

Internationalization Strategy: Definition of the Market Selection Factors for Frontier Markets

Case Study of a Portuguese Trading Company

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December 2019

Abstract

International market selection is an indispensable tool in any internationalization strategy. It is used by companies to guide the decision process in the selection of foreign markets. Market selection plays a determinant role in the analysis of frontier markets. These markets are a sub-set of emergent markets. Emergent markets can be defined as less developed countries with indications of healthy economic advancement. Frontier markets are smaller and less liquid than their emergent counterparts. Market selection theory has proposed factors and models for emergent markets, but not for frontier markets. This absence is justified by the lack of readily available public information for frontier markets, necessary for international market selection. This gap may change given that the internet has made market data readily available to the public. In this context, our dissertation's primary objective is to study the market selection factors for frontier markets' analysis and determine which are the critical factors. We tested the applicability of emergent markets' selection factors in the analysis of frontier markets, using the case study of a Portuguese fast-moving consumer goods trading company. The company works mainly in the Portuguese speaking countries in sub-Saharan Africa, but is now looking to expand to other frontier markets in this region. We determined the critical factors in frontier markets' analysis are risk and infrastructural factors. We successfully showed that emergent markets' factors are suitable for frontier markets' analysis and that frontier markets can be analyzed in international market selection, since the necessary information is currently available.

Keywords: Internationalization, Market Selection, Frontier Markets, Sub-Saharan Africa, Trading Company.

1. Introduction

International market selection is used by firms to guide the decision process in the selection of foreign markets (Brewer 2001), either to initiate an internationalization strategy or to expand the existing one (Papadopoulos and Denis 1988). The internationalization literature points to many aspects that influence firm's trade performance however, market selection is an often-overlooked aspect. Unlike other fields, international market selection is context-dependent, therefore it has not been able to develop a generalized theory applicable to various industries and firms (Douglas and Craig 1992; Sarkar and Cavusgil 1996). Consequently, it is still a fragmented field lacking empirical research (Papadopoulos and Martín Martín 2011).

The motivation to work on the theme of international market selection stems from a still persistent problem in the literature in identifying the key factors that should be used in market selection. We decided to focus our study on emergent markets — though they are the majority of countries in the World — yet, they have not been explored as extensively in the literature as developed markets. There is no standardized definition of emergent markets in the literature (Nakata and Sivakumar 1997; Sakarya, Eckman, and Hyllegard 2007). Hence the definition adopted in this work is the one adopted by Nakata and Sivakumar (1997, p.463): emergent markets are "less developed countries with indications of healthy economic advancement".

The present work is centered on the analysis of a sub-group of emergent markets, the frontier markets. The frontier market concept describes countries that have markets which are smaller and less liquid than their emergent counterparts. Frontier markets may also pre-

sent more instability coupled with greater future opportunities (Nellor 2008). The correct analysis of frontier markets requires specific factors, that take into consideration the markets' characteristics. The frontier markets have not been included in emergent markets literature, until the 2000s, because no data was available to study them. Therefore, no in-depth analysis of frontier markets analysis has been conducted in the literature. Thus, the following research questions are raised: do market selection factors for emergent markets present an appropriate framework for market selection of frontier markets?; what are the most important factors to study frontier markets in a market selection model?.

To answer these questions, we first conducted an in-depth review of models and factors identified in market selection literature for emergent markets. After, we analyzed the suitability of the previous factors on frontier markets, according to frontier markets' features. Also, we researched for new factors that fitted these markets' characteristics. According to the most relevant literature, we chose a market selection model. We introduced to it the factors identified for frontier markets, obtaining a model for frontier market analysis. In order to test it we adapted the model according to the characteristics of the case study, which is a mandatory step in every market selection model, given its context-dependent nature.

The remainder of this paper is organized as follows. Section 2 presents the state of the art. Section 3 details the methodology used and presents the case-study characteristics. Section 4 shows the results obtained, accompanied by the results' discussion. Section 5 presents the conclusion. Section 6 concludes the paper with some final remarks and ideas for future work.

2. State of the Art

Market selection is considered the most important step in the internationalization strategy (Papadopoulos and Denis 1988; Kumar, Stam, and Joachimsthaler 1994; Root 1994; Craig and Douglas 2005). Its importance stems from its determinant role in the strategy's success, since it conditions all the following decisions, and, therefore, impacts the company's competitiveness.

2.1. International Market Selection Theory

International market selection has been characterized differently by authors. For Papadopoulos and Denis (1988), international market selection is focused on the process of market selection, excluding from its decision the "go/no-go" decision and the entry mode selection. The "go/no-go" decision analyzes whether the company should initiate an internationalization strategy (Andersen and Buvik 2002). For Douglas, Craig, and Keegan (1982) and Root (1994), however, international market selection should address all these decisions. This point of view is not widely accepted in the literature. Papadopoulos (1987) justifies that entry mode decision should be separated from market selection — even though entry mode decision depends from the selected market — because these decisions demand different variables and have different goals. In this work, we use Papadopoulos and Denis's (1988) definition of international market selection for the previously mentioned reasons, and also, because it is the most used definition in the literature.

Papadopoulos and Denis (1988) presented a framework that divides the research in two main groups: qualitative and quantitative. We focused our research on the quantitative approaches. These are of a normative nature, describing a formalized decision process, which allows a firm to understand how the selection process should occur (Andersen and Buvik 2002). Unlike the qualitative approaches, which are formed by a list of objectives and constraints, created by the decision maker, which are used to do the analysis. The main disadvantages of this approach are the exposure to biased opinions from the ones who provide information and advices, along with the exposure to the subjective judgment of the decision maker (Papadopoulos and Denis 1988).

Papadopoulos and Denis (1988) categorized quantitative approach in two kinds: market grouping and market estimation. Market grouping presumes the most appealing country is the one whose market is the most similar to the company's domestic market. Market estimation evaluates a country's demand and market potential on several criteria, analyzing them for their attractiveness. Unlike the market grouping methods, market estimation methods are based on market differences. Factors are selected to allow a comparative analysis of distinct markets, and a scoring method is developed to rank each market in order of preference (Papadopoulos and Denis 1988). This approach has addressed many of the shortcomings of the grouping methods. First, it allows the measurement of a country's fitness for trade because it uses macro-level as well as product specific and contextual factors (for example, market growth, trade barriers and more). Second, it is not based on the concept of psychic distance, presenting an array of opportunities of countries and markets that would not be considered in other methods. Moreover, it is the only approach, in the literature,

with the capability to analyze each markets' demand for a specific product.

In the international market selection literature, the systematic market estimation approach has seen support by several different authors such as Moyer (1968), Samli (1977), Cavusgil (1985), Kumar, Stam, and Joachimsthaler (1994), Root (1994), Arnold and Quelch (1998), Craig and Douglas (2005), Sakarya, Eckman, and Hyllegard (2007) and Johansson (2009). This type of approach creates a framework for a supported and formalized decision making process that allows the decision maker to have a structured market selection process that guides her through each decision (Andersen and Buvik 2002).

The market estimation research presents a wide variety of systematic methods. Due to the complexity of foreign market analysis it is advised to have the market selection process divided in phases. For that reason, the most used model in the literature is the sequential approach with three stages, adopted by Cavusgil (1985), Samli (1977), Papadopoulos and Denis (1988), Kumar, Stam, and Joachimsthaler (1994), Root (1994), Koch (2001), Cavusgil (1997), Arnold and Quelch (1998), Sakarya, Eckman, and Hyllegard (2007) and Johansson (2009). The three-stage approach begins with the "preliminary screening", which is a general assessment of each country's market attractiveness, based on macro-level factors. The countries that do not pass this step are excluded from the analysis. The remaining countries go to the "in-depth screening" stage to assess each market's potential, ideally down to a specific market segment if possible. After this stage more countries may be excluded, which results in a smaller list for the "final decision". The last stage assesses the company's sales potential on each foreign market, based on the firm's objectives, resource constraint and internationalization strategy.

This method has many advantages when compared to other models. The first selection stage allows the reduction of time spent on market selection, since less-attractive countries will not move to the in-depth screening which is a time-consuming phase. The method also allows for the analysis of a higher number of countries since the preliminary screening uses secondary data which is often readily available and free of charge in platforms like the World Bank or the United Nations (Root 1994).

2.2. International Market Selection Factors

To conduct the factors analysis we selected the following models from the international market selection literature: Moyer (1968), Lindberg (1982), Cavusgil (1985), Samli (1977), Root (1994), Kumar, Stam, and Joachimsthaler (1994), Craig and Douglas (2005) and Johansson (2009). Some authors have used different approaches from the three-stage sequential approach, as is the case of Moyer (1968), Samli (1977), Lindberg (1982) and Craig and Douglas (2005). We nonetheless mention them, since the main objective of this section is the identification of factors. Moreover, the researchers that have used the sequential approach do not agree on the factors that should be used.

We begin by presenting the most common factors used in the preliminary screening stage. The use of macro-level factors in this stage has been a widespread practice in the international market selection literature (Cavusgil 1985; Root 1994; Kumar, Stam, and

Joachimsthaler 1994; Craig and Douglas 2005; Johansson 2009). To understand a country's market specificity and consumer patterns, the decision maker must first comprehend its demographic, physical, economic, political and social environments, since they condition individual and collective behavior. Even though these factors are being presented separately, they are interconnected.

After, the market attractiveness has been calculated, more information is needed to measure target market potential in the in-depth screening stage. Generally, in this stage the factors analyzed are: consumer/user profile, market potential and trade barriers (Cavusgil 1985; Kumar, Stam, and Joachimsthaler 1994; Johansson 2009). In order to perform this market analysis, potential consumers need to be understood. Since consumption is shaped by contextual factors at the macro- and micro-levels, contextual factors determine values and attributes which create consumer segments across and within countries (Douglas and Craig 2011). This highlights the need to not only consider macro-level factors in the in-depth screening, but also micro-level and situational factors, which has not been a widespread approach in the literature. Depending on the industry, in the in-depth stage we can also evaluate operational factors such as the availability of intermediaries, regional and local transportation facilities, the availability of manpower and raw material and other aspects (Cavusgil 1985; Root 1994; Craig and Douglas 2005). This analysis will be valuable in the next stage, where costs for every step of the new supply chain are calculated.

Finally, we present the factors that are most used in the final decision stage. Most authors agree that in this stage the company's sales potential and profitability play a very important role (Cavusgil 1985; Root 1994; Kumar, Stam, and Joachimsthaler 1994; Johansson 2009). To compute sales potential and profitability, the decision maker must consider sales forecasting, landed cost, distribution cost, and any other country-specific factor that may determine profitability. Export costs are a major component of a market's profitability, since it impacts the product's final price. Moreover, different destinations will have different landed cost. Another aspect is cost of internal distribution, dependent on national infrastructure.

Cavusgil (1997), Arnold and Quelch (1998) and Sakarya, Eckman, and Hyllegard (2007) all agree that the traditional market selection factors present some limitations in their applicability for emergent markets analysis. One major limitation is these markets lack of readily available statistical data. This limits the usability of traditional market selection models in the analysis (Moyer 1968; Cavusgil, Kiyak, and Yenyurt 2004; Craig and Douglas 2005). In order to analyze the veracity of this statement we must first conduct the selection of emergent market factors, which will be presented in the next chapter.

2.3. International Market Selection for Emergent Markets

2.3.1. International Market Selection Factors for Emergent Markets

Based on the research developed in previous section, we analyzed if there were factors that were only used in the analysis of emergent markets. This was deduced by the analysis of the model's sample. This analysis allowed us to detect that some factors were only used

in the analysis of emergent markets, since these factors were only selected when a given theory analyzed both developed and emergent markets and were not selected when a theory only analyzed developed countries. The models which analyze both markets were Cavusgil (1985), Root (1994), Craig and Douglas (2005) and Johansson (2009). In their models these researchers either do not specify a country sample and/or use examples of both developed and emergent markets.

We concluded the factors that are required for emergent market analysis are risk factors and infrastructure factors. The risk factors are composed of factors that analyze political, legal and economic/financial and cultural risks. Infrastructure factors are composed of factors that analyze the country's infrastructure. As Craig and Douglas (2005, p.93) explained this includes "physical transportation structure, the retail distribution network and the communication infrastructure, as well as the availability and cost of certain basic resources such as electricity".

2.3.2. Factors in Emergent Market's Selection Models

In the literature we identified the following works as emergent markets models: Moyer (1968), Samli (1977), Arnold and Quelch (1998), Cavusgil (1997) and Sakarya, Eckman, and Hyllegard (2007). Therefore, our analysis of the presence of previously identified factors in emergent markets models is based on these models.

We determined that the risk factors and infrastructure factors had different levels of support in the emergent markets' models reviewed. The most support group factor was the risk group factor, followed by the infrastructure group factor. We also determined that the researchers that did not include these factors in their analyses still acknowledged these factors determining effect in the market selection process. In the review of emergent markets models, we uncovered an additional factor Khanna, Palepu, and Sinha (2005) institutional infrastructures analysis. Therefore, the institutional infrastructures were added to the infrastructure factor group. This factor group now went beyond the analysis of country's physical infrastructures and also analyzed a country's institutional infrastructures.

2.4. International Market Selection for Frontier Markets

In the literature, we did not identify an international market selection model developed only for the analysis of frontier markets. Given that frontier markets are a sub-set of emergent markets, the models developed for the analysis of emergent markets may also be used in the analysis of frontier markets. From the emergent market models previous presented, only one model had in its sample frontier markets. This model was Cavusgil's (1997) model. When it was developed it focused only on the analysis of emergent markets, however through the years it extended its reach and now analyzes developed, emergent and frontier markets (GlobalEDGE 2018).

In our analysis we concluded that the emergent markets factors are suitable for frontier market analysis.

3. Methodology

In this chapter, we present the model and case study selected to study market selection factors for frontier markets. For this investigation we elected a case study

methodology, because it is an adequate approach for in-depth understanding of cases (Stake 2000).

3.1. Company

We selected a Portuguese trading company to serve as the analysis case. Its core business is procurement and exporting of fast-moving consumer goods (FMCG). This company was chosen because it is a small and medium-sized enterprise (SME), looking to expand its frontier market's presence in order to grow its business. The company works primarily with the Portuguese speaking countries in Africa (namely Angola, São Tomé e Príncipe, Equatorial Guinea and Cape Verde) and South Africa. In terms of clients, it works with wholesalers from both the informal markets, i.e. street markets, and formal markets, i.e. retail stores.

Currently, the company is focused on expanding its operation in order to grow its business. It has opted to look for new trading opportunities in sub-Saharan Africa. The company has not been able to define the factors that should be taken into consideration in the market selection, because until now the entrepreneur's know-how was the deciding factor, and in the remaining sub-Saharan Africa markets' the entrepreneur has no experience. The company's decision maker is the general manager. He is the sole decision maker which influences the company's strategic direction.

The case sample was composed of four countries: Gabon, Ghana, Ivory Coast and Nigeria. This sample was given by the company's decision maker. For the product variable, the decision maker selected refined palm oil. The decision maker selected this product given his knowledge of palm oil being a staple food in these countries. Additionally, it is a product that the company already offers. In terms of entry mode, the decision makers selected exporting, because it is the company's standard mode of operation.

3.2. Product

Palm oil is the vegetable oil obtained from the fruit of the palm tree. It has become an important commodity in international commerce for its versatility in application, in both food and non-food products. Palm oil is an indispensable factor in the oils and fat industry (International Finance Corporation 2011).

Palm oil tree (*Elaeis guineensis*) origin is traced to the west Africa region (Poku 2002). The tree grows in the equator region because of its tropical climate. In west Africa it is native to some regions in Ghana, Ivory Coast, Nigeria, Sierra Leone, amongst others (Poku 2002). In west Africa palm oil is an essential ingredient used for thousands of years and indispensable in traditional cuisine (Poku 2002).

Palm oil production is a complex process, where many products can be obtained. Since our analysis is focused on palm oil for cooking use, we will explain the main steps for the production of this product only. The production of palm oil begins with the transportation of palm fresh fruit bunches from the plantation to the mill. Here, by milling, it is produced crude palm oil. This product can be traded in the international market. In industrial production crude palm oil can go through more processing steps. After, it goes to the refinery. Here the oil goes through several steps to remove impurities, color and odors, where it is obtained the refined, bleached and deodorized palm oil (Kusumaningtyas and van Gelder 2017). This is also traded in the stock market or it can go through another

industrial step. In the next step the refined, bleached and deodorized palm oil goes through the fractionation process, where the solid and liquid parts of palm oil are separated and is obtained: refined, bleached and deodorized palm olein and refined, bleached and deodorized palm stearin. Both can also be traded in the international markets (International Trade Centre 2012). The company is interested in exporting refined, bleached and deodorized palm olein. From now onwards, when we refer to refined palm oil we are referring to this type of palm oil.

3.3. Model

In chapter 2 we showed that the systematic approach is the most supported approach in the international market selection literature, since it creates a supported and formalized decision making process (Andersen and Buvik 2002). Consequently, this was the market selection model chosen to be used in the present case study. The final decision phase requires an analysis of the company's sales potential on each foreign market. This phase is based on contextual factors. Unlike the previous stages, the third stage requires first-hand information obtained through field research (Cavusgil 1985; Johansson 2009), since it is more reliable and more specific to the company needs, e.g. products prices in each country. Therefore, it was not executed in the present work, since it was not feasible.

In the literature, we identified that most researchers agree on the objective of each stage of the three-stage sequential model. However, when it comes to the factors selected for each step there is no consensus. Consequently, in the literature there is not a standard three-stage sequential approach.

In the state of the art we did not identify a model for frontier market analysis. From the emergent markets model's we analyzed, no model took only into consideration frontier markets' characteristics in its factor selection. Additionally, in the literature we did not identify a model that adapted all stages of the three-stage model for the analysis of emergent or frontier markets.

For the preliminary screening stage we choose the 2018 version of Cavusgil's (1997) Market Potential Index model because this was the only model that included frontier markets in its sample (GlobalEDGE 2018). Additionally, the model is updated yearly and published with a continued improvement on the indicator's usability and reliability. The literature advances in the field are taken into consideration by, for example, replacing indicators that have been identified as redundant.

In the literature, for the in-depth screening stage, we did not identify a market selection model that correctly linked the analysis of Cavusgil's (1997) Market Potential Index model, in the first stage, to the analysis in the next stage. Therefore, we selected Cavusgil's (1985) model for the in-depth screening stage, following Cavusgil's (1997) recommendation. Moreover, Cavusgil's (1985) model is the only framework in the literature that provides a detailed structure of factors for the in-depth screening stage.

We identified that there is no agreement in the literature regarding the number of countries that should be considered in the initial sample. Therefore, in the present work the number of countries in the initial sample was selected by the company's decision market which selected four countries.

In the literature we identified there is not a consensus on the number of countries a decision maker

should select to move to each of the stages in the three-stage process. We decided upon the rule of eliminating the bottom rated country in each step.

3.3.1. Preliminary Screening

In this section, we analyze the presence, in Cavusgil's 2018 model, of factors we identified as the critical factors used in international market selection of frontier market. The model presents many of the factors we identified, however there are some exception. The model does not include cultural risk indicator, basic infrastructure indicators, long-term potential indicators. We concluded that this absence is a results of the model's selected mode of entry. We compared Cavusgil's 2018 model to Cavusgil, Knight, and Riesenberger (2017) work, and concluded that the mentioned indicators were only used by the researcher when the selected entry modes required foreign direct investment (FDI). Cavusgil's 2018 model selected exporting as the entry mode, this is an entry mode that does not require FDI.

The market selection literature has emphasized the need of adapting each model to the context in which it is being used (Douglas and Craig 1992; Sarkar and Cavusgil 1996). The contextualization of a market selection model, to the decision maker's reality, is attained through an adaptation of the model's weights and factors. In the previous analysis we conclude that Cavusgil's 2018 model has all the critical market selection factors for frontier market therefore, no factors were altered. The contextualization process not only focus on adapting the model's factors but also customizing the model's weights. However, we did not change the model's weights and used in our analysis the standard model's weights. The main contribution of this work is focused on the development of an in-depth screening stage for frontier markets. Where there is an absence for both emergent and frontier markets. Consequently, the study of the model's weights goes beyond the objective of the master dissertation. In this study, we are not focused on assisting the case study's decision maker in his selection process, but we are focused on studying the model's factors. For that reason, the weights were not changed in this study. Nevertheless, we recongine this decision affects the models outcome.

3.3.2. In-depth Screening

Cavusgil's (1985) model selected for the in-depth screening stage does not enumerate the indicators and sources that need to be used. Additionally, in the state of the art we concluded that in the in-depth screening no model had been fully developed in the literature. Consequently, to allow the in-depth screening analysis we had to develop the required framework. We successfully developed an in-depth screening framework for frontier markets' market selection, based on Cavusgil's (1985) model and our analysis of all the necessary factors in a market selection as well as the critical factors in frontier markets' analysis.

Figure 1 presents the framework developed for in-depth screening phase.

In the final framework, we followed the same reasoning from the preliminary screening where indicators for long-term analysis, FDI analysis were not considered. Cavusgil's (1985) work does not include an infrastructure analysis. However, frontier markets are characterized by their infrastructural deficiencies. In our

market selection factors' analysis we included the infrastructure factor group an overview analysis of basic, distribution and communication infrastructures. However, in this analysis we only included an analysis of distribution infrastructure, because the company's business is based on efficient logistics operations to the markets they work. Therefore, a country's distribution infrastructure plays a decisive role in the selection.

Factor Group	Indicators
<i>Product's Trade Balance</i>	<ul style="list-style-type: none"> Indicator of Refined Palm Oil Import Need - Quantity imported of refined palm oil. Indicators of Imports' Dependency. <ul style="list-style-type: none"> Import dependency (imported palm oil share in domestic consumption). Export capacity (exported palm oil share in total palm oil produced). Self-sufficiency ration (national palm oil production, minus exports, share in domestic consumption). Indicator of evolution of country's trade balance (annual difference between the quantity imported and the quantity exported)
<i>Consumer/ User profile</i>	<p><u>Consumer characterization</u></p> <ul style="list-style-type: none"> Indicator of palm oil cooking use in the country, by region. Indicator of palm oil cooking use, by income class. Indicator of food expenditure, by income class. <p><u>Product characteristics</u></p> <ul style="list-style-type: none"> Consumer palm oil preferences (for crude palm oil or refined palm oil). Refined palm oil uses (traditional dishes, frying, stevia, or for all uses). Consumption patterns: <ul style="list-style-type: none"> Palm oil or vegetable oils weekly consumption (in national average household size). Palm oil or vegetable oils purchase frequency (weekly, monthly). Package preferences: <ul style="list-style-type: none"> Consumer palm oil or vegetable oils packaged size preferences. Retailer palm oil or vegetable oil packaged size preferences. Palm oil purchasing preferences: <ul style="list-style-type: none"> Palm oil, vegetable oils and food products place of purchase (formal or informal retail). <p><u>Product penetration</u></p> <ul style="list-style-type: none"> Consumers brand loyalty. Consumers attitudes toward products of foreign origin. Customers' needs and desires will uncover new trends.
<i>Market Potential</i>	<p><u>Current Market Demand</u></p> <ul style="list-style-type: none"> Indicator of food consumption demand (share of palm oil domestic consumption for food use in total palm oil domestic consumption). <p><u>Current Market Size</u></p> <ul style="list-style-type: none"> Some general indicator of market size: <ul style="list-style-type: none"> Urban population (in percentage of total population). Size of urban households (in number of households). Household median Income (GNI per household, PPP). Size of middle-class (in percentage of total population). Size of bottom of the pyramid (in percentage of total population). Industry-specific indicators: <ul style="list-style-type: none"> Average household expenditure on palm oil, vegetable oils, and food category. Urban food expenditure (in percentage of national food expenditure). Rural food expenditure (in percentage of national food expenditure). <p><u>Market Growth Rate</u></p> <ul style="list-style-type: none"> Some general indicator of market growth rate: <ul style="list-style-type: none"> Population growth (population growth between 2008-2018 in percentage). Urban population growth (urban population growth between 2008-2018 in percentage of total population). Income per capita growth (income per capita growth between 2008-2018 in percentage). Population under 24-year-old (in percentage of total population in 2018). Average fertility rate (in number of children per woman in 2018). Industry-specific indicators: <ul style="list-style-type: none"> Palm oil or vegetable oil income elasticity. Analysis of household evolution in consumption of palm oil and vegetable oil. Growth amongst existing buyers, growth in penetration and growth rate of new buyers. Consumption of substitute products and evolution in this consumption.
<i>Local Production & Distribution</i>	<p><u>National Production System</u></p> <ul style="list-style-type: none"> Current national product production. Analysis of evolution in national product production. Analysis of product's production systems. Analysis of product's supply chain. <p><u>Market Player Analysis</u></p> <ul style="list-style-type: none"> Analysis of players in product production systems: farmers, millers, etc. Analysis of product supply chain: brokers, distributors, wholesalers, retailers, importers, etc. Analysis of clients: formal and informal markets. Analysis of competitors. <p><u>Infrastructure Analysis</u></p> <ul style="list-style-type: none"> Distribution infrastructure: road network, rail network, seaport network <ul style="list-style-type: none"> Main mode of transportation for passengers and cargo. Network reach, distribution and density. Current network status, maintenance and problems.
<i>Trade Barriers & Regulations</i>	<p><u>Country effect</u></p> <ul style="list-style-type: none"> Portugal's 2018 Import Penetration (share of 2018 import penetration of portuguese imports in the country's total imports). Portugal's 2018 raking as a supplier (performance of 2018 Portuguese imports in country's overall imports). Portuguese imports growth between 2014-2018 (evolution of portuguese import penetration) Palm Oil Imported from Portugal in 2018 (share of 2018 Portuguese palm oil import penetration in the country's total palm oil imports). Portuguese palm oil imports' growth between 2014-2018 (Evolution of portuguese palm oil import penetration in the country's total palm oil imports). <p><u>Country's Trade Relation</u></p> <ul style="list-style-type: none"> Country's trade block and trade organization membership. Preferential trade treaties with Portugal or the European Union. System guiding Portugal's imports tariff system to the country. <p><u>Product's tariff barriers</u></p> <ul style="list-style-type: none"> Import tariff on portuguese refined palm oil imports. Valued Added Tax. Additional levies. <p><u>Non-tariff barriers</u></p> <ul style="list-style-type: none"> Product's quotas, import ban and local standards analysis.

Figure 1 - Case study's in-depth screening model.

Cavusgil's (1985) framework provided several indicators that were not found in the literature review. The researcher was the only one including the indicator of preferential trade treaties in the "Trade Barriers & Regulations" group factor, which has a direct influence in tariff and non-tariff barriers. Additionally, Cavusgil's (1985) also was the only researcher analyzing the

product's production, imports and exports in the sample countries. In the interview we realized that this was one of the critical factors for our decision maker. He wanted to understand if the sample countries import the product or not. Moreover, if the countries have a trade deficit in refined palm oil for cooking.

The researcher did not make a bilateral analysis to take into account the distance between the company's domestic country and sample countries. Based on Ghemawat (2001) work, we added an indicator to measure the country's effect on trade barriers. Since the company is portuguese, we measured the import penetration of portuguese goods as well as the import penetration of portuguese palm oil in each of the sample countries. Moreover, we analyzed the trade relation between Portugal and the countries to research for preferential treaties.

Cavusgil's (1985) model did not present a market selection procedure. From the state of the art, we concluded that there is no standard approach in terms of the selection methods. For this stage selection process we chose to analyze each indicator, according to the decision makers' criteria, attributing an equal weight system to all factor groups. Therefore, we did an interview the company's general manager. The interview objective was to assess indicators' selection criteria in the selection process, in order to obtain the selection criteria for the in-depth screening stage. Nevertheless, we recognize that this approach has a directed impact in the final result, and does not convey the decision markets' factors preferences. In this study, we are not focused on assisting the case study's decision maker in his selection process, but we are focused on studying the model's factors.

4. Results and Discussion

4.1. Preliminar Screening Results

Since the index creation it has been available online through Michigan State University's globalEDGE knowledge web-portal¹. Consequently, this first market selection phase was not executed in this work. The GlobalEDGE web-portal publishes the final ranking of the model annually.

The model analyzes 97 countries on the same factors. On the web-portal are presented the index overall result and final ranking, as well as, the ranking for each factor. The portal does not present the input values — the data used for the analysis — and only presents the sources and the data reference year. Also, the portal does not present the countries' results on each indicator.

We did not analyzed Gabon because of the country's weakness in the national statistical system (World Bank 2019), which makes the country's analysis unfeasible. Therefore, the country was not included in the sample for the preliminary screening phase.

From the index results we concluded that Nigeria ranked 62nd, Ghana ranked 73rd and Ivory Coast ranked 77th. In order to conclude the analysis, we used the rule we previously determined of eliminated the bottom ranked. Therefore, Ivory Coast was eliminated.

4.2. In-depth Screening Results

The following presentation of results is divided by the group factors presented on figure 1.

In the trade analysis, we concluded that Nigeria presents the bigger import market, including crude and refined palm oil, however a smaller import market for refined palm oil. Therefore, Ghana is the best performing country in this analysis.

In the market potential factor group, we conclude that Nigeria outperformed Ghana in all analyses. Consequently, Nigeria is the best performing country in this factor group.

In the local production and distribution factor group, we conclude that Ghana only outperformed Nigeria in the production growth analysis. Ghana reduced its palm oil production in 1,3%, in the last ten years, whereas in the same period Nigeria increased its production in 19,4%. The countries we tied in the analyses of supply chain characterization and market players, since we could determine which country presented a more attractive market for the company in these indicators. Also, in this factor group Nigeria outperformed Ghana in the analysis of palm oil processing systems, because it is a market that it is more dependent upon small producers and processors than Ghana. Nigeria also outperformed in the infrastructure analysis, because it outperformed Ghana in the road and railway analysis. Consequently, we conclude that Nigeria was the best performing country local production and distribution factor group.

In the market potential factor group both countries were tied in this analysis.

In the market access factor group, we determined that Ghana and Nigeria presented the same import tariff level for refined palm oil. However, Nigeria presents a smaller value added tax on refined palm oil than Ghana. In terms of additional levies, Ghana outperformed Nigeria by presenting a smaller pack of additional levies. We conclude from this trade barrier analysis that Ghana outperformed Nigeria. Lastly, in this analysis we detected that Nigeria has an import ban in refined palm oil. Therefore, Nigeria is eliminated from the analysis since it is not possible to export refined palm oil to the country. In table 1, we present the overall results of each factor group analysis.

Table 1 - Results of in-depth screening phase

Factor group	Ghana	Nigeria
Trade analysis	x	
Market potential		x
Local production and distribution		x
Product characterization	Tied	
Market access	x	country excluded

From table 1 we conclude that Ghana and Nigeria were tied in our analysis, because of our selection process that attributes equal weights to each factor group. Both countries exceled in the same number of factor groups. However, in the market access analysis we detected that Nigeria has an import ban on refined palm oil therefore, the country was excluded from the analysis. Finally, we conclude that Ghana is the country selected to move to the last stage in the analysis.

4.3. Discussion

Before the preliminary analysis only Gabon was eliminated from the sample due to lack of public available data. All the remaining three countries were analyzed. Gabon's elimination, before the analysis began, affected the model's results. However, this is a problem

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in both emergent and frontier markets that we in this research cannot overcome.

From the results of the preliminary phase, we can conclude that the weights assigned had a determinant effect on the overall results. Nigeria was the best performing country in our analysis however, he outperformed its counterparts only on two factors yet, these were the factors that had the highest weights. If the factors that Ivory Coast excelled on had higher weights, than this country may not have been eliminated. Another major disadvantage of Cavusgil's 2018 model, is the fact that the model's results depend from the sample used. The model does not have an absolute scale to standardized and normalized scores, instead it does these procedures based on the values collected in each analysis. However, in the master dissertation we were not focused on assisting the case study's decision maker in his selection process, but we are focused on studying the model's factors. Therefore, our analysis was not compromised by the models results. Consequently, we conclude that in the preliminary screening we successfully analyzed each country on the critical factors we identified in section 2.

For the in-depth screening phase, we used Cavusgil's (1985) model as the basis framework. However, this model did not indicate a selection process to conduct the elimination process. From the state of the art review, we concluded that there is no standard approach in terms of the selection methods. A popularized approach is the ranking procedure. However, following the same reasoning from the preliminary screening, this approach went beyond the project's focus. For the in-depth screening selection process we chose to analyze each indicator, according to the decision makers criteria, attributing an equal weight system to all factor groups. Nevertheless, we recognize that this approach had a directed impact in the final result, and does not convey the decision markets' factors preferences.

From the interview we obtained that for our decision maker the most important factors in the in-depth screening phase were trade balance indicators, national industry indicators and infrastructure indicators. Even though, we did not assign a factor's preferences in our analysis Ghana outperformed Nigeria in two of the top three indicators selected by the decision maker. However, this could not have been the case and we would have selected a country which performed poorly in the top performing factors for our decision maker. Therefore, in international market selection models there needs to be considered the factor's preferences. We propose a weighting system to convey this factor's preference. First, in order to obtain the top performing countries, in each factor group, we propose the system we develop for the analysis. Thus, the top performing countries are obtained through the decision makers indicators' selection criteria. After, when all factor groups have its top performing country, we introduce the weighting system. This allows the introduction of the decision makers factors' preference in the country's final selection.

From the in-depth screening results, we concluded that the "Trade Analysis" factor did not provide accurate data on refined palm oil imports. This was due to the inaccurate information provided by United Nations (2019b) UNcomtrade: United Nations Commodity Trade Statistics Database. This error is a results of the fact that the trade data is reported by the exporter

country and not the importing country (United Nations 2019b). Consequently, Nigeria's import ban on refined palm oil was not identified, because it was reported refined palm oil was exported to Nigeria in 2018. Therefore, Nigeria should have been removed from the analysis, as a result of this indicator being one of the decisive factors in the analysis. We suggest that the "Market Access" factor group be joint it with the "Trade Analysis" group factor to resolve the problem. Nevertheless, in terms of the model's factors, we conclude that in the in-depth screening we successfully analyzed each country on the critical factors we identified in section 2.

A major limitation of the three-stage sequential approach is the necessity of comparable information, on each indicator, for each country. Moreover, the model is based on the use of secondary data which can pose a problem of reliability (Kumar, Stam, and Joachimsthaler 1994). The preliminary screening model used a developed framework that thoroughly addressed all these concerns. The information required for all indicators was available for all countries and the information corresponded to the same time period. In the in-depth screening we were able to analyze the countries, however we did not found data available for all the indicators. Also, in some cases, the data available was not comparable since the data available was for different years. Moreover, in same indicators we only uncovered data from ten years ago which does not transmit an accurate reality on the market. Especially, frontier markets which are fast changing markets. Cavusgil, Knight, and Riesenberger (2017) highlighted, two problems in data collection in frontier markets, which directly affects per capita income data results: official statistical data does not account for the informal economy, in frontier markets the informal economy can even be bigger than the formal economy; the governmental agencies underreport the national income to stay eligible for low-interest loans and grants from international agencies. As we concluded in the state of the art, these are characteristics of frontier market analysis. All these factors compromise the results obtained. Nevertheless, the focus of the master dissertation was not compromised by the lack of accuracy and comparability of frontier markets data.

An operational limitation was imposed to the chosen model because of the inability to perform the last step of three-stage model. However, this is a known limitation identified by researchers. Kumar, Stam, and Joachimsthaler (1994) suggest that a company contracts a marketing research organization for this stage. Cavusgil (1985) adds visits to the countries, in particular to the potential foreign end users and distributors as well as to industry trade shows and fairs. Despite these limitations, the selected model presents a well-structure framework for the analysis of this case, since this framework can be easily customized, which is ideal for this study. Even though, the last step was not performed this analysis provides a relevant contribution of frontier market selection factors.

5. Conclusion

Market selection is considered by many researchers the most critical step in an internationalization strategy, because it conditions all the following steps. However, market selection is an often-overlooked aspect of internationalization literature. International market selection literature has a context-dependent feature which has inhibited the creation of a generalized theory that could

be applicable to various industries and firms. Consequently, it is still a fragmented field, which requires empirical work.

In the master dissertation, we were focused on studying the market selection factors for frontier markets' analysis. However, the factors used depend upon the models. Therefore, the models in market selection literature were the basis for this analysis, and guided the factors' selection process. The frontier markets have not been included in emergent markets literature, until the 2000s, because no data was available to study them. Consequently, in this research we wanted to assess if international market selection models and factors, developed for emergent markets' analysis, could also be used for market selection of frontier markets, given that frontier markets are a sub-set of emergent markets (Nellor 2008). Additionally, we wanted to determine which are the critical market selection factors in frontier markets analysis. Furthermore, we sought to determine if there are additional factors which need to be considered when analyzing frontier markets, given these markets characteristics. Lastly, we wanted to test, the perceived notion in the international market selection literature, that frontier markets cannot be analyzed because of lack of statistical data.

For this investigation, we elected a case study methodology, because it is an adequate approach for in-depth understanding of cases (Stake 2000). We selected a Portuguese FMCG trading company to serve as the analysis case. This company was chosen because it is a SME, looking to expand its frontier market's presence in order to grow its business. As mentioned in the literature, SMEs are often unable to develop a structure market selection model. Therefore, this is an especially challenging case study.

From the state of the art review, we concluded that the most appropriate model for this case analysis is the three-stage sequential approach. The model is composed of a preliminary screening stage, an in-depth screening stage, and lastly the final decision stage. This model enables a structured and systematic market selection procedure that guides the decision maker in the selection process. The sequential analysis allows a rapid market selection by reducing the time spent on market analysis. Therefore, this was the most supported model in the literature.

In the state of the art, in order to determine the critical market selection factors for frontier market analysis, we first reviewed the factors used on models developed only for developed markets and the factors used on models that analyzed both developed and emergent markets. From this analysis, we were able to determine which are the factors used only for emergent markets. We concluded that the factors used were risk factors and infrastructure factors. The risk factors are composed of factors that analyze political, legal, economic/financial and cultural risks. The infrastructure factors are composed of factors that analyze the country's basic infrastructures, physical transportation structure, retail distribution network and communication infrastructures.

After, we analyzed if the previously determined factors were used in models developed only for emergent market analysis. Additionally, we researched for additional factors used in these models, that were not used in the first group of models. We determined that the risk factors and infrastructure factors, previously identified, had different levels of support in the emergent markets'

models reviewed. The most support group factor was the risk group factor, followed by the infrastructure group factor. We also determined that the researchers that did not include these factors in their analyses still acknowledged these factors determining effect in the market selection process. In the review of emergent markets models, we uncovered an additional factor, Khanna, Palepu, and Sinha (2005) institutional infrastructures analysis. Therefore, the institutional infrastructures were added to the infrastructure factor group.

Finally, we analyzed if the previously determined factors we used in models developed only for frontier market analysis. However, in the literature there is not a model developed only for frontier market analysis. Therefore, we were only able to analyze if the previously determined emergent markets factors were suitable to analyze frontier markets, given these markets characteristics. In our analysis, we concluded that the emergent markets factors are suitable for frontier market analysis.

For the preliminary screening stage we elected the 2018 version of Cavusgil's (1997) Market Potential Index model. This model was selected because its indicators are reviewed every year, maintaining a relevant framework. Moreover, since 2014 it expanded its analysis to include frontier markets (GlobalEDGE 2018). For the in-depth screening, we opted Cavusgil's (1985) model. Firstly, this model is an extension of the Market Potential Index model, therefore can be used with it. Secondly, this is the only framework in the literature which provides a detailed framework of factors for the in-depth screening stage. The last stage of the three-stage model, unlike the other stages, cannot be performed solely on secondary data. In fact this stage requires primary data, this is first-hand information obtained through field research (Cavusgil 1985; Johansson 2009). Consequently, we did not perform the last stage in this work.

Cavusgil's (1985) model selected for the in-depth screening stage does not enumerate the indicators and sources that need to be used. Additionally, in the state of the art review, we concluded that in the in-depth screening no model had been fully developed in the literature. Consequently, to allow the in-depth screening analysis we had to develop the required framework. We successfully developed an in-depth screening framework for frontier markets' market selection, based on Cavusgil's (1985) model and our developed framework which includes the critical factors in frontier markets' analysis. Also, Cavusgil's (1985) model did not present a market selection procedure. From the state of the art review, we concluded that in the literature there is no standard approach in terms of the selection methods. For the in-depth screening selection process, we chose to analyze each indicator, according to the decision makers' criteria, attributing an equal weight system to all factor groups. Nevertheless, we recognize that this approach has a directed impact in the final result, and does not convey the decision markets' factors preferences.

Given the context-dependent nature of international market selection both models, for the preliminary screening and in-depth screening phases, had to be adapted to case study characteristics.

In the preliminary screening phase contextualization process, we concluded that 2018 version of Cavusgil (1997) model was equipped with the critical

factors for frontier markets analysis we identified. The contextualization process not only focus on adapting the model's factors but also customizing the model's weights. However, we did not change the model's weights and used in our analysis the standard model's weights. The main contribution of this work is focused on the development of an in-depth screening stage for frontier markets. Where there is an absence for both emergent and frontier markets. Consequently, the study of the model's weights goes beyond the objective of the master dissertation. In this study, we are not focused on assisting the case study's decision maker in his selection process, but we are focused on studying the model's factors.

In the in-depth screening phase, we performed the required contextualization process taking into consideration the decision maker's experience, industry context, consumer base, international market know-how and product characteristics. Therefore, the contextualized in-depth framework developed "as is" is only valid for portuguese SME trading companies that want to study the feasibility of exporting palm oil to a frontier market. Nevertheless, the contextualized framework contributed to the literature by presenting the first in-depth screening model's application. Additionally, the developed model provided a framework that can be easily customized and adapted to each company's context, which is a necessary step for all market selection models.

After conducting the preliminary screening analysis, we obtained the factors each country appears to excel on. However, we do not have concrete data on country's factor performance. We are only presented with a final standardized and normalized score. This is one of the major disadvantages of an index model as both Ghemawat (2001) and Khanna, Palepu, and Sinha (2005) mentioned. They argue that the values obtained do not take into consideration the country's reality and reduce it to a single value. Also, the model's results depend from the sample, weights and factors used. Therefore, the contextualization process has a determinant effect on the models results. However, these is a limitation on the decision makers ability to customize the model, since some of the sources used in the model do not make their data publicly available, as is the case of Euromonitor International. Finally, this model has limited applicability to frontier markets, especially when Sub-Saharan African countries are considered, since many of them are not included in the pool of countries analyzed. From the forty-six countries the United Nations (2019a) identify as Sub-Saharan African countries, only eleven were included in the analysis: South Africa, Angola, Cameroon, Tanzania, Uganda, Democratic Republic of the Congo, Kenya, Ethiopia, Ivory Coast, Ghana and Nigeria. Nevertheless, this was the only model in the literature that included frontier markets in its sample.

After conducting the in-depth screening analysis, we concluded that the analysis was compromised by the lack of comparable information, on each indicator, for each country. In the in-depth screening, we were able to analyze the countries, however there was not data available for all the indicators. Also, in some cases, the data available was not comparable since the available data was for different years. Moreover, in same indicators we only uncovered data from ten years ago which does not transmit an accurate reality on the market. Especially, frontier markets which are

fast changing markets. As we concluded, in the state of the art, this are characteristics of frontier market analysis. All these limitations compromise the results obtained. Nevertheless, the focus of this master dissertation was not compromised by the lack of accuracy and comparability of frontier markets data.

An operational limitation was imposed to the chosen model because of the inability to perform the last step of three-stage model. However, this is a known limitation identified by researchers since the last step requires first-hand information. Despite these limitations, the selected model presents a well-structure framework for the analysis of this case, since this framework can be easily customized, which is ideal for this study. Even though, the last step was not performed our analysis provides a relevant contribution of frontier market selection models.

In the master dissertation, we were also focused in analyzing the information available and asses if frontier markets have publicly available information that allows them to be studied. Before the preliminary analysis only Gabon was eliminated from the sample due to lack of public available data. All the remaining three countries were analyzed. As we previously mentioned, a recurrent problem in both emergent and frontier markets is the lack of readily available statistical data, since these markets have, the previously mentioned, "institutional voids". Typically, frontier markets do not have an infrastructure developed to collect statistical data. However, our analysis successfully showed that frontier markets can be analyzed since the necessary information is now available.

6. Future Work

In this section we propose some future work directions that our research rouse in the field of international market selection as well as some shortcomings we identified in the field of internationalization.

The research conducted in the master dissertation open international market selection to a new area that was previously perceived unfeasible to be studied in this field of international market selection. The research on frontier markets selection models needs to be complemented by other case studies that explore different types of frontier market. This type of research could be focused on analyzing the applicability of the critical market selection factor, identified in the master dissertation, in other types of frontier markets. Additionally, studying other types of entry mode in frontier market analysis would complement our factors' study by researching different indicators that would operationalize them.

We identified that there is an overall lack of studies analyzing the suitability of the international market selection models in real-life context. This is translated in most model's inability to be used in case studies, for example, by lacking a selection process. This research preposition uncovers another absence in the literature, a lack of specific data on decision markets' factors selection criteria.

Lastly, we identified the need for research on how differences in decision makers is translated in their choice of selection criteria. Researching how the decision makers experiences and context affects her factors selection, e.g. comparing decision makers in MNE trading companies and SME trading companies. Additionally, in the literature most of the models are developed using American companies as the study unit.

Therefore, most of the models take into consideration these companies selection preferences. Consequently, this creates an absence of diversity of decision markets' factors selection criteria in the models in international market selection literature. Thus, there is a need of research that provides a basis for a guiding line in terms of most import selection criteria in international market selection, for different industries, companies sizes, nationalities, amongst other factors.

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