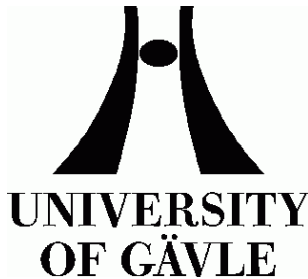


Department of Business Administration



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Abstract	<p>Background</p> <p>This thesis is conducted for Husqvarna AB with the aim to map the Laos market for them in terms of market potential for forestry power equipment. In order to provide decision material for further action I was asked to give a description of the Laotian forestry sector; research potential harvesting volumes; analyze the competitive situation; describe the general business conditions in Laos; and provide some insight as to how Husqvarna AB may enter the Laotian market.</p> <p>Method</p> <p>The method I have used for collection of information is two-fold. The empirical data has mostly been derived via interviews with forestry officials and companies involved in forestry. The theoretical review and collection of secondary data has been performed by research of books, journals, reports, newspapers and online sources. The research methodology can accordingly be labelled “the actor approach” which methodology is based on understanding social entreties. An important element in this approach is a process referred to as the hermeneutic circle – a process in which new knowledge is continuously incorporated into the understanding and used as base for further research. An important part of the method is my personal experience of Laos, from which I consider myself being able to base some conclusions.</p> <p>Theoretical Review</p> <p>Foreign market entry can generally be made in four modes: Exporting, licensing, joint ventures, or sole ventures. Foreign market entry strategies may involve adapting the marketing strategy.</p>

	<p>It may also necessitate product adaption.</p> <p>Market entry in developing countries will most likely mean being exposed to unfamiliar environments. The general business conditions might be very different from the home market and constitute higher levels of trade barriers and sociocultural distance may be difficult to deal with.</p> <p>Case Study, Conclusions and Reflections The highlights from these two chapters include:</p> <ul style="list-style-type: none"> • Laos offers foreign investors to use any of the four market entry modes. • Doing business in Laos receives a low international rating, especially in terms of labor restrictions. It also has rather high trade barriers. • Laos is developing its commercial tree plantation sector and estimates suggest that the harvesting volumes will be increasing rapidly in the coming 10-15 years. • Importing and selling forestry power equipment is restricted. Laos does not yet have any authorized dealer for chainsaws. This provides for interesting opportunities. • The market is flooded with cheap, illegally imported, Chinese chainsaws, but it is questionable whether this actually constitutes any competition to Husqvarna being a high quality brand. The Chinese chainsaws might however soon increase in terms of quality and be more competitive. • Obtaining an import and sales license for outdoor power products may be a rather lengthy procedure but once in place would mean being the first authorized dealer - which might be advantageous. <p>Recommendation Due to Laos making efforts to increase the commercial tree plantation area, the harvesting volumes will increase rapidly the coming years. The sales potential for forestry equipment will hence increase in the years to come.</p> <p>My recommendation to Husqvarna, if they have resources, is therefore to locate a dealer and enter the Laotian market. Plantations are however still mostly in the development phase. It is therefore doubtful that early entry is profitable enough to be motivated if there are other markets with higher potential that Husqvarna wants to enter.</p>
Keywords	Market entry; foreign market entry; FME; market entry mode; entry mode; emerging market; developing country; Laos; Laotian; Lao;

	Lao PDR; sociocultural difference; forestry; forestry power equipment; chainsaw; commercial tree plantation; CTP; natural forest
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ABSTRACT

Background

This thesis is conducted for Husqvarna AB with the aim to map the Laotian market for them in terms of market potential for forestry power equipment. In order to provide decision material for further action I was asked to give a description of the Laotian forestry sector; research potential harvesting volumes; analyze the competitive situation; describe the general business conditions in Laos; and provide some insight as to how Husqvarna can enter the Laotian market.

Method

The method I have used for collection of information is two-fold. The empirical data has mostly been derived via interviews with forestry officials and companies involved in forestry. The theoretical review and collection of secondary data has been performed by research of books, journals, reports, newspapers and online sources. The research methodology can accordingly be labelled “the actor approach” which methodology is based on understanding social entreties. An important element in this approach is a process referred to as the hermeneutic circle – a process in which new knowledge is continuously incorporated into the understanding and used as base for further research. An important part of the method is my personal experience of Laos, from which I consider myself being able to base some conclusions.

Theoretical Review

Foreign market entry can generally be made in four modes: Exporting, licensing, joint ventures, or sole ventures. Foreign market entry strategies may involve adapting the marketing strategy. It may also necessitate product adaption.

Market entry in developing countries will most likely mean being exposed to unfamiliar environments. The general business conditions might be very different from the home market and constitute higher levels of trade barriers and sociocultural distance may be difficult to deal with.

Case Study, Conclusions and Reflections

The highlights from these two chapters include:

- Laos offers foreign investors to use any of the four market entry modes.
- Doing business in Laos receives a low international rating, especially in terms of labor restrictions. It also has rather high trade barriers.
- Laos is developing its commercial tree plantation sector and estimates suggest that the harvesting volumes will be increasing rapidly in the coming 10-15 years.
- Importing and selling forestry power equipment is restricted. Laos does not yet have any authorized dealer for chainsaws. This provides for interesting opportunities.
- The market is flooded with cheap, illegally imported, Chinese chainsaws, but it is questionable whether this actually constitutes any competition to Husqvarna,

being a high quality brand. The Chinese chainsaws might however soon increase in terms of quality and be more competitive.

- Obtaining an import and sales license for outdoor power products may be a rather lengthy procedure but once in place would mean being the first authorized dealer - which might be advantageous.

Recommendation

Due to Laos making efforts to increase the commercial tree plantation area, the harvesting volumes will increase rapidly the coming years. The sales potential for forestry equipment will hence increase in the years to come.

My recommendation to Husqvarna, if they have resources, is therefore to locate a dealer and enter the Laotian market. Plantations are however still mostly in the development phase. It is therefore doubtful that early entry is profitable enough to be motivated if there are other markets with higher potential that Husqvarna wants to enter.

TABLE OF CONTENTS

ABSTRACT	5
LIST OF ABBREVIATIONS	9
LIST OF TABLES AND FIGURES	9
CHAPTER 1 – INTRODUCTION	10
CHAPTER 2 – METHOD	12
2.1. Scientific Approach	12
2.1.1. Hermeneutics	12
2.1.2. Three Strains of Research Methodology.....	12
2.1.3. The Methodology in this Thesis	13
2.2. Course of Action	14
2.2.1. Empirical Research	14
2.2.2. Theoretical Research and Secondary data	14
2.2.3. Conclusions and Reflections.....	14
2.2.4. Recommendation	15
2.3. Sources and Reliability of Data	15
CHAPTER 3 - THEORETICAL REVIEW	16
3.1. Market Entry in General	16
3.1.1. Market Entry Modes	16
3.1.2. Market Entry Strategies	20
3.1.3. Transaction Cost Analysis and the Resource Based View.	20
3.1.4. Transferring Know-how.....	21
3.2. Market Entry in Developing Countries	21
3.3. Summary of the Key Concepts in the Theoretical Review	22
CHAPTER 4 - THE CASE STUDY	24
4.1. Background	24
4.1.1. Husqvarna AB.....	25
4.1.2. The Global Market for Outdoor Power Equipment	25
4.2. The Laotian Market in General	26
4.2.1. Country Overview.....	26
4.2.2. Doing Business	27
4.2.3. Enterprise Types	28
4.2.4. Trade	30
4.2.5. Labor	31
4.3. The Laotian Forestry Market	31
4.3.1. Forestry in Laos	31
4.3.2. Potential Categories and Segments of Interest.....	32
4.3.3. Harvesting Procedures	34
4.3.4. The Forestry Equipment Market in Laos	35
CHAPTER 5 – CONCLUSIONS AND REFLECTIONS	38
5.1. Aspects of Market Entry	38
5.1.1. General Business Conditions in Developing Countries.....	39
5.1.2. Sociocultural Distance	40
5.2. The Laotian Market	40

5.3. Lao Forestry and the Potential for Husqvarna	42
5.3.1. Market Size per Forest Category	43
5.3.2. Supply and Competition	44
5.3.3. Specific Business Conditions.....	44
CHAPTER 6 – RECOMMENDATION AND SUGGESTIONS FOR FUTURE	
RESEARCH	46
6.1. Recommendation	46
6.2. Suggestions for Further Research	47
REFERENCES.....	48

LIST OF ABBREVIATIONS

AB	Aktiebolag (Limited Liability Company - LLC)
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
CIA	Central Intelligence Agency
CIF	Cost, Insurance and Freight
CTP	Commercial Tree Plantations
CSR	Corporate Social Responsibility
DAFO	District Agriculture and Forestry Office
DDFI	Department of Domestic and Foreign Investment
DoF	Department of Forestry
EU	European Union
FME	Foreign Market Entry
GDP	Gross Domestic Product
Ha	Hectare
HIG	Högskolan i Gävle (University of Gävle)
LAK	Lao Kip
Lao PDR	Lao Peoples Democratic Republic
MAF	Ministry of Agriculture and Forestry
MIC	Ministry of Industry and Commerce
PAFO	Provincial Agriculture and Forestry Office
PFA	Production Forest Area
SEK	Swedish kronor
THB	Thai Baht
USD	United States Dollars
USTR	United States Trade Representative
UXO	Unexploded ordnance
WTO	World Trade Organization

LIST OF TABLES AND FIGURES

Table 1	Foreign Market Entry (FME) Modes
Table 2	Advantages and Disadvantages of Direct Investment:
Table 3:	Global Marketing Programs
Table 4	Husqvarna AB at a Glance
Table 5	The Estimated Global Market for Outdoor Power Equipment
Table 6	Laos – General Fact Box
Table 7	Laos – Economic Fact Box
Table 8	Enterprise Types in Laos
Table 9	Excerpts from the Law of Foreign Investment
Table 10	Forest Categories in Laos
Table 11	Proportion of CTP Ownership by Category
Table 12	Estimated Harvesting Volume at CTP:s
Table 13	Market Entry Modes vs. Possible Enterprise Types in Laos
Table 14	Harvesting Volume Predictions

CHAPTER 1 – INTRODUCTION

Globalization has turned main-stream and companies have since long searched for and explored new markets in which there is sales potential for their products. This concept in which companies go abroad in order to expand business is called foreign market entry (FME). FME is a topic that receives a lot of attention both from scholars and the business world.

A lot of research concerning FME is devoted to the known markets in the developed world – markets that often resemble the conditions of the home market. Developing countries may easily be thought of as countries in which to build manufacturing plants or where production can be outsourced. However, regardless of the level of economic development, these countries constitute very large markets for a big variety of products.

With the economic development in many developing countries the spending power increases and the term emerging markets is therefore often used to describe developing countries. Large emerging markets – like e.g. China, India, and Brazil – have received a lot of attention from researchers looking at various aspects of FME. This is an interesting topic since the market characteristics often are a lot different in these countries compared to the home market.

Weaker economies, some of them on the list of nations referred to as least developed countries, have however not received a lot of research attention. Economic development or niche markets do however present interesting sales potential also in these often lesser known countries. Here there is clearly a need for more research.

I have lived in Laos, a country in Southeast Asia referred to as a least developed country, for a total of 3.5 years during a period stretching from October 2002 until January 2008. During this time I saw a very strong economic development – at least in the urban areas. With the background described above I thought it would be interesting to research the Laotian market more thoroughly and hopefully provide insight to a market that is completely unknown to many.

I decided to do my research of Laos through a case study, and since forestry is an important sector in Laos I contacted Husqvarna AB which among other products produces forestry power equipment. The company is already a heavily global company with export to more than 100 countries in the world. The choice of company also had to do with Husqvarna having their head office and main production plant in my home town in Sweden – Jönköping.

Through this research I would like to highlight the concept of foreign market entry in developing countries and provide particular insight to one of the many countries that do not receive much attention from researchers in terms of FME. I hope that my findings not only are valuable for Husqvarna AB, but to anyone interested in learning about Laos and

the possibilities and obstacles that this country provides. I also hope that it can be a trigger for similar research in other lesser known countries.

The study consists of four main parts:

- Chapter 3: Theoretical review on entering new markets
- Chapter 4: Case study
- Chapter 5: Conclusions and reflections
- Chapter 6: Recommendations and suggestions for future research

Chapter 3 provides a theoretical framework for the thesis which primarily will be used to analyze the case. The intention is to describe the following topics:

- What different ways are there to enter new markets?
- Why do companies consider or decide to enter new markets?
- What considerations, advantages and disadvantages entering new markets are there?
- What common factors of entering new markets in developing/emerging countries are there?

Chapter 4, the case study, is an investigation of the potential market in Laos from the perspective of Husqvarna's professional forestry products - chainsaws and clearing saws in particular. The case study, both theoretical and empirical, aims at building a base of information regarding the Laotian market in general and Laotian forestry in particular. The following topics formed the base for my research:

- A description of the forestry industry in Laos
- Predicted annual harvesting volumes (in the professional market segment) enabling potential market size for chainsaws and clearing saws to be estimated.
- Information about present competitors and distributors looking at factors such as:
 - Who supplies the market with equipment currently?
 - What products are sold and at what prices?
 - What does the distribution process look like from importer to end customer?
- How Husqvarna may enter the Laotian new market

Chapter 5 consists of conclusions and reflections. Here the theoretical framework, secondary data and empirical research are brought together and the objective is to provide a market description of Laos serving as basis for decision-making information on the following topics:

- Market entry in general
- The Laotian market
- The Laotian forestry sector from a commercial perspective.

Chapter 6 consists of my recommendations to Husqvarna regarding market entry in Laos if proved feasible. I also provide ideas for future research resulting from triggers in the research and topics outside the scope of this report.

CHAPTER 2 – METHOD

The topic of this thesis was driven by a number of factors. Looking at the title "Emerging Markets: A Case Study on Foreign Market Entry in Laos" it boils down to the following:

- *Emerging markets – triggered by my interest in these kind of markets from a commercial as well as development point of view.*
- *Foreign market entry – because I find it interesting to understand the considerations behind decisions to enter new markets*
- *Analyzing the Laotian market – due to my living in Laos at the time and that I had noticed the limited research involving the country*
- *Case study - since I thought it was a good way to concretize the topic and found a Swedish company interested in this kind of market mapping.*

It has certainly been a learning experience since I was completely unfamiliar with many of the topics and hence had to start from scratch and gradually build my knowledge base.

2.1. Scientific Approach

2.1.1. Hermeneutics

In literature, this gradual understanding where acquired knowledge is continuously incorporated into the research is referred to as the hermeneutic circle. This concept is based on the idea that interpretation is the result of a circular movement between the individual's pre-understanding and meetings with new experiences, which in turn leads to new understanding that is transformed into a new pre-understanding in coming interpretive approaches. Hermeneutics is the study of interpretation theory (Wikipedia, 2009)

2.1.2. Three Strains of Research Methodology

In the book "Företagsekonomisk metodlära" (Research methodology in Business Administration) by Arbnor and Bjerke (1994), three different business administration research methodologies are described. These are 1) the analytical approach, 2) the systemic approach, and 3) the actor approach.

The Analytical Approach

The analytical approach assumes that reality is summative by character, meaning that the whole is equal to the sum of its parts. Research is built on an existing analytical theory from which a hypothesis is developed that will be supported or falsified through research. Explanation and understanding is developed through a cause and effect analysis resulting in clear links between cause and effect, and the development of logical models. The conclusions are supported by typical cases. In the analytical approach the knowledge

should be independent from the individual meaning that the assumptions ought to be free from subjective experiences and follow certain formal and logical judgments (Arbner & Bjerke, 1994, pp. 65-95).

The Systemic Approach

The systematic approach on the contrary assumes that reality is arranged in such a manner that the whole deviates from the sum of its parts. This results in making the relationships between the parts essential since these have synergies. Knowledge developed using the systematic approach is according to the conditions of the approach dependent on a system. Individuals may form parts of a system but their behavior follows systemic principles. The approach is hence based on explaining or understanding the parts through the characteristics of the whole (Arbner & Bjerke, 1994, pp. 65-95).

The Actor Approach

The actor approach on the other hand does not intend to explain scenarios but to understand social entirities. The approach aims at mapping the meaning and significance that different actors put in their acts and the surrounding environment. Reality is therefore assumed be a social construction that intentionally is created on different levels of significance structures of the whole. Knowledge developed using he actor approach is according to the conditions of this approach independent from the individual, but follows phenomenological principles for how the social reality is constructed. An actor approach to a situation is based on that notions in the social reality have many meanings and are continuously reinterpreted (Arbner & Bjerke, 1994, pp. 65-95,174).

2.1.3. The Methodology in this Thesis

Given the nature of this thesis, in which I compile and structure information to provide a basis for decision-making, my research fits well under the actor approach. My intent is not to prove any kind of hypothesis, and hence not research according to the analytical approach. Neither did I have a clear picture of the topic from which I wanted to explain the various variables, and hence not research according to the systemic approach. On the contrary there was limited information available regarding this topic. Information gathered through research has gradually been incorporated to the work to understand the topic – the social entirety (Arbner & Bjerke, 1994, pp. 65-95).

The growing base of knowledge has both enabled further and more accurate research as well as some kind of entirety from which to draw conclusions and make recommendations. The hermeneutic circle is hence a term that is heavily valid for my research. I basically started with a blank sheet of paper, and by compiling information I gradually built a larger knowledge base that continuously was incorporated into my work.

2.2. Course of Action

2.2.1. Empirical Research

Empirical research has been performed via interviews and correspondence with authorities and companies that work in this sector. This research has given answers regarding what the market looks like currently.

By using my local network of people I was able to effectively locate experts in the topic who in turn could guide me further. I have interviewed three kinds of experts:

- Forestry officials
- Other government officials
- Companies involved in forestry.

The interviews have been qualitative in nature.

Darmer describes different types of structures for qualitative interviews - structured interviews, semi-structured interviews and unstructured interviews.

- Structured interviews are close to being questionnaires but give the interviewee a possibility to formulate and develop the answers
- Semi-structured interviews are based on an interview guide but the order of the questions is not important as long as all included topics are discussed. More important than the structure is to have a good dialogue.
- Unstructured interviews give the interviewee a lot of freedom to decide what to talk about. The interviewer is a trigger for the dialogue but steps back to more of a listener. (Darmer & Freytag, 1995, pp. 256-257)

I have primarily used semi-structured interviews in order to give room for the interviewee to go off on a tangent if desired. In this way I would get the information I was searching for but at the same time open up for new notions that I possibly would research further. In order not to reveal the names of my interviewees I have chosen to label the interviews according to a number sequence.

2.2.2. Theoretical Research and Secondary data

Theoretical research has been performed primarily by reviewing literature and journals. I have generally located journals by using Google, and accessed them via the HIG proxy server. This possibility was especially helpful while I still lived in Laos since I didn't have access to any good library there. Secondary data have been collected via the internet, reports and newspapers. Some of the reports, documents and law excerpts were provided by interviewees. This especially concerns documents relating to forestry, and I am immensely grateful for this help since a lot of information proved to be very difficult to locate.

2.2.3. Conclusions and Reflections

In the conclusions and reflections section I discuss my findings by the different parts of the report together. I refer quite a lot to my own experiences of Laos, and Laos as a

developing country. What I write might hence be subjective, which the reader should bear in mind, but to legitimize myself please note the following:

- I have lived in Laos for total of 3.5 years during the period 2002-2008 and consider myself knowledgeable enough to bring my personal views into the analysis
- I have experience not only of living there, with all that means in terms of discussions etc., but also working with a local company that had internationalization plans.
- My personal experience of Laos was the sole trigger for the topic in this thesis

2.2.4. Recommendation

Lastly I engage in a recommendation section in which I, with the facts of the research as a base, bring in my personal opinion as to whether market entry in Laos is a good option for Husqvarna AB.

2.3. Sources and Reliability of Data

As described above the following sources have been used to gather information about the thesis topic.

- Literature
- Journals (primarily retrieved by using the HIG proxy server)
- Reports (retrieved from various locations but primarily through the internet and via interviews)
- Internet and newspapers (Google, Google Scholar, and the HIG library site have been my primary tools when using the internet)
- Interviews and site visits

Regarding the validity and trustworthiness of the research I find it important to point out that Laos is a fairly unknown country which has the effect of limited available research material and information.

For reports and documents about Laos I have tried to lean primarily onto reports published by well-known organizations. The written documents are most often linked to some kind of development cooperation project or agenda. Since the reporting requirement of these kinds of projects often is high, I believe that the trustworthiness of the written sources I have chosen is good.

In terms of people that I have interviewed they are all experienced persons within their fields of work, and I don't find myself having any reason not to trust them. Above all the interviews were necessary to gain information about the topic.

CHAPTER 3 - THEORETICAL REVIEW

This section aims to provide a theoretical framework relating to foreign market entry. To be clear it is important to mention that the theoretical review primarily deals with aspects of entering new markets in order to sell a product on that market. It does therefore not give any special attention to companies that outsource production to other countries - many aspects do however relate to both these market entry triggers. We will first look at a) market entry in general, and then at b) market entry in developing countries. The Laotian Market will be discussed in chapter 4.

3.1. Market Entry in General

There are various reasons that companies choose to enter a new market. Kotler and Keller list five reasons: 1) Discovery that a foreign market presents higher profit opportunities than the domestic market; 2) need for a larger customer base to achieve economies of scale; 3) reducing the dependency on any one market; 4) counterattack against companies that have entered the home market; and 5) customers that go abroad and therefore need international servicing (2006, p. 669).

Entering new markets, despite the huge potential that it provides, does involve big risks. Many companies therefore do not enter a new market until they for various reasons are triggered to do so. The trigger might be an external request to sell abroad or that the company feels that it can't survive without entering new markets (Kotler & Keller, 2006, p. 669; Ellis, 2000). With the risks included in the internationalization process, the strategy to enter a new market is crucial and below we will look at different ways that this can be done. Douglas and Craig, as quoted by Ellis, argue that market entry decisions are among the most critical made by a firm relative to international markets: "What country to enter constitutes a commitment that lays a foundation for the future expansion and it also signals the company's intentions to competitors" (2000, p. 443). This indicates that a strategic move to enter a new market should be carefully planned and researched. Ellis argues however that there are plenty of empirical studies indicating that foreign market entry decisions are ad hoc, made for non-rational reasons and that market research often is ignored (2000, p. 444).

3.1.1. Market Entry Modes

There are several ways in which a new market can be entered. The term used for this is market entry mode or foreign market entry (FME) mode. Since each method provides for different degrees of commitment, risk, control and profit potential, it is very important that companies seeking to expand to a new market understand the differences. Agarwal and Ramaswami write that the entry mode decision is a critical strategic decision since the initial entry mode choice can be difficult to change without considerable loss of time and money (1992, pp. 1-2). In order to lay the foundation for success in a new market the assumption is therefore that "the best entry mode is one that aligns the entrant's strengths

and weaknesses with the local market's environment as well as with the firm's structural and strategic decisions" (Brown, Dev, & Zhou, 2003, p. 473).

There are four primary market entry modes¹: Exporting (indirect and direct), licensing, joint venture, and direct investment (Kotler & Keller, 2006; Agarwal & Ramaswami, 1992). The table below summarizes the market entry modes addressed above.

Table 1: Foreign Market Entry (FME) modes	
Exporting (indirect and direct)	The company sells to a new market and might adapt it to the new market. The goods may be indirectly or directly exported but regardless of which, the product will be produced in the home country. <u>Indirect export</u> : The company works through independent intermediaries. <u>Direct export</u> : The company handles its own exports
Licensing	The company (licensor) issues a license to a foreign company (licensee) to use a manufacturing process, trademark, patent, trade secret, or other item of value. The licensee pays a fee or royalty for this.
Joint Venture	The company partners with local investors and thereby creates a joint venture where ownership and control is shared
Direct investment	The company builds its own facilities or buys part or full interest in a local company. This may entail a sole venture, i.e. a wholly owned subsidiary.
<i>Source: Kotler & Keller (2006)</i>	

Typically the first step will be for the company to get involved in indirect export either on its own initiative or as a response to a spontaneous order. As business grows the company will then go through a set of stages until it finds a strategy suitable for its line of products. Each step will increase the risk and commitment, but at the same increase the profit potential and possibility to control sales (Agarwal & Ramaswami, 1992; Kotler & Keller, 2006). Let us now look deeper into what each of these different market entry modes mean.

3.1.1.1. Exporting

According to Kotler and Keller exporting is the normal way to get involved with a new market (2006, p. 674). Ellis argues that there are four ways that this exchange may be initiated: 1) seller-initiated, 2) buyer-initiated, 3) broker-initiated, and 4) initiated as a result of a trade-fair or chance encounter (2000, p. 446). Once the relationship is initiated the company can choose to engage in either indirect or direct exporting.

¹ Kotler and Keller consider these as five market entry modes treating indirect exporting and direct exporting as two different modes.

Indirect Exporting

Kotler and Keller further say that companies typically start with indirect exporting which means that some kind of intermediary is used. They continue by describing that the intermediary may be a domestic-based export merchant who buys the products and sell them in another country or a domestic-based export agent that seeks and negotiates a foreign purchase in exchange for a commission. It may also be a cooperative organization that manages several companies' export activities and is partly under control of these companies. Finally there are also export-management companies that handle a company's export activities for a fee (2006, pp. 674-675).

Indirect export has the two advantages of involving both less investment and risk. Using an intermediary means that the company does not need to invest in developing an export department, and overseas sales force, or international contacts. Since the intermediaries bring the know-how and services relating to the new market the company also limits the risk since fewer mistakes probably will be done. Disadvantages include lower profit potential and lack of control (Kotler & Keller, 2006, pp. 674-675; Agarwal & Ramaswami, 1992, p. 3).

Direct Exporting

Either from the start or gradually as the export volumes increase, the company may decide to handle its own exports. This is called direct export and may according to Kotler and Keller be managed in four ways: 1) domestic-based export department or division, 2) overseas sales branch or subsidiary, 3) traveling export sales representatives, and 4) foreign-based distributors or agents (2006, p. 675).

3.1.1.2. Licensing

Another way to enter a new market is to license a local company to use one or several components of the business concept. For a fee or royalty the company can license another company to use a manufacturing process, trademark, patent, trade secret or other business component. The advantage of licensing for the licensor is that it can enter a new market at little risk. For the licensee the advantage is that it can gain production expertise or a well-known product or brand name. But licensing also has its disadvantages in that some control is lost, and that a potential competitor may have appeared when the license terminates. Profits have also been given up if the licensee is very successful (Kotler & Keller, 2006, p. 676).

Some of the most common ways to use licensing include management contracts, contract manufacturing and franchising. In a management contract a company charges a fee to manage a foreign business. This is common in for example the hotel industry. In contract manufacturing local manufacturers are hired to produce a product. An example of this is producers of soft drinks and beer that are issued a license to produce the drink. In franchising the complete brand concept and operating system is offered to the franchisee. In return for this the franchisee invests in setting up the franchise and pays certain fees.

3.1.1.3. Joint Venture

In a joint venture the company partners with a foreign company or investor in a new company where ownership and control is shared. The reason for this may be either out of necessity or desire. The company may be limited in terms of funds, know-how or resources to engage in the venture alone or the host country may have rules and regulations that require a joint venture to be formed if the market should be entered.

The disadvantages of a joint venture include disagreements between the owners and difficulties for a multinational company to carry certain policies on a worldwide basis (Kotler & Keller, 2006, pp. 676-677). A closely related investment form is the formation of an alliance, but whereas a JV means that a new legal entity is formed, an alliance does not (Walter, Peters, & Dess, 1994).

3.1.1.4. Direct Investment

According to Kotler and Keller the ultimate market entry mode is direct investment where the company has direct ownership of foreign-based facilities for manufacturing or assembly. This can happen either by buying part or full interest in a local company or by building its own facilities. If the ownership is complete this is referred to as sole venture or wholly owned subsidiary. If a part of a local company is bought it might be easy to confuse with a joint venture, but the distinction is clear. A joint venture results in a new legal entity whereas partial ownership through direct investment means investing in an existing legal entity.

Table 2: Advantages and Disadvantages of Direct Investment:	
Advantages	Disadvantages
<ul style="list-style-type: none">• Securing cost economies due to cheaper labor and raw materials, foreign government investment incentives, and freight savings• Strengthening its image in the host country due to creating jobs• Developing a deeper relationship with government, customers, local suppliers, and distributors, which enables it to adapt its products better to the local environment• Retaining full control over its investment• Assuring itself access to the market if the host country insists on domestic content in locally purchased goods.	<ul style="list-style-type: none">• Blocked or devalued currencies• Worsening markets• Expropriation which then are bound to a large investment

Source: Kotler & Keller, 2006, p. 677

3.1.2. Market Entry Strategies

When entering a new market international companies need to decide on how much to adapt their marketing strategy. There are companies that use a globally standardized marketing mix as well as companies that use an adapted marketing mix that may be targeted to each market. Kotler and Keller write about the following advantages and disadvantages of global marketing programs:

Table 3: Global Marketing Programs	
Advantages	Disadvantages
<ul style="list-style-type: none">• Economies of scale in production and distribution• Lower marketing costs• Power and scope• Consistency in brand image• Ability to leverage good ideas quickly and efficiently• Uniformity of marketing practices.	<ul style="list-style-type: none">• Differences in consumer needs, wants and usage patterns for products• Differences in consumer response to marketing-mix elements• Differences in brand and product development and the competitive environment• Differences in the legal environment• Differences in marketing institutions• Differences in administrative procedures
<i>Source: Kotler & Keller, 2006, pp. 677-678</i>	

A company can sell its products across the world with no local deviations. This I called straight extension. It can also change the product characteristics to meet local conditions and preferences. This is called product adaptation and there may be regional versions, country versions, city versions or retailer versions. When introducing its product on a new market the company should look at the following elements of potential product adaptation in a cost vs. revenue perspective: Product features, brand name, labeling, packaging, colors, advertising execution, materials, prices, sales promotion, advertising themes, and advertising media (Kotler & Keller, 2006, pp. 678-679).

3.1.3. Transaction Cost Analysis and the Resource Based View.

In literature concerning company internationalization the term transaction cost appears frequently as a topic of discussion. Transaction cost refers to the cost “designing, negotiating, executing, and monitoring exchange transactions” (Brown, Dev, & Zhou, 2003, p. 474). Transaction cost variables concern the costs of integrating an operation within the company as opposed to letting an external party act on the company’s behalf in a foreign market (Brouthers, 2002, p. 204). Brouthers writes that transaction cost theory maintains that “the cost of finding, negotiating and monitoring the actions of potential partners influence entry mode choice” (2002, p. 205). He writes further that in order to benefit from the scale economies of a market, transaction cost theory suggests market based modes are preferred.

According to Brown the resource based view is based on the idea that a firm has a set of resources (e.g. financial capital, physical assets, and know-how) that it uses to succeed in a market. A critical issue in terms of FME is therefore if the firm in the new market can use its resources and apply its competitive advantage there, and if so which mode offers the best opportunities (2003, pp. 474-476).

Brown further writes that “according to the resource-based view, entrant firms choose entry modes to capitalize on the local partners’ capabilities, and according to transaction cost analysis to protect themselves from potential opportunistic behavior” (Brown, Dev, & Zhou, 2003, p. 475).

3.1.4. Transferring Know-how

Brown argues that the ability to transfer know-how to the local market and the corresponding ability of the local partner to absorb this know-how is a factor in achieving success on a local market. He writes that a distinction can be made between codified knowledge and tacit knowledge (2003, p. 476).

- Codified knowledge is information that is more easily identified, structured and communicated
- Tacit knowledge is more difficult to transfer because its effectiveness is due to individuals and organizational routines and processes that in turn reflect a unique organizational culture.

Knowledge of the new potential market is also an important success factor and not all companies have the resources to build this knowledge. Collaboration with local partners is one way that this knowledge gap can be filled, and for the local partner it can give access to the entrant’s know-how. This collaboration is beneficial for both parties and increases the likelihood of earning better returns (Brown, Dev, & Zhou, 2003, p. 474). Local partners can assist not only with knowledge about the market but also with a network of people. In my understanding collaboration can be made in a number of ways ranging from being investing partners, consultants or staff.

3.2. Market Entry in Developing Countries

The case study in this report involves entering a new market in a developing country. Entering developed countries versus entering developing countries will most likely require different strategies for most companies and this section of the theoretical review will therefore provide aspects of foreign market entry in developing countries.

Judging from my observations in Laos and the Southeast Asian region it may be fair to say that developing countries, or emerging countries as they often are referred to, often have certain characteristics that are different from the developed countries. A common factor is however that a majority of the people in these countries have limited funds to spend. Since more than 85 percent of the world’s population lives in these countries

(Kotler & Keller, 2006) there is huge potential for companies that can offer desirable products at affordable prices. According to Kotler and Keller (2006, p. 671) “the unmet needs of the emerging or developing world represent huge potential markets for food, clothing, shelter, consumer electronics, and other goods”. With the economic development there is also potential in filling a gap in the market for professional or high-end products.

Irrespective of being a developed or developing country the local market’s environment offers several factors that influence what market entry mode a firm should chose. Brown et al. (2003, p. 479) refers to three sets of factors:

1. The local market’s potential in terms of its current size and potential for growth
2. The local market’s general business conditions such as the quality of its infrastructure, its business climate and political stability,
3. Sociocultural distance meaning the differences between the markets entrant’s home country and the local market in terms of business practices and norms as well as social culture.

Knowledge of the local market’s potential is naturally a fundamental factor when considering market entry. Market potential, meaning size and growth, has been found to be an important determinant of overseas investment (Agarwal & Ramaswami, 1992, p. 5).

3.3. Summary of the Key Concepts in the Theoretical Review

The theoretical review has been divided into two major parts – market entry in general and market entry in developing countries. Below is a short summary of the key concepts that have been identified.

- The foreign market entry modes most widely used are export (indirect and direct), licensing, joint ventures and direct investment. In the order mentioned investment cost increases but in turn the potential returns are higher.
- The most common mode to enter a new market is to start with exporting, either with the same product as on the home market or with adapted versions catering the needs of the new market.
- Each market may provide barriers for entry and exit.
- The marketing strategy may need to be modified or completely altered to suit the new market. Global marketing programs as well as adapted marketing programs have its advantages and disadvantages.
- The product might have to be modified to suit local preferences and needs. This is called product adaption. If the product is sold without any adaption it’s called straight extension.
- The ability to transfer know-how to the local market and the corresponding ability of the local partner to absorb this know-how is a factor in achieving success on a local market. A distinction can be made between codified knowledge and tacit knowledge.

- Knowledge of the new potential market is also an important success factor. All companies do not have the resources to build this knowledge and collaboration with local partners is one way to fill the knowledge gap.
- FME in developed countries versus developing countries will most likely require different strategies for most companies
- Irrespective of being a developed or developing country the local market's environment offers several factors that influence FME mode. Three factors that are frequently mentioned are 1) the local market's potential, 2) the local market's general business conditions, and 3) sociocultural distance.
- It may be fair to say that developing countries often have certain characteristics that are different from the developed countries.
- Knowledge of the local market's potential is a fundamental factor when considering market entry.

CHAPTER 4 - THE CASE STUDY

The empirical part of this thesis is undertaken through a case study. Since forestry is important in Laos I got the idea that maybe Husqvarna AB, a company located in my hometown, could be interested in a market study of Laos. When I contacted them they gave a positive response. They were actually interested in two for them unexplored markets, Laos and Cambodia, but since I was located in Laos, and to limit the scope of the report I made the decision to research only the Laotian market.

At the time I started my research, Husqvarna was already conducting market research in other Asian countries via external consultants. The timing of this thesis topic was hence good and knowing that the information was sought by the company was inspiring.

4.1. Background

On the global market for professional chainsaws Husqvarna and Jonsered (which are two brands within the Husqvarna group) are two of the three leading brands. Husqvarna's combined market share within the professional forestry equipment in 2007 was approximately 40 percent of the total world market (Husqvarna AB, 2007). Many new markets are currently being researched and entered.

Looking at Asia sales are going well in for example China, Indonesia and Vietnam. In some countries sales are however basically nonexistent (Interview10, 2007/2008). One of these countries is Laos where I lived at the time this thesis was started. From discussions with Husqvarna I have learnt that there are border sales from Vietnam where Husqvarna has a presence already, but there is no licensed dealer in the country. Since forestry is one of Laos' major industries, the case study aims at studying whether there might be a potential for Husqvarna to enter this market.

As described above I took the decision to do this research for Husqvarna AB. In order to investigate the market potential for them in Laos the intention has been to:

- Map the forestry market in Laos
- Give an indication if market entry for Husqvarna, as a professional, high-end supplier of outdoor power equipment is feasible in Laos.
- Look at specific market conditions related to selling forestry equipment.

The study does not involve their complete line of products but is limited to professional forestry equipment.

4.1.1. Husqvarna AB

The company information below is based on information available in Husqvarna AB's annual reports 2006 and 2007, the Husqvarna website, and verbal sources at Husqvarna AB. Husqvarna AB is one of the world's leading producers of outdoor power equipment. The company has a wide range of products split into consumer products and professional products. Consumer products comprise of two geographical areas, North America and Rest of the world, whereas the professional products comprise of three product categories 1) forestry, 2) commercial lawn and garden, and 3) construction.

For both the consumer and professional product categories the company has products that are positioned as number one or two on the world market. It is the world's largest producer of chainsaws, lawn mowers, and portable petrol-powered garden equipment. It is also the global leader in garden tractors, as well as cutting equipment and diamond tools used for the construction and stone industries. The above mentioned brand names – Husqvarna and Jonsered – are high-end brands, expensive and with a reputation to be very reliable and long-lasting.

Production is primarily based in Sweden and 95 percent of the products are exported to more than 100 countries. There are approximately 25000 dealers worldwide.

4.1.2. The Global Market for Outdoor Power Equipment

According to Husqvarna's annual report 2007, the global market for outdoor power equipment is estimated at about SEK 140 billion annually. Of this figure the consumer segment is estimated at SEK 80 billion and the professional segment SEK 60 billion.

Table 5: The Estimated Global Market for Outdoor Power Equipment
Consumer products: SEK 80 billion
Professional products: SEK 60 billion
Forestry + lawn & garden: SEK 30 billion
Construction: SEK 30 billion
Source: Husqvarna AB annual report 2007

For Husqvarna AB sales are broken up into three geographical areas: North America accounting for 46 percent of sales, Europe 45 percent, and the rest of the world less than 9 percent. Breakdown per product category is not openly available.

Within the professional segment approximately 50 percent refers to equipment for the construction and stone industries. The rest SEK 30 billion is hence the estimated global market for forestry and lawn/garden products. Husqvarna AB has however told me verbally that the estimated chainsaw market in Asia is 500,000 units. Any further breakdown is not openly available.

Table 4: Husqvarna AB at a Glance
Net sales (2007): In total: SEK 33.3 billion Forestry: SEK 13.3 billion (40 percent)
Operating income: SEK 3.6 billion
Products: Outdoor power equipment within forestry, lawn & garden, and construction.
Export market: 95 percent of products are exported to more than 100 countries.
Employees: 16 000
Source: http://www.husqvarna.com

4.2. The Laotian Market in General

4.2.1. Country Overview

Laos is a land-locked country in Southeast Asia neighboring to Thailand, Myanmar (Burma), China, Vietnam and Cambodia. It was formerly part of French Indochina and reached independence in 1954. In 1975 Laos became a communist state which ended a six-century old monarchy. With this power switch, referred to as the revolution, a strict socialist regime closely aligned to Vietnam was instituted. Gradual return to private enterprise and liberalization of foreign investment started in 1986. During the period 1975-1986 Laos was considered a closed country. Laos is since 1997 a member of ASEAN – the Association of Southeast Asian Nations (Central Intelligence Agency, 2009).



Source: www.lonelyplanet.com

Laos is still a communist country but the country has gradually opened up for both tourism and foreign investment. The economic growth has been strong averaging 6 percent during the period 1988-2006 except during the Asian financial crisis in 1997 (Central Intelligence Agency, 2009). Judging from my own observations in Laos there is relatively speaking few international companies that have exploited the market which may provide interesting opportunities for global companies. CIA further writes about Laos that the economy will continue to benefit from foreign investment in hydropower, mining, and construction, especially as hydroelectric dam and road projects gain steam.

Location	Southeast Asia (landlocked)
Neighboring countries	Thailand, Cambodia, Vietnam, China, Myanmar (Burma)
Size	236,800 km ²
Geography	Most of the country is mountainous and thickly forested
Population	6.7 million
Language	Lao (official)
Government type	Communist state
Labor force	2,1 million (80 percent agriculture, 20 percent industry and services)
Source: The World Factbook	

Table 7: Laos – Economic fact box	
Official name	Lao Peoples Democratic Republic (Lao PDR)
Currency	Kip (LAK)
Natural resources	Timber, hydropower, gypsum, tin, gold and gemstones
GDP	13,74 billion USD
GDP per capita	2,200 USD
GDP real growth rate	8.3 percent
GDP composition by sector	Agriculture 42.7 percent, Industry 31 percent, Service 26.2 percent
Labor force	2,1 million (80 percent agriculture, 20 percent industry and services)
Population below poverty line	30.7 percent
Human Development Index ranking	130 (out of 177 countries)
Major trade partners	Thailand, Vietnam, China and Malaysia
Imports	Machinery and equipment, vehicles, fuel, consumer goods
Exports	Garments, wood products, coffee, electricity and tin
<i>Source: The World Factbook – Laos, UNDP website, Wikipedia</i>	

4.2.2. Doing Business

In terms of doing business Laos has a very poor international rating. The World Bank has a project called “Doing Business” comparing the ease of doing business in different countries. Laos is ranked 165th out of 181 economies. As a comparison Sweden is ranked 17th. The ratings are based on the weighted average of a set of criteria and the low grades stem particularly from difficulties in setting up a business, labor regulations and closing a business. In terms of closing a business it is actually rated worst in the world 2008 (World Bank Group, 2008; www.heritage.org). Another report states that “Laos has a challenging investment environment due the lack of rule of law, nontransparent regulations, and inefficient infrastructure and services (particularly financial services)” (United States Trade Representative, 2007, p. 378). The same report also writes that Laos is one of the most difficult countries in the world to set up a business, where it can take up to a year to acquire licenses. Corruption is a big issue and obstacle. Evans (2002, p. 219) writes that graft and corruption remain endemic in Lao PDR and that the people probably continue to join the [communist] party due to the knowledge of the financial perks it might result in. Wescott (pp. 245-246) writes that “corruption [in Laos] is a key constraint at all levels”. In terms of foreign investment Wescott writes further that it has “introduced opportunities to collect money to facilitate required authorizations”. The obstacles for international trade and investment are hence quite high.

According to a report from USTR (United States Trade Representative, 2007) the sole investment advantage that Laos has over its neighbor countries is that it offers foreign

investors may wholly own and operate an enterprise. From my understanding this is however a very important advantage. In Thailand for example foreign ownership is generally limited to 49 percent (Ratprasatporn & Thienpreecha, 2002).

4.2.3. Enterprise Types

According to the Department of Domestic and Foreign Investment (DDFI) in the Lao PDR, seven types of business organization are possible in Laos, and the business law makes no difference between foreign and domestic companies (DDFI Lao PDR). The table below describe what these mean as interpreted by DDFI.

Table 8: Enterprise Types in Laos
<p>Representative Office Business operations must be referred to units of the company that are located outside Laos. The representative office can therefore not conduct business on its own.</p>
<p>Branch Office The branch office is regarded as the same legal entity as its parent company and can therefore be held responsible for all liabilities of the branch in Laos. A branch office is viewed as a foreign enterprise established in Laos and the procedures of registering this is therefore the same as for any other kind of company.</p>
<p>Partnership The partnership can be managed by either all partners (two or more) or by a designated manager, and all partners are jointly and severally responsible for the liabilities. It is up to the partners how they want to contribute to the partnership in terms of funds, capital equipment, land, patents and trademarks, and technological know-how.</p>
<p>Sole Trader A business entity created by one person who is fully liable for the activities of the company. The owner acts on behalf of the company and may assign a manager to run the business.</p>
<p>Limited Liability Company This kind of company is the most common structure for conducting business in Laos and is by law regarded as a legal entity with right to own property and carry out business under its name. It may have one to twenty shareholders where all shares must have the same value. The shares are transferable only upon approval by two thirds of the shareholders.</p>
<p>Public Company This kind of company can be created by a minimum of seven shareholders. The shareholders are liable up to the limit of their unpaid capital contribution. The management of a public company is conducted by an executive council. The incorporation is similar to that of a private company (limited liability company) with the difference that it may issue debentures and shares to the public. (Laos does however not yet have a stock market².)</p>

² The government intends to establish a stock market by 2010

Private-State Mixed Enterprise

A joint venture between the state (Laos) and other forms of private business entities. The state must hold at least 51 percent of the shares and the joint venture is regulated according to the same rules as public companies with the following exceptions (quoted): (1) The government has the decision over the transfer of shares owned by the state; (2) The private shares are managed as shares of public companies; (3) The share certificates are transferable; (4) The Chairman of the Board of Directors is appointed by the Minister of Finance and the Vice-Chairman is selected by the private party and approved by the Minister of Finance; and (5) The Chairman of the Board of Directors has a casting vote.

Source: DDFI, <http://www.invest.laopdr.org>

The Lao foreign investment law specifies three different ways in which foreign investment can be made in Laos:

- Business cooperation by contract
- joint venture
- 100 percent foreign owned enterprise.

The law states that for all these enterprises the registered capital should not be less than 30 percent if its total capital and the assets shall not be less than the registered capital. The maximum investment term is 75 years but the length depends on the nature, size and condition of the business activities. In addition to the already mentioned investment options there is also a possibility to open a representative office (National Assembly , 2004).

The table below summarizes the most important information from the foreign investment law (mostly citations).

Table 9: Excerpts from the Law of Foreign Investment**Business cooperation by contract**

Business cooperation by contract is business between domestic and foreign legal entities without establishing a new legal entity in the Lao PDR. The objectives, forms, business term, rights and obligations, liabilities and benefits of each party shall be determined by contract.

Joint venture between foreign and domestic investors

A Joint Venture is an enterprise established and registered under the laws of the Lao PDR, operated and jointly owned by foreign and domestic investors. The organisation, management, operation and the relationship between the shareholders of the Joint Venture are set out in an agreement made by both parties and in the Articles of Association of such Joint Venture. Foreign investors investing in a Joint Venture shall contribute at least thirty percent (30 percent) of the Joint Venture's registered capital.

100 percent foreign owned enterprise

A one hundred percent (100 percent) foreign owned enterprise is an enterprise in which the investment in the Lao PDR is made by a foreign investor only. Such enterprise may be incorporated as a new legal entity or as a branch of a foreign enterprise

Representative Office

A foreign legal entity incorporated under the law of other countries may establish a representative office in the Lao PDR to collect information, study the feasibility of the investment and coordinate for the purpose of applying for investment. Representative offices or agents which operate for commercial purposes do not come under this law.

Source: National Assembly, 2004, Law on the Promotion of Foreign Investment

The benefits for approved foreign investors include a 20 percent tax rate on profits compared to the general tax rate which is 35 percent. The minimum tax is however 1 percent of the turnover. The investor pays either of these, whichever is greater (National Assembly , 2004).

4.2.4. Trade

The government has made progress in improving trade and customs procedures but trading with Laos still means having to deal with issues that are difficult and add to the cost. According to heritage.org reasons that add to the cost of trade are “a corrupt customs process, prohibitive tariffs, import bans, import restrictions, import taxes, and weak enforcement of intellectual property rights (www.heritage.org)”. Tariffs are however low on average. There is generally a 10 percent tax applied on CIF (Cost+Insurance+Freight) plus duty, with some products having additional taxes (New Zealand Ministry of Foreign Affairs and Trade, 2009).

For companies that are interested in exporting to Laos it is important to know that there are importation restrictions. Importers are required to submit an annual importation plan to the Ministry of Commerce or relevant provincial authorities (UN Escap, 2005). Some products need special licenses before importation can commence. The government prohibits the importation of weapons, illegal drugs, toxic chemicals, hazardous materials and pornographic material. It also prohibits the importation of agricultural products that are grown domestically in sufficient quantities (United States Trade Representative, p. 375).

Since 1997 Laos is a member of ASEAN – Association of Southeast Asian Nations. Considering that 80 percent of Laos’ external trade is with ASEAN, the participation in the ASEAN Free Trade Area (AFTA) is very important. Laos has acceded to all of ASEAN’s framework agreements, including such agreements that cover intellectual property cooperation and patents etc. No system does however yet exist to actually protect copyrights (United States Trade Representative, 2007, p. 375).

Laos has also started the procedure to be part of the World Trade Organization (WTO), a process referred to as WTO accession. Laos applied for membership in July 1997 and had its fourth meeting with WTO in July 2008. According to the WTO homepage Laos is making steady progress towards joining the organization but the talks are still in the early stages. One of the recent positive steps was to reaching an agreement with the EU on opening its market to goods (WTO, 2008).

A limiting factor for Laos' trade potential is its primitive infrastructure. The road system is underdeveloped, telecommunications are limited, and electricity is only available in a few urban areas (Central Intelligence Agency, 2009). Until recently there was no railroad either, but since April 2008 the country has a railway linking Laos with Thailand at the border station Friendship Bridge. The station is located in the outskirts of Vientiane. There are plenty of other ongoing and planned infrastructure projects but it takes time to develop a country. The railway that now connects Laos with Thailand is planned to be developed until there is a network also with Vietnam and China.

4.2.5. Labor

The labor market in Laos operates under restrictive employment regulations that hinder employment and productivity growth, but scores rather well in the region despite this. Limiting factors concern rigidity of hours, difficulty of firing, and rigidity of employment. The cost of hiring labor (both the non-salary and the salary cost) is low and Laos scores well in the region in this regard. Changing hours or firing redundant labor can however be both costly and difficult and Laos scores low in the region when looking at these aspects (World Bank Group, 2008; www.heritage.org).

4.3. The Laotian Forestry Market

4.3.1. Forestry in Laos

A large percentage of Laos is covered by forest. According to government statistics from 2002 the forests cover represents 41.5 percent of the country's area. The forest cover has decreased rapidly over the past 25 years with forest cover being 47.2 percent in 1992 and 49.1 percent in 1982 (Sugimoto, 2007, p. 25; Government of Lao PDR, 2005, s. 2). According to another document the forest cover may be as low as 36 percent (Lang, pulpmillwatch.org, 2007). There are many reasons for this including logging, infrastructure projects like roads and hydropower dams, as well as the US war on Indochina (Lang, pulpmillwatch.org, 2007). The government is working on reforestation and has a target to have a forest cover of 53 percent by 2010 and 70 percent by 2020 (Sugimoto, 2007, p. 25). The canopy density³ should be more than 20 percent.

All natural forest is owned by the government. In order to ensure sustainable forestry the government has come up with a forest classification. In this classification the forest cover of Laos is split up into five categories. The first three of these relate to function whereas the last two relate to current situation (Government of Lao PDR, 2005, ss. 10-11). The table below gives an overview of these categories:

³ The proportion of an area that is covered by the crown of trees

Table 10: Forest Categories in Laos	
Production forest	Forests and forestlands regularly used to provide timber and other forest products
Conservation forest	Forests and forestlands classified for the purpose of protecting and conserving animal and plant species, natural habitats and entities of other value such as history, culture, tourism, environment, education and science
Protection forest	Forests or forestlands classified for the protection of watershed areas and prevention of soil erosion. Included in this category are also areas of forestland with national security significance, and areas for protection of the environment and natural disaster
Regeneration forest	Young and fallow forest areas classified for regeneration and maintenance of forest cover
Degraded forest	Forests that have been so heavily damaged that they are without forest or barren. These areas are classified for tree planting, permanent agriculture and livestock production, and other purposes according to national economic development plans
<i>Source: Government of Lao PDR, 2005, Forestry Strategy to the Year 2020 of the Lao PDR</i>	

4.3.2. Potential Categories and Segments of Interest

Since the purpose of this case is to research the market potential for a company selling forestry equipment, I have come to the conclusion that the categories of primary interest are those that will yield harvestable forest. Of the categories described above it is therefore in my understanding production forest and degraded forest that is of most interest. Production forest since this is where the government will harvest on a continuous basis and degraded forest because commercial tree planting is one of the activities that these areas will be used for. Another potentially interesting opportunity is infrastructure projects which is not bound to a specific forest category but would mean harvesting of natural forest. Let us have a look at the current situation using two headings: 1) Natural forest – consisting of the categories production forest and infrastructure projects, and 2) Commercial tree plantations – consisting of the category degraded forest.

4.3.2.1. Natural Forest

According to statistics from 2007 production forest covers an area of 3.6 million hectares. It is divided into 59 different areas out of which 8 have been formally established. The other 51 areas are waiting for approval from the provinces. Harvesting in the production forest areas (PFAs) is administered in each province by the Provincial Agriculture and Forestry Office (PAFO) (Sugimoto, 2007). Laos has suffered immensely from illegal logging and although this practice has decreased now it is still a big problem. In order to get more control of logging the intention is that PFAs should have management plans. This is only partially implemented at this point, but if successful it will hopefully curb the illegal logging in these areas.

As a consequence of the economic development, many infrastructure projects will commence for many years to come. The road sector has had many projects already but the road system is still very basic and there will be many projects coming up. The area of most concern now is however hydropower projects. Laos has a high potential for developing hydropower facilities since it has the natural resources for this and the need for energy in the neighboring countries is high (most of the energy will be exported). There have already been several projects in this sector, and the largest so far of these is currently under way. This is the Nam Theun 2 Hydropower Project located in the province of Khammouane in the south of Laos. Land is currently being cleared from forest to pave the way for the project. The reservoir will at maximum level cover a surface area of 450 km². For the FY 2006 alone the timber quota was 300 000 m³ (Interview8, 2008; NTPC, 2009).

Harvesting volumes from natural forest is difficult to estimate considering the ambiguity between different sources. During the years 2000 to 2007 the annual timber logging has been between 300,000 and 450,000 m³ (Sugimoto, 2007, pp. 28-32). Sugimoto writes that there however are other ways to look at this, e.g. total commercial timber harvest. One way to estimate this is to look at the total log export and log consumption in wood processing factories. Using this method Sugimoto lands on an estimate of 860,000 m³/year. This estimate is close to the figure that an official at the Ministry of Agriculture and Forestry (MAF) gave in an interview (Interview3, 2007). He based his estimate on the assumption that 50 percent of the production forest can be logged with an estimated yield of 0.5 m³/ha/year. This would result in a harvesting volume of approximately 900,000 m³/year. For market size predictions I recommend that an estimated harvest of natural forest of 860,000 m³/year is used.

4.3.2.2. Commercial Tree Plantations (CTP)

In Laos there are plenty of areas that have been assigned as potential tree plantation areas. These are located within the forest category labeled degraded forest. Unfortunately no data is available on the area that this forest category covers. A target of 500,000 ha of commercial tree plantations by 2020 has been set however (Government of Lao PDR, 2005). Due to increasing investment in CTP, mainly foreign, Sugimoto foresees that this target can be easily achieved (2007, p. 34). According to statistics from 2005 approximately 147,000 ha of plantations had been established with a success rate of 66 percent. The breakdown of these plantations in terms of ownership is presented in table 9 (Government of Lao PDR, 2005, s. 22).

Table 11: Proportion of CTP Ownership by Category	
Individual farmers and entrepreneurs	47 percent
Smallholders	30 percent
Companies (local and foreign)	10 percent
Households	13 percent
Source: Government of Lao PDR, 2005, Forestry Strategy to the Year 2020	

Sugimoto has in his report from 2007 increased the figure to 200,000 ha. The plantations are owned by domestic farmers and entrepreneurs as well as foreign investors. According to the report the existing tree plantations consisted of rubber (33,957 ha), Eucalyptus (16,828 ha), eaglewood (4,408 ha) and unspecified species (145,356 ha). Looking at tree plantations by foreign investors approximately 50 percent of the plantations will be rubber (Sugimoto, 2007, pp. 32-34; Interview3, 2007). Rubber is tapped for its sap and hence not harvested for its wood. It should therefore not be included in predictions for future harvesting volumes.

Commercial tree plantations of fast growing wood species can be harvested in 5-7 year cycles with a yield of 140 m³/ha. This provides for an estimated harvesting volume of 20-30 m³/ha/year. Several reports do however speak of much lower harvesting volumes, at least for small scale plantations. This indicates that a harvesting volume of 20-30 m³/ha/year requires as well-managed plantation. Given the statistics above (not including rubber) and using an estimated harvesting volume of 20 m³/ha/year (the lower harvest/ha figure) the estimated harvesting volume could in a few years be 2,000,000 m³/year. Looking further into the future, granted the goal of 500,000 ha of commercial tree plantations is reached the annual harvesting volume could by 2020 reach 5,000,000 m³/year.

Table 12: Estimated Harvesting Volume at CTP:s

Plantation area (ha, year)	Harvest (year)	Not rubber (percent)	Yield (m ³ /ha/year)	Harvesting volume (m ³ /year)
200,000 (2006)	2011-2013	50	20	2,000,000
500,000 (2020)	2025-2027	50	20	5,000,000

Note: The success rate was 66 percent in 2005. If this success rate persists the harvest needs to be adjusted accordingly

Regarding foreign investors there are currently four companies that have received concessions. Oji and Birla have received concessions of 50,000 ha each, Stora Enso (in collaboration with Burapha) 35,000 ha, and Burapha 7,000 ha. With the exception of Burapha, these companies have only started recently and hence not harvested yet. There are 159 companies that have applied for concessions, adding up to a total area covering 1,860,000 ha (almost four times more than available) (Sugimoto, 2007, p. 33). This verifies the assumption that the goal of 500,000 ha of plantations is easily achievable.

4.3.3. Harvesting Procedures

In order to determine the potential of selling forestry power equipment, it is interesting to know how harvesting currently is performed. Below is a summary of the information that has been found about harvesting procedures. The structure is the same as in the previous section.

4.3.3.1. Natural Forest

Logging operations are organized and monitored by the District Agriculture and Forestry Office (DAFO) who report to the Provincial Agriculture and Forestry Office (PAFO). They are implemented by state logging units when these exist and otherwise subcontracted under supervision of government staff (Interview5, 2007; Government of Lao PDR, 2005, s. 25). According to an interview with an expert that had worked with salvage logging in many developing countries there is a low efficiency when harvesting. Reasons mentioned for this include poor quality of the equipment, low maintenance, poor working skills regarding cutting, and limited training. There is also a lack of security (Interview8, 2008). The equipment used is according to interviews normally imported from Thailand and generally not new, and Laos is often the third market, meaning that the equipment has already been sold as used equipment once previously (Interview5, 2007; Interview8, 2008).

4.3.3.2. Commercial Tree Plantations (CTPs)

I have contacted the four larger companies that have CTPs in Laos to perform interviews. Of the companies that were interviewed it is only two CTPs (1000 ha each) that have harvested already. One of these companies uses its own equipment (Husqvarna) and has employees that do the work. The other company contracts farmers in the areas to do the harvesting. The contracted farmers bring their own equipment (usually Chinese chainsaws) and are paid according to the harvesting volume at the rate of 50,000 LAK/m³. This includes cutting, transportation to roadside, and equipment costs. The third company still has a few years to go until harvesting can be done but think they will contract local farmers to do the work. The fourth company declined an interview since they had not thought about this process yet (Interview2, 2007; Interview4, 2007; Interview6, 2007).

4.3.4. The Forestry Equipment Market in Laos

The sale and use of forestry equipment in Laos is restricted and the sale of timber harvesting machinery is limited to authorized dealers. The Laotian Forestry law is clear on this point stating the following:

“Import, distribution, possession and use of all timber harvesting machinery must be authorized by the Ministry of Agriculture and Forestry and concerned authorities.”

Source: National Assembly, 2005, The Forestry Law, article 32

There are currently no authorized dealers in Laos (Interview3, 2007). Having said this does however not mean that sales of these products don't exist. On the contrary there is an abundant supply of chainsaws and there is no hush-hush about it at all.

A visit to the evening market in Vientiane will give a choice of many different shops where you can buy chainsaws. A ministry official even said that the “situation is out of control” and that “the market is flooded with illegal Chinese equipment”. The

Department of Forestry (DoF) was at the time making a survey on this in order to take better control (Interview3, 2007).

4.3.4.1. Current Supply and Competition

The equipment sold on the market is imported Chinese chainsaws. The brands of chainsaws openly available on the market were Echo, Zenoah and Makita (there might be more brands but the products are similar). The price range for electric chainsaws was from 1,000-3,000 THB (30-90 USD) and for gasoline powered about 3000 THB (90 USD). There is probably bargaining leverage on these prices.

Considering the price range, all of these must be pirate copies, and although none of them are of the Husqvarna brand, Zenoah is now (after acquisition) one of the brands in the Husqvarna portfolio. According to one of the interviewed companies there is also a model of Stihl available in the market but not openly. This might however also be a pirated model, but of higher quality than the Chinese chainsaws that are openly available.

In terms of spare parts there is of course an abundant supply of this as well. Here there is also a big problem with pirated parts. According to a CTP company that works with Husqvarna equipment, the spare parts are compatible with Husqvarna equipment but the quality is very low. Strangely enough the prices are apparently almost as high as for the original spare parts. In other sectors, such as spare parts for cars, the supply of pirate parts causes big problems since it is very difficult to see the difference between authentic parts (if available at all), and pirated parts. The difference is however very evident in quality once installed⁴.

4.3.4.2. Licensing the Equipment

Regardless of the current situation the law does require a license both to sell and own equipment. The buyer needs to register each piece of equipment with the DAFO and then gets an ID. The license needs to be renewed annually (for each piece of equipment). In order to have the right to possess the equipment you either need to be a landowner (or land leaser such as many of the plantation owners) or be contractor. One interviewee compared the licensing process of buying a chainsaw to that of buying a weapon (Interview2, 2007; Interview3, 2007; Interview5, 2007; Interview6, 2007).

4.3.4.3. Importation and Distribution of Forestry Equipment

Since the sale of forestry power equipment currently is performed illegally (according to the DoF) it is difficult to look at the current distribution process. According to the Ministry of Industry and Commerce (MIC) the local company is required to submit an annual importation plan to MIC or relevant provincial authorities. This is supposedly not a very complicated matter (Interview9, 2007). In terms of importing and selling forestry power equipment a license is also needed from the Ministry of Agriculture and Forestry.

⁴ Non-verified information from our mechanic – a foreigner with long experience of working with machinery in developing countries.

The two ministries will in conjunction issue a sales license (Interview2, 2007; Interview9, 2007). This may be a more complicated matter.

CHAPTER 5 – CONCLUSIONS AND REFLECTIONS

The intention of this part of the report is to bring the different parts of the report together and enable conclusions to be drawn. It consists of three sections: a) Aspects of market entry, b) Entering the Laotian market, and c) Lao forestry and the potential for Husqvarna.

5.1. Aspects of Market Entry

Referring to the theoretical review in chapter 3, market entry can be made in four different ways. The market entry modes described are exporting, licensing, joint ventures, and direct investment. The choice of market entry mode is dependent not only on the company decision but on the possibilities that countries offer. The stability of a country may limit the possibilities that are available and some countries have restrictions in the legislation or general business conditions that make a particular market entry mode difficult or impossible to realize. Import bans and/or heavy duties may e.g. limit the possibilities for exporting, weak protection of intellectual property may rule out licensing, and legislation may close the door for sole ventures.

According to the resource-based view a company should chose a FME that gives the best opportunity to apply its competitive advantage. Transaction cost analysis on the other hand looks at the costs that a company faces in FME when incorporating the operation within the company as opposed to letting an external part act on their behalf.

Summarizing from chapter 3 in terms of FME in correlation to risk, investment and potential return I draw the following conclusion. Exporting is the easiest, least risky mode in which to enter a new market. This mode generally requires the lowest investment but also the least economic potential. Direct investment is generally the most difficult and risky market entry mode and requires a bigger investment. The sales potential is highest with direct investment.

Depending on the nature of the business operation the transfer of knowledge may be heavily dependent on the availability of skilled staff. Many countries have a limitation regarding access to educated labor. Language barriers can also make the transfer of knowledge difficult – especially in terms of transferring tacit knowledge since this is linked to the effectiveness of communication. Codified knowledge can more easily be translated and communicated in other languages.

Developing countries offer plenty of business opportunities (Kotler & Keller, 2006, p. 671). My conclusion regarding this aspect, based on my personal experience of living in a developing country is that

- There often are gaps in the amount of services and products that are offered
- The markets often are open for both product introductions and product differentiation

- Low labor costs may provide opportunities for companies to afford increased staffing at a higher pace and thereby giving the possibility to expand the business more rapidly.

A country like Laos is for example open both for low-end products that cater to the big crowd with limited funds, and high-end products that cater to wealthy consumers and businesses. It can also be difficult to find a provider of a certain service or product.

Brown refers to three factors that determine FME mode. These are market potential, general business conditions and social distance. When I look at this from an emerging market point of view (assuming that the company doing the FME is from a developed country) my conclusion is that market potential can be treated in the same manner whether entering a developed or developing market. The other two factors, general business conditions and sociocultural distance, will however most likely differ quite a lot depending on which kind of market that is entered.

Doing business in or with developing countries often means dealing with both sociocultural distance and general business conditions that are a lot different from doing business in the home market. Research has proven that companies that already have experience of doing business in developing countries benefit significantly from this when entering another developing country (Barkema, Shenkar, Vermeulen, & Bell, 1997). Also Agarwal and Ramaswami write that “firms without foreign market experience are likely to have greater problems in managing foreign operations”. They continue by saying companies that lack foreign market experience have been observed to overstate potential risks while understating potential returns. Firms with higher international experience may conversely be expected to prefer investment modes of entry (1992, p. 5).

5.1.1. General Business Conditions in Developing Countries

Building on the theoretical review in chapter 3 and my own experiences from a developing region I would like to engage in the following discussion. The environment in which business takes place varies between countries and learning how to act in a new market requires knowledge and understanding of the local business conditions. Legal restrictions may prevent sole ownership; limited infrastructure and logistical systems may limit the ability to reach potential customers; and customs and trade barriers may provide further limitations. The political situation in the country may sometimes also be unstable making investments vulnerable. Many developing countries also have big problems with corruption as well as pirating.

Another important factor of general business conditions is the labor supply. In many developing countries the educated labor force is limited and training may therefore both delay business development and increase costs. It may also make it necessary to hire external labor or collaborate with local firms. This is not necessarily negative, but it will probably increase costs. If qualified human and managerial resources are scarce it also makes the company vulnerable to local opportunism (Brown, Dev, & Zhou, 2003, p. 478). As addressed in the previous section the issue of transferring know-how is highly

linked to the knowledge-level of the labor force, and this naturally applies to both developed and developing countries. Considering that the educated labor force usually is smaller in a developing country it is however likely that this plays a more important role when expanding to a developing country.

5.1.2. Sociocultural Distance

As Brown observes (see chapter 3 and paragraph above) a major difficulty in entering a new market in general is social and cultural differences between the countries (Brown, Dev, & Zhou, 2003). These differences can be strong enough between developed countries, but my observations and experiences from a developing region, as well as discussions and interviews with foreign business owners in Laos, point in the direction that developing countries provide far bigger challenges when a company or person from a developed country wants to enter a market in a developing country. This is also confirmed by the theoretical research used in this thesis.

Sociocultural differences may appear in many aspects of business. In Laos I have observed and heard about several problem triggers related to this topic. The ones I have heard about the most are communication, the approach to administrative routines, how to deal with corruption, time (working hours, meetings, deadlines etc.) and work morale. Sociocultural distance is an important factor that highly influences the ease of doing business and may be of more importance when doing business with a developing country.

5.2. The Laotian Market

Laos does score very low in international comparisons regarding the ease of doing business. The ratings would probably make any company hesitant towards entering the market (see chapter 4). Despite these poor international rankings, I observe that Laos does offer interesting opportunities and also comparative advantages to the neighboring countries making investment attractive. According to DDFI the most important industries in Laos are agriculture, energy, mining, textiles, tourism, and transportation (DDFI Lao PDR).

Laos offers business opportunities in many fields both in terms of offering services and selling products. I base these observations on research during the thesis data collection as well as newspapers, discussions, and own experiences during my time in Laos. The socioeconomic development generates road and rural development projects; natural resources trigger investment in hydropower, mining and forestry; and in general there are plenty of business opportunities popping up due to an increased economic standard and in many areas untapped market. The local newspaper Vientiane times does for example often have advertisements for bidding on new development projects with invitation for tender. Similar kinds of possibilities are available in many countries of the world where development has not yet progressed very far, but compared to neighboring countries in South East Asia, a major advantage for Laos in terms of investment, is that foreign firms may wholly own and operate a business (see chapter 4).

The rather heavy labor market regulations and with Laos being rated as least developed, there are also limitations in terms of finding well-educated labor. If the business is set up in the major cities, especially Vientiane, there are many university graduates however who seek to work in international companies enabling development both in their field of study as well as language skills. It will in general be a bigger challenge to find adequately trained labor in rural areas.

As far as I can judge, Laos offers possibilities to enter the market using any of the market entry modes discussed in the theoretical section. Below I have related the seven types of business enterprise types that according to DDFI are possible in Laos (for Laotian as well as foreign investors) to the market entry modes discussed earlier.

Table 13: Market Entry Modes vs. Possible Enterprise Types in Laos	
Market entry mode	Possibility in Laos: Investment or Collaboration
Exporting	<ul style="list-style-type: none"> ▪ Collaborating (directly or via an agent) with a Partnership Enterprise, Sole Trader, Limited Liability Company, Public Company, or Mixed Enterprise. ▪ In case of direct export the possibility of a representative office or branch office is also possible
Licensing	<ul style="list-style-type: none"> ▪ Contracting with any local enterprise
Joint Venture	<ul style="list-style-type: none"> ▪ Joining forces together with a local or foreign investor and starting a partnership enterprise, limited liability company, or public company ▪ Partnering with the Laotian government and starting a state-private mixed enterprise
Direct Investment	<ul style="list-style-type: none"> ▪ Opening a Limited Liability Company or Public Company ▪ Investing in a local Limited Liability Company, Public Company, partnership enterprise or mixed enterprise

Agarwal and Ramaswami write that in environments characterized by high investment risks firms are better off exporting rather than investing. In contradiction to this however, they also say that “firms with valuable assets and skills may be able to bargain with host governments for concessions that provide them immunity against investment risks” (Agarwal & Ramaswami, 1992, p. 8).

Considering the trade barriers that Laos has, I consider that exporting is a good market entry mode in order to test the waters. The importer then has the knowledge of how to deal with the local administrative procedures and the trade barriers that are present in Laos. It would also automatically solve the language barrier problem towards the market. As described in the previous chapter, Laos scores low in terms of the administrative procedures needed to gain access to the market, and corruption is certainly an issue. These and other trade barriers will probably decrease gradually due to the market forces that come into play with increased international business and foreign investment, as well as requirements triggered by the membership in ASEAN and the requirements of WTO accession.

I also think that joint ventures with a local investor is a good option since the local partner then can provide the knowledge of the local market, language skills, as well as a network of people and companies to work or collaborate with. Due to sociocultural differences this option will require a mutual understanding on how to work and effective communication within the company.

Considering the poor protection of intellectual property rights (United States Trade Representative, 2007, p. 376), licensing does seem like a somewhat risky market entry mode. There are companies however that have entered the market in this manner so apparently it may work. The nature of the product or service naturally provides for varying degrees of risk regarding this kind of market entry mode, but licensing would require thorough research and an explicit contract. This is naturally the case when entering any new market, but requires increased attention in a country in which the protection of intellectual property doesn't work very well.

Direct investment is as already mentioned a very interesting market entry mode for a company that feels that there is great potential. Sole ownership is possible in Laos which is rather unique for the region. An advice for a company interested in this option and want to start operations quickly it is advisable to immediately recruit staff that is knowledgeable about how to deal with the local administrative system. This concerns upstart procedures as well as employment regulations etc.

5.3. Lao Forestry and the Potential for Husqvarna

Forestry is one of Laos's major industries. In 2005 the forestry sector accounted for 3 percent of GDP (Sugimoto, 2007). Judging from the development in neighboring countries and other developing countries, the forestry sector can expect the following challenges. As population increases there will be an increased conversion of forests to other land uses such as agriculture (cropland, paddies, and pasture), infrastructure (roads, reservoirs) and the expansion of urban centers. With growth in population and income there will be an increased domestic demand for forest products. The external demand will also increase due to the same reasons in other countries but here competitiveness as well as trade barriers will influence the situation. Following socio-economic development there will be increased requirements for soil and water conservation, which means that forests in water catchments areas will need to be reserved for protection and conservation (Government of Lao PDR, 2005, s. 46).

In this section the purpose is to analyze specific factors that will influence Husqvarna's decision regarding the potential of the Laotian market. The following structure will be used for this: 1) market size per forestry category, 2) Supply and competition, and 3) specific business conditions relating to forestry.

5.3.1. Market Size per Forest Category

Using the figures of forest area size and predictions for the future, a market size for chainsaws and clearing saws can be estimated. The table below summarizes the predicted future harvesting volumes.

Table 14: Harvesting Volume Predictions	
Forest category	Harvest (m³/year)
Natural Forest	860,000 on average the coming years
Commercial Tree Plantations	2,000,000 by 2013 5,000,000 by 2025
See chapter 4, p. 33-34 for data	

Looking at these figures it becomes evident that the commercial tree plantations (CTP) provide the greatest potential. Tree plantations are a potentially booming market in Laos and a sector

that will require investments in forestry equipment. Worth noting is that in the statistics from 2005 regarding the breakdown of CTP ownership, companies (local and foreign) owned only 10 percent of the total CTP area (see table 9, p. 34). In my reasoning bringing together what I have learned through interviews with people in the forestry sector, it is in this segment the potential market really lies. Currently the demand for high quality equipment can consequently be rated low. On the other hand the big increase in CTPs is mainly due to foreign investment. This speaks in favor of an increasing demand for high quality forestry equipment. I base this conclusion on the notion that foreign investors due to high harvesting volumes will need good equipment. They are probably also more familiar with such equipment.

As opposed to natural forest, CTPs do not have the same risk of causing bad-will in terms of illegal logging, and harvesting volumes will increase dramatically in the coming years. Many of the areas that are allocated for tree plantations are also infested with unexploded ordnances (UXO)⁵. A positive side-effect of the tree plantations, at least those made by foreign investors, is that they clear the areas from UXO. This is actually a very interesting twist to the topic of CTPs since it with it brings in the aspect of corporate social responsibility (CSR) which is at the time of writing is a very hot topic. The downside of tree plantations is that there is a lot of dispute regarding the allocation of land to commercial tree plantations. Some even argue that it leads to increased poverty for rural people since they are dependent on these areas for their livelihood (Lang, 2007; Interview6, 2007). It must also be noted that the success rate and estimated harvesting volumes is uncertain due to lack of knowledge and bad maintenance. Large scale plantations will most likely yield better results than small scale plantations due to better management. This may be evidenced by Burapha that has had plantations for several years already, and have harvested 20-30 m³/ha/year.

The potential within the natural forest market is more complex. The demand will probably be quite stable for many years and with increased use of management plans for the production forest areas (PFA) it will be possible to calculate harvesting volumes more accurately. From my understanding, although actively worked with from the government,

⁵ UXO is a big problem in Laos since the Vietnam War when the US bombed the Ho Chi Minh trail. Laos was actually more heavily bombed than Vietnam.

it is difficult to curb illegal logging completely. For a company like Husqvarna it could be very risky to engage in this sector considering the bad-will that can be created if associated with illegal logging. Infrastructure projects may provide for interesting and large-scale opportunities and there will be many projects during the coming years - as with the production forests there are however potential risks of being associated with illegal logging. Although not further verified, a trustworthy expatriate working within the field told me that illegal loggers use rivers to float timber from other areas down to infrastructure construction sites areas where it in turn is legal to transport it from the site.

5.3.2. Supply and Competition

As written earlier in the report, vendors of forestry equipment need to be authorized. The current scenario, with no authorized dealer, provides for potentially interesting opportunities. Despite the need for authorization there are plenty of vendors selling chainsaws. Whether this is any real competition to Husqvarna is doubtful – the quality of the equipment is probably too low to be considered as true competition. Since this is the only equipment available it is of course competition, but if Husqvarna were to sell on the Laotian market they would attract another kind of customers. The Chinese chainsaws might however soon increase in terms of quality and be more competitive.

With a generally poor population in Laos, Husqvarna would only attract customers with businesses in need of professional equipment, and to some little extent to customers from the high-income consumers. In terms of what products to sell on the Laotian market, Husqvarna already has a portfolio of models that caters to all kinds of market needs. In order to enter the Laotian market Husqvarna will therefore not need to engage in any further product adaption process.

5.3.3. Specific Business Conditions

Husqvarna always enter a market by finding a dealer in the new market they want to enter. The specific business conditions relating to selling forestry power equipment therefore primarily concerns restrictions on this kind of trade and importation. The vendor choosing to sell this kind of equipment will need to go through quite a bit of paper work before sales can commence. Two approval procedures will initially need to be carried out: 1) becoming an authorized dealer of forestry power equipment, and 2) getting the importation plan approved.

Although not verified it can be assumed that these procedures may be rather lengthy. Statistics from the World Bank in their “doing business project” indicates that this would be the case. There is no specific heading for obtaining authorization for selling restricted goods but can possibly be compared to that of applying for an operational license which takes 30 days. In terms of importing goods the average duration is 50 days from agreement between two parties until the goods are received. This is double the time of the region average (World Bank Group, 2008). It is also quite costly to transport a container of goods through to Laos with an average container costing 2040 USD for handling and transportation over the border to Laos and within Laos. Of this 440 USD are handling

fees relating to customs, documents, and port/terminal handling (World Bank Group, 2008). Many reports and people also mention the problem with corruption as a complicating factor in trade over the border.

CHAPTER 6 – RECOMMENDATION AND SUGGESTIONS FOR FUTURE RESEARCH

6.1. Recommendation

The research in this thesis indicates that Laos can provide opportunities for Husqvarna. Laos is a small market but with the increase in commercial tree plantations there is certainly potential. By entering the Laotian market at this time, Husqvarna would be a pioneer in terms of high quality forestry equipment.

Given that the CTP market in Laos is in its early stages of development with an expected development period of another 10-15 years, it is on the other hand not urgent to enter the market currently. Despite possible pioneer advantages it probably wouldn't make sufficient difference for future profits to motivate an early entry if there are other markets Husqvarna currently wants to enter where there is more potential.

Husqvarna AB always enters new markets by finding a dealer to collaborate with. Laos has possibilities to enable this kind of trade. Apart from needing a special permit to sell and import forestry power equipment, a restriction which also concerns several other products, there is however not any difference in importing forestry equipment than any other product. Since Laotian enterprises are used to the obstacles in trade it will therefore probably not create any obstacles per se. Had Husqvarna been interested in starting a sales office in Laos and managing imports by themselves the obstacles might appear larger. The next step would therefore be to find a potential importer.

In terms of what market segments to enter, it seems quite evident that it is only within the professional market segment that true sales potential exists. According to my analysis in the previous chapter it is most likely that marketing should be aimed at foreign-owned CTPs/joint ventures. These investors are probably familiar with the brand Husqvarna and the size of their plantations so large that high quality equipment will be needed.

Entering markets where there is a problem with illegal logging is risky since it may create bad-will by associating the brand with this activity. With the commercial tree plantations being developed in areas where the forest currently is damaged or UXO-infested, the risk for this association seems low. If the CTPs are actively involved in CSR work with UXO-clearance, Husqvarna can perhaps enter into some kind of collaboration agreement, and even receive goodwill.

Husqvarna would want to avoid working with companies that harvest natural forest, possibly with the exception of infrastructure projects. The reason for a semi-red light regarding infrastructure projects is that they concern natural forest, and there have been reports of bringing illegally logged forest into infrastructure projects areas, and thereby "legitimizing" the logging. The commercial tree plantations sector does however provide for opportunities and a green light in a potentially booming market.

6.2. Suggestions for Further Research

During the thesis writing process I have come across many interesting topics concerning business in developing countries. The topics I want to highlight are:

- FME in the view of country development
- FME in the light of trade barriers and corruption
- Commercial Tree Plantations in a sustainability perspective involving aspects of Corporate Social Responsibility (CSR)

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3. Interview3. (2007). Forestry official. (P. Lindh, Interviewer)
4. Interview4. (2007). CTP company. (P. Lindh, Interviewer)
5. Interview5. (2007). Forestry official. (P. Lindh, Interviewer)
6. Interview6. (2007). CTP company. (P. Lindh, Interviewer)
7. Interview7. (2007). CTP company. (P. Lindh, Interviewer)
8. Interview8. (2008). Forestry official. (P. Lindh, Interviewer)
9. Interview9. (2007, 12 15). Government official. (P. Lindh, Interviewer)
10. Interview10. (2007/2008). Husqvarna AB. (P. Lindh, Interviewer)