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INITIAL SELECTION OF INTERNATIONAL MARKETS APPLIED TO A DIGITAL CONSULTING FIRM: BIKO

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ABSTRACT

Small and Medium Enterprises (SMEs) are highly interested in increasing their international presence. Deciding which markets best suit a company is an important task. For this purpose, a revision and adaptation of previously suggested International Market Selection methodologies is conducted and applied to Biko, a local SME in Navarre. A method in order to pre-select international markets will be suggested. After carrying out a factor analysis, clustering and ranking will be combined. The use of this systematic method, which takes into account the experience and industry specific knowledge of the firm, allows decision makers to choose not only according to their intuition but also basing on relevant data. Apart from reducing costs by discarding unsuitable countries, this approach provides a clear, useful view of international opportunities, showing untapped markets, enabling synergies among countries and monitoring the current markets where the company is established. A range of possibilities will be proposed to the firm in order to successfully ensure a better approach to their international market selection process.

KEYWORDS

International Market Selection, Foreign Marketing Opportunities, FDI, Country Ranking, Clustering, Biko

APPENDIX

1. INTRODUCTION

1.1. Importance, Motivation and Objective

Managers receive several recommendations to invest in foreign countries: they read articles about opportunities in Latin American emerging markets, at the same time they hear about a booming economy in Asia while they receive an email from a public institution telling that investments in Africa are 75% subsidized. Decision makers need to select international markets using an objective and systematic method.

Indeed, apart from the several economic and non-economic support coming from governmental institutions (ICEX, ICO, EU…), there is a strategic plan in Navarre called PIN ("Plan Internacional de Navarra") to encourage local companies exporting and implementing in other countries. There are fewer trade barriers, more information, greater opportunities and increasing knowledge in international trade (Papadopoulos and Martín Martín, 2011). There are 164 country members in the WTO, what means that there are plenty of opportunities out there. Emerging countries are home to over 80% of the world´s population (ECB).

Besides, selecting foreign markets is a strategic decision (Sakarya, Eckman and Hyllegard, 2007). Appropriate selection methods determine which countries are the most suitable for a company, what is more, it can show advantageous untapped markets (Ozturk, Joiner and Cavusgil, 2015). The proper selection or ability to respond to opportunities in foreign markets can determine international growth and success (Mullen and Sheng, 2007). Added to that, selecting the target market is a critical decision in the future success of the enterprise, especially in the beginning of the internationalization process (Cavusgil, Kiyak and Yeniyurt, 2004). SMEs managers use to apply non-systematic reasons such as intuition and beliefs when they decide going international (Mullen and Sheng, 2007). A research carried out by Musso and Francioni (2007) pointed out that in Marche, an industrialized Italian region, from 3,110 firms 75% of the firms were not adopting systematic approaches. This may lead the company to the incorrect market, wasting time, effort and money (high opportunity cost)(Malhotra, Sivakumar and Zhu, 2008).

Furthermore, decision making differs from non-internationalized and internationalized firms and across industries (Papadopoulos and Martín Martín; 2011). SMEs resources in their internationalization process are limited (Musso and Francioni, 2014). They cannot carry out multiple in-depth market researches to select the appropriate country. Related to that, in some cases exporting is not possible because of the characteristics of the product itself (i.e

some services). In those cases, Foreign Direct Investment (FDI) results to be much riskier due to the fact that the fixed cost of the investment are greater than merely exporting (Costa, 2015). In other words, the importance of selecting the right market is greater.

A structured IMS approach is required in order to avoid unnecessary risks and costs (Ozturk, Joiner and Cavusgil, 2015). Nevertheless, which methodology should be used? Numerous methods have been presented (e.g. Cavusgil, Kiyak and Yeniyurt, 2004; Marchi, Vignola, Facchinetti and Mastroleo, 2014…). They are divided into 3 main streams: conceptual studies, grouping studies and estimation studies (Ozturk, Joiner and Cavusgil, 2015).

Biko is a Digital consultancy firm providing high quality services to a variety of different sectors such as banks, online coaching and insurance companies. Apart from in Navarre, they are also located in Madrid and Peru. They have appreciated the opportunities internationalization and Latin America can bring them, they are interested in doing business in other countries. Even though they have good recommendations, feeling and thoughts about some Latin American markets, they have decided to pre-select markets in a systematic complete process adapted to their necessities. This work tries to provide them with some insights for future strategic decisions. We will perform the first step of their International Market Selection process, country pre-selection. We must note that this research does not provide a final selection of the target market; it consists on the pre-selection of markets necessary before any final market election. This is due to the fact that a comprehensive final market selection requires extensive market research. The required data is expensive and hardly accessible. So in order to reduce costs, a pre selection discards unsuitable countries while retaining those markets potentially attractive (Rahman, 2003).

The main objective of the study is therefore to identify and apply a methodology of International Market Selection developed in previous studies by different scholars to a local Navarre´s SME. For that purpose, we will adapt and combine the previously made research in the field to design practical guidance for SME managers.

1.2. Contribution

There is a lack of agreement among IMS scholars related to which methodology should be applied. This paper tries to identify, combine and adapt some of the previously made researches looking for the best method for Biko. Apart from that, some adaptations will be made due to the concrete characteristics of the firm. New indicators (e.g. culture, trade barriers…) will be added to the methodology, providing different views and perspectives in order to compose the most useful methodology, highlighting the favorable conditions that

enhance FDI in Emerging Markets. Adding these new variables into the model, some of the previously suggested future challenges in the literature will be overcame.

From a practical perspective, this research is expected to ultimately contribute to the international market selection of Biko and other service companies showing a structured methodology to select international countries. The method will be based on previous papers, trying to find synergies between different approaches, adapting all the process to Biko. IMS allows stakeholders to avoid subjective decisions when selecting international markets in a concrete environment. This work will show IMS not only as a market selection tool but also as a forward looking valuable resource in which companies could keep track of potential and existing markets.

2. THE EMPIRICAL CONTEXT: BIKO

2.1. Biko: a B2B service firm

Biko is a digital consultancy located in Pamplona, Madrid and Lima (Peru). It is an SME trying to expand to other countries to increase their sales and continue growing internationally. They are experts in the definition, conceptualization, landing and implementation of business ideas in the online world. In some cases, they offer quick solutions, focused on achieving a positioning or direct business solution concerning the digital world. In others, they create long-term models, leading the transformation of many traditional companies to the online space.

They work in a B2B context providing digital solutions to other businesses, institutions and entrepreneurs. Their main services are strategic consultancy, smart web pages, mobility (apps…), smart commerce and business solutions (technological solutions, big data, control…). Their performance focus is in their client's consumer experiences.

Their working methodology could be summed up in one word: multidisciplinary. The company is structured in teams, they are more than 60 employees, having Pamplona as the headquarters of the company. They run in a collaborative way, giving priority to the results

and the continuous improvement. Their inspiration and guidance is Agile[1], introducing Lean[2] concepts. It has been 6 years since they were the pioneers implementing this methodology.

Regarding their 18-year experience and more than 500 projects, quality and their environment knowledge is their competitive advantage. Finances are a key sector for Biko nowadays. In their large bunch of clients, we could highlight INGDirect, Self Bank, InterBank, Vodafone, Decathlon, UNICEF, Mapfre, Cinfa, and Thomson Reuter.

2.2. FDI Location in Latin America.

Biko works based on a system grounded in the collaboration with the client to achieve a unified and shared vision of the business strategy and objectives. Foreign Direct Investment provides ownership advantages (know-how) comparing to local companies and location advantage comparing to foreign enterprises (OECD Tax Effects on FDI, 2007). That is why they decided going international through Foreign Direct Investment. After carrying out some projects in EEUU and Europe, the first step in the internationalization process of Biko was to set up an office in Lima (Peru) networking with a local partner called "Fábrica de Ideas" in August 2012.

In services, personal relationships need greater importance, what is not easy when cultural and geographical distances are large (Francisca, 2015). They decided to expand to Latin America due to two main reasons. First, they had long term relationships with clients expanding through the area such as Mapfre. It is usual to hear from SMEs expanding in hand of their major clients. Second, language, usually one of the most important barriers when going international (Malhotra, Sivakumar and Zhu, 2009) could be avoided. As Biko interacts continuously with their clients they need to interact in the same language, Spanish.

As their experience in Peru is being successful, with what they have learned, they want to expand to another Latin American country. Even though their partners recommended them Mexico as the most attractive market for them, they do not discard other possibilities. That is why they decided starting the international market selection through a preselection technique.

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[1] The Agile movement seeks alternatives to traditional project management (agilemethodology.org).

[2] Lean means creating more value for customers with fewer resources (lean.org).

3. THE THEORETICAL CONTEXT, A LITERATURE REVIEW.

The aim of this section is to show the fundamental findings regarding IMS methodologies, IMS in Emerging Markets & Latin America and IMS applied to service exportation (FDI). It is the necessary approach in order to develop a useful and customized IMS tool for Biko.

This section tries to outline the key points that make IMS a critical step in the internationalization of businesses. It shows why IMS has resulted in a difficult process (Papodopoulos and Martín Martín, 2011). Even though it is one of the most critical starting points in the business international performance, there are still many differences among experts (Ozturk, Joiner and Cavusgil, 2015). Thus, we should first analyze previous works.

While the literature, research, analysis and information regarding international trade of tangible goods is large and abundant, it has not been equal regarding the internationalization of services (Costa, 2015). Methodologies could be divided depending on the level of systematization (Papodopoulos and Martín Martín, 2011). Papadopoulos and Denis (1988) divided IMS model into 3 main groups: conceptual models (describing aspects of IMS), grouping and ranking. We will try to clearly show the key points of each part.

3.1. Conceptual Studies

One of the earlier studies (Cavusgil, 1985) proposed essential guidelines for future works. He thought about a 3 step model. First, a preliminary screening, that is, stablishing minimum macro thresholds in order to start discarding countries. Second, identifying more attractive countries using secondary data but more industry specific (aggregate demand). Finally, analysis of company potential, in other words, forecasting sales and profitability.

Continuing with conceptual studies, Moen, Gavlen and Endresen (2003) carried out a research concluding that company managers may select one entry mode and criteria for a market and change them for another country. They mentioned that the capability, strength and competency of partners in each country are critical in their final market election. Regarding software companies, the empirical context of this project, they highlighted the fact that they must balance resources allocation between the search of new markets and the consolidation of current clients.

Malhotra, Sivakumar and Zhu (2008) empirically supported that market potential compensates and sometimes even overrides the role of main distance factors (Cultural, administrative, geographic and economic). Analyzing 18 firms in emerging markets, they

resolved that "*Management should not be motivated entirely by the potential benefits of investing in countries that are closer in distance and have similar cultural beliefs, but rather should pay close attention to how large these markets are for their products and/or services"* (Malhotra, Sivakumat and Zhu, 2008; pp. 651).

An interesting literature review was carried out by Papodopoulos and Martín Martín (2011). They showed that IMS is complex, difficult and important. They concluded that although the divergence between the proposed models, elements should be combined in order to "*interchange insights across them"* (Papodopoulos and Martín Martín, 2011; p.p 140). Apart from that, they pointed out future potential areas of research such as the comparison between different IMS models, IMS in FDI and exports. Regarding their work, we must differentiate between International Market Selection and Segmentation. The first term refers to the selection between countries, not differentiating buyers inside markets. However, segmentation means to divide the world into a set of countries or multinational buyers. Generally speaking, IMS refers to market selection (Papodopoulos and Martín Martín, 2011).

3.2. Grouping Models

Grouping models are based on clustering. Companies group countries in order to select similar markets where they have resulted successful. This methodology has some advantages and disadvantages (Sheng and Mullen, 2011). Generally, clusters are constructed on macro data that cannot provide industry specific information thus becoming inefficient (Sakarya, 2007). Clustering displays international markets as a constant, deleting barriers between nations grouping them into sets with similar characteristics.

However, related to preliminary screening, obtaining more precise data would be expensive and should be carried out in a further step (Cavusgil, Kiyak and Yeniyurt, 2004). What is more, assumption of market homogeneity as well as the lack of use of reliable, comparable and updated data could lead to waste of resources (Sakarya, 2007).

Another approach, a two stage model of IMS was proposed in order to integrate the market perspective (IMSel) and segmentation of consumers (Gaston and Martín Martín, 2011). They developed an original model which could be used for country level and consumer level analysis. The model allows to cluster European Countries in terms of market attractiveness, personal values and social values. They introduced consumer values applying Inglehart´s standards.

3.3. Estimation Studies

Those models typically rank countries by their attractiveness considering several weights and indicators. Selection is determined by the highest score. Usually, they include a linear compensatory model. Cavusgil (1997) first developed the OMOI (Overall Market Opportunity Index) model to measure and rank markets. It was applied to Emerging Markets using 13 variables and data provided by the *Economist*.

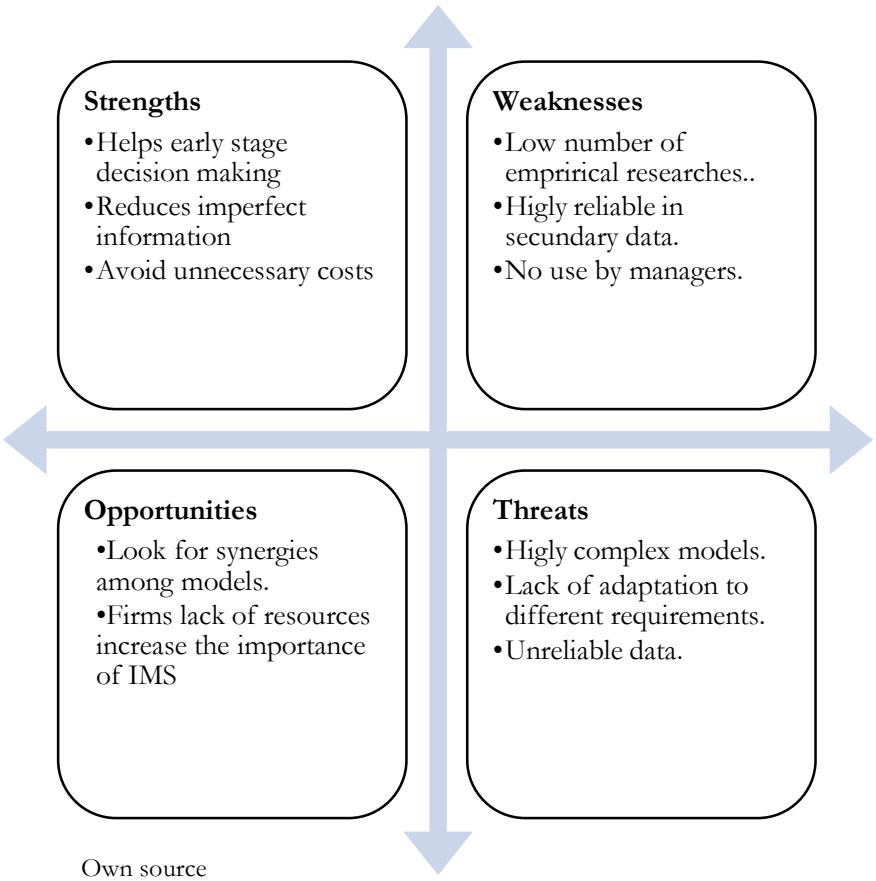
The major limitation was that it was not market specific, so more information was needed (Sheng and Mullen, 2011). The index is available online through Michigan State University´s GlobalEDGE knowledge portal and is updated periodically (Cavusgil, Kiyak and Yeniyurt, 2004). It became a base for future researches (Ozturk, Joiner & Cavusgil, 2015). In table 1 we can see some of the main contributions researches have made related to estimation studies.

Table 1. IMS Contributions

Authors	Contribution
Ilan Alon (2006)	-Evaluate IMS for service franchising in emerging countries. - Introduced variables specific for EM (i.e. income distribution…). - Proposed the opportunity to expand the model through a dynamic point of view. "International franchisors are advised to form an index of their leading indicators of demand and track them over time, creating a database from which competitive intelligence can be derived" (Ilan Alon, 2006).
Sakarya, Eckman and Hyllegard (2007)	- Favorable opportunities related to EM are not highlighted in traditional IMS methods. - Captured the dynamism of EM through long term market potential (market size, growth and ease of access) Introduced Culture and Customer receptiviness
Sheng and Mullen, (2011)	- They combined the OMOI system with the economic-based gravity model of international trade. - Their findings showed that geographic distance, market size, economic intensity and regional trade agreements (RTAs) are strong variables in determining market attractiveness for US firm's perspective. - They argued that cultural distance based on Hofstede´s work has little effect on US firms exports, but not in Foreign Direct Investment.
Marchi, Vignola, Facchinetti and Mostroleo (2014)	**-** Introduced a Fuzzy Expert System (FES) as an evaluative tool of a wider set of variables. It was a new solution to the weighting of variables.
Ozturk, Joiner and Cavusgil (2015)	**-** New empirical tool for foreign market analysis and selection using longitudinal secondary data. 3 steps tool called FMOA. - The proposed template started analyzing country responsiveness (income elasticity of industry expenditure, then it takes into account market Growth potential. In the final step is an aggregate market measure where relevant market measures are considered.

The main limitations of country ranking are similar to those of clustering, the main objection is related to data comparability, specificity and reliability (Cavusgil 2004; Sheng and Mullen, 2011). However, it is easy to use a highly adaptable approach. We believe it might be interesting to resume some of the key points outlined in previous works through a SWOT analysis (table 2).

Table 2. SWOT analysis of IMS methodologies



Own source

3.4. Country Clustering or Country Ranking?

Previously, we have read that clustering and ranking approaches have similar disadvantages. As we can see in table 2, sometimes they result complex to be used in practice. They are highly reliable in secondary data. However, they provide different outcomes, with their respective contributions. Ranking order countries while clustering searches for similarities among markets. Having comparable disadvantages and different results, mixing both approaches seem highly interesting. Related to that, Cavusgil, Kiyak and Yeniyurt (2004) combined country ranking and clustering as a new approach for preliminary market selection: "Clustering produces structurally similar groups but does not reveal much about market potential. Ranking identifies the most attractive markets (generically speaking, or for individual firms/industries, if the variables are customized), but does not help the manager understand similarities and differences among them. Therefore, using only one method may lead to suboptimal decisions" (Cavusgil, Kiyak and Yeniyurt, 2004; pp. 615).

4. METHODOLOGY

4.1. Preliminary Screening and Sample

Given the heterogeneity of international markets, we stablished a preliminary screening procedure in order to exclude countries resulting unfeasible either for external or internal factors related to Biko (Marchi, Vignola et al., 2014)

As previously explained, one of the main distinction of Biko is related to their quality proposition. In order to provide their clients with a proper service, a constant interaction is required. This is one of the reasons why their internationalization process is focused on Spanish speaking countries. As an SME, with their limited resources, nowadays they are only able to introduce their services to Spanish speaking Latin American countries. So that part of the preliminary screening is given by the company.

Filipinas was not considered because just 4% of their population are Spanish speakers. Occidental Sahara and Equatorial Guinea were also rejected due to their small population and hard market accessibility. From this bunch of countries, Venezuela, Cuba and Puerto Rico were discarded due to the lack of data availability. Regarding these countries, data from 6 variables out of 25 were missing. It shows the lack of secondary data, one of the main

limitations when selecting international markets (Syed, 2003). So, we start managing our set of possible markets:

1. México
2. Colombia
3. Argentina
4. Peru
5. Chile
6. Guatemala
7. Ecuador
8. Bolivia
9. Dominican Republic
10. Honduras
11. El Salvador
12. Paraguay
13. Nicaragua
14. Costa Rica
15. Panamá
16. Uruguay

Even though Biko is already stablished in Peru, we include it because IMS is more than just a selection technique, it can be used as a monitor to know whether the company is in the right market or not (Cavusgil, Kiyak and Yeniyurt, 2004).

4.2. Conceptualization, Operationalization and Variables Selection

Some of the variables are selected from previous literature. New ones will be added related to industry specific characteristics, driven by company knowledge and strategy. Apart from that, as Cavusgil, Kiyak and Yeniyurt (2004) noted in their paper, we will add different variables related to FDI.

We conducted a meeting with the CEO of Biko in order to consolidate our variables proposition. Even if he thought about more indicators, he completely agreed about the selected ones. He mentioned some interesting variables such as ecommerce transferences, mobile banking use and digital investments. However, these data were unavailable in secondary sources of information.

All the selected variables are shown in table 3 and if required the dataset is available from the author. The proposed main division of variables are Market attractiveness and Market access, which are distributed into more measures. We believe that market attractiveness is related to market and industry indicators, whereas market access is connected to international trade aspects. A country might be attractive looking at the data but hardly accessible (Marchi, Vignola etc. 2014).

Table 3: Variables Selection

Construct	Dimension	Operationalization	Reference	Data Source	Year
MARKET ATRACTIVENESS	Market Size & Country Economic Intensity	Not Poor Urban population	Alon (2007)	World Bank	2014
		GDP (PPP) per Capita	OMOI	CIA	2013
		Best Cities for doing Business		Americaeconomia	2016
		GDP (PPP)	OMOI	CIA	2014
	Future market Potential	Urban Secondary school enrolment	SHENG	World Bank	2013
		GDP growth	OMOI	World Bank	2016
	Digital Market attractiveness	E-readiness		Americaeconomía	2010
		%Fixed broadband users	OMOI	Internet world Stats	2015
		% Internet connections	Sheng	Internet world Stats	2015
		% Firms having their own website		Enterprise Surveys	2010
		% Firms using technology licensed by foreign companies		Enterprise Surveys	2010
		Use of the Internet for Banking purposes		Cepal	2009
		Cybersecurity		BID	2016
		Services Value Added (%GDP)	OMOI	World Bank	2013
COUNTRY ACCESS	Finances, Freedom & Risk	Ease of doing business		World Banc	2015
		Business Climate Assessment		Coface	2016
	Market Receptiveness	Spanish FDI	Cavusgil, 2004	ICEX	2015
		Cost of Stablishing		ICEX	2015
		Openness		BID	2014
	Taxation	Total tax rate		World Banc	2015
	Cultural Distance	Cultural Distance	Sakarya etc. 2007	Hofstede	2005

4.2.1 Market Attractiveness

We have differentiated 3 main dimensions inside Market attractiveness and four to describe Country Access:

Market Size & Country Economic Intensity:

The total population of a country is relevant. However, we differentiate urban population because Biko activity is related to digital content which is consumed in urban areas, so we multiply urban population percentage by total population in order to distinguish potential market size (Sheng, 2007). From that urban population we have extracted the urban poverty provided by the World Bank Poverty Working Group. It is relevant since we are dealing with developing countries (I. Alon, 2006). So that we have the general potential market for a digital product. Middle and high class population conform the usual consumers of digital products.

Previous measures do not consider economic intensity. However, it is important to note that countries with similar urban medium class population could have different economic power. GDP measures the economic size of the country, although it is highly correlated to population, we include it due to the fact that it shows an economic scope. Moreover, we introduce GDP per capita measured in Purchasing Parity Power in U.S $ following Cavusgil´s OMOI system variables.

Moreover, we have included a ranking of the best cities for doing Business in Latin America. This data is provided by AméricaEconomía (business specialized press in Latin America) and developed by different sources such as Bank of America, S&P, Visa… (See Annex 1). It is a relevant measure due to Biko´s activity and entry mode (Foreign Direct Investment). It is highly remarkable that in service sector, and especially in FDI, rather than the country, the city where to implement is important, sometimes even more than the country itself (M. Francisca, 2015).

Nevertheless, we differ from previous models (Cavusgil, Kiyak and Yeniyurt, 2004 and Sheng, 2007) in two variables. They considered energy and electric consumption as additional indicators of economic activity. Although they might be reliable indicators showing industrialization of countries, we believe that this information is provided by other variables in the Digital Market attractiveness (internet connections, fixed-broadband users and e-readiness).

Future market potential:

We will add forecasting variables, that is, introducing indicators such as expected GDP growth for 2017 (forward looking methodology). It is one of the main indicators due to the fact that we are considering Emerging Markets, so the ability to accurately predict future

economic conditions results of vital importance (Alon, 2006; Sakarya, Eckman and Hyllegard, 2007). Firstly, we introduce GDP growth as a variable so that it will show if a market is expanding or not. Secondly, we consider secondary school enrolment in this dimension because a higher degree of educated population will lead to a higher use of technology in the future (Mullen and Sheng, 2007).

Digital Market Attractiveness:

It is the industry specific dimension. What is more, most of the key factors are included here (Gaston-Breton and Martin, 2011). Distance factors are narrower when market potential is higher (Malhotra, Sivakumar and Zhu, 2009). We focused our attention in that dimension, trying to find reliable data from publicly available secondary data. Digital market attractiveness provides national attributes to the digital market (Sakarya, Eckman and Hyllegard, 2007)

There has been considerable evidence that the internet has a positive impact in trade (Cavusgil, Kiyak and Yeniyurt, 2004; Mullen and Sheng, 2007). We consider Fixed broadband users (%total pop) and internet users (%of urban population), to measure the penetration of digital world and information systems in the selected bunch of countries. In that way we complete the set of variables proposed by Sheng, 2007. In other words, we are measuring internet users, access to internet at home and access to technology.

Then, we measured how companies are dealing with digital world. We have taken into account two measures. First, percentage of firms with their own webpage. Even though a low score in the indicator could show a high potential market, Biko is trying to find a more consolidated market to provide their services, so that a higher percentage is more favorable. Second, percentage of firms using technology licensed by foreign companies will indicate the local companies' receptiveness to co-work with foreign organizations.

Added to that, we found another variable referring the main sector where Biko is operating nowadays, banking. This variable is the use of Internet for banking purposes. Services value added (%GDP) reflect the net output of a sector after adding up all outputs and subtracting intermediate inputs. Cybersecurity is the last variable of this dimension. It reflects the ease of doing business in the internet world. Finally, we must note that most of the variables are presented in relative values in order to avoid dragging previous components such as GDP or urban population in several measures (Mullen and Sheng, 2007).

4.2.2 Country Accessibility

Aspects related to politics and culture should be contemplated. Trade barriers generate international competition among countries. Governments try to offer the most attractive policy to promote FDI in their markets (OECD Tax Effects on FDI, 2007). We have differentiated another 4 dimensions:

Finances, Freedom & Risk:

There are three main aspects that ought to be analyzed when investing in foreign emerging markets, free capital movement, stability of exchange rate and access to local finance. The Cofides business assessment provides an estimate of the average credit risk on a country's business environment. It provides *"an indication of a country's potential influence on businesses' financial commitments and it is actualized to the first quarter of 2016" (Cofides).*

Table 4. Topics Ease of doing Business
1. Starting a business **2. Dealing with construction permits** **3. Getting electricity** **4. Registering property** **5. Getting credit** **6. Protecting minority investors** **7. Paying taxes** **8. Trading across borders** **9. Enforcing contracts** **10. Resolving insolvency**
Source: WTO

Added to that we incorporate, World Bank´s doing business indicator. *"A high ranking means that the regulatory environment is conducive to business operation. The index averages the country's percentile rankings on 10 topics. The ranking on each topic is the simple average of the percentile rankings on its component indicators"* (WTO). Those variables will also provide a useful insight of each country´s freedom and risk environment. Indeed, Coface´s country risk and business climate analysis showed almost the same values.

Market Receptiveness

We compound this measure by 4 indicators. They have been obtained from ICEX country database. The first one shows Spanish Foreign Direct Investment. Obviously, a higher amount means higher receptivity and more resources will be available. We have computed the economic and time cost of stablishing. In order to compute the total monetary amount, we have summed up incorporation costs, minimum capital, mean legal advice, minimum salary (10 employees) and visa cost for 5 employees. It is based on nowadays office in Lima, where they introduced with that amount of employees. For the temporary cost, we have added time required to build a corporation and to get a visa.

Finally, we have included the Openness of the country. In other words, it shows how the country is dealing with international trade summing up exports and imports, regardless where they are coming from as a percentage of GDP. We differ from previous models (Cavusgil, 2004) since they just considered imports.

Taxation

Yet, taxation in EM is very confuse, it is not a straightforward task (OECD Tax Effects on FDI, 2007). It results totally recommendable to be careful with this aspect in more in depth steps. Trade blocs and free trade agreements result highly important (Cavusgil, Kiyak and Yeniyurt, 2004) but they are hardly accessible in this step of market selection. We will consider secondary data obtained in the ICEX database. We will take into account total tax rate of profits. Added to that, we include whether a double taxation agreement exists with Spain in Annex (x).

Culture

Scholars have considered culture as a critical indicator to be studied when dealing with international trade (Cavusgil, Kiyak and Yeniyurt, 2004). Language is one of the main determinants of cultural distance (Moen, Gavlen and Endresen, 2004). As Biko is looking for a Spanish speaking country, the main cultural difference is avoided.

For this last measure, we tried to include Inghlegart world values survey but there were just data available for %50 of the countries. They resulted interesting due to the fact that they showed remarkable information about end consumers. On the other hand, we found appropriated to add Hofstede´s values (2005) to the methodology, even though some experts

do not recommend that (Sheng and Mullen, 2010). Even though culture depends on the individual rather than in the country it provides beneficial guidelines for doing business (Sakarya, Eckman and Hyllegard, 2007). We could not leave culture without any indicator. In order to compute the difference to Spanish culture we adapted Kogut and Singh´s (1988) formula of cultural distance to Hofstede´s most common cultural dimensions. We considered four levels, power distance, individualism, masculinity and uncertainty avoidance because in that way we could count with data about 13 countries. By doing so, we complete Cavusgil´s previous IMS model. We used the following composite index:

$$\text{Cultural distance} = \sum_{j=1}^{4} \frac{(H_{A,j} - H_{T,j})}{4 * V_j}$$

Where:

$H_{A,j}$= Spanish score for Hofstede´s cultural dimension j.

$H_{T,j}$= The target country score for the corresponding cultural dimension i.

V_j= The variance of the index score of cultural dimension j.

4.3. Data Analysis Technique

We will base our work in the complementary approach proposed by Cavusgil, Kiyak and Yeniyurt (2004). Considering the literature review and the possibilities a combination of country clustering and country can provide, we think this is the ideal model to be followed in the case of Biko. As previously presented, we will go beyond the simple use of the technique adapting the model to Biko, adding own contributions and those from previous papers. Adjusting the model to a Foreign Direct Investment entry mode and service company in a business to business environment.

We will follow 3 main guidelines or basis:

(1) Try to find synergies among previous works.
(2) Use of a highly systematic model.
(3) Ensure the data reliability.

Introducing features from other models, we will include them into the selected model to complete it. Our guideline is to provide a useful systematic tool. Data has been carefully subtracted in order to ensure the reliability of the methodology and thus, of the results. We

will perform a factor analysis in order to know the effective dimensions to be considered. After that, we will accomplish a cluster analysis to provide insights to decision makers in their marketing strategy (Cavusgil, Kiyak and Yeniyurt, 2004). Clustering is interesting since it yields a group of countries with similar commercial, economic, political, and cultural dimensions. These similarities not only help managers compare the countries, but also provide information to compare countries and evaluate possible synergies among markets (Sakarya, Eckman and Hyllegard, 2007; Cavusgil et al., 2004). Comparing to previous studies, we will add market specific indicators to the clustering.

Finally, we will rank countries depending on the dimensions given by the factor analysis. The final weight given to each dimension will be decided by company managers.

5. ANALYSIS AND FINDINGS

5.1. Country clustering

As a first step of the analysis, exploratory factor analysis was carried out using principal component analysis, followed by a Varimax rotation (Cavusgil, Kiyak and Yeniyurt, 2004) (table 5). Before doing so, we completed the 3 randomly missing values of cultural distance and the one of E-Readiness through regression. Even though use of the internet for banking purposes was a key indicator for Biko, we discarded it because more than 50% of the data was unavailable and we preferred to propose a solid solution.

Four factors explained 83,06% of total variance (see Annex2). The first factor is composed by 9 variables, it shows *Market Attractiveness* expressed in terms of GDP (PPP) per capita, business climate, e-readiness, %fixed broadband users, ranking of the best cities for doing business, services value added (%GDP), cybersecurity, %internet users, ease of doing business. It is composed by some industry specific variables and some others describing the quality (not size) of the market. Factor 2 explains *Market Size and Openness* by GDP (PPP), openness, Spanish FDI and not poor urban population. Factor 3 represents country *Dynamism*; it reflects the state of development of the country. It measures GDP growth, cost of establishment and total tax rate. The last factor consists of Business Opportunity. Considering other factors unchanged, a more digitalized B2B market is more interesting for Biko. Added to that, a country with a higher cultural similarity will offer better outcomes (Martín Martín and Gaston, 2011).

Following previous methodology, hierarchical clustering technique was applied. Using squared Eucledian distances and Ward´s clustering algorithm (Cavusgil, Kiyak and Yeniyurt,

2004). Different options were taken into consideration but 7 clusters were finally identified (see Table 6 and 7). This clustering is based on the maximization of homogeneity within each group members (intragroup) and heterogeneity with respect to other groups (intergroup).

Table 5. Factor Loadings

	Market Attractiveness	Market Size and Openness	Dynamism	Business Opportunity
GDP (Ppp) Per Capita	**.888**	.142	.221	.258
E-Readiness 2010	**.883**	.295	.031	.243
Business climate	**.844**	.167	-.306	.158
% Fixed broadband Users	**.821**	-.070	.384	.230
Rank best cities	**.814**	.349	.221	.178
Services Value Added (%GDP)	**.764**	-.063	.066	-.421
Cybersecurity	**.751**	.114	.371	.392
% Internet Users (Penetration)	**.731**	-.010	.116	.612
Ease of doing business	**.659**	.481	-.255	-.124
GDP (Ppp)	.192	**.893**	.292	.166
Spanish FDI	.306	**.864**	.174	.278
Not Poor Urban Pop.	.166	**.804**	.415	.297
Openness	.031	**.734**	-.168	-.222
Total Tax Rate (% Profits)	.058	.300	**.733**	-.089
GDP Growth %	.096	-.232	**-.655**	-.458
Cost Of Stablishing (Euros)	.432	-.463	**.610**	-.047
% Of Firms Having Their Own Web Site	.259	.147	-.015	**.865**
Culture difference	.358	-.018	.562	**.587**

The first cluster includes less interesting markets, either because they are unattractive, their market size is small or even because business opportunities are low. Second cluster shows most of the Andean countries presenting similar and medium values in market size, attractiveness and dynamism (state of development). Cluster 3 shows small markets but attractive and highly developed. Cluster 4 is composed by Bolivia and Paraguay, showing

similar values in not poor urban population, GDP, cost of stablishing and business climate. Cluster 5 is merely complete with Chile, a highly attractive market showing business opportunities. Mexico goes alone because of its market size, it is much bigger comparing to the others. Finally, Cluster 7 is characterized thanks to the high cultural similarities comparing to Spain, similar GDP per capita and high internet penetration.

Table 6. Dendrogram solution

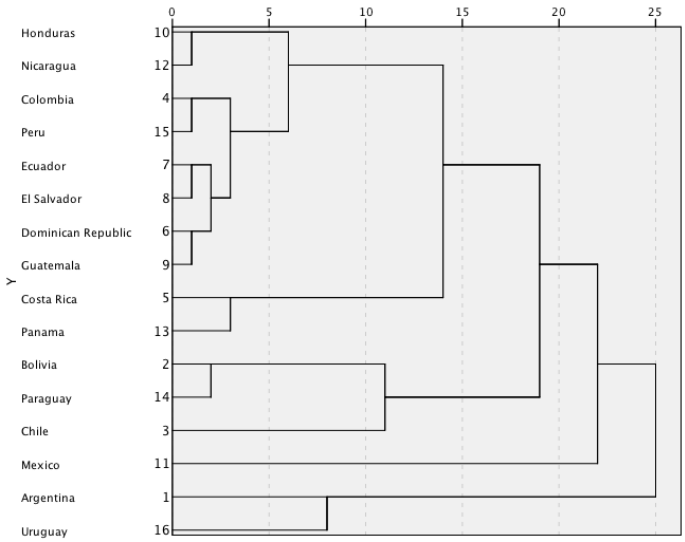


Table 7. Cluster Solution

Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7
Honduras	Colombia	Costa Rica	Bolivia	Chile	Mexico	Argentina
Nicaragua	Peru	Panama	Paraguay			Uruguay
	Ecuador					
	El Salvador					
	Dominican Republic					
	Guatemala					

5.2. Country Ranking

The objective of this ranking is to order countries based on the outcome resulting from the previous factor analysis. We conducted the ranking following the dimensions obtained in the factor analysis. The weight of each variable was selected by the decision makers. It was based on the experience of Biko´s CEO in the field (see table 8). In that way we avoid isolating the model from firm´s know how. He pointed out that market attractiveness is the most important dimension, a country must have a developed digital sector in order to create market.

Table 8. Variables Weighting

Market Attractiveness

Variables	Weight
GDP (PPP) per capita	10%
E-readiness	10%
% Fixed Broadband users	10%
Ranking Best Cities	10%
Cybersecurity	5%
% Internet users	20%
Business Climate Ass.	15%
Services Vale Added (%GDP)	10%
Ease of Doing Business	10%
	100%

Market Size and Openness

Variables	Weight
Openness	20%
GDP (PPP)	40%
Spanish FDI	15%
Not Poor Urban Pop.	25%
	100%

State of Development

Variables	Weight
Total Tax Rate	15%
GDP Growth (%)	50%
Cost of Stablishing (euros)	35%
	100%

Digital Business Opportunity

Variables	Weight
% of Firms having own W.P	70%
Culture	30%
	100%

Overall Market Potential	Weight
Market Attractiveness	45%
Market Size and Openness	30%
State of Development	15%
Business Opportunity	10%
Total	**100%**

All the variables were standardized in order to avoid artificial weighting. The proposed weights are listed in table 8. The subsequent scores were converted to a scale of 1-100 by the following formula as provided by Cavusgil, 2004:

$$X'_{ij} = \left[\frac{X_{ij} - min_i}{R_i}\ (99)\right] + 1$$

"Xij is the average score of country j on dimension i; mini is the minimum value for dimension i; and Ri is the range of dimension i. This conversion provides a clearer and more intuitive view of the index." The final composite index indicates aggregate market potential of Spanish speaking Latin American countries for Biko (see table 9).

Table 9
Market potential indicators and overall market attractiveness

	Market Attractiveness		Market Size and Openness		Dynamism		Digital Business Opportunity		Overall Market Potential	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Mexico	93	4	92	1	40	11	41	5	52	1
Chile	131	1	24	5	47	8	83	1	45	2
Argentina	86	6	38	2	1	16	75	2	31	3
Costa Rica	98	3	7	12	62	3	37	8	30	4
Colombia	83	7	26	3	42	10	29	9	29	5
Panama	92	5	12	7	65	1	12	14	28	6
Uruguay	111	2	3	14	10	15	46	4	25	7
Peru	59	9	26	4	28	14	40	7	22	8
Dominican R.	61	8	7	10	58	5	27	10	21	9
Ecuador	42	10	13	6	37	13	25	12	15	10
Bolivia	6	14	11	8	61	4	65	3	13	11
El Salvador	35	11	5	13	37	12	41	6	12	12
Paraguay	25	12	3	15	62	2	25	11	12	13
Guatemala	21	13	11	9	49	6	24	13	11	14
Honduras	4	15	7	11	44	9	5	15	3	15
Nicaragua	1	16	1	16	48	7	1	16	1	16

5.3. Combination of Country Cluster and Market Ranking

To conclude with the analysis, we use both approaches in order to offer the most attractive option (see table 10). We appreciate that not information is overlapped. We combined previously obtained seven clusters with the structure proposed in country ranking. In that

way results are presented in the most useful way. It can be adapted depending on the necessities, objective and strategy of the firm. Depending on what they are looking for, managers could use different point of views. For example, a high score or rank in a dimension but just considering x number of country groups or the best overall market potential in cluster two. In other words, decision makers can apply multiple criteria.

Table 10. A combination of Country Clustering and ranking following same dimensions

CLUSTER 1	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
HONDURAS	4	15	7	11	44	9	5	15	3	15
NICARAGUA	1	16	1	16	48	7	1	16	1	16

CLUSTER 2	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
COLOMBIA	83	7	26	3	42	10	29	9	29	5
PERU	59	9	26	4	28	14	40	7	22	8
DOMINICAN.R	61	8	7	10	58	5	27	10	21	9
ECUADOR	42	10	13	6	37	13	25	12	15	10
EL SALVADOR	35	11	5	13	37	12	41	6	12	12
GUATEMALA	21	13	11	9	49	6	24	13	11	14

CLUSTER 3	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
COSTA RICA	98	3	7	12	62	3	37	8	30	4
PANAMA	92	5	12	7	65	1	12	14	28	6

CLUSTER 4	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
BOLIVIA	6	14	11	8	61	4	65	3	13	11
PARAGUAY	25	12	3	15	62	2	25	11	12	13

CLUSTER 5	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
CHILE	131	1	24	5	47	8	83	1	45	2

CLUSTER 6	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
MEXICO	93	4	92	1	40	11	41	5	52	1

CLUSTER 7	MARKET ATTRACTIVENESS		MARKET SIZE AND OPENNESS		DYNAMISM		DIGITAL BUSINESS OPPORTUNITY		OVERALL MARKET POTENTIAL	
COUNTRY	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
ARGENTINA	86	6	38	2	1	16	75	2	31	3
URUGUAY	111	2	3	14	10	15	46	4	25	7

6. DISCUSSION AND CONCLUSION

6.1. Discussion of Findings

Even though interpretations depend on company´s international strategy, we will point out the diverse contributions the model can provide to the firm´s foreign market selection process. Generally speaking, companies prefer countries that rank high in attractiveness, size, state of development and business opportunity (Sakarya, Eckman and Hyllegard, 2007). The adapted model during this project shows that IMS is effectively a strategic decision tool for companies.

In this case, Biko can adopt several strategies. The first strategic interpretation is related to which kind of market the company should target. Different options exist, either entering to a big market such as Mexico, to a highly attractive market such as Chile or even trying to access simultaneously to countries in cluster 3 (Small but attractive and greatly developed countries: Costa Rica and Panama). As a second possible interpretation, we mentioned that this technique tries to look up for synergies among countries. Following this fact, Biko could try to enter a similar market to Peru in order to look for those synergies.

As we have previously noted, this technique provides insights to know whether the company is in the correct market (monitoring). We know that Biko is already stablished in Peru. It pertains to the second cluster of central countries with average scores. With that, the company can monitor the country considering whether their expectations are meeting. Even though Peru is not the most country of the second cluster, Biko is already stablished there. The company ought to select whether to pivot and move their activity to other country or to continue. Colombia seems to be more attractive belonging to the same group. Obviously, it will depend on more variables but these results ought to be considered.

This project also shows the importance of carrying out a factor analysis to identify relevant dimensions of indicators. We have seen how in the beginning of the project we have selected several dimensions describing market attractiveness and accessibility. This selection was made based on our criteria and previous findings. The factor analysis has shown that differences between countries are explained by variables in 4 factors. It results highly

interesting for international market selection; it provides a completely systematic outcome with no subjectivity.

6.2. Conclusion

Two out of three of the total future directions proposed by Cavusgil, Kiyak and Yeniyurt model (2004) were fulfilled. Firstly, we adapted the model to a company considering Foreign Direct Investment (FDI), adding indicators reflecting stablishing costs, total profit tax and best cities for doing business among others. Secondly, we added culture to the model. Language was not a limitation, we included 4 dimensions of Hofstede's model that result important when doing business and were available in most of the countries. Added to that, we successfully introduced a bunch of indicators to adapt previous models to Biko. We complemented our model adding B2B variables suggested by previous literature (Moen and Endresen, 2004). We added firms having their own webpage. We must remark that apart from just getting these data we successfully introduced them in the four created factors.

We have identified and adapted what seems to be the most interesting methodology for Biko. The information has been acquired with no economic cost and we have facilitated a bunch of possibilities that can assist future internationalization strategies of the firm. In other words, we have demonstrated the benefits an analytical approach based on secondary data can bring to the firm. We have merged previous literature with company´s CEO´s experience to "test and learn" the model. After having completed this work, we know that a combination of country clustering and ranking provides the most useful view of international markets for the company. Finally, we highlight that this pre-selection methodology is an excellent start for international market selection, but more detailed research is required to make the final decision.

6.3. Future Research

There is an opportunity to further refine the assessment tool adding more specific variables. As suggested during the project, industry specific indicators are considered the most useful ones. Moreover, it would result highly interesting to add an indicator showing where their current clients are stablished, considering the importance that inter-firm relationships have in SMEs internationalization (Moen, Gavlen and Endresen, 2004).

Thanks to the extend search of data carried out in this project we could collect data to accomplish the third proposition of the Cavusgil, Kiyak and Yeniyurt´s (2004) base model. We obtained information related to international trade and free trade agreement. We collected data about the double taxation agreement between Spain and host country. Though, as it is a binary variable, it made the analysis even more complex and unreliable so we decided to exclude it from the analysis.

I want to conclude this project by thanking the support of Oscar Martín Martín, the director of the project, and to Diego Cenzano, CEO of Biko. I must note that we agreed with the firm to continue working in their pre-selection process fulfilling the aspects commented above. That shows that this project is useful and interesting for firms. Personally, I have expanded my previous knowledge in the area of international market selection applying these techniques and I have really enjoyed the process of the work. After this project, my motivation to continue studying in the are of international trade management is even greater.

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ANNEXES

Annex 1. Best Cities for doing Business methodology

(source: rankings.americaeconomia.com/mejores-ciudades-2016/metodologia/)

Annex 2. Factor analysis: Total variance explained

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.280	46.001	46.001	8.280	46.001	46.001	6.287	34.928	34.928
2	2.941	16.339	62.340	2.941	16.339	62.340	3.621	20.116	55.044
3	2.396	13.313	75.653	2.396	13.313	75.653	2.532	14.066	69.110
4	1.334	7.411	83.064	1.334	7.411	83.064	2.512	13.954	83.064
5	.855	4.750	87.813						
6	.690	3.833	91.646						
7	.466	2.588	94.234						
8	.352	1.955	96.189						
9	.245	1.359	97.548						
10	.206	1.143	98.691						
11	.108	.602	99.293						
12	.066	.369	99.662						
13	.045	.248	99.910						
14	.012	.068	99.978						
15	.004	.022	100.000						
16	5.700E-17	3.167E-16	100.000						
17	-3.099E-16	-1.722E-15	100.000						
18	-5.572E-16	-3.096E-15	100.000						

Extraction Method: Principal Component Analysis.