17%. Moreover, in e-commerce turnover percentage in total turnover of SMEs and cross-border online selling percentage, Czech Republic ranked 2nd and 3rd respectively among 28 EU countries. Around 57% of the internet users shop online corresponding to around 47% of the whole population, which was around 40% in 2010. Regarding the products categories, clothes found to be the most frequently ordered goods around 66% and above than the EU average of 60%. Given all these facts, in terms of technological factors, Czech Republic is highly attractive and giving a optimistic as well as valuable idea to Turkish leather manufacturer about utilizing e-commerce in the market initially or after the market entry.

As mentioned in the above chapters, there are many different ways to enter a foreign market. Hence, an enterprise should take into consideration both the foreign market's specifics as listed above and additionally its own characteristics and needs to select the best possible entry mod. However, there is not a one and absolute correct mode of entry. The best mode of entry does not depend solely on the enterprise's size, capacity as well as the target market's opportunities, facts and needs. The most important thing for the exporter firm is to analyze its own conditions and compare and try to position itself in the target market. While doing this in-depth research, one can analyze the costs, sales volumes, expected profits, resource levels in the market (Hennessey and Jeannet, 1988). In addition to these,

enterprises should pay attention to the associated risks, commitment, control and interest levels of the different markets entry modes to be able to reach success. According to the Cengiz et al. (2003), an enterprise could either choose pragmatic or strategic approach. By the pragmatic approach, an enterprise is keen on selecting the least risky with moderate profitability entry mode and if it is seen that it is sufficient or not profitable after some time, enterprise should be able to change its mode, although there is not a guarantee to select the best and the least costly mode at the second time. On the other hand, strategic approach requires in-depth analysis and comparison of all the possible entry modes systematically for the particular enterprise. Current resources of the firm as well as the target market's needs and opportunities should be carefully analyzed. In this study, a Turkish leather manufacturer suffering from low domestic demand as well as challenging economic environment in Turkey is being analyzed. Therefore, strategic approach will be utilized to select the best entry mode in order to eliminate any possible failure, extra costs or low profitability.

To begin with the Turkish manufacturer's own characteristics, producing quality leather products with low costs is the primary characteristic as for all the Turkish leather manufacturers. Turkey is well-known with its quality and relatively cheaper leather products due to its less costly manufacturing and many tourists tend to buy couple of leather items during our visits to either coast-side cities or historical Grand Bazaar in Istanbul. Therefore, this study's sample Turkish leather manufacturer will definitely use these features of its own while selecting the best entry mode. Size of the company is between a small and a medium enterprise as mentioned in the above chapter, and capacity is to produce around 10,000 leather products including boots, bags, appliances, shoes etc. More specifically, in the Turkish market, an average cost of a good quality man or woman boots is around 20 EUR and for casual shoes is 15 EUR. Regarding the bags, average cost has a range between 10 and 30 EUR based on its function and size. Given the fact that a quality boots has price around minimum 100 - 150 EUR and casual shoes around 60 - 100 EUR in the Czech Republic, a Turkish manufacturer could enjoy its quality and low-price features. Hence, these characteristics of both the Turkish enterprise and the Czech market will certainly have an impact on the entry mode selection. Indeed, these cost and possible profit analysis has been the initial motivation of this thesis, since a Turkish manufacturer has a real advantage in terms of leather goods trade in the Czech market in addition to the positive economic facts about the Czech economy listed above.

Regarding the market entry modes, all the foreign direct investment methods such as merger and acquisition, joint venture, strategic alliance are pretty costly as well as risky for an enterprise like small or medium size as this study use as a sample. Therefore, these entry modes will not be a good choice for the Turkish leather manufacturer due to the high risk associated and much more cost although it enables more control on the whole process including marketing since the Turkish enterprise is not knowledgeable about the Czech local market, too. Another mode of entry could be direct exporting as an in-abroad located distributor or agents, however this way also arises risk due to the lack of local market information as well as higher costs.

According to the conducted survey and cultural analysis, brand preference has a high percentage especially from both the Generation X and Y, in other words people between 15 and 45 years old constituting around half of the total population of the country. Therefore, establishing a partnership with a well-known brand in Czech Republic could be a good option. Since the consumers in the Czech market pays attention to the brand, manufacturing leather goods and let the goods to be sold under that particular brand could be a more profitable way of entry given that fact that Czech brand supposedly has already been enjoying its reputation and gained consumer trust in the market as well as presumably ready demand for its products. The mode of entry could be contractual entry, where specifically contract manufacturing be used and the Turkish leather manufacturer could be the contracted manufacturer of a brand located in Czech market. This way of partnership might be attractive for counterparty in the Czech market due to the lower labor, raw material, manufacturing costs in Turkey. However, although the manufacturing activity and produced amount will be ensured by the contract enabling safety for the Turkish enterprise, it will limit the profitability of the business for the Turkish manufacturer since the counterparty in the Czech market will put extra margin that will probably exceed the profit per unit of the manufacturer. Hence, although it has more limited investment or business risk than both direct exporting and foreign direct investments, more profitable and closer riskiness way of foreign market entry should be selected than contract manufacturing.

Strategic approach for the selection of the best entry mode is used as mentioned above and according to this approach, the best mode of Czech market entry for the Turkish leather manufacturer seems to be the indirect exporting. As stated above, direct exporting and foreign direct investment are riskier and more costly, while contract manufacturing is less

risky but also less profitable. However, indirect exporting enables both less risky and less costly way of entry too by leaving the marketing, advertising and distribution to an intermediary firm as well as increasing the possible profit as opposed to other entry modes. This intermediary has the local market knowledge and it will handle all these activities on behalf of the Turkish manufacturer. For example, an “Export Management Company” could be very helpful during the whole international expansion process by its experience and expertise while positioning its products in the Czech market or even creating a brand as well as awareness. In addition to these, logistics, warehousing and storage facilities could be found by this companies. All of these services are for a consultancy fee but increase the chance of reaching successful and sustainable exporting business by minimizing the risks. If this way of entry founded costly and time-consuming by the Turkish manufacturer, “Export Trading Companies” could be also useful but it is important to highlight that these companies work on a demand-driven basis. Hence, the Turkish manufacturer could not be lucky all the time while matching the demand with the production on time. Another beneficial way could be to check whether there is an established trade association or chamber between Czech Republic and Turkey. In 2006, Czech-Turkish Joint Chamber Of Commerce has been established and providing consultancy such as legal, tax, local market information etc. for the companies planning to expand in both countries. In other words, this chamber could be very helpful to overcome possible market entry barriers and could ease the Czech market process of Turkish leather manufacturer by its expertise and supervisory.

Establishing partnership with an export management company in Czech Republic is going to be very beneficial in many aspects as mentioned above for sure, however this study has had numerous findings that could be very useful as well during the Czech market entry, especially in product, target audience and pricing point of view. These important findings that should be taken into consideration are listed as below:

- Females care about the country of origin and material quality of leather goods.
- 62% of the people think that leather goods are either expensive or too expensive.
- Half of these people have also brand preference.
- Only 1 out of 5 consumer feel the current leather market meets their needs.
- Almost all consumers complain about the variety of leather products.
- Only 15% of the people are happy with the quality of leather products.
- Women are more interested in bags and appliances as well as leather boots.

- Men are more interested in casual leather shoes and boots.
- People earning more than 50,000 CZK monthly tend to buy only from stores.
- People spending more than 5,000 CZK monthly do not prefer e-shops for buying leather.

Given all these findings, Turkish manufacturer should produce quality leather shoes and sell below the average market price to gain competitive advantage. Product-mix should also be wide, since almost all the consumers seem to be unhappy of the product variety. Regarding the products particularly, both women and men boots as well as women bags and appliances should be offered. Additionally, wide selection of male casual leather shoes and relatively narrower selection of female leather shoes should be added to the offerings, since casual leather shoes are much more men's interest rather than women. People spending very high amounts to leather products and have higher income level prefer visiting the stores and do not like e-shopping to purchase leather. Since the Turkish manufacturer is not recommended to specialize on the exclusive leather products given the consumers' complaints about the prices and low-demand for high-price products, e-commerce could be utilized due to its low-cost and easy to implement features as well as high interest in e-shops in the Czech market. Turkish enterprise could get consultancy regarding the best way of e-commerce utilization in Czech market, given the fact that online clothes and footwear shopping has been rapidly growing in the country.

CONCLUSION

Enterprises are interested in entering foreign markets in today's highly competitive and low-margin business environment for many reasons. Hence, in order to be stronger in the highly competitive business world and to increase the turnover, capacity utilization as well as to decrease the possible disadvantages like economic turmoil or low domestic demand in the local market, enterprises are searching for new markets. On the other hand, technological developments, more qualified labor force and high mobility of both capital and knowledge transfer in the last two decades have made the international expansion much easier than in the past. However, to be able successful in the foreign market entry, an enterprise should carefully analyze its own characteristics, market's needs and opportunities as well as the consumer preferences in the market. Furthermore, it is highly important to be ready for any unexpected circumstance like foreign market entry barriers. Possible barriers should be analyzed in-depth to decrease the possibility of failure and loss of international expansion.

This study inspired from the fact that Turkish leather manufacturer's great appetite to internationally expand and their low-cost and good quality production features. Hence, the main purpose of this study is to find an answer whether a Turkish leather manufacturer should enter the Czech market and which market entry mode should be selected for this aim. In line with the primary objective, in order to illustrate all aspects of foreign market entry of a Turkish leather manufacturer, this study starts with theoretical definitions of international marketing and characteristics. After that, all the possible market entry modes have been stated in detail as well as the possible barriers that may arise before, during or after the entry as well as the advantages and possible positive gainings of a foreign market entry are stated as the secondary objectives of the study. Afterwards, Czech market has been analyzed in all aspects such as economic, political and legal, social and cultural, and technological to have a broad overview.

In terms of economical factors, with the support of numerous secondary data, Czech market is found to be having several points to attract Turkish leather manufacturers. Czech Republic has not only the lowest income inequality ratio within the Europe but also the lowest unemployment rate as well as the youth unemployment. Moreover, the wage growth has been continual in the last years and Czech residents' monthly spending on clothing and footwear has been increasing more than 19% since 2011 exceeding EU's growth. Another

point is that Czech Republic's leather goods imports have been increasing in the last decade but at the same time Czech leather manufacturers have decreased around 31% indicating that the Czech market tends to fulfill its increasing leather goods needs by import rather than buying locally.

Czech Republic is also attractive demographically with its stable population around 42.2 median age and increasing number of expats which are tend to spend more for fashion. In terms of social and cultural factors, Hofstede's famous cultural dimensions model has been utilized and Czech Republic has been compared to Turkey. As per the model, Czech Republic is individualistic while Turkey is too collectivist indicating that Czech consumers are more independent in the purchasing decision and not being effected by their families or social groups. Moreover, Czech culture is found to be more masculine than Turkish culture showing that personal achievements and appreciation are important in the Czech culture. As per the Hofstede's findings, it can be expected that masculine societies are more prone to prefer well-known branded products more than feminine cultures. Uncertainty avoidance also gives a similar inference. Czech consumers are more risk-taker than Turkish people indicating Czechs are tend to more open to a new brand, although the conducted survey found out that they have brand preferences.

Politically, Czech Republic seems to have disadvantages as per the World Bank's "Doing Business 2019" report regarding the starting a business due to the the higher paperwork and longer procedures. Therefore, it is highly recommended starting business with a consultancy or partner company to eliminate or decrease these barriers. Moreover Czech Republic and Turkey has advantages tax-wise thanks to the Customs Union agreement signed in 2006. Regarding the technological factors, e-commerce is highly popular in the country as opposed to other EU countries. 26% of Czech SMEs sell online and almost half of the population uses e-shops for purchases. Clothing is found to be the most preferred goods on e-shops with around 66% and above than the EU average of 60%. All these findings with the support of secondary data, regarding the economic, political, cultural and technological factors, Czech Republic is found to be highly attractive overall for a Turkish leather manufacturer and hence this study highly recommends market entrance.

In addition to the overview of Czech market, in order to understand the consumer behavior and preferences, a questionnaire survey has been conducted in which 102 people responded to 15 questions including characteristics of the respondents, income and spending level,

leather goods preferences and the preferred buying channel. Valuable insights have been gathered such as high brand and quality preference as well as dissatisfaction about the variety of leather goods, high prices and low quality in the market. Moreover, people earning considerably high tend to buy only from stores rather than e-shops and they have very high brand preference. In addition to these, boots are the most preferred by leather product by both genders and bags and appliances are the women's and casual leather shoes are the men's most preferred goods. Hence, this study suggests the Turkish manufacturer to take all these significant findings into consideration while setting the product-mix and target audience as per products.

Regarding the entry mode, Turkish manufacturer is highly recommended to choose indirect exporting strategically, given the fact that Turkish enterprise does not have any expertise in the Czech market that can be overcome with the support of export management companies. Additionally, consumers have very high brand preference, which requires either establishing a partnership with a local Czech brand or getting assistance from an expert company in order to increase the chance of success and high profits. Other advantages of the indirect exporting listed in the study are that it arises lower risk and investment needs as opposed to the foreign direct investments or direct exporting.

To conclude, a Turkish enterprise planning to enter the Czech market should definitely pay high attention to the Czech market specifics and factors listed in this study. However, these are not solely enough in order to prevent any possible failure or loss. Enterprise should also analyze its own characteristics and try to figure out what the consumers want in the Czech market. To be able to understand that, survey should be conducted as in this study and be utilized to have a wider understanding about the consumer behavior and preferences in the market in order to accurately set the target audience as well as the product-mix that will be concentrated on. Finally, before the entry, market entry modes and possible barriers could be faced mentioned in detail should be carefully analyzed and the most suitable one should be selected with strategic approach to reach success.

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Appendix - Questionnaire

Q1: What is your gender?

- ☐ Female
- ☐ Male

Q2: What is your age?

- ☐ Under 18 years old
- ☐ 18-24 years old
- ☐ 25-34 years old
- ☐ 35-44 years old
- ☐ 45-54 years old
- ☐ Over 55 years old

Q3: What is your current employment status?

- ☐ Full-time
- ☐ Part-time
- ☐ Retired
- ☐ Self-employed
- ☐ Student

Q4: What is your monthly income?

- ☐ 0 – 10,000 CZK
- ☐ 10,000 – 20,000 CZK
- ☐ 20,000 – 50,000 CZK
- ☐ 50,000 – 100,000 CZK
- ☐ Over 100,000 CZK

Q5: How much do you spend for clothing per month?

- ☐ 0 – 500 CZK
- ☐ 500 – 2000 CZK
- ☐ 2000 – 5000 CZK
- ☐ Over 5000 CZK

Q6: Does the country of origin of the products have any effect on your purchase decision?

- ☐ Yes
- ☐ No
- ☐ Maybe

Q7: Does the material of the specific products have any effect on your purchase decision?

- ☐ Yes
- ☐ No
- ☐ Maybe

Q8: In the last 3 months have you ever bought any leather goods?

- ☐ Yes
- ☐ No

Q9: How often do you purchase leather goods for your clothing?

- ☐ Several times in a season
- ☐ Every season
- ☐ Not possible to give interval

Q10: Typically, where do you purchase this product category at most?

- ☐ At an online retailer site
- ☐ In store
- ☐ Randomly

**Q11: What kind of products do you prefer to purchase that has leather material?
(Multiple selections are applicable)**

- ☐ Bag and appliances
- ☐ Outwear (Jacket, Trenchcoat etc.)
- ☐ Casual Clothing
- ☐ Boots
- ☐ Casual Shoes
- ☐ Others

Q12: Do you have brand preference while purchasing for leather goods?

- ☐ Yes
- ☐ No
- ☐ Maybe

Q13: What is your opinion about the price levels of leather goods on the market?

- ☐ Normal
- ☐ Expensive
- ☐ Too expensive
- ☐ Cheaper than other EU countires
- ☐ Too cheap

Q14: How well do current products on the market meet your needs?

- ☐ Very well
- ☐ Well
- ☐ Not so well
- ☐ Not well at all

**Q15: If the products do not meet your needs very well, what are the reasons?
(Multiple selections are applicable)**

- ☐ Price
- ☐ Quality
- ☐ Variety of the products
- ☐ All of the above