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# **INTERNATIONALIZATION STRATEGY OF GENCORK TO GERMANY**

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## **Executive Summary**

Sofalca is a Portuguese small firm that focuses production on ICB (Insulation Cork Board), since 1966. The stock market crash on 2008 and the European Debt crisis brought collateral effects to the entire global economy and Sofalca's performance was not different: from 2011 to 2013 Sofalca was decreasing sales and having lower positive net results, year after year. This was the moment that Sofalca decided to expand to different business areas, creating production lines for furniture and coating. An innovational market's approach and the need to increase competitiveness from Sofalca have originated Gencork: a pioneer wall covering concept released by Sofalca in April 2015, along with the collaboration of the architect Brimet Silva from an architecture atelier called DigitaLab. Gencork it's in the initial product's stage since it was released just a few months ago, on a construction fair called Tektónica, in Portugal. The main purpose of this investigational approach is to develop strategies for Gencork's penetration into an international potential market, in this case Germany. Germany is a strong economy in the construction area, one of the strongest consumers of agglomerated cork products and one of the top countries in Europe that carry national concerns about environmental and sustainability issues. At the course of this Work Project recommendations are provided for the current state of Gencork and for the introduction and implementation of this Internationalization plan. This investigational approach suggests that Gencork should penetrate German market.

**Key words:** Sofalca, Familiar Company, Cork, Gencork, Internationalization, Germany

## Sofalca's History

Sofalca is a Portuguese familiar company founded in 1966, which main activity is based on Insulation Cork Board (ICB/Expanded Black Cork Agglomerate) production and wasted grains of ICB, for construction's insulation (**Exhibit 1**). It was born with the name of "Sofalca – Sociedade Central de Produtos de Cortiça, Lda" and it forms part a holding corporate group called "Grupo Estrada" (SGPS), located in Abrantes (**Exhibit 2**).

In March 1974 Sofalca created the first mixed incinerator in Portugal. This incinerator (based on a biomass system) helped to spare resources and to build their first steps towards environmental sustainability, allowing Sofalca to generate 95% of their energy consumed.

In 2013 Sofalca won the FSC seal - Forest Stewardship Council, which inserted insulation's product into the ones that provides a guarantee about forest raw material used, settling that it meets the guiding principles of good forest management, as well as for responsibility on the environment.

Sofalca was only selling insulation material through ISOCOR (**Exhibit 3**), until 2014. Meanwhile, Sofalca created a production line of contemporary furniture and two production lines for wall covering (using ICB as raw material), giving significance to the design element. BlackCork is the furniture brand released by Sofalca, in 2014 (**Exhibit 4**); while the wall covering lines of production are Corkwave and Gencork, released in 2015 (**Exhibit 5**). These brands developed by Sofalca are recent and basically they don't have a strong effect on sales. The level of sales in the year 2015 was 2 316 850 € (**Exhibit 6**). Sofalca's insulation product is 95% of total sales, which shows the early phase of the recent brands developed. The granulated

agglomerate cork product is actually 2% of total sales, while the design's line of production accounts for 3% of total sales in 2015.

## **Mission, Vision and Strategic Objectives**

Sofalca's **Mission** is the creation of value to cork, by natural and ecological solutions for the market. About its **Vision**, Sofalca wants to achieve visibility and credibility in the cork's market, namely by its product's differentiation, social responsibility concern and its innovation aligned. The design line of production has reached 3% of total sales in 2015, and Sofalca main **Strategic Objective** is to reach 10% of total sales in 2017, with the consolidation of the existing design line of production and with the growth of Gencork. The **values** of the company are related to innovation, environment's respect, professionalism and strong concern about the main players in the market. In practical terms, the company practices a zero-waste policy and a steady position about not using chemical components in its products, keeping it 100 % natural.

## **Industry Map**

Concerning the investigational approach, we should divide the map of the industry into Sofalca's relationships with main partners. By this way, we should take into account Cork Producers (suppliers), Design Producers, Logistics, Consumers, Competitors and Institutional Associations.

**Cork Suppliers**: are the first players on Sofalca's framework. The raw material that is used is falca's cork, so the suppliers are the same for any line of production (furniture, insulation and wall covering). In this case, the main suppliers of Sofalca are SOPROF, José Nunes Filipe,

Paisagem Virtual Lda and BemCortiça Lda. All these suppliers are located in and near Abrantes, in a range of 50 km.

**Design producers:** Toni Grilo, Miguel Arruda and DigitaLab. Toni Grilo is a designer and art director that gathered a team of Portuguese designers responsible to develop the furniture's collection for BlackCork's design. Miguel Arruda is an architect that was responsible for the design process of Corkwave. DigitaLab is a creative lab research oriented to digital technologies (generative design, parametric and algorithmic systems, digital manufacturing, etc.), responsible for Gencork's design process. It is located at São João da Madeira, between Porto and Aveiro.

**Logistic:** it is carried by different groups, concerning the destination. Inside Portugal, Sofalca uses Transportadora Nacional de Minde, while to export outside Portugal Sofalca uses GEFCO, SDV or Maritime Transportation (in case of sales to UK, Japan or USA).

**Consumers:** 80 to 85% of Sofalca's insulation production is sold to the outside world through ISOCOR, in countries such as France, Spain, Belgium, Austria, Germany, UK, Italy, Japan and China. Concerning the consumer type, Sofalca sells cork insulation mainly for constructor resellers, and it will be directed to establishments like hotels, residential, restaurants, bars, offices, meeting rooms and auditoriums.

**Competitors:** It is reasonable to state that there are a lot of alternatives to ICB, with differences in the characteristics of the material, technical performance and sustainability. Besides Sofalca, there is only one ICB producer in Europe, namely in Portugal: Amorim Group. Outside Europe, there are some ICB producers at North Africa but with a worst insulating quality. There is another cork's insulation product but slightly different from ICB: expanded white cork agglomerate, a product that does not work the natural properties of cork and that uses

glue at its manufacturing process. These expanded white cork agglomerate producers are located in Portugal (“Sedacor” and “Dimas&Silva”) and in Spain (Jaime Ortin Bernat). In **Exhibit 7** there is a list of the main Portuguese indirect competitors, since they don’t use falca’s cork.

**Institutional Associations:** ISOCOR is the association that sells Sofalca’s production outside. It was created with the purpose to gather all Expanded Cork Agglomerate producers and make a structured market force to sell in Portugal and worldwide, for insulation. Nowadays, Sofalca is the remaining active producer, and legally it has control over ISOCOR. ISOCOR is responsible for making business contacts, which brings to Sofalca new products, applications and customers. In **Exhibit 8** it’s possible to know more about APCOR, the Portuguese Cork Association.

## **Sofalca’s Value Chain**

Michael Porter stated in 1985: “competitive advantage stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product.”

Sofalca only has one input to store, regarding the process of receiving, storing and distributing inputs internally. Sofalca buys the raw material directly from their several suppliers, nearby Abrantes. Sofalca has a strong know-how about working the cork type in context, with several years of manufacturing experience. With this, Sofalca is fully responsible for the production process and operational development activities (**Exhibit 9 and 10**).

Once the product is finished, the Outbound Logistics is partly done by Sofalca. Sofalca keeps their final products in its warehouse, which is located inside the factory. About distribution, Sofalca delivers the product indirectly to the final consumer. In most of cases Sofalca sells for a materials construction retailer company, which trades and applies Sofalca’s insulation to work

constructions of residences and buildings. In the delivering process usually it does through outsourcing, subcontracting transportation companies to carriage inside and outside Portugal.

Marketing and Sales is mostly done by ISOCOR, in Sofalca's main product. ISOCOR sells the insulation's product either the export or the domestic market, having its own marketing and sales team. It is related to the process in the sense that ISOCOR is in charge of making business contacts, which brings to Sofalca new products, applications and customers. The service after-sale is almost nonexistent, since it's only required when there are problems with the montage of the final product.

About Support Activities, more specifically Procurement: there is only one raw material that is used for any Sofalca's product and it is a layer of the cork that is rarely used due to its specific characteristics (falca's cork). The position of the factory was chosen for its proximity to the cork oak trees and being surrounded by the raw material, which allowed them to economize their resources in terms of collecting and transport. All these suppliers are located in and near Abrantes, in a range of 50 km maximum.

Sofalca has around 37 employees, most of them with low academic qualification. The larger amount of employees is in charge for the manufacturing process.

Sofalca, for Technology Development, has made some partnerships with universities throughout the country. Basically, projects where students can contribute to a better production (more strength and compactness) of the cork agglomerate process, as well for new application possibilities of material. More recently, DigitaLab is also challenging and improving new ways of working the material in context, regarding color, shape and odor.

## Gencork Project

As it was stated in the executive summary, the investigational approach is oriented for the new Sofalca's line of production: Gencork (**exhibit 11 and 12**).

Gencork is a product concept about combining cork lining of interiors with a complex three-dimensional design. It combines harmoniously the sustainable cork agglomerate with digital software that replicates complex patterns, through an industrial machine called CNC (computer numeric control); a 3D printer that methodically sculptures the ICB block according to the digital input designed for each block. This brand is made with the partnership of DigitaLab, which is responsible for the creative direction and development of wall covering patterns.

DigitaLab has developed 8 different patterns for Gencork, attributing different market prices among them (from 50-250 € / m<sup>2</sup>). Their potential customers potential customers are inserted into the ones that do care with the comfort's ambience and pay for design. It is a pioneer concept, by working the black expanded agglomerate cork for wall covering, with artistic features.

### Gencork: VRIO Model

This model is used to evaluate if the advantage behind the Gencork's model is competitive and sustained.

**Valuable** – Yes: Wall covering solution that embrace the design and environmental factor, keeping advantages of the cork agglomerate such as its insulation and acoustic capacities.

**Rare** – Yes: Innovative product with the use of cork, a scarce raw material.

**Costly to Imitate** – Yes: Unique designs and integration of DigitaLab. The software’s program and the CNC machine to achieve the output are expensive, as well.

**Organized for value’s approach** – Yes: The accumulated know-how of cork and ICB’s transformation is well aligned with the integrated production process of Gencork, to capture value.

## **Internationalization – Decision’s Matrix**

The country chosen to endure the internationalization process of Gencork’s product was made through a matrix with several parameters. This model was built and defined within this investigation’s context. The countries that went through such study were selected based on their proximity and development mainly, along with the conversation that we had with Paulo Estrada and Architect Brimet Silva (countries outside Europe were recommended to not be taken into account). The different parameters are weighted according to their relevance: Geographic proximity (10%), GDP Real growth (10%), GDP from Construction (15%), GDP from Construction Forecast (15%), Environmental Performance Index (10%), Design Innovation (10%) and Agglomerate Cork Imports (30%). Values from 1-5 were given to each country for each parameter, considering the data collected. After assigning values to each factor, we added all the values multiplied by its relevance percentage and got a final number to make a comparison between countries.

	% Factor	Spain	France	Belgium	Germany	UK	Switzerland	Italy	Denmark	Sweden
Geographic proximity	10 %	5	4	4	3	3	4	3	2	2
GDP growth (annual %)	10 %	5	4	4	4	5	4	3	4	5
GDP from Construction	15%	4	5	3	5	5	3	4	3	3
GDP from Construction Forecast	15 %	4	5	3	5	5	3	4	3	3
Environmental Performance Index	10 %	5	3	3	5	4	5	3	4	4
Design Innovation	10 %	4	3	3	4	5	3	5	2	2
Agglomerate Cork Imports	30 %	3	5	3	4	2	3	4	1	1
<b>Total</b>	100 %	4	<b>4.4</b>	3,2	<b>4.3</b>	3,8	3,4	3,8	2,4	2,5

After all the data research, the countries which scored the best results were France and Germany. In case of a better description about all the process, from the collection and evaluation of data for each country, please consult **Exhibit 13-20**.

## **Germany's Selection**

Germany was the country selected. This selection is justified by the matrix model, whose methodology can be found from **Exhibit 13-20**. The main reasons behind Germany's high score in this model (whose main objective was to evaluate the potential of each country for the Gencork concept) are as follows:

Germany it's relatively close to Portugal, around 2658 km from Lisbon to Berlin (25 hours by car), has a steady growth in its Real GDP indicator (around 1,7% in the next three years) and a solid construction sector. Germany has a 125.124 Million Euros market, concerning the

construction segment. Nowadays it represents around 4,41% of GDP and the forecasts are predicting that the construction segment will grow steadily for the next years (expecting a growth of 2.791 Million Euros, until 2017). Regarding the Environmental Performance Index (EPI), Germany is ranked globally at position n°6, which state a strong concern about environmental issues. Also, Germany is a country that clearly has an innovation line on the subject of the design art: Germany currently ranks position n° 9 at the World Design Ranking, an international design platform that tracks various prizes won by designers in each country. Finally, Germany is one of the top 3 countries that import agglomerated cork products from Portugal. Although Gencork is not the usual agglomerated cork product (as its main purpose it's for design and not for insulation), this is a helping measure because it gives us a slight market awareness and information features for this type of product, facilitating the perception of Gencork. In 2013, Germany imported 66, 1 Million Euros of agglomerated cork products from Portugal.

## **Germany's 5 Porter Forces**

To better understand the analysis of the German Wall Covering Materials Industry, a more deep examination was developed in **Exhibit 21**.

Regarding the subject of **buyers**, they can be included in the sector of Residential and Non-Residential Construction, more specifically coating (wall covering). Within this group, construction's companies and architecture's offices have stronger buyer power comparing to individual home residents consumers. Nevertheless, there is low-brand loyalty among this last group because the switching costs are low (except when there is a contract clause between manufactures and buyers) and it is a market where personal preferences makes clearly a weighty impact on decision making, along with their price sensitivity.

Among **suppliers**, this is the case where there are no direct suppliers in Germany. The raw material comes from a cork tree and this type of tree is inexistent in Germany. Following this, and due to the proximity from cork suppliers (all within a range of 50 km), it's desirable that Sofalca continues to use Portuguese's line of suppliers and take advantage from the common volume discount in orders. The raw material is scarce, there are no available substitute inputs for this material but Sofalca has a long and approachable relationship with their cork suppliers, whose location allows Sofalca to save resources on collection and transportation costs.

The threat of **new entrants** in Germany, for this market, is not considerable. Materials for wall covering usually require some capital expenditure and, if projected to move production for Germany, some fixed costs concerning machinery, production plant and respective warehouse. Besides this, there are almost initiatives of working the agglomerate expanded black cork as a 3D pattern's design product, for wall covering.

The threat of **substitutes** from an internal perspective is high. There are many options available for coating purposes in the market, more specifically in the wall covering market. This wide range of choice includes paints, wallpaper, wooden panels, ceramics, stainless steel or metal and glass wall covering. Sofalca's non-existent brand awareness, the variety of possibilities inside the German Market and the specificity of Gencork concept makes it being disregarded in direction of other more conventional alternatives.

About industry **rivalry** and since we are dealing with a strong range of substitutes, a considerable amount of players compete in the same industry, for the wall covering market. Switching costs are low, with the exception when a contract is made between manufactures and buyers, imposing the use of a certain material for wall coating. Specifically on the wall covering

cork market, Group Amorim and Granorte are already in the German Market, by the name of Amorim Deutschland GmbH & Co. KG Granorte GmbH Deutschland.

## **SWOT Analysis – Gencork in the German Market**

<p style="text-align: center;"><b><u>Internal Strengths</u></b></p> <ul style="list-style-type: none"> <li>• Product differentiation of a new wall covering concept, through several wall covering patterns;</li> <li>• Strong know how in the manufacturing process;</li> <li>• Knowledge of the export process in other products, to international markets;</li> <li>• Access to the quality management process;</li> <li>• Product 100% natural, with acoustic quality and environmental friendly.</li> </ul>	<p style="text-align: center;"><b><u>Internal Weaknesses</u></b></p> <ul style="list-style-type: none"> <li>• Low financial strength, to make steady investments.</li> <li>• Low brand awareness, in the interior design and wall covering market.</li> <li>• Effort to meet deadlines, due to the “bottleneck” of manufacturing process</li> <li>• Gencork’s model doesn’t allow holding inventory of finished goods</li> <li>• Dependence of Portuguese suppliers</li> </ul>
<p style="text-align: center;"><b><u>External Opportunities</u></b></p> <ul style="list-style-type: none"> <li>• The cork rising trend, becoming gradually more popular with time;</li> <li>• German’s solid purchasing power</li> <li>• Promotion through design and social network;</li> <li>• Acknowledgement of German fairs on construction and design,</li> <li>• Green building trend and German concerns about environmental issues.</li> <li>• Strategic geographical position, in the center of Europe.</li> </ul>	<p style="text-align: center;"><b><u>External Threats</u></b></p> <ul style="list-style-type: none"> <li>• The competition from Asia is strong, in the German Market;</li> <li>• The language is seen as a crucial barrier concerning the strategy of market penetration.</li> <li>• High variety of substitute’s products.</li> <li>• Low awareness of Portuguese products to the final consumer; lack of prestige.</li> <li>• Powerful presence of the wallpaper material for wall covering.</li> </ul>

# **TOWS Analysis**

## **Exploit External Opportunities using Strengths**

Gencork brand has some degree of product differentiation, in the visual feature of the wall covering. It has developed 8 different patterns, attributing different market prices among them (from 50-250 € / m<sup>2</sup>), and this can better exploit the high purchasing power among construction retailers, architect offices and, at the same time, the lower financial muscle of individual consumers.

Gencork product is all green: 100% natural in the manufacturing process, environmental friendly and with no chemical additives. The cork rising trend is a strong opportunity for Gencork, which can be exploited by sensitizing the market through social network this new generative concept of natural wall covering.

## **Minimize Threats using Strengths**

The lack of awareness in Portuguese products can be reduced by demonstrating the natural and strong know how of the manufacturing process, by promoting a publicity video to architect offices and design ateliers, presenting how Sofalca works the product in context and its final output, regarding Gencork.

There is a high variety of substitutes, for the wall covering market, with different technical and visual features. Nevertheless, Sofalca is pioneer with this new concept of generative design for wall covering, having developed 8 different generative patterns. This product differentiation can be amplified with the possibility of making exclusive patterns for customers, imputing to them an extra cost for the generative pattern development on the computer system.

### **Diminish Weaknesses by embracing External Opportunities**

There is low brand awareness in the design line of production, more specifically in the wall covering brand. The non-existent marketing force of Gencork can be enhanced with the presence of Sofalca on German fairs of construction and interior design. This embodies a technique of brand promotion, giving the chance also to have physical contact with the product and to do networking with construction retailers and architecture offices that perform inside Germany.

Also, Gencork can create brand-awareness for its sustainable side. Gencork is a product 100% natural, environmental friendly and with acoustic qualities. The sustainable and environmental issues are important for a nation as Germany, what makes sense to contact and promote Gencork across Green Building associations and Green Entrepreneurship Associations, along with a demonstrational video of how Gencork is naturally manufactured.

### **Diminish Internal Weaknesses and minimize External Threats**

The export process is not new issue, for Sofalca. The major part of the insulation production is exported to international markets, and Germany was not an exception. The knowledge of the export process and the familiarity with the German customer may ease the penetration of this new product inside Germany.

The social network is free of charge and can be used as a marketing tool to promote and build some awareness concerning this new product, in applications such as Twitter, Google Plus or Pinterest. Email marketing can be also a tool: Sofalca may target the architecture and design German ateliers and expose their catalogue list, to increase Gencork awareness.

## Germany: Internationalization Entry's Mode

**Licensing** or **Franchising** Gencork's products are not good options to think of. Sofalca know-how manufacturing was built through several years of activity, since it works a specific fragment of cork. There is not enough brand awareness for Sofalca's licensing or franchising, creating a risk of brand's deterioration if the licensee fails to meet standards of required quality. There is as well the possible scenario of the licensee becomes a competitor at the end of the license period. Also, Sofalca doesn't have the capital force to open a Gencork store, through Franchising. These alternatives would require a strategy of outsourcing production, to German factories: it would put at risk Sofalca's know how manufacturing, originate issues of quality control and difficult the practical investigational of ICB's manufacturing, along with the substantial increase of raw material transportation costs.

Considering **Acquisitions** or **Greenfield Ventures**, it requires a significant amount of financial resources and for this condition it's enough to say that it is not a usable option for Sofalca.

**Strategic Alliances** would allow sharing the financial risk; nevertheless, this could probably originate integration issues between the different corporate cultures, decrease Sofalca's degree of control or an undesirable reconstruction of the market business.

By the other hand, **Exports** requires low capital resources and since Sofalca doesn't have the capacity to make huge investments at this time, it seems the more suitable strategy. Additionally, the previous experience with this mode of entry on other Sofalca's products, such as for insulation, also facilitates this procedure. This mode of entry would help Gencork to expand, having lower manufacturing prices while maintaining the operational control of the industrial

process. Once decided that exporting is the most appropriate mode of entry for Gencork, we have to choose from the different exporting alternatives:

- 1) Find a German distributor/reseller for Gencork's products.
- 2) Selling to German Sales Agents, representing Gencork in Germany.
- 3) Direct contact with architecture offices, design ateliers and construction materials resellers.
- 4) Creation of an e-commerce platform (where designers and architects would be able have access to the software and create their own pattern for the coating's agglomerated cork).

## **Decision on Mode of Entry**

There are some differences between selling through an agent and a distributor. The role of the agents is mainly the search for sales and the development of network's customers, not being involved into marketing promotion for Sofalca. Agents usually are paid commission based on the value of sales created; and they are not involved in the process of delivery or after-sales service. A distributor acts in the sense that it purchases goods from Sofalca, usually with a price discount (with a given margin), and resells for final consumers or for retailer companies. They provide support on the service after-sales, and they help to pay the promotion and marketing process for the product if necessary, in the German market.

The first option would be to find a **local distributor**, for Gencork's production. This strategy represents a careful way to penetrate the foreign market, by trying the German market with a low risk associated and a way of approaching to see if the market is lucrative and with propensity to expand. German orders would be manufactured in Abrantes and, after that, shipped to the

customer through truck container transportation. There are some advantages regarding this alternative: the distributor already has the knowledge of the German's law, market practices, business connections and networking's structure of the industry in case. Regarding disadvantages, there is no control in the selling process and there is low possibility of stock storage, although this is justified through Gencork's model: it is very specific regarding the dimensions of each board and the pattern design chosen. So, for each order, Sofalca needs to know from advance the proper features of the final output, in order to build it. It would be a waste of resources and time to manufacture the product with predetermined features, stock in the local distributor and expect that the potential customers adapt to the characteristics of the product. In a sector such as wall covering this is illogical; nevertheless, some samples can be sent to the German reseller, in order to have a physical model to promote and show to potential customers.

The selection of the distributor is a key point issue for this mode of entry, that should be took by contacting some German importers and distributors of cork agglomerated products or making presence in an international fair related to Architecture, Construction or Interior Design. This last is a way of building brand-awareness, giving the chance of physical contact to potential interested distributors and to make networking with key players that perform inside the German market.

The second option is to contract a **German Sales Agent**, to represent Gencork in Germany. The Association of German Agents estimates that a deal of this nature would require an annual royalty of 75,000 €, in order to support the agent's costs and make a fair profit. Travel costs inside the entire Germany can easily reach 25,000 € and administrative costs to 15,000 €. Despite this high investment, this mode of entry would reduce Sofalca's degree of control on brand image; and working with an annual commission fee may decrease the agent's resilience for

Gencork's growth. These are the main reasons why this alternative should not be chosen, for Gencork.

The **direct contact** with architect offices, design ateliers and construction materials resellers represents a worthy method to promote Gencork. It consists on mobile calls, e-mails and distribution of Gencork's catalogue. It is know that Sofalca doesn't hold a marketing force for the design line of production, either to furniture or for wall covering. For this task, it would be better for Sofalca to consider the acquisition of a Marketing and Sales person for its company, in order to better perform the direct contact with potential customers.

The last alternative; a creation of an **e-commerce platform**, where designers and architects would be able have access to the software and create their own pattern for the wall covering agglomerated cork, is a risky decision. This would expose Sofalca's know-how, concerning the software and the process that is behind the creation of Gencork. By one hand, it has the advantage of extending product's differentiation to match the customer's preferences, by giving them the chance to work with the digital technological inputs (the software system), to create their desirable output pattern. But, by the other hand, this could lead to a deeper understanding of the Gencork's structure, which basically is based on a digital software that develop the generative algorithm to replicate the physical pattern, sculptured through an industrial machine called Computer Numeric Control. The access of this digital software could lead to rising movement of competitors that could reproduce this process for their own product, even if it is used with a different material. Despite this, E-commerce is a choice to be thinking of, but in further future. It has some advantages since it allows the gaining of new customers, low operational costs and overcome the physical distance between the two countries.

## Implementation Plan

Before structuring the implementation plan for Gencork, it must be stated that Sofalca should **reinforce** its relationship with APCOR: APCOR invests heavily in communication and information campaigns to promote cork on the foreign markets, although there is a clear influence of Grupo Amorim upon this association.

ISOCOR sells the insulation's product either the export or the domestic market, having its own marketing and sales team, and this doesn't occur in the design line of production. Sofalca is responsible for the manufacturing process while DigitaLab is accountable for Gencork's design procedure, which should not be mixed with the marketing and sales process. This is even more important at the early stage of Gencork, where there is no customer base and it urges the necessity of brand-awareness and brand-promotion. Due to this need, an employee should be **hired** for Sofalca in the beginning of the year 2016, in order to represent the design production, and more specifically, for the brand-management of Gencork.

Concerning the local **distributor**; Sofalca should try to contact some of German's importers of cork agglomerate and cork for wall covering. Germany imported 87, 2 Million Euros of Agglomerate Cork Products, from which 66, 1 Million Euros are directly imported from Portugal, in 2013. After data research, some information was collected through AICEP and Santander. Natércia Lourenço, from AICEP, gathered a list with all German's firms that imported cork agglomerate and cork products from Portugal, in 2014, nevertheless, most of firms were using agglomerate cork as secondary activity, for a diverse range of products. With this, only the companies whose primary activity is associated with wall and floor covering were selected. In Sofalca's case, they should get in touch with "Multicork Solutions Inh. Tanja Kattinger e. Kfr." ,

“Trebelsberger & Schlapkohl GmbH” , “Rigromont GmbH” , “Victor Stahl Fachmarkt für Raumgestaltung KG”, “ Muhl24 GmbH” , “Cornelius Schmidt e. K.” , “August Henjes GmbH & Co KG”, “Galamur Inh. Horst Gangloff e.K.” , “KWG Wolfgang Gärtner GmbH” and “Eugen Hackenschuh e.K” (**Exhibit 22**). Sofalca should fix an appropriate level of price discount of 15% for the distributor, since Gencork’s distributor would not implement a high marketing investment, the need to perform after-sales service or maintenance doesn’t exist and it wouldn’t be possible and rational to storage inventory, just some samples.

Sofalca should attend the important event called “FARBE, AUSBAU & FASSADE”, a European’s trade fair for Facade Design and Interior Architecture, located in Munich. This fair includes a diverse range of products, having a proper section for “Ecological Construction Materials” and “Wall covering”, where the possibility of establishing networking with potential distributors and resellers is high. We may see in **Exhibit 23** some other German fairs, for the interest of Sofalca.

The **direct contact** with architect offices and design ateliers represents a worthy method to promote Gencork, activity that should be supported by the representative of Marketing and Sales. Fernando Lopes, from AICEP in Berlin, provided a list of German architecture’s offices, as well as of design’s ateliers. This list was including companies that are performing in almost every existing sector, from hospital’s construction to website’s design. A more criteria research was made in order to find the firms that focus their activity in interior design, as well as for interior architecture and decoration (including wall-covering). Sofalca should communicate with “Schwitzke Project GmbH”, “Wellverde GmbH”, “Mauermann's Service rund ums Haus”, “Brumann Innenraumkonzepte GmbH”, “RKW Interior Architecture”, “Ganter GmbH”, “Geiger

GmbH & Co. KG”, “Raumstudio falter GmbH & Co. KG” and “Bkp Kolde Kollegen GmbH”  
(**Exhibit 24**).

Sofalca must create an individual **website** for Gencork, in order to build brand-awareness. This section should explain Gencork’s concept and show some output samples. There must be also a translation to German, either for website and for Gencork’s catalogue.

With the purpose to implement the export strategy, a 4 M’s method was defined to study the need for capital investment, time, human resources and some key performance indicators to better evaluate the market’s progress.

## **4 M’s**

### **Minute**

At the moment, Gencork is still at the beginning stage of a product’s lifecycle. This indicates that it will necessitate a robust investment in order to build brand-awareness, to allow the growing business process. First, the Marketing and Sales professional should be hired as soon as possible, in preference in the first trimester of the year 2016 (around February/ March). Secondly, Sofalca must make presence in the “FARBE, AUSBAU & FASSADE” event, that will take presence from 2<sup>nd</sup> to the 5<sup>th</sup> of March, 2016. After analyzing the potential distributors and resellers for Gencork’s production, it should be negotiated and select the contract until April of 2016.

## **Man**

The Marketing and Sales representative will be the only acquisition to Sofalca, considering Human-Resources. This employee would have his main responsibility associated to the Marketing process, especially in Gencork's brand management, and being accountable also for the contact of potential customers. Travelling three times to Germany in 2016 is crucial, in order to contact directly with agglomerate cork's importers, design ateliers and architecture offices. The first travel should be to Düsseldorf since there are 6 recommended firms located in the city, among German agglomerate cork importers and interior design ateliers. The second travel should be to Stuttgart and the third to Hamburg. The contact should include a sample of Gencork's catalogue and a promotional video describing the natural manufacturing process of Sofalca, giving distinguishability image to Gencork's product. Sofalca already made a publicity video, showing the process since the cork's extraction until the final manufacture process, to produce the insulation cork board output. Gencork's product should be highlighted in this video, with the visual image of the different patterns as final output.

This marketing representative should get access of the German customer database from ISOCOR; ISOCOR sold Sofalca's insulation product to Germany, and re-contact these previous customers to promote Gencork is a way to build network and find for potential customers.

## **Money**

The major investment for Sofalca, inside this strategy, is the acquisition of Marketing and Sales professional and the cost associated with the participation in the fair "FARBE, AUSBAU & FASSADE" event.

The marketing and sales representative would bring an annual cost of 40.040,04 € (**Exhibit 25**). Sofalca would also have to cover the associated costs of flights, his accommodation and transportation. The total amount of money estimated to spend with the representative takes into account the three travels: the first travel to Düsseldorf, the second to Stuttgart and the third to Hamburg. All this travels would have duration of 7 days and 6 nights. The total estimated cost is 2264 € (**Exhibit 26**).

Secondly, Sofalca must make presence in the “FARBE, AUSBAU & FASSADE” event. The participation on this fair represents several costs: the allocation issue, the transportation of Gencork’s samples, the payment for the stand, the presence of Sofalca’s CEO Paulo Estrada, Architect Paulo Brimet and one more employee from Sofalca. This expedition would last for one week. Everything added, this represents a cost of 13 886 € (**Exhibit 27**).

Thirdly, Sofalca would have to translate the website to a proficient German, including also the translation of the Catalogue. This would require a cost of 640 €, according to the number of words present in the website and in Gencork catalogue.

## Memo

	<b>Objectives</b>	<b>Target</b>	<b>Measurement</b>
<b>Customer</b>	- Build brand-awareness in Germany	- 85 % of consumer satisfaction	- Customer's contact after-sale
<b>Financial</b>	- Revenues increase - Creation and growth of the customer base for Gencork	- 200 000 € of revenues from design line of production - Payback period in maximum of 3 years	- Volume of Gencork's sales - Number of Gencork's clients
<b>Internal</b>	- Quality of Manufacturing - Top 3 Gencork's patterns on customer preferences	- 90% of quality perceived by construction resellers - 70% of sales are from 3 patterns	- Reseller's feedback after sale, each year - Volume of sales per each pattern.
<b>Learning</b>	- Design Improvement	- Improve the texture and create the color possibility for the top 3 patterns	- Visual and texture evolution from the initial pattern

## Financial Previsions

To evaluate the financial prospect of this internationalization strategy, three scenarios were taken into account (Pessimistic, Normal and Optimistic). It was based on the investment costs estimated in the 4 M's section and in the P&L of Sofalca, in 2015. These financials previsions were made with some assumptions: the demand for ICB's product will remain the same value of 2015 over the next years, as well as for the design production (Blackcork and Corkwave). This assumption takes the purpose of better analyzing Gencork's performance and impact on Sofalca's financials. It was assumed also that Gencork's sales were all made with a 15% price discount to

the distributor and that Gencork's product transportation costs to Germany would be accountable by the distributor. To better understand the financial approach consults **Exhibit 29**.

Comparing to the operating profit obtained in 2015, both Normal and Optimistic scenario assume that the operating profit in 2018 will overcome the value of 2015, in three years. In 2018, the normal scenario obtains a **388.936 €** operating profit, while in the Optimistic Scenario it will reach the **397.792 €**. This means that, considering the investment made (Munich's Fair and Marketing & Sales professional costs), Sofalca will have the payback and stronger results within 3 years. In the Pessimistic Scenario Sofalca's results would not achieve the level of 2015, having a result of **346.488 €** in 2018, which doesn't allow of having return of investment made. Nevertheless, it shouldn't be forgotten that the Marketing and Sales employee would not be responsible just for Gencork but for the whole design sector (BlackCork and Corkwave). Also, this professional's remuneration cost is present every year and it is not assumed incremental sales on the other lines of design's products.

## **Conclusions and Recommendations**

After all this research, Sofalca should put effort and time in the elaboration and implementation of this international strategic plan. It is strongly recommendable that Sofalca should internationalize Gencork, since the national market is not profitable due to the recession in the construction sector. After this research-study, Germany should be the country to penetrate and it is absolutely decisive the hiring of a Marketing & Sales representative and the negotiation of a key distributor. This distributor discount's price was assumed to be 15 %, due to the characteristics of Gencork's model. Nevertheless, it's recommended to Sofalca to increase Gencork's price between 2016 and 2017, in order to increase the product's margin and have some

level of negotiation with the distributor. Gencork's potential customers are inserted into the ones that do care with the comfort's ambience and pay for design, so a low price penetration's approach would not be recommended for this case. It is also recommended that Sofalca's should create a plan of ISOCOR's team of sales and marketing integration into Sofalca's structure, in a medium-term. This would allow saving costs since ISOCOR's team is supported by Sofalca's discount margin for ISOCOR.

In case of Sofalca doesn't decide to approach this market, it is really important to hire someone to be in charge of the marketing and commercial process on the design line of production, since actually there is no one in charge of it and the partners (DigitaLab, Toni Grilo and Miguel Arruda) should one be responsible and focus on the design process.

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