

**Approval Certificate**

**CRAFTING A COMPREHENSIVE GROWTH MODEL IN THE  
MIDDLE EAST REGION:**

**The Case of Chabros s.a.r.l. Entry into the Dubai Wood Trade Industry**

BY

**MARIANNE GEORGES HAGE**

Approved

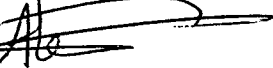
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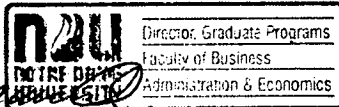
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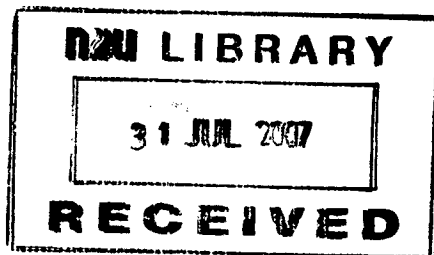
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## DECLARATION

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## ABSTRACT

Firms attempting to seize new business opportunities for growth through foreign market investments often face complex strategic decisions. The complex international environment is affected by diverse variables, creating risks that are not encountered in the domestic market.

This study investigates both country-specific and market-specific factors that should be studied before the expansion strategy is implemented, and formulates a risk assessment and decision making model, applied to the Middle East region in particular.

Thus the research hypothesis states the following: This model provides a basic strategic direction upon which the company will base its entry mode and risk dissemination decisions.

For application, a specific industry was chosen and studied, the wood trade industry, taking the case of a specific Lebanese-based company, Chabros s.a.r.l., aiming to expand its operations to Dubai, United Arab Emirates.

To test the research proposition, a survey was conducted comprising businessmen and academic persons who were chosen as to be familiar with both Dubai as a business investment center and the Dubai wood market and/or construction industry, as the two being directly and closely related industries.

Analysis of the means and the normal frequency distributions of each variable studied, generated a clear idea on what are the most critical country-specific and market-specific variables affecting the Middle East region, and thus on which the expansion strategy must be based. The variables were integrated in a comprehensive model resulting in both a country and market attractiveness index grading.

In summary, the results supported the country and market specific factors included in the survey as valid indicators to include in the strategic planning process for international market expansion in the Middle East region, thus providing a basic direction for entry mode decisions.

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I also thank all my family and friends for their support and understanding, and I dedicate this thesis to my husband, Alain.

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## **CHAPTER 1: INTRODUCTION**

### **1.1 GENERAL BACKGROUND**

Business Growth is the focus of this era. Fast growth and portfolio expansion have become not an option, but a must. Every company at some point of its life cycle considers an expansion strategy in one of its many forms to take advantage of new opportunities in new markets.

Firms attempting to seize new business opportunities for growth through foreign market investments often face complex option decisions. The complex international environment is affected by diverse variables, creating risks that are not encountered in the domestic market. This is why, it is very important for companies to take the right decision when considering an expansion strategy. The consequences are crucial.

An important consideration before taking the right expansion decision begins with the study of the firm's main internal capabilities, strengths, and weaknesses in operations, product mix, and management policies and others.

However, the most important step in the expansion decision is the detailed study and analysis of the foreign country and market of expansion. This will allow the firm to make the important strategic decisions of the most appropriate entry mode to use for the market expansion, and provides a basic strategic direction upon which the company will base its long-term market entry plan and performance objectives.

Therefore, having a comprehensive growth model on which to base the decision of "to enter" or "not to enter" a new market is a must. This is what this thesis aims to accomplish.

## 1.2 NEED FOR THE STUDY

This study, with its growth model, provides a basic strategic direction for companies planning to expand their operations overseas, on which the firm will base its:

-**Entry mode decisions** varying from exporting, licensing/franchising, joint ventures, to wholly-owned subsidiaries, thus taking decisions about resource commitment considerations, risk management, and control over foreign operations.

-**Periodic re-evaluation and re-assessment** of the host country and market subsequent to the entry, evaluating the company's market position, and thus taking the necessary re-adjustments needed of further expansion, protection of position, or retrenchment from the market.

## 1.3 PURPOSE OF THE STUDY

In light of previous research and the acknowledged need for a comprehensive international expansion model, this study establishes a growth model for both country and market entry decisions, applied to the Middle East region:

Its two primary purposes are:

-To formulate a risk-assessment and decision-making model that acts as a guideline for business international decisions.

-Investigating both country-specific and market specific factors that should be studied before the expansion strategy is implemented.

Thus, interactions between complex factors affecting the international performance of companies are structured in a model that helps to make a judgment or decision, applied to the Middle East region.

Why the Middle East? Since the region is clearly the focal point between the Far East , Africa and the United States of America, experiencing significant foreign investment

growth in the last decade, with a total of 2,145 foreign direct investment projects by multinational companies since year 2002, and a dollar total of USD 45 billion in year 2005.

For application, a specific industry is chosen and studied, the wood trade industry, taking the case of a specific Lebanese-based company, Chabros s.a.r.l., aiming to expand its operations to Dubai, United Arab Emirates.

## **1.4 BRIEF OVERVIEW OF ALL CHAPTERS**

This study is comprised of four chapters following this one.

The first part (**chapter 2**) begins with:

- A preview of theories and empirical research related to the topic.

It then continues with:

- An overview of the world wood industry: facts, forecasts and future trends.
- An analysis of the Lebanese wood trade industry, detailing the case study and the SWOT analysis of Chabros s.a.r.l.
- A study of Dubai as an investment center from all aspects: political, legal, business environment, and future projections. It then enters into details of the wood trade industry in Dubai, featuring major players, main characteristics and future considerations.

Chapter 2 ends with the conclusion of the expansion consideration of Chabros s.a.r.l., and the main research questions that are drawn following this consideration.

The second part (**chapter 3**) details the procedure and methodology of the study, entailing:

-The research hypothesis as aiming to develop a basic risk assessment and decision making model for the study of the country and market of expansion in the case of companies expanding to the Middle East Region., which shall be validated through a survey conducted with a sample of businessmen, taking Dubai, U.A.E. as the expansion country and the wood industry as the expansion market.

- The selected variables for the study, both dependent and independent.
- The methodology used, where a questionnaire is distributed to a sample of businessmen, having the purpose to rate country and market critical entry factors, both on the importance level and the attractiveness rating, to compute country and market attractiveness indexes.
- The statistical package used, where analysis through SPSS statistical program, using distribution frequencies and mean comparisons to analyze the data output.

The third part (**chapter 4**), discusses the main findings, and details the critical factors that companies should focus on when expanding in the Middle East region, based on the highest means obtained for the country and market attractiveness variables.

The results are found to have supported the research hypothesis stated in chapter 2.

The final part (**chapter 5**), is the concluding chapter, where are detailed the limitations of this research, the managerial implications, and the recommendations for future studies and researches.

## **CHAPTER 2: REVIEW OF LITERATURE**

### **2.1 INTRODUCTION**

This study, with its grounding based on three previous relevant conceptual and empirical researches, integrates and formulates a decision-making and risk-assessment model, studying both the country-specific and market-specific factors in case of international expansion, applied to the Middle East region.

The case study of a Lebanese-based company, Chabros s.a.r.l., expanding into the Dubai wood trade industry, was specifically used for the model application.

### **2.2 PREVIOUS RESEARCH: CONCEPTUAL AND EMPIRICAL**

With regard to the international business literature, several studies have attempted to explain the international expansion strategies, mainly by identifying and analyzing the different entry modes that a company can pursue when taking an expansion decision. However, three main previous studies were chosen as found to have significantly contributed to the decision of international expansion, taking into consideration the critical country and market factors that should be evaluated before taking the expansion step in order to make the right decision. One is conceptual and the other two are empirical, as listed below:

1- Roger J. Best in his book: Market-Based Management: Strategies for Growing Customer Value and Profitability. Copyright 2005. Roger J. Best is an Emeritus Professor of Marketing at the University of Oregon.

2-Thomas Harry Parks, in his PhD dissertation at Kent State University, year 1996, titled: "Foreign Market Entry Decision Model: A Comparison of Theoretical Constructs and the Actual Practices of Multinational Enterprises."

3- Jean-Louis Terrier in his article: “Updating the Notion of Country Risk” and his report “Country Rating 2002-2003”. Jean-Louis Terrier is the founder and advisor of Nord Sud Export, and the President of Credit Risk International, Paris.

Following is a thorough explanation of each study and its benefits to the model formulation:

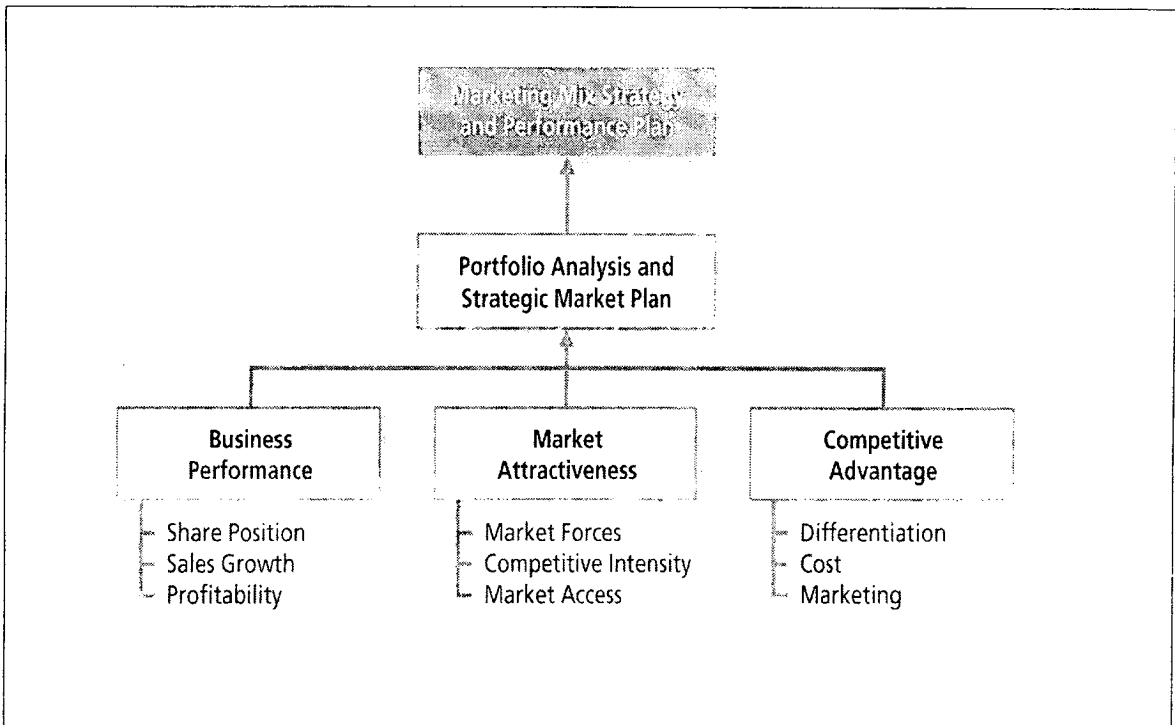
### **2.2.1 Market-Based Management: Strategies for Growing Customer Value and Profitability, by Roger J. Best:**

Chapter 11, titled “Strategic Market Planning” of Best’s book, is the first chapter of part four called “Strategic Marketing”, for businesses that are planning to diversify with new products or to new markets, in order to improve overall performance.

In the authors’ definition: “Strategic market planning sets the strategic direction for a business, and plays a critical part in achieving a business’s long-run objectives of sales growth, profit performance and share position.”

The **Strategic Market Planning Process** begins with a careful assessment of current business performance, market attractiveness and competitive advantage for each product-market a business needs to consider. With this information, a business can perform a portfolio analysis and specify a strategic market plan according to the position and performance of each product-market in the portfolio. The last step is to perform a marketing mix strategy and performance plan to make the strategic plan actionable. The following graph summarizes this process:

Figure 1: The Strategic Marketing Process



Source Book: Market-Based Management

Therefore, the basics of this strategic market planning process begin with a careful examination of 3 main factors: (1) How will the business performance be affected after the expansion? (2) What factors make a certain market attractive or unattractive? And (3) What makes one business strong, with respect to competitive advantage, and another weak?

To answer these questions, and create a measure for decision making, two indexes are formulated, a "**market attractiveness index**" and a "**competitive advantage index**", each containing factors that typically shape market attractiveness and competitive advantage. The factors are graded according to their relative importance percentage and their attractiveness rating, to reach an overall index grade over 100.

When combining the overall market attractiveness score with the overall competitive advantage score, a product-market portfolio is created. Product-markets strong in both market attractiveness and competitive advantage present the strongest portfolio position and the best opportunities for profit performance.

Accordingly, the company will have a strong platform upon which it will base its strategic market plan in the required product-market to be entered.

**2.2.2 “Foreign Market Entry Decision Model: A Comparison of Theoretical Constructs and the Actual Practices of Multinational Enterprises”, by Thomas Harry Parks.**

Thomas Parks in his Ph.D. dissertation examined **Country Risk**. He emphasized the importance of evaluating the various characteristics and risks associated with a potential host country, which is mainly due to the expansion and acceleration in international trade.

This new international trade era, however, is driven to an increasing degree by significant numbers of small and medium-sized companies entering the global marketplace, due mainly to advances in technology and new techniques in manufacturing and management, thus facilitating global competition.

The traditional foreign market entry approach of overcoming country risk by large multinational enterprises through gradual or incremental entry, thus following an adaptive learning process, has come under increased criticisms.

Currently, organizations no longer have the time to learn slowly because of increased competitive pressures.

From here comes the basic question: “How to evaluate potential host markets for locating operations without the benefits of learning that occurs through incremental entry?” **Country Risk Analysis holds the potential of being a key element in this evaluation process.**



### **2.2.3 “Updating the Notion of Country Risk” and “Country Rating Report 2002-2003”, by Jean-Louis Terrier:**

In his article: “Updating the Notion of Country Risk”, Jean-Louis Terrier sets out two questions and attempts to answer them:

-First, why and how has country- risk evolved to such an extent that it now affects all countries, and not just the developing countries?

-Second, is it possible to predict the trigger dates of these new types of crises called “market crises” –at least to detect their inevitability with a seriously updated country-risk analysis?

To answer the first question, the author starts by the traditional basic definition of country-risk as encompassing three parts: political disruption, currency or inconvertibility risk, and default risk (by the state itself).

Then, he explains that “the perception and even the content itself of the country-risk have evolved”. The “new” country-risk puts all countries and all international trade operators on an equal footing, and corrects the past illusion that certain “dominos” are too big to fall over. No country, no matter how “advanced”, can today consider itself to be shielded against a **financial market crisis**. This financial market crisis is the inevitable result of the poor management of the “**country’s economic fundamentals**” such as GDP, inflation, interest rates, unemployment, economy growth and diversification, etc.

Therefore, a new era of “market crisis” has emerged, which now encompasses a new critical factor of country risk to be studied before entering into foreign markets expansion.

As for the second question, Jean-Louis Terrier answers it through the development of an “**aggregate of advanced market crisis indicators**” by “**Credit Risk International**”, Paris-France, which is a grading agency designed specifically for companies exporting and investing in emerging countries. He calls these indicators “**early warning signals**”.

These indicators are further detailed in the **Country Rating Report 2002-2003 of Credit Risk International, Paris-France:**

**The report ranks 100 emerging or in-transition countries in the following approach:**

- The first rating indicates the country's **Market Potential**, being therefore an **Opportunity Rating**.
- The second rating indicates the level of **Country Risk**, being therefore a **Risk Measure**.

However, what is significant in the ratings is the distinction between "Sovereign Risks" and "Financial Market Risks", which have been separated from the single term "Financial Risks" as a result of recent financial crises in emerging countries:

Therefore, the "**Sovereign Risks**" are the risks of: public over indebtedness, currency inconvertibility, etc.

And "**Financial Market Risks**" are the risks of the poor management of the country's "economic fundamentals", the financial markets' volatility, etc.

## **2.3- OVERVIEW OF WOOD AND THE WORLD WOOD INDUSTRY**

No single form of plant life means so much to humanity as the tree. Highly complex bio-systems, providers of oxygen for us to breathe, shade for us to rest in, nuts and fruits for us to eat, habitats for birds and insects, wood to burn and wood to build; the inter-relationship between humankind and tree life is as old as humanity itself. Trees have the longest lifespan of all higher forms of life. The oldest survivor is the 'Bristlecone Pine' which grows in the white mountains of California; it is 5,000 years old. It was probably a seedling when the Egyptians built their pyramids.

### **-2.3.1- UNDERSTANDING WOOD**

All trees consist of three major systems: a root network that draws water and minerals from the soil; a crown of leaves where water and minerals are combined with carbon dioxide in the presence of sunlight to produce food for the tree (photosynthesis), and –of most interest to woodworkers- a supporting trunk that transports the water to the leaves.

**Harvested from the trunks and branches of trees, wood is a durable, dynamic building material. Wood is clearly one of the world's major raw materials.**

Understanding how trees grow can shed considerable light on why wood behaves as it does when it is worked to finished products.

#### **-1-The Structure of Wood:**

##### **a) Sapwood and Heartwood:**

When looking at a **cross section of a log** (figure 1), we are frequently impressed by the fact that the wood in the center is of a darker or different color than the wood toward the outside.

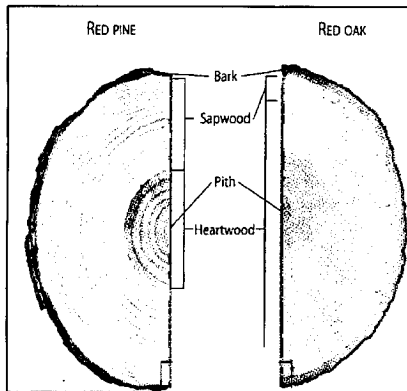
The inner darker layer is the **heartwood**; the outer layer is the **sapwood**.

The **heartwood** is physiologically inactive; its cells are dead and frequently clogged with dark-colored waste materials, which give it a characteristic color. Heartwood serves as the main structural element of the trunk. It is more resistant to decay than the sapwood

The **sapwood** is physiologically active; it contains living cells and is responsible for conducting water and dissolved minerals from the roots to the crown of the tree. Normally there is less sapwood than heartwood.

**Heartwood is more valuable commercially**, and most timbers with which we are familiar come from this colored, denser wood. **The sapwood is usually discarded**. The characteristic “purple brown” of black walnut occurs only in the heartwood; the sapwood is almost white.

Figure 2: Cross section of a tree log



Source Book: Understanding Wood

### b) Growth Rings:

In the temperate climates that prevail in most forest areas, the annual wood growing cycle includes a growing season and a dormant season, resulting in visible **growth rings** or **annual rings**. These rings may vary in width as a characteristic of the species and as a result of growing conditions.

Where there is visible contrast within a single growth ring, the first formed layer is termed **earlywood**, the remainder **latewood**.

However, in some tropical forests, tree growth may continue without the interruption of seasonal dormancy, producing wood without apparent growth rings.

**The life of a tree can be read with a surprising degree of accuracy by examining a cross section:** By counting the growth rings and inspecting their condition, experts can pinpoint the year of a forest life, the years of invasion by insects, a change of lean, and other such occurrences.

### c) Softwood and Hardwood:

Lumber is commonly divided into two main categories: **softwoods** and **hardwoods**, which differ in both structure and external appearance. All commercial species of trees belong to one or the other of these groups:

***\*First, external appearance differences:***

**Softwoods are commonly known as evergreens** (most remain green all the year around), **and have needlelike leaves. Hardwoods, on the other hand, bear broad leaves which generally change color and drop in the fall in temperate zones.**

***\*Second, structural differences:***

In general wood serves the tree in two ways: it supports the tree and carries water from the roots to the leaves. Thus we have cells which are largely supportive (*fibers*), and cells which are largely conductive(*vessels*).

Thus, based on the wood, **the major difference between hardwoods and softwoods is that in the former, vessels (pores) are present. Softwoods do not contain any vessels or pores.**

This division, based on hardness of wood, has its shortcomings, as there are softwoods with harder woods than certain hardwoods. In addition closely related woods are often so similar that it is impossible to distinguish among them. For example, the hard and soft “maple” woods are only distinguishable with difficulty.

## **-2-The Physical Appearance of Wood:**

**No two pieces of wood are exactly alike or have precisely the same figure.** There are differences in grain, figure, texture, color, and other physical properties. It is these characteristics of wood that will largely govern a woodworker’s choice, since they enter into the appearance of the finished product.

### **a) Wood Color:**

From the practical viewpoint, the color is important in wood because of its decorative value: Ebony, mahogany, and walnut owe their desirability at least in part to their decorative color.

The color of wood is mainly caused by infiltrates into the cell walls, and may vary even in the same species growing near to each other, depending on the location of the site, type of soil and soil content; also the color may vary in the same board or leaf of veneer. Many timbers fade upon exposure to light, others darken, and most will deepen in color when polished.

### **b) The Grain and Figure:**

The grain is the natural direction or orientation of the wood cells relative to the main axis of the tree. 8 types exist: straight, cross, interlocked, spiral, wavy, curly, irregular, and diagonal.

The term “grain” is often misused in referring to: the natural design or pattern seen on the surface of the wood. *This pattern is not the grain of the wood, but the figure.*

The figure, results from the interactions of several natural features. These natural features, combined with a variety of grain types, and the method of cut, produce the figure. Examples include: curl or crotch figure, burrs or burls figure, and the bird’s eye maple figure.

### **c) Odor:**

Many timbers have a characteristic odor, which is apparent when they are worked in a fairly fresh condition, but which usually disappears as the wood dries out.

A few retain their odor and still may be put to good use: for example, Cedar, which is used to line the interiors of clothes chests.

Moreover, the choice of wood for use as food containers is restricted to those without either odor or taste.

## **-3-Technical Descriptions:**

### **a) Air Dried Vs. Kiln Dried Wood:**

The amount of water in the living tree is quite variable, ranging from 60% sometimes exceeding 200%.

Exposed to outdoor conditions, wood will lose its free water and eventually become “**air-dried**”, where the moisture content becomes in equilibrium with the outdoor atmosphere of a particular area. The amount of time to air-dry depends on the species, the thickness, the weather conditions, and so forth.

Structural lumber is efficiently dried in a kiln (a sophisticated wood oven), loses its bound water, and is termed “**kiln-dried**” with the **moisture content reduced to 12%-**

19%, varying according to the species being dried. Kiln drying has mainly two main purposes: having wood suitable for construction, and reducing wood shipping weight. Moreover, even though lumber is kiln-dried, it can still gain or lose weight depending on how it is stored.

#### **b) Weight or Density:**

The weight or **density** of a wood species is a **broad guide to its performance**. Lighter weight species are softer, less durable and less strong. Very heavy species can exhibit very high levels of strength, natural durability and toughness.

The weight of a species is measured after the wood is dried to 12-15% moisture content. It varies from “*Light*”:350 Kg/cubic meter or less, “*Light-Medium*”:350-450 Kg/cubic meter, to “*Medium*”:450-575 Kg/cubic meter, to “*Medium-Heavy*”: 575-725 Kg/cubic meters, to “*Heavy*”: 725-900 Kg/cubic meters to “*Very Heavy*”: 900Kg/cubic meter or higher.

#### **-4- Nomenclature and Identification:**

##### **a) How a tree is named:**

The science of naming trees and other plants is called *taxonomy* or *systematic botany*.

Generally speaking, there are two classes of names applied to trees: “**scientific or botanical**” names and “**common**” names.

\*The botanical name is usually of Latin or Greek derivation, whereas common names may be in many languages.

\*The botanical name of a species is always the same regardless of the country in which it is used; this enables anyone, whatever his native tongue, to identify species of woods accurately. The common name may vary from place to place.

\*Botanical nomenclature is governed by a strict, international set of rules, the *International Code of Botanical Nomenclature*. Common names are not subject to international regulation.

The major objection to the use of common names is their great diversity and their lack of standardization. For example, turning to the commonly known name **Beech**, we find that it refers to *Fagus*, the eastern beech; *Nothofagus*, the beech of New Zealand and

Australia; *CarpinusI*, the blue beech of eastern United States; *Listea*, the soft beech of Australia, and *Mysrine*, the Cape beech of South Africa.

Thus, without the Botanical names system, we could not keep the tree families and relatives in an orderly relationship.

### **b) Identification of Woods:**

Being able to identify woods by name is more often the result of practical experience than of scientific examination. The person handling and using woods, and even the person attempting to identify the kind of wood a piece of furniture is made of, relies on previous observation.

### **-2.3.2- FROM FOREST TO MARKET PLACE: Lumber, Veneers, Boards, and Paper**

Have you ever stopped and given a moment of thought when you held a small piece of fine cabinet wood in your hand as to where the original tree came from – how it traveled over thousands of miles of land and water finally to reach you in its present form?

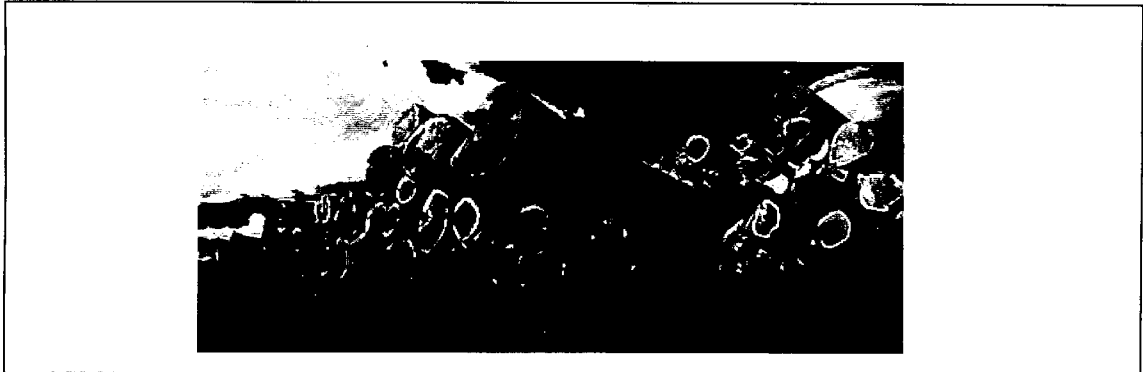
Of the 70,000 different woods known to man, fewer than 400 are commercially available.

### **-1- Logging and Extraction:**

From the huge conifer forests of the Pacific North West of the USA to the tropical rain forests of New Guinea, there is a huge industry at work transforming the uncut tree into regular well-ordered timber: the complex and skilled processes of: careful locating suitable trees, cutting, converting them into logs, drying the logs, and transporting them into sawmills or to marketplaces, is all part of what is known as “**logging**” (figure 3).



*Figure 3: logs stored in a yard (waiting to be transported to factories)*



Source Book: Know your Woods

Mechanization and cost-efficiency are at a premium in commercial logging operations:

-In the Pacific North –West United States, giant companies and sawmills can invest in the most advanced equipment.

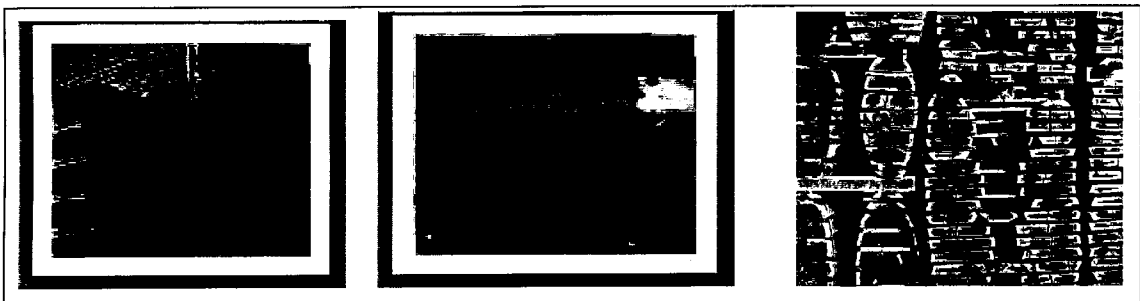
-In many tropical forests too, especially in areas of comparatively high accessibility, cutting and extraction can be achieved with a degree of mechanization. However, in many third world economies and difficult terrains, primitive transportation methods are still used: intensive use of elephants and human labor, moving logs down waterways...

## **-2-The Four Main Wood Forms in the Marketplace:**

### **a) Lumber:**

Lumber by definition is **simply an elongated, rectangular, solid piece of wood that has been separated from the log by sawing** (figure 4). Lumber is produced in a lumber mill or sawmill, where logs go into a characteristic sequence of operations in being reduced to lumber. Lumber is typically sold in cubic meters (length\*width\*thickness).

*Figure 4: Different kinds of lumber formed in bundles*



Source Book: Understanding Wood

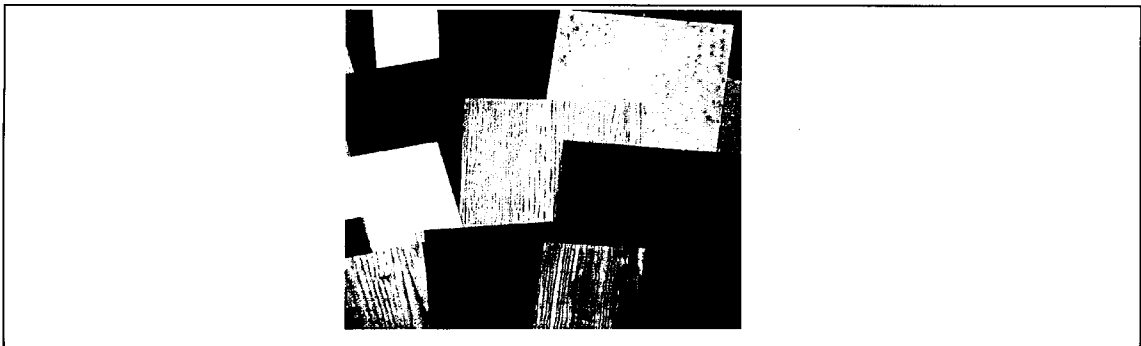
There are four principle ways to saw lumber: sawing around the log, sawing through and through, quarter sawing, and chipping headrig, producing different quantities and qualities of lumber, thus affecting the sales price.

**b) Veneers:**

As the supply of larger trees diminishes and the cost of wood continues to increase, veneer will become a more important part of the wood market. **Veneer is wood in the form of a thin layer or sheet** with the grain direction of the wood parallel to the surface.

Common thicknesses are 1/40inch, 1/28in., 1/10in.and 3/16 in. Veneer can be cut as thin as 1/100in., but veneer this thin is very fragile for most uses. Veneer is typically sold in square meters (length\*width).

*Figure 5: an assorted variety of decorative veneers*



Source Book: Understanding Woods

The great science is determining the value of veneers before cutting the logs. Logs have to be carefully studied on the outside to indicate what the interior of the log will look after it has been cut to veneers.

**Wood in the form of veneer has three important categories of application:**

**\*The first: to decorate surfaces:** Typically, veneer of high value or striking appearance is applied over a lower-quality substrate. Veneer is also used to make decorative inlay, and forms of pictures or designs for covering large surfaces (marquetry).

**\*The second: use in crossply construction for making plywood panels.**

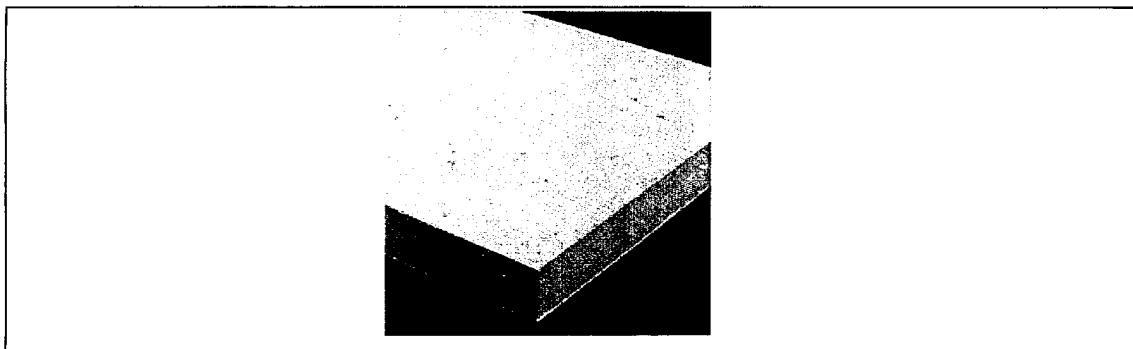
**\*The third: used where very thin wood is appropriate:** as in ice cream sticks, coffee stirrers, fruit trays and baskets and the like.

There are two basic techniques for veneer cutting: rotary cutting and slicing, which produce different quantities and qualities of veneer, hence affecting the respective sales price.

### c) **Boards or Composite Panels:**

The development of composite panels has 2 main reasons: First, to extend or modify natural wood sizes or properties.; Second, to use manufacturing waste and residues, as well as smaller and lower-grade trees as raw materials in development of new useful products. The main used panels are: Blockboards, M.D.F.(Medium-Density Fiberboard),Chipboards, Plywood, Laminates and many many other combinations.

*Figure 6: a section of an M.D.F. board*



Source Book: Understanding Wood

### d) **Pulp and Paper:**

**Currently, wood is the dominant raw material for paper manufacture**, where the wood is reduced to **constituent fibers (pulping)**, and then formed into a mat and dried. In the United States, the pulp and paper industry is one of the largest consumers of wood.

Paper (including tissues and paperboard) has become such a vital element in our daily lives, that most people rarely consider its source or its importance. **Paper serves as a**

**primary packaging product, a base for sanitary and disposable products, and an industrial sheet material.**

Recovered paper and fibers is a very important factor in the increase use of fiber as a source of industrial wood product worldwide. **By 2010, recovered wood fiber is expected to meet 30% of industrial wood demand.**

### **-3- Factors Affecting the Lumber Market Prices:**

#### **a) Intrinsic Wood Factors:**

There are factors embedded in the wood itself that do affect its quality and thus the sales price. The most common are:

**-Natural Wood Defects:** come in different forms, and they all do weaken the wood quality depending on how much damage they inflict. They include:

**i) Knots:** Two knot forms exist: *Tight* and *Loose*. Tight knots do not seriously weaken wood appearance; therefore they can be cut out or used, as appearance dictates. Loose knots do affect the final appearance of wood, thus must be removed before lumber working.

**ii) Gums:** Usually develop when a tree has suffered an injury, exposure to fire or insect attack. They should not be used where a quality finish is required, as gum will bleed through most finishes.

**iii) Splits or Checks:** Usually caused by improper drying. They can be used, but become more noticeable when stain is applied.

**iv) Insect Damage:** Some in living trees as they grow, some in harvested logs and in sawn lumber, others in finished products.

Several treatments exist to kill these insects before causing serious damage to the logs. However, some may still be alive after treatments, and keep attacking the wood even after being transformed to a finished product.

Other defects include: blue mineral stains, bows, twists, and machine burns. **All do affect the final quality and thus the sales price of the affected woods.**

**-Growth of Trees:** For high quality lumber to be available, landowners must let trees grow to a suitable size and quality and refrain from harvesting the better trees before

they mature. The landowners should make several thinnings before maturity and the final harvest. This upgrades the forest and provides quality timber for payoff.

**-Wood and Veneer Cutting Methods:** As seen above, different cutting methods produce different qualities of lumber and veneers, and hence do affect greatly their sales price in the market.

**b) Global Factors:**

In addition to the wood itself, there are some global factors that do affect prices worldwide, therefore affecting demand and supply. The two most important are:

**-Foreign Exchange Rates:** When the value of the U.S. dollar is high against foreign currencies, the U.S. exported lumber becomes more expensive. This will cause lumber demand to drop for U.S. producing companies, as demand from foreign importing companies drop. The U.S. products had become too expensive. On the other hand, countries that export to the United States can either compete well or even undercut the U.S. market. Their dollar is cheaper. This can depress demand for U.S. lumber.

**-Environmental Factors:** Environmental constraints always cause a strain on timber markets. In some cases (heavy rains for example), it restricts the amount of timber available for harvest, thus causing lumber prices to rise.

On the other hand, natural environmental disasters can have a positive effect on lumber prices. For example, shortly after Hurricane Andrew ripped across Florida, lumber demand rose sharply to supply material to repair the damage. Lumber prices rose quickly, remained high for several months, and then gradually settled as more inventory came into the market.

**-Availability of wood ready for harvest:** In rainy seasons, harvest of some kinds of wood is not possible. This causes a temporary supply shortage in the wood species, and thus to an increase in the timber price in the market.

Moreover, some wood species have become rare to find in quantities because of the increased demand. This also leads to a respective price increase.

### **-2.3.3- THE WOOD WORLD INDUSTRY: Facts and Forecasts**

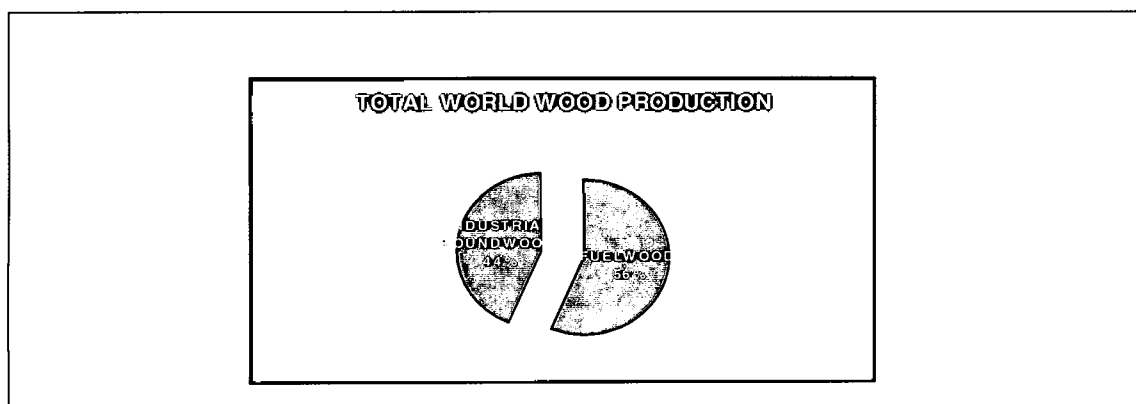
#### **-1-Forest Facts around the World:**

##### **a) Current Situation:**

- **Forests cover about 30 per cent of the world's total land area**, covering 3.9 billion hectares. (A forest is considered an area with at least 10 per cent tree canopy cover.)
- 47 percent of the world's forests are in the tropics, 33 percent in the boreal zone (far north), 11 percent in the temperate zones, and 9 percent in sub-tropical areas.
- **Two thirds of the world's forests are located in ten countries:** the Russian Federation, Brazil, Canada, the United States, China, Australia, the Democratic Republic of the Congo, Angola, Indonesia, and Peru.

Around 56% of all wood produced in the world is fuel wood, or energy wood, for cooking and heating. The other **44% is industrial round wood** used to make lumber, engineered wood products and paper.

*Figure 7: Total World Wood Production*



Source: Food and Agriculture Organization (FAO)

##### **b) Deforestation and its Effects:**

- The **94 million hectares of forest lost over the last ten-year period**, represented about **2 per cent of the world's total forest cover**, or an area larger than Venezuela.

□ Most deforestation occurred in natural tropical forests, which lost 14.2 million hectares a year over the last decade. **Africa and South America have suffered the most deforestation.**

□ Forests are a major factor in the climate change issue: Forest ecosystems contain more than half of all terrestrial carbon, and account for about 80 per cent of the exchange of carbon between terrestrial ecosystems and the atmosphere. Deforestation in the 1980s may have accounted for a quarter of all human-induced carbon emissions, the second greatest emitter after fossil fuels.

### **c) Forest Management Actions:**

□ **In less than two decades from now, *plantation forests* are forecasted to supply the majority of the world's industrial wood, *surpassing supply from natural forests*:**

From only 18 million hectares in 1980, the worldwide area of forest plantations has, in the last 25 years, grown to over 200 million hectares today. A catalyst in the rise of plantations has been massive advances in **bio-engineering**, resulting in '**super-trees**' capable of achieving rotation ages as low as five to seven years.

□ **Forest plantations comprise 5 percent of the world's forests: Asia has the largest area of plantations (China, Japan, Malaysia, Philippines and Thailand), accounting for 62 per cent of the world total.** The area of forest plantations increased by an average of 3 million hectares per year during the 1990s. Half of this increase was the result of forestation on land previously under non-forest land use, whereas the other half resulted from conversion of natural forest.

□ **It is estimated that 12 percent of the world's forests**, or about 480 million hectares, **are in protected areas**, with about 92 percent of these forests lying in temperate, industrialized countries.

□ **Areas under forest management plans are also increasing:** At least 6 percent of the total forest area in developing countries is covered by a formal, nationally approved forest management plan, with duration of at least five years. Some 89 percent of the forests in industrialized countries are managed according to formal or informal management plans.

Today, most countries are involved in international initiatives related to sustainable forest management. About 150 countries are engaged in 9 international initiatives to develop and implement criteria and indicators for sustainable forest management.

The UN Forum on Forests (UNFF) is the main intergovernmental forum to formulate international forest policy, to facilitate implementation of agreed action on forests, to foster a common understanding of sustainable forest management, and to address international forest policy issues and emerging areas of priority concern.

### **-2-The Major Wood Producer Countries in the World:**

The center of the wood world market is in Asia, where are situated the biggest world producers (Indonesia, Russia, Malaysia, India, and Thailand), as well as the biggest consumers (Japan and China). Brazil, in Latin America and the U.S.A. are the most important exceptions.

\*A detailed explanation of each country's production is provided in **Appendix A**.

### **-3- The Top 5 Wood Processing Players in the World:**

#### **a) International Paper –U.S.A.:**




Listed on NYSE, **International Paper is the world's largest paper and forest products company**, processing just over 100 million cubic meters of wood per year. This figure is over a third more than its closest competitor, greater than the entire annual production of Sweden, Finland or British Columbia, and nearly double the annual consumption of the UK.

The company was founded in 1989 in the United States. It expanded into Canada and southern America in the 1920s and, in the 1950s, began to expand overseas.

**International Paper owns more than 14.8 million acres worldwide and is the largest private landowner in the United States with 12.5 million acres.**



International Paper is a global company operating in Europe, Africa, Asia, and Latin America, with production facilities in 50 countries and customers in more than 130 countries. It has approximately 68,700 employees and sales in 2005 of USD 24 billion. The company claims a commitment to sustainable forestry, is undertaking ISO14001 certification, and adheres to the American Forest and Paper Association's Sustainable Forestry Initiative (SFI).

**b) Georgia-Pacific Corporation –U.S.A.:  Georgia-Pacific**

**Georgia-Pacific is the second largest forest products company in the world,** processing around 65 million cubic meters of wood per year.

Founded in 1927 in Augusta, the company has grown by expansion and acquisitions to become the **world's leading tissues manufacturer** and one of the largest manufacturers and distributors of building products and paper. The company employs more than 85,000 people at nearly 600 facilities in the U.S.A., Canada and 11 other countries. Sales in 2005 reached USD 22 billion.

Georgia-Pacific has an environmental strategy and advocates sustainable forestry. The company participates in the American Forest and Paper Association's Sustainable Forestry Initiative (SFI) program.

**c) Weyerhaeuser–U.S.A.:  Weyerhaeuser**

Weyerhaeuser processes around 50.1 million cubic meters of wood per year for **lumber, plywood, oriented strand board, particleboard, market pulp, newsprint, paper and containerboard.**

Started in January 1900, Weyerhaeuser has grown through acquisitions to become **the third largest wood processing company in the world,** with around 45,000 employees and USD 22.6 billion sales in 2005.

Weyerhaeuser claims a commitment to sustainable forestry, pollution reduction and prevention, conservation and recycling. The company has achieved ISO14001 accreditation for its Georgia Timberlands and Wood Supply Groups and has announced a further commitment to the standard. The company also produces an annual environmental report. In addition, Weyerhaeuser supports the SFI certification program.

d) Stora Enso–Finland: STORAENSO

Stora Enso is an integrated forest products company resulting from a merger between the Swedish company Stora and the Finnish company Enzo in 1998. **The company has extensive sawmilling operations, and also produces magazine papers, newsprint, fine papers and packaging boards.** The company acquired the US-based Consolidated Papers in 2000, and expansion is underway in Europe, North America and Asia.

Sales in 2005 were USD 10.7 billion, and the company employs around 45,000 people in more than 40 countries. The company owns approximately 2.6 million hectares of forest-land in Finland and Sweden, some 0.3 million hectares in the United States, and significant forest areas in Canada and Portugal.

Stora Enzo has a company environmental and social responsibility policy, and claims a commitment to developing business towards ecological, social and economic sustainability. The company is listed on the Dow Jones Sustainability Group Index.

e) Smurfit-Stone Container Corporation–U.S.A.:

**Smurfit-Stone Container Corporation produces containers and containerboard, cartons and packaging.** The company buys much of its wood fiber on the open market, but also owns around 130,000 acres in Canada. Smurfit-Stone is one of the world's largest recyclers of paper fiber, used for the production of paperboard. The company collects and processes approximately 7 million tones of recycled paper per year.

With its headquarters in Chicago, Smurfit-Stone has around 40,000 employees and sales in 2005 of USD 8.8 billion. Smurfit-Stone owns more than 300 facilities worldwide.

#### **-4- A Global Outlook: Future Trends:**

When wood consumption is compared to that of other principal raw materials, it is evident that wood plays a key role in the global raw materials picture. **Worldwide, the weight of wood used annually is greater than the weight of all metals and plastics combined.**

**There is broad consensus that the demand for round wood will continue to increase globally. Increasing population and improving standards of living and economic growth** in both developing and developed countries are expected to drive the growth of demand for wood for both solid wood and pulp products.

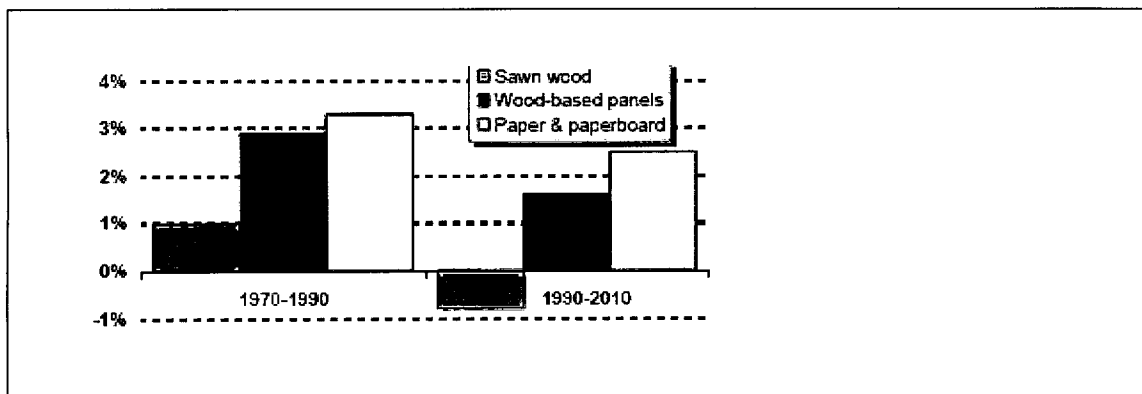
World population is expected to increase to 13 billion by year 2050, and the trend suggests further increases after that, according to UN population division statistics.

Yet, **there is no impending wood supply crisis**, at least on a global scale, mainly due to the accomplishments of bio-engineering, forest plantations, forest management actions, and the extensive use of fiber, as shown below:

*Figure 8:*

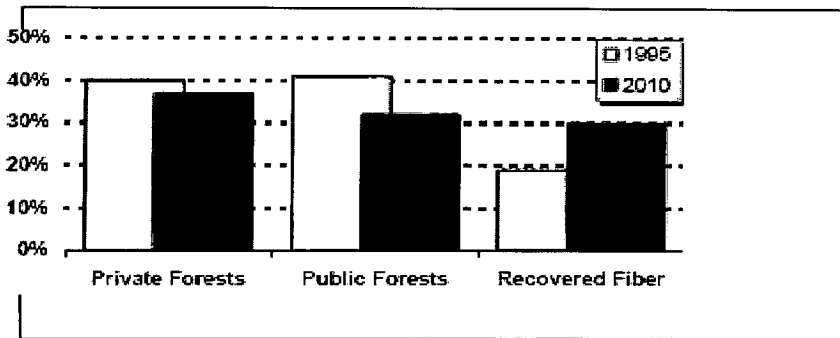
*Past and Projected World Consumption of Wood*

*1970-2010: Annual Growth Rate*

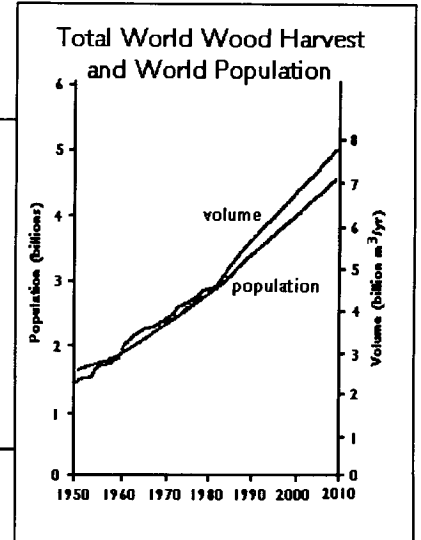


Source: FAO Statistics and Projections

**Figure 9:**  
**Past and Projected Sources of Timber and Fiber**  
**Used for Industrial Products Worldwide: 1995-2010**



**Figure 10:**



Source: FAO Statistics and Projections

However, one important issue worldwide is that: Lumber demand is currently higher than the production capacities of most industries, since most of the plants in the forestry products business already operate at **optimum economic scale**. This is leading to a slower supply rate and to higher lumber prices globally. Some examples include: Swedish Redwood, Spanish cedar, Canadian Red Cedar, Teak Burma wood, American Walnut Wood, M.D.F. and Laminates, and others.

Yet, all current conducted studies raise **two important issues** that reveal a time of profound change ahead:

First, the use of wood is now changing in character, with the greater part of the growth in volumes needed being for pulp wood and board industries, which require wood fiber rather than solid wood of particular dimensions. These changes raise, with increasing urgency, the question of whether the present concepts and practices of forest management still suffice. **Is forest management directed to best produce the type of wood that will be required in the years ahead, and in the quantities required?**

Second, the present geographical pattern of wood supply is still so heavily concentrated in the Northern Hemisphere. There appears to be a need for a substantial development of the forest resources and industries in other parts of the world, to meet their rising domestic demands, and also to contribute towards meeting the now- appearing deficits in certain high-use countries.

But, the countries in these other parts of the world are those who are not yet endowed with the required capital, skills, knowledge and other resources which sustain the momentum of growth in the industrialized countries.

**The question which thus arises is how to bring about this necessary wood supply expansion to the Southern Hemisphere?**

## **-2.4- THE WOOD INDUSTRY IN LEBANON**

Following is a detailed analysis of the Lebanese wood industry: its size, characteristics, and major players. Chabros s.a.r.l., the case study of this paper, is one of the major traders in this industry.

### **-2.4.1- WOOD AND ARTICLES OF WOOD in the Lebanese Customs**

#### **Definition**

Under Lebanese Customs categories, wood and articles of wood come in chapter 44 under section 9, as follows:

*Table 1: Wood in the Lebanese customs definition*

Section 9	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork
>Chapters (under section 9)	
44	Wood and articles of wood; wood charcoal.
45	Cork and articles of cork.
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork.

#### **\*Subdivisions:**

Chapter 44 is divided into several sub-categories, of which the following relate to the wood supply industry:

<b><u>4403.</u></b> Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.
<b><u>4407.</u></b> Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm.
<b><u>4408.</u></b> Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edges, ends or faces, whether or not planed, sanded or end-jointed.
<b><u>4410.</u></b> Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for other similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm.
<b><u>4411.</u></b> Fiberboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances.
<b><u>4412.</u></b> Plywood, veneered panels and similar laminated wood.
<b><u>4420.</u></b> Wood marquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles, of wood.

Source: Lebanese Customs Statistics

- **National Tariff:**

The Lebanese customs differentiates between different forms of wood, veneers, and boards according to the following:

- All forms of solid wood and all kinds of veneers are not subject to customs tariff.
- Boards on the other hand are divided according to the availability of local production or not, such that boards which can be produced locally are subject to a customs tariff.
- Wood marquetry and inlays and other worked wood forms are subject to a 25% tariff.

\*For more tariff details on each kind, please refer to **Appendix B.**

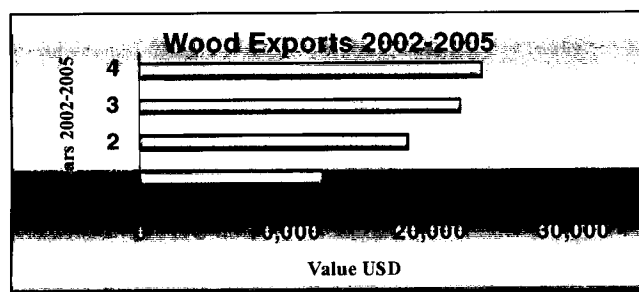
### **-2.4.2- Size of the Lebanese Wood Industry: A 3-Year Comparative**

#### **-1- A Global Perspective:**

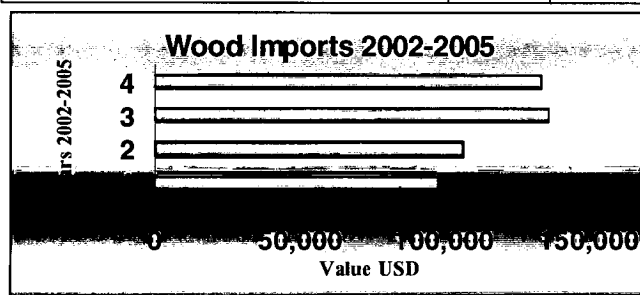
The 3-year '2003-2005' average size of the Lebanese wood industry is **USD146,510,000** out of USD10,351,909,000 3-year average total trade. Therefore, **the wood industry constitutes an average 1.42% of the total Lebanese general trade volume.**

*Table 2: Lebanese Wood Exports and Imports 2002-2005*

Type of Trade:		Lebanese Wood Exports						
Type of Data:		Value USD						
Period		From 1/1/2002 To 31/12/2005						
Wood&Articles of Wood;Charcoal	2002	2003	2004	2005	Years Total	3-years Average	%	
Value USD	12,691	18,545	22,160	23,665	77,061	19,265	100%	
Growth %		46.13%	19.50%	6.80%				



<b>Lebanese Wood Imports</b>							
Type of Trade:							
Type of Data:	Value USD						
Period	From 1/1/2002 To 31/12/2005						
Wood&Articles of Wood;Charcoal	2002	2003	2004	2005	Years Total	3-years Average	%
Value USD	98,033	106,347	135,850	132,961	473,191	118,298	100%
Growth %		8.48%	27.74%	-2.13%			



Source: Lebanese Customs Statistics

Table 3: Wood Trade as a Percentage of Lebanese Total Trade

<b>Wood and Wood Articles as a % of Lebanese Net Total Trade</b>			
<b>3-Year Comparative</b>			
<b>Imports</b>		<b>Exports</b>	
Year	% of wood imports	Year	% of wood exports
2003	1.48%	2003	1.15%
2004	1.45%	2004	1.18%
2005	1.42%	2005	1.18%
3-year average	1.45% of total average Lebanese Imports	3-year average	1.17% of total average Lebanese Exports

Source: Lebanese Customs Statistics

### **Imports:**

The 3-year average wood imports constitute a 1.45% of the total Lebanese Imports. The largest import category is 'mineral fuels, mineral oils and products of their extracts', which comprised around 20% of the total imports to Lebanon during this period. Other significant import categories are: vehicles (8.53%), nuclear reactors, boilers, machinery



and mechanicals (6.69%), natural or cultured pearls, precious or semi-precious (5.03%), electrical machinery and equipment and their parts (5.09%), and pharmaceutical products (4.89%).

### **Exports:**

**The Lebanese wood exports constituted a 1.17% of the total exports during the 2003-2005 3-year period.** In exports, the largest category is ‘natural or cultured pearls, precious or semi-precious’, constituting around 20% of total exports, with a substantial increase in year 2005. Other significant exports include: electrical machinery and equipments, and their parts (9.20%), salt, sulphur, earths and stone, and plastering materials (5.40%), iron and steel (4.74%), and paper and paperboard, and articles of paper pulp (4.06%).

### **-2- Wood Industry Imports:**

**By dollar value, the average 3-year ‘2003-2005’ wood imports are divided as follows:**

**58% timber, 25% boards, 15% veneers, 2% marquetry and other works,** of which details are shown below:

#### **a) Wood:**

- **63% of average Lebanese 2003-2005 timber imports were from two countries: Romania and the Russian Federation, mainly comprising white wood, pine wood and beech wood.**
- **Around 10% of imports come from the United States comprising red oak, maple. American walnut, ash, cherry, red cedar....**
- **The 9% imports coming from Ghana and the Ivory Coast comprise a wide variety of African woods, of which the most common are red woods, African walnut, frake, African teak, afrormosia, dahoma...**
- **The remaining 18% of imports are distributed between Brazil, Canada, Germany, Italy, Malaysia, Turkey and others.**

b) **Veneer:**

- **92% of Lebanon's veneer imports originate from Europe**, with the majority from Spain and Italy. The other **8%** are imported from Austria, Germany, Poland and other countries, their kinds being as various as those of timber.

c) **Boards:**

- **Boards, include fiberboards (various kinds of M.D.F. and H.D.F.), plywoods, chipboards, blockboards, laminates and others, where 73% are imported from five countries: Indonesia, Italy, China, Romania, and Spain.** The remaining **27%** of imports are from Malaysia, Germany, Russia, Belgium, Brazil, U.K. and other countries.

d) **Marquetry and others:**

**The majority of wood marquetry, inlays, cases of jewelry, and similar articles are imported from the Far East**, with the bulk being from China (**53%**) and **22%** from India. Thailand, Taiwan and Indonesia. Other sources are Europe (Italy and France) and various others from which the remaining **25%** are imports.

**-3- Wood Industry Exports:**

Lebanese wood exports are **targeted mainly to the Middle East and the Gulf area:**

- Around **60%** of average 2003-2005 Lebanese wood exports were destined to **Iraq and Jordan.**
- The remaining **40%** of wood exports were distributed between Cyprus, Egypt, Kuwait, Syria, Saudi Arabia, Qatar, U.A.E., and other countries.

\*Details of the imports from and exports to each country are available in **Appendix C.**

### **-2.4.3- CHARACTERISTICS OF THE LEBANESE WOOD SUPPLY MARKET: Analyzing the Industry Environment:**

The Lebanese wood supply industry is entering its maturity stage: it is a consolidated industry dominated by few large firms, each of which struggles to differentiate its products from the competition. The current era is now that of industrialized wood like laminates, replacing natural wood in many uses. Strong price competitions exist, and purchasing decisions of buyers are based on better information.

**Micheal Porter contends that a corporation is most concerned with the intensity of competition within its industry. The level of this intensity is determined by six basic competitive forces:** threat of new entrants, rivalry among existing firms, threat of substitute products or services, exit barriers, bargaining power of buyers, and bargaining power of suppliers.

**The collective strengths of these forces determine the ultimate profit potential in the industry, in terms of long-run return on invested capital. The stronger each of these forces, the more limited companies are in their ability to raise prices and earn greater profits.**

Analysis of these six factors applied to the Lebanese wood supply industry will shed a light on the opportunities and threats that face companies in this industry:

#### **-1- Threat of New Entrants:**

New entrants to the wood industry typically bring to it new capacity, a desire to gain market share, and substantial resources. They are therefore threats to established corporations. The threat of entry depends on the presence of entry barriers and the reaction that can be expected from existing competitors.

The possible wood industry *entry barriers* are:

- ✓ ***Economies of Scale:*** Cost advantages through purchase of large amounts from international suppliers give mature big companies a significant cost advantage over any new rivals.

- ✓ **Product Differentiation:** Companies which sell exotic and high-quality decorative kinds of wood create high entry barriers through their product sourcing and quality.
- ✓ **Capital Requirements:** for new small entrants, no significant capital outlay is required if purchase amounts are relatively small, since no customs duties and no patents are imposed, especially for timber and veneers. However for large-scale company entries, significant capital requirements are needed, of which the most important are storage and credit facilities.
- ✓ **Government Policy:** The Lebanese government encourages the import of raw wood materials, by not imposing any customs duties on all kinds that are not available locally. In addition, in coordination with the banking sector, the government facilitates credits granted to the Lebanese industrial sector.

#### **-2- Rivalry among Existing Firms:**

In the Lebanese wood supply industry, **companies are mutually dependent**: a competitive move (through pricing or sales policy) by one firm can be expected to have a noticeable effect on its competitors, and thus may cause retaliation or counter efforts. especially with the top players in the industry.

**Thus, rivalry among competitors is relatively high.**

#### **-3- Threat of Substitute Products or Services:**

Main substitutes of wood in some cases are: aluminum, P.V.C. and stainless steel which can mainly be used in kitchens, doors windows and furniture, and steel formworks which can be used in construction sites. However, wood in all its forms cannot easily be replaced because of its high decorative value in both indoor and outdoor applications, and its importance in construction industries, although the switching costs in some cases are lower.

**So these substitutes do not limit the potential returns of the wood industry and the prices that firms in the industry can profitably charge.**

#### **-4- Exit Barriers:**

**The wood supply industry has relatively low exit barriers**, since no large investment in specialized equipment or machinery is required. Weak competitors that want to exit the market will lose their invested capital in the products and storage facilities, which can both be sold without a great loss of value.

#### **-5- Bargaining Power of Buyers:**

- ✓ Bargaining power of buyers is more important in the construction industries, where:

-the purchased product is not that important to the final quality of the finished product, and thus can be substituted without affecting the final product adversely.

-Buyers purchase large proportions of the sellers' products, where large wood quantities are required for construction.

-Most products required are common kinds which are easy to find.

Thus, to some extent, buyers of construction wood can force down supplier prices and play competitors against each other.

- ✓ In the decorative wood industry, the bargaining power of buyers is less obvious, where some exotic kinds are only available at one or two suppliers. In addition, the product purchased is very important to the final decorative appearance of the finished good, thus quality vs. price is the critical factor.

#### **-6- Bargaining Power of Suppliers:**

Suppliers can affect the industry through their ability to raise prices of some products or reduce the quality of purchased goods. But since rivalry among competitors is relatively high, **the suppliers have limited power in manipulating the qualities or prices** of the products, especially the kinds that are available at more than one supplier.

Thus, in total, the wood industry is characterized by:

- High threat of new entrants
- High existing rivalry
- Low* threat of substitutes
- Low* exit barriers
- Medium* Buyer Power
- Low* Supplier Power

**Therefore, the Lebanese wood supply industry offers a relatively favorable competitive environment, and thus a good long-term profit potential for a business in this market.**

#### **-2.4.4- Major Players in the Lebanese Wood Supply Market**

In alphabetical order, the following six wood traders capture the majority of the Lebanese wood supply market:

- Asmar Woods (Al Tadamon)
- Chabros
- Hawat Trading Co.
- Jabwood International
- Maarawi
- United Timber Corporation –Malek Sinno

- **Jabwood International, Maarawi, and United Timber Corporation** are mainly targeted towards the *construction market*, i.e. their major trade is with common woods used in construction sites. (Examples include White Wood, Pine Wood, Redwoods, Plywood, Plywood Marine, and Chipboard....), in addition to some other kinds of commonly used decorative woods (examples include: beech, oaks...).

-**Asmar Woods, Chabros and Hawat** moreover target the *architectural, decorative and exotic wood market*, i.e. their trade comprises a more wide variety of decorative

woods and veneers. Their woods decorate the interiors and exteriors of hotels, malls, towers, houses and palaces, with furniture, doors, staircases, pergolas, flooring...

The Lebanese wood supply market comprises a large number of other suppliers and competitors who pose various threats on the top players. Examples include: Mwanness, Saad Group, Karam, Ankliss, Knaider, Kouchakji, Middle East Timber, Rootica and many others.

**-1- Jabwood International, Maarawi, and United Timber Corporation:**

The bulk of customers of these three suppliers are the construction industries, where large quantities of wood for construction are used. Other market segments are also served, but in a smaller scale.

✓ Both **Jabwood International and United Timber Corporation** have:

-Mainly the same product mix of construction wood with relatively the same price ranges.

-The same target market segment, the construction industry.

-A strong presence with large warehouses in the North (Tripoli) and South of Metn(Choueifat), with a smaller presence in the capital Beirut.

-Relatively similar size with respect to gross quantities purchased and sold.

Therefore, both suppliers compete strongly in the Lebanese wood market, with the main competitive advantage being the product costs (i.e. the purchase source).

✓ **Maarawi**, although being of a relatively smaller size than his two direct competitors, has two main competitive advantages:

-Maarawi offers an extra sales service for his customers by having a small factory inside his warehouses, where the wood can be sawn and sanded for the client according to specific dimensions required. Therefore, the customer directly receives a finished product ready to work with without having to transport it to a factory for processing.

-Maarawi captures a wide market in Lebanon through the location of his warehouses: the North (Zgharta), South (Sour), and in North of Metn (Jdeideh and Bikfaya).

## **-2- Asmar Woods, Chabros, and Hawat:**

These three direct competitors capture a more quality-oriented market, customers who deal with furniture, interior and exterior decorative wood works. Their product mix includes many exotic woods such as : Wenge, Ebony, Palissandre, African teak, Brazilian and Canadian red cedars, American Ash, Douglas Fir..., in addition to the commonly used decorative woods like: Beech, Cherry, Mahogany, and Oak.

### ✓ Both **Asmar Woods and Chabros** :

-Have a wide choice of decorative and exotic woods and veneers, whose prices vary according to quality.

-Have a strong presence in the capital, Beirut where the location of their warehouses is: Mkalless for Asmar and Hazmieh for Chabros.

-Engage in both retail and wholesale activities, supplying all small, large, local and multinational traders and industries.

However, each company has competitive edges in product mix, sales or management, differentiating it from its competitor:

*Table 4: Basic Comparison between Asmar Woods and Chabros*

<b>Differentiating Factor</b>	<b>Asmar Woods</b>	<b>Chabros</b>
<b>Product Mix</b>	-Wood -Veneers -Boards (M.D.F., Plywood, Chipboard) -Laminates -Parquet Flooring	-Wood -Veneers -Boards (M.D.F., Plywood, Chipboard) -Glue and Adhesives
<b>Management</b>	-Decision centralized on owner (general manager)	-ISO 9001:2000 Certification
<b>Sales Techniques</b>	-Indoor Sales -Limited Credit Facilities	-Both Indoor and Outdoor Sales -Credit Facilities

Source: Customer Information



- ✓ **Hawat**, on the other hand, is interested more in wholesale trade to the other wood traders or to large industries, with few engagement in retail sales, capturing a wide market through the location of his two large warehouses: Beirut (Dekwaneh) and Jbeil.

The majority of the product mix includes common decorative woods and veneers (Beech, Cherry, Mahogany, Oak...), with some kinds of exotic woods and veneers. In addition, Hawat sells all kinds of boards especially M.D.F. and Laminates.

#### **-2.4.5- CHABROS s.a.r.l.: A Basic SWOT Analysis:**

Chabros s.a.r.l. is a well-known name in veneer and wood supplying. The company has been in operation since 1960, and now has a considerable market share, 10 technical and 20 administrative employees, and a well-known reputation for **quality and dependability**, making it one of the leading suppliers in the Lebanese and regional market.

With a vision: “Wood: A way of living”, Chabros associates its name with quality wood and professionalism, aiming to be a pioneer in quality, service, price and integrity towards its customers.

- **Competitive Strategy:**

The company’s competitive strategy is basically a ‘*Differentiation Focus*’ strategy, where Chabros **seeks differentiation in the decorative wood supply market segment.**

- **Product Mix:**

The company offers its clients a wide selection of veneer, wood, boards, accessories and exotic products, rarely available elsewhere locally. With a database of world known manufactures, it acquires a range of products from all continents, including Italy, Germany, Serbia, United States of America, Canada, Ghana, and many other countries. The company also serves the construction market but in a very limited scope, in products such as plywood, plywood marine, and chipboard.

The large well-equipped storage facility ensures clients' needs are met. In addition to instant availability of products, the company guarantees a fast and reliable shipping/forwarding from any destination worldwide.

- **Associated Factories:**

The company has significant long-term relationships with significant producers and factories in different countries, of which the most important are:

- Italy-Milan: veneer production
- U.S.A.- Virginia: veneer production
- Serbia: wood mill
- Romania: beech wood mill
- Cameroon: wood mill
- Ghana: wood mill

- **Strengths and Weaknesses:**

- ✓ **Strengths:**

Chabros main **internal strengths** come from four main advantages: product, cost, service, and sales-force.

**-Product Advantage:** Chabros has a superior name in the world of *veneers* in terms of quality and variety. It has a wide range of quality veneers from the very common to the exotic kinds, in addition to having the relative timber species for every kind of veneer available. Its products are known for their quality: Chabros is not the low-cost, but the high quality supplier.

**-Cost Advantage:** Because of its established long-term relationships with reputable international suppliers, the company is able to order large quantities of exotic and decorative products with a short delivery time and at a cost advantage relative to other companies.

**-Service Advantage:** With a corporate policy to be its customers' preferred supplier, Chabros is ISO 9001:2000 certified for its management operations. It has specified objectives and procedures for all its departments, divided tasks and responsibilities,

continuous feedback from its sales team, systematic evaluation of suppliers, which allow both a better customer service and after-sales service.

**-Sales-Force Advantage:** Chabros is very well aware of the importance of customer loyalty and customer retention. Studies have shown that a 2% increase in loyal customers will lower marketing costs by 10%. This is why; the company gives significant importance to its sales team in both training and motivation.

Chabros is one of the few wood suppliers in Lebanon that have an outdoor sales team of trained executive sales people for door-to-door sales, in addition to showroom indoor salesmen. This allows for a better customer service, thus customer loyalty, and a broader customer portfolio.

✓ **Weaknesses:**

-The main internal weakness at Chabros lies in the credit facilities granted to customers, where it has **high receivable aging days** relative to its industry, which affects the long-term profit of the company.

This is management's current challenging task: to impose limits on the credits granted to specific customers, so as to minimize the default risk and to reach the target long-term profit needed.

-A second less important weakness of the company is that it is not price competitive in selling wood used for construction purposes. Although Chabros is missing the opportunities that this segment offers, this does not seriously affect the company's profits, since its main market target segment is the decorative and exotic wood market.

▪ **Opportunities and Threats:**

✓ **Opportunities:**

The main opportunity of Chabros lies in the growing Middle East construction industry, and especially in the UAE, where the construction growth rate is accelerating at a very fast pace: Towers, hotels, centers, malls, marinas, residences, palaces, banks, and corporations are being planned, studied, and executed.

The Middle East, in addition of being the focal point between the United States of America and the Far East, has been experiencing significant foreign investment growth

in the last decade, with a total of 2,145 foreign direct investment projects by multinational companies since year 2002.

✓ **Threats:**

The main threat facing all operating companies in Lebanon is the unstable political situation, and thus the high political risk in the country. With the unsolved political disruptions, and the remaining threat of future wars, Chabros is following a currently very **conservative operating policy** to be able to sustain its long-term profits, and attain its planned goals and objectives.

**Thus, the SWOT analysis of Chabros can be summarized as follows:**

*Table 5: Chabros SWOT analysis*

<b>Strengths</b>	<b>Weaknesses</b>
-Strong product mix and high product Quality -Strong international supplier relations -Strong management, customer service and sales force	-High receivable aging days relative to industry -Not price competitive in the wood for construction segment
<b>Opportunities</b>	<b>Threats</b>
-The growing middle east construction industry	-Unstable political situation in Lebanon

Source: Interview with Chabros General Manager

**Among the strategy implications available to the company, those presented in this SWOT analysis are the issues determined to have the greatest impact on Chabros future performance. Thus, it is important that these strategic issues be highlighted and become a central focus of the expansion strategy to be developed.**

▪ **Chabros Board Recommendation: The Expansion Plan:**

**Chabros has shown a consistent growth pattern over the years, and is now planning on expanding further in the Middle East region in search of new markets, opportunities, and profit potentials, specifically choosing Dubai, UAE.**

**Why the Middle East?**

The Middle East, buoyed by the petrodollar and foreign investment, is booming. Gulf coast countries, including Bahrain, Qatar, Saudi Arabia and the United Arab Emirates such as Dubai and Abu Dhabi, have become hugely attractive to investors, international companies and property developers that are eager to ride the wave of money flowing into the region.

Some important Middle East figures include:

-The IMF estimated real GDP growth in the Middle East at 5.8%and 5.4% in 2006 and 2007 respectively.

-The regions share in global FDI inflows has grown from 0.4% in 2000 to 4.1% in 2005, with a total of 2,145 foreign direct investment projects by multinational companies since year 2002. This greatly reflects the increased local and international confidence in the Arab economies.

Most countries in the region have liberalized regulations, in particular for non-energy industries, such as real-estate, construction, transport, finance, and telecommunications.

The UAE was the largest FDI destination with record flows of \$24.615 billion over years 2003-2005.

The Middle East inflows are largely targeted at services,

- Middle East travel and tourism industry is estimated to have generated \$108.5 billion of economic activity in 2004, and is estimated to reach \$193 billion in 2014.

**Why Dubai?**

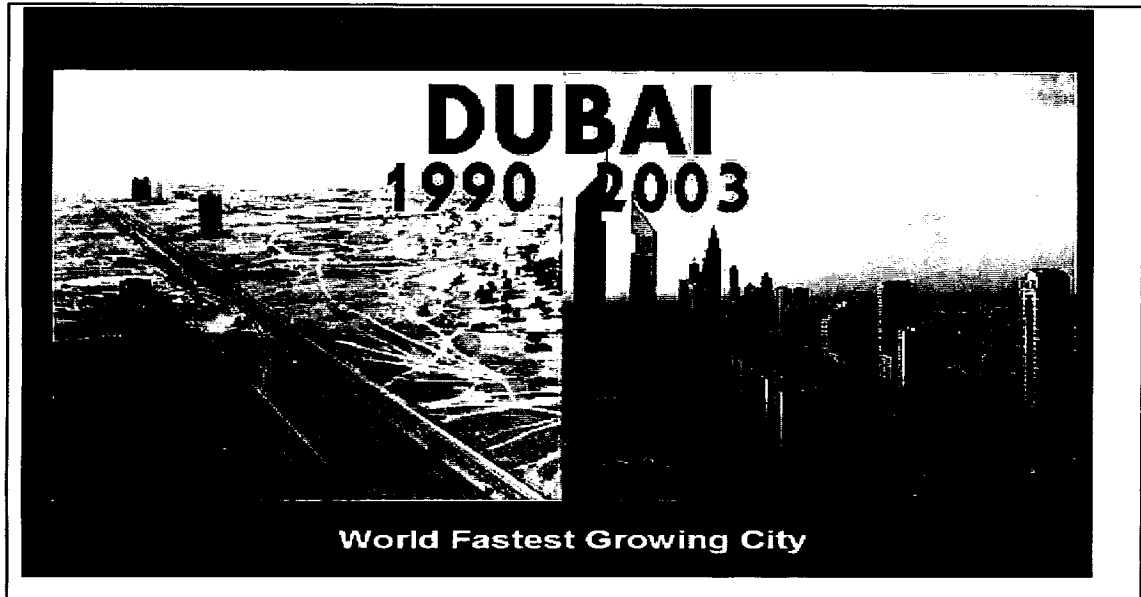
The company chose Dubai as an expansion market, mainly attracted by:

- The fast growing diversified economy, which is mostly due to the contribution of the non-oil sectors.
- The attractive investment environment, where profits are not taxed, and repatriation of profits is 100%.
- The political and economic stability, with government's commitment to pro-business liberal economic policies.
- The country's excellent infrastructure, service, and banking sectors.
- The construction boom that is fuelling an unparalleled demand for wood and wood products in the country.
- The consistent bright growth future prospects for Dubai as a commercial and financial center of the region.

**At the same time, Dubai presents a gateway for further expansion to other Middle East markets, of which the closest is Abu Dhabi, Qatar, Bahrain, and Jordan which are now attracting investors and developers to tender and bid for planned projects, experiencing significant construction booms and promising a very positive investment future.**

## **-2.5- GROWING IN THE MIDDLE EAST REGION: CHOOSING DUBAI**

*Figure 11: Dubai between 1990 and 2003*



Source: [www.dubai.ae](http://www.dubai.ae)

### **-2.5.1- DUBAI: The Commercial Hub in the Middle East**

#### **-1- Why Choose Dubai?**

For some time the Middle East countries, irrespective of their location, political system, or industry base, have failed to take advantage of their enormous potential in human and natural resources. Thus, the Middle Eastern Countries were characterized by chaos and stagnation.

Fortunately, some countries resisted this trend toward stagnation and bureaucratic surrender. These few countries are leading the change with a global vision, confirming themselves as global business destinations of choice. Among these countries, Dubai occupies a leading position.

**Dubai** is unique because its government has articulated a comprehensive vision to capture a leading position in the global economy, in addition to enjoying the benefits of being the first mover in the area: Dubai is a place in the Middle East that has seized the

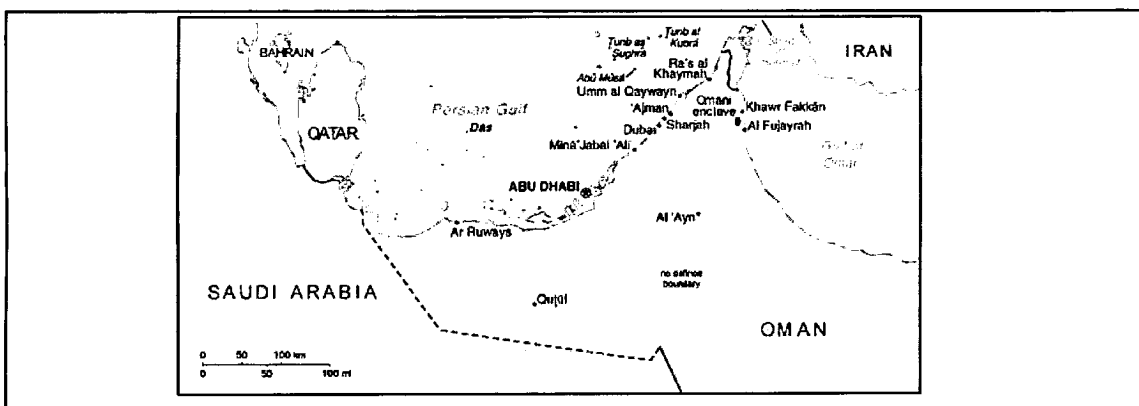
opportunity to grow beyond the limits imposed by internal constraints that are still holding other places back.

**It is being run more like a corporation rather than a country, by a CEO with a vision, who knows the value of marketing, and is one of the most enlightened leaders in the Middle East: HH Sheikh Mohammed bin Rashid Al Maktoum, Emir of Dubai.** He has played an important role in Dubai's economy, where all development programs carried out in various areas are inspired and led by him. His commitment appears clearly in his quotes: "...We can with the right vision and the right ideas create a country that can compete with the most prominent economic centers of the world...."

Ideally located between Europe, Asia, and South Africa, Dubai has always been the commercial hub of the United Arab Emirates. **Today, Dubai is without contest the commercial hub and the biggest re-exporting center of the Middle East.** Entrepreneurs with global ambitions consider establishing a base there and benefiting from Dubai's exposure to a market of over two billion people in the Middle East, Africa, South Asia, and the CIS market. Dubai's 10 miles deep creek has given it its popular name "the pearl of the Gulf".

**Dubai**, the second largest of the seven UAE Emirates (after Abu Dhabi), **is still booming.** It is a symbol of the successful migration from a system over-dependent on oil and public-sector-driven growth, to **a system driven by private sector initiative and a diversified industrial base** with strengths in trade, finance, tourism, media, services, manufacturing and technology.

*Figure 12: The UAE Map (showing the seven emirates and the location of Dubai)*



Source: [www.dubai.ae](http://www.dubai.ae)



**Jack Welch**, said to be the world's most admired CEO, held Dubai up as the perfect role model for the Middle East when addressing almost 2,500 business leaders at the International Summit 2006, Leaders in Dubai.

Welch, who headed up General Electric until his retirement, said:

**"Dubai is the perfect model of a diversified economy. Twenty years ago, the only thing that drove its economy was oil; now oil only makes up 20% of its economy....This diversified economy is a best practice for the region".**

"Moreover, Dubai has found a way to separate politics from business. I know many examples of Saudi companies that have turned down business deals in the USA on the basis of politics – and they have suffered...."

#### **a) The Economic Model of Dubai:**

In summary, Dubai's economic business model encompasses five main strengths:

##### **-i- A divers and growing Population:**

-Today, the population of the UAE is estimated at 1.42 million, with Emirati nationals making up only 20%. About 1 million people live in Dubai, making it the UAE's most populous city, and almost double the population of the city of Abu Dhabi. By 2010, the UAE's population is expected to grow by another 2 million, and the proportion of foreigners may reach 90%.

-Dubai welcomed about 6 million tourists in 2006, and projections estimate that by 2010 there could be as many as 15 million arrivals a year.

-The official religion of the UAE is Muslim, and almost all UAE nationals are Sunni Muslims. Much of the expatriate population is Muslim, with unskilled and semi-skilled workers coming principally from Pakistan, Afghanistan and Bangladesh, and the professional classes dominated by Indians, Iranians, Lebanese and Brits.

##### **-ii- A Good Concept:**

-Dubai's infrastructure and communication are excellent. Dubai is served by over 120 shipping lines and linked via 85 airlines to over 130 global destinations.

-Dubai has substantial labor supply. Low wage rates play a vital role in the competitiveness of its export products.

**-iii- Sound Implementation:**

-Dubai Revenues are driven by license fees and other indirect charges, rather than by taxes, since profits are not taxed. Oil resources and UAE support will contribute to cover any deficit in the economic transition of Dubai.

**-iv- An Impressive Potential for Growth:**

-Dubai's economy grew around 16% in 2005 to be worth an estimated \$37 Billion according to the Dubai Department of Economic Development. The rate of growth is expected to beat that of China, acknowledged to be one of the fastest growing economies in the world today.

- GDP and buying powers are among the highest in the region.

-The contribution of the non-oil sectors to Dubai's GNP was 94% in 2005, as compared to 90% in 2000, and approximately 46% in 1975, underlining the success it has witnessed in economic diversification, (mainly in trade, finance, tourism, media, services, manufacturing and technology), with the service sector only contributing 74% of GNP.

-Dubai these days has one of the highest per capita incomes in the world. Unemployment is still one of the very lowest in the region.

-Results of Consumer Confidence Indexes surveys show that consumer confidence in the UAE is strongly positive for the years ahead. The indexes were base on barometers such as employment, economy, regular income, stock market and quality of life.

**-v- An Intelligent foreign policy:**

-Dubai is stable and safe: The wide diversity of its population discourages any real ethnic tensions.

-The threat of war is very far from Dubai than many might imagine it. This is due to the intelligent foreign policy pursued by its government: The UAE adopted a neutral position in the various conflicts affecting the region, including the 2003 Iraq war, where its neutral position was in line with the cooperation in the campaign against money laundering and terrorists after September 11<sup>th</sup>. One of the great historical strengths of Dubai governmental policy has been its capacity to adjust and evolve.

**b) U.A.E.'s Business Profile:**

**-GDP: \$150.9 billion**

- **Exports**: to Japan, Korea (Rep), China, India and Thailand, the United States, and some industrial countries in Western Europe.

Main Exports:

-Traditional commodities (**dates, hides, frozen and dried fish, iron scrap and other metals**), a

-Manufacturing industries exports (**crude oil, aluminum ingots, liquefied gas and readymade garments**).

Dubai takes the lead among the other Emirates in the volume of exports as Dubai's exports constitute around 82% of the UAE's total exports.

- **Imports**: from China, India, Japan, Taiwan, Germany, UK, France, Italy and the USA.

Main Imports: **Machinery and transport equipment, chemicals, and food.**

The volume and value of Dubai's annual imports is an important indicator of the whole commercial activities in the U.A.E, since Dubai imports more than two thirds of the U.A.E. requirements of all kinds of consumable, intermediate and capital goods in addition to a part of the requirements of the GCC countries.

**-Re-exports:**

The re-export trade in Dubai plays an important role in its foreign trade as its share amounted to 70% of the U.A.E. total re-exports.

Dubai has recently been able to invest its own abilities and take advantage of its several diversified facilities to expand its re-export activities to cover all the Gulf and Arab countries and countries of Asia, Europe, America and some African states, re-exporting about 30% of its annual total imports.

c) **Dubai's Future: Trends, Government Planning, and Challenges:**

✓ **Future Trends:**

-Dubai is still evolving. It has a history of around 13 years of fairly rapid growth, with just a small dip in 1998, which suggests that today Dubai must be fairly close to the top. And yet, in reality, all the economic fundamentals show that the economy has not even begun to warm up.

-There is currently some **\$30-\$50 billion committed to projects actually underway or in progress:**

There is the \$4.5 billion new airport; 60-70 residential towers at the **Dubai Marina**; the Dubai **International Financial Centre** which will be bigger than London's Canary Wharf; the tallest building in the world, the **Burj Dubai** and The Residences next door; the Dubai International City; Dubai Healthcare City; Dubai Festival City; and the \$5 billion **Dubailand** theme park, a Desert Disneyland.

In addition the **two most newly unveiled projects** are: the **world's largest hotel** with 6,500 rooms (a \$27.22 billion project), and the **Dubai World Central City** (a \$33 billion project), located at Jebel Ali where eventually 750,000 people will live and work, designed to support Dubai's aviation, tourism, commercial and logistics requirements until 2050.

And still, perhaps Sheikh Mohammad boldest project is the three **Palm Islands** (Palm Jumeirah, Palm Jebel Ali and Palm Deira), which are the world's largest man-made islands.

-This is all in addition to **the already completed projects** like: **Burj Al Arab** and the **Dubai Shopping Festival** .

Thus, Dubai has risen to be the world's most glamorous property investment market, and predictions are for greater property demand. **This has boomed both real estate and rental prices, and is forecasted to remain as so for the coming years.**

✓ **Government's Planning:**

The latest ground-breaking announcement of Dubai's government is the ***Dubai Strategic Plan – 2015 (DSP)*** which, for many who are not familiar with the history of Dubai in the last 25 years, may sound like an impossible dream. But His Highness Shaikh Mohammad Bin Rashid Al Maktoum once poignantly said: "the impossible does not Exist in the UAE's dictionary".

This has already been done over the past seven years, when ***Vision 2010*** was announced in 2000. By 2005, Dubai had achieved what was planned to be achieved by 2010. Vision 2010 was very much orientated towards developing the economy from abroad and encouraging the local industry to receive the benefits of the growing financial infrastructure.

Now, ***DSP***, launched under the theme "**Dubai... Where the Future Begins**", embraces a far wider dimension, including: maintaining double-digit economic growth, achieving a GDP of \$108 billion and increasing real per capita GDP to \$44,000 by 2015.

The most significant aspect of the DSP is that **five areas have been identified whereby change is inevitable and ultimately will be made to accord with the times and targets for the future:**

These are: (1) economic development; (2) social development; (3) infrastructure, land and environment; (4) safety security and justice; and (5) public sector excellence.

However, ***Traffic congestion and spiraling cost of living*** are two major challenges facing the implementation of the nine-year Dubai Strategic Plan (DSP), according to Chairman of the Dubai Council for Economic Affairs, which should be overcome in the near future.

✓ **Future Challenges:**

-Dubai is likely to face an **inflation problem of increasing magnitude** in the years ahead, according to a recent report by the Dubai Chamber of Commerce and Industry (DCCI). This will lead to a set of problems that the government should deal with.

In the medium term, inflationary pressures could result in two main negative developments:

\***First, the cost of living for the expatriate labor force has risen significantly, including rents, goods and services.** This is reducing the appeal of the UAE as a lucrative labor market. In addition, the prices of assets such as **petrol, real estate and stocks** have become alarmingly high.

\***Second, even if Dubai's productivity growth is significant, inflation will cause the competitiveness of the UAE economy to decrease** with respect to the global economy.

Yet the problem for the UAE is that **the central bank cannot directly influence inflation** through its monetary policy and altering interest rates, since the AED is pegged to the US Dollar. Thus the UAE interest rates have to follow those set by the U.S. Federal Reserve.

Thus the UAE government must closely monitor the economic performance. and constantly upgrade the local laws and regulations to prevent serious damages to the economy.

-**The second main challenge of Dubai** is to carry on its progressive liberalization, while **encouraging its nationals to play a more attractive role in its revolutionary economic model.** It must speed up its transition towards **a lower dependency on multinationals and towards a greater** reliance on developing its own brands, enhanced by the knowledge and expertise of foreigners.

and local training, particularly in entrepreneurship. management and technical fields.

## **-2- Dubai: the Business Environment:**

Following is a brief overview of Dubai's business environment.:

- **Currency:** Dirham (DHS or AED), divided into 100 Fils.
- **Exchange Rate:** Pegged to the USD: 1US\$= 3.675 DHS.
- **Membership:** United Nations, WTO, GCC.
- **Languages:** Arabic and English.
- **Tax System:** Currently, No personal taxation and No Corporate Taxes, except for oil producing companies and branches of banks.
- **Restrictions as to Foreigners:** For joint ventures, 51% ownership by a Dubai national is required. For ownership rights, foreign companies or individuals are not permitted to own land or real estate in Dubai.
- **Foreign Direct Investments:** According to the 2006 Foreign Direct Investment Confidence Index, Dubai/United Arab Emirates (UAE) ranks as the 22nd most attractive location worldwide. Financial services investors also see bright prospects in Dubai, ranking it 13th. In addition, Dubai has been assigned an investment grade rating for fixed income investment by Moody's Investors Services
- **Growth Industries:** Apart from the oil sector, many growth sectors offer good opportunities to foreign companies. These include: tourism, IT, multimedia and telecommunication technology, media and advertising, financial and education services, consumer goods, building and public work construction, food and agriculture, environment, and the industrial sector.
- **Hiring Laws:** Labor relations in the UAE are governed mainly by Federal Law No.8 of 1980, which stresses the preference of Nationals over Non-Nationals
- **Places of Incorporation:** If the company's area of activity is related to technology, electronic commerce, internet, media, finance or consultancy, the free zones may be an excellent location for setting the offices, having many operating advantages. Otherwise, the company will operate within Dubai with a choice of opening either a subsidiary or a branch of a foreign company.

## -2.5.2- Dubai: The Construction Industry

### -1- The Construction Boom in the UAE :

#### a) Dubai Construction:

Dubai accounts for about 50% of the construction sector GDP in the UAE, with around 15% of the world's tower cranes present in the emirate.

Dubai's construction sector GDP increased by 166 per cent between 2000 and 2004, and recorded an average annual growth rate of 27.7%, and an estimated Dh1.7 trillion of real estate projects could be in circulation by 2015, according to a report by the Financial Times.

This continued strong growth of Dubai's construction sector is clearly demonstrated by the number of landmark projects, touristic, residential and commercial, with an incredible compound annual growth rate of 42.5 percent. Some few examples include:

-***Burj Dubai***, Emaar's iconic super tower, which is already the tallest structure in the Middle East and Europe at 110 levels and 380 meters high- only one meter shorter than the Empire State Building.

-***Dubai World Central International Airport***, which, once completed will be the world's largest airport, having the ability to handle 120 million passengers and 12 million tons of cargo annually.

- Over 24 million square feet of ***commercial office space*** are under development, causing Dubai to be **ranked second in the world in terms of real estate construction activity** (with only Moscow ahead of it with 26.9 million sq feet) by Colliers International (one of the top three global property service consultants).

-***Emaar's \$10 billion Dubai Marina***, where more than 100 towers have already sprung up, but many more are being planned and built.

- The largest proposed light rapid transit system in the world, ***Dubai's Metro***, is on track and on time, with the first phase of the 15.5 billion dollars project to be completed by September 2009.



## The Two Main Negative Effects of Dubai's construction boom

### ✓ Increased prices of raw materials and manpower

The construction boom has caused a shortage of both manpower and materials, leading to raise in input prices, not only in Dubai but in the UAE as a whole.

The prices of materials have reportedly increased more than manpower. Consequently, there has been an escalation in project costs, which have risen 10-20 per cent since 2003, according to a 2007 report by Emirates Industrial Bank.

The price of construction materials including cement, concrete and steel have almost doubled since 2003 and wages for project manager, foreman, carpenter, unskilled laborers working in medium and big projects have also increased.

*Table 6: Comparison prices of Construction Materials in Dubai: 2005-2006*

DUBAI: COMPARISON OF PRICES OF CONSTRUCTION MATERIALS					
Period: From Fourth Quarter 2005 to Fourth Quarter 2006					
PRODUCT	Unit	Origin	Q4 2005 in Dh	% change	Q4 2006 in Dh
<b>WOOD</b>					
White Wood	m3	Romania	770.28	49.30%	1,150.00
Red Timber		Malaysia	1,782.00	4.38%	1,860.00
White Plywood 3.6mm	sheet	Indonesia	15.50	25.81%	19.50
Marine Plywood-humidity resistant		Malaysia	77.67	7.51%	83.50
<b>CEMENT</b>					
Sulphate Resistant			322.5	2.33%	330
Portland Cement	Tonne	UAE	326.67	7.14%	350
White Cement			481.67	1.73%	490
<b>AGGREGATES AND SAND</b>					
White Sand			38.33	1.30%	38.83
Black Sand			37.17	10.30%	41.00
Concrete ready-mix			226.67	2.94%	233.33
<b>STEEL</b>					
Flat Steel		Turkey	2,104.17	5.74%	2,225.00
		UAE	2,183.33	5.34%	2,300.00
Bars 10-25mm	Tonne	Qatar	1,971.67	14.12%	2,250.00
		UAE	1,958.33	14.89%	2,250.00
High-tensile Steel		Qatar	1,991.67	9.46%	2,180.00
		UAE	1,788.33	16.31%	2,080.00

Source: Dubai Municipality 2006

✓ **Quality of Life in Dubai:**

On March 2007, a survey was conducted on Dubai's real estate sector, and found residents of the city uniformly concerned with the drastic drop in the quality of life in Dubai due to the exponential construction boom. The main concerns of residents communicated through this survey were: the shortage of affordable residential communities, the rent inflation, the traffic congestions, in addition to the delays in the construction projects and the missed deadlines.

In parallel, Sheikh Mohammad bin Rashid Al Maktoum, UAE Vice-President and Ruler of Dubai, recently observed: "There is a race in Dubai between projects and the development of the infrastructure. We are falling behind only in two areas – traffic jams and increasing rents. which we have limited. We will overcome this issue in less than two years with the completion of the new roads and bridges and the metro project."

**b) Abu Dhabi Construction:**

According to Abu Dhabi's Chamber of Commerce and Industry, Abu Dhabi currently has mega- development projects worth Dh935 billion, divided as follows: in addition to Dh80 billion worth of investments in the oil and gas sector, the emirate projects include Dh500 billion for real estate, Dh200 billion for tourism, Dh35 billion for water and electricity projects, and Dh120 billion for industrial projects.

Many companies, developers and investors have their attention fixed on Abu Dhabi at the moment, whether because they missed out on dipping into Dubai, or because they have already experienced phenomenal success in Dubai. Thus, businesses are currently investing colossal amounts of money in tendering, bidding, and developing relationships to get negotiated work in Abu Dhabi, hoping to cash in on its near inevitable rise.

Below is a list of a few of the largest examples of such projects, which have budgets extending into billions:

- **Al Raha Beach:** priced at a massive \$18 billion, this project will transform a stretch of Abu Dhabi's coastline into a chain of luxury resorts.

-**Saadiyat Island**: the single highest budget project underway, valuing at \$27 billion. The scheme involves a development spanning the entire 27km<sup>2</sup> natural island into a whole new city 500m of Abu Dhabi's coast.

-Yas Island: a purely massive tourist development, intended to put Abu Dhabi on the worldwide tourist map in a big way. Yas Island will feature a huge variety of tourist attractions, including beaches, hotels, shopping, marinas, golf courses, equestrian facilities, and most important a "Ferrari World" theme park.

## **2- The Building and Construction Trade Shows in the UAE:**

In response to the construction industry demands not only in UAE, but in the whole Middle East, several trade shows are yearly organized throughout the UAE, including "Construct Abu Dhabi", "Cityscape Abu Dhabi", "Cityscape Dubai", "Connex Sharjah", and the largest trade show in the Gulf region "The Big 5 Dubai".

Dubai is witnessing an exhibition boom and is running out of space. It presently offers 34% of available covered exhibition space in the GCC and needs to expand further to cope with the expansion in trade shows.

The "Big 5" is the largest and most important annual 5-days meeting place for the Middle East construction and contracting industry, featuring more than 2,000 companies from 67 countries. 41,058 key buyers from the public and private sectors attended the 2006 event, including architects, engineers, contractors, importers, manufacturers and distributors. The show emphasizes 7 main sections: building and construction, water technology and environment, air conditioning and refrigeration, cleaning and maintenance, glass and metal, bathrooms and ceramics, and marble and stone.

The 2007 event is to be held from 25 to 29 November, 2007 in the "Dubai International Exhibition Center".

This Big 5 show's success is based on its unique combination of all the key sectors within one show, making it a one-stop event for the region's key decision makers. Exhibitors recognize that as well as attracting orders during the show, they can also make invaluable long-term contracts.

### **-2.5.3- Dubai: The Wood Industry**

The spin-off effects of the frenetic construction activity in the UAE have sparked the growth of several related industries: **The wood industry has been one of the most significant beneficiaries, with the construction boom fuelling an unprecedented demand for wood and wood products in the country.** Wood is one of the most widely used materials in all areas, be it construction, engineering, packaging, transportation or furnishing.

#### **-1- The Industry Statistics:**

During years 2003-2005, total trade of wood and wood products recorded significant increases as follows: year 2003 Dh5.4 billion, year 2004 Dh7.35 billion (a 36% jump), and year 2005 Dh10.11billion (a 37.5% jump) , according to the Statistics Department of Dubai Ports, Customs and Free Zone Corporation (PCFC), with details being in the following table:

*Table 7: Percentage Increase in Dubai Wood Trading: 2003-2005*

<b>DUBAI: PERCENTAGE INCREASE IN WOOD TRADING</b>		
<b>Years: 2003-2005</b>		
<b>YEAR</b>	<b>% change 2003-2004</b>	<b>% change 2004-2005</b>
<b>Overall Wood Trade</b>	<b>36%</b>	<b>37.50%</b>
<b>Wood Exports</b>	<b>56%</b>	<b>69%</b>
<b>Wood Imports</b>	<b>42%</b>	<b>34.30%</b>
<b>Wood Re-exports</b>	<b>12.40%</b>	<b>37.50%</b>

Source: Statistics Department of Dubai Ports,  
Customs and Free Zone Corporation (PCFC)

Furniture and furniture parts formed the bulk of the total year 2005 trade with a 26.9 per cent share, followed by **sawn or chipped wood at 17.3 per cent** and footwear soles at

12.9 per cent. **Plywood and veneered panels accounted for 11.5 per cent**, with other products making up 23.3 per cent.

**China** ranked first on the list of the year 2005 leading *wood and wood products exporters to Dubai* with a 26.7 per cent share. **Malaysia** was second with a 9.4 per cent share, followed by **Italy** and **Indonesia** at 8.3 per cent and 7.9 per cent, respectively. **Chile**, with a 4.2 per cent share, came fifth on the list of top exporters.

**Analysts suggest the upward trend will be sustained in the coming years:** First, the industry has witnessed several positive changes in the recent years, with the adoption of innovative technology and machinery. Second, Dubai has been at the center of activity, and the fact that re-exports grew 37.5 per cent in one year is an indication of Dubai's growing prominence as a *re-export hub* to the whole GCC.

### **-2-Soaring Prices for Wood Building Materials:**

Steep price hikes in year 2006 have been recorded for core wood building materials, such as red meranti, M.D.F., whitewood and plywood. Prices for these materials climbed an overall 40 to 45% from January to December 2006. The main reasons for this high push may be summarized by the following: the UAE booming building demand, short supply of these products in the Gulf and other markets, higher freight charges, restrictions on log cutting by countries like Malaysia and Indonesia, and the appreciation of the Euro.

*A main complexity facing wood suppliers in the UAE is the volatility of commodity prices in the world markets, which is making sourcing materials a difficult task.*

### **-3-The Furniture Market Boom:**

The booming construction is driving the GCC furniture market to new heights, and the industry is expected to exceed \$6.5 billion in year 2007, with a significant 45% growth from previous year. The UAE accounts for 40% and Saudi Arabia accounts for 31% of total GCC imports of furniture, fabrics, floor coverings, lighting and ceramics. Consumption of furniture products alone is expected to reach \$2.5 billion in year 2007. According to market estimates, the value of more than 2,100 projects under way in the Gulf region is \$1,000 billion.

Dubai the main market for imports and re-exports, imports 41% of interior products into the GCC, which are traded through the emirate.

In 2005, Dubai recorded \$1.3 billion worth of imports and \$536 million worth of re-exports in the furniture and interiors sector.

#### **-4- The Dubai Woodshow: The only dedicated wood exhibition in the Middle East**

Following the phenomenal success of its inaugural edition held in 2006, Dubai Woodshow, the only dedicated, highly specialized exhibition for wood and wood machinery in the Middle East, has returned in February 2007 with a significant increase in the event's size and scale, held at the Dubai World Trade Center.

The inaugural Dubai Woodshow 2006 had proven to be an overwhelming success, drawing participation from 75 regional and international firms from more than 40 countries worldwide, and claiming the signing of deals worth over Dh23 million (\$6.26 million) during a three day period. The participating countries included Germany, Canada, UK, India, Singapore, China, Malaysia, South Africa, USA, Russia and Italy. In addition to France, Turkey, Iran, Japan, Taiwan, New Zealand, Lebanon, Korea, Indonesia and the UAE

The 2007 event (which ran from February 27 till March 1, 2007) has grown by 118%, hosted 115 leading local and international companies, was visited by over 3,500 visitors, ended with a total of USD50 million in deals closed!

Dubai Woodshow 2007 did bring together manufacturers, traders, suppliers and distributors of plywood, MDF, veneer, laminates, parquet, paper products, treatment products, and wood processing and woodworking machinery and accessories.

The event also was attended by timber merchants, interior designers, furniture manufacturers, carpenters, architects, engineers, wholesale dealers, retailers, building material manufacturers, and construction suppliers.

The main success factor of the woodshow is the sharp increase in construction activities across the region, and hence the increased demand for wood and wood working products.

The main two advantages of this specialized woodshow are: facilitating and strengthening business relations in Dubai and the region, boosting the region's wood and wood machinery industry, and providing exhibitors the opportunity to expand market awareness and advance strategic business objectives.

#### **-5- The Main Characteristics of the Dubai Wood Supply Industry:**

The wood industry has been one of the most significant beneficiaries of the construction boom in the UAE, where extraordinary demand has surged for wood and wood products in the country. Towers, hotels, shopping malls and palaces are being built within only months.

Thus, wood suppliers are being ordered very huge quantities of woods to be delivered within a very limited time period.

This has enforced two main barriers of entry to the wood supply industry:

- Product Availability and swift order supply.
- Efficient international supplier relationships (for a fast and professional delivery system).

In addition, the majority of wood players in Dubai are not just 'wood suppliers', but 'building materials suppliers' having an extensive diversified portfolio of various construction products from floor to ceiling, thus capturing not only the wood market but the whole construction materials industry. This has created a very tough competition in the industry, where product diversity is very important factor to capture huge construction projects.

#### **-6- The Major Players in the Dubai Wood Supply Industry:**

The Dubai wood market comprises a large number of wood suppliers with both UAE-based and international companies. **It is an open market characterized by the survival of the fastest and the cleverest.**

In alphabetical order, the major wood players in the UAE wood supply market are: Al Danube Building Materials Company LLC, Al Rahmani General Trading Co. LLC, Al Nibras Trading Co., and Fritz Kohl Middle East LL.

**a) Al Danube Building Materials Company LLC:**

Al Danube is a UAE-based leading solid wood and material supply company in the Middle East. The company supplies a **well-diversified extensive product portfolio to the construction industry**, ranging from wood products to iron mongery and sanitary goods: including parquet flooring, gypsum ceiling tiles, hardware, sanitaryware, veneers, inlays, MDF, doors, timber, boards, plywood, laminates, edge banding etc.

The company started in 1993 as a small trading firm, and has grown to have eight branches in the Middle East, becoming one of the largest building materials company in the region. Danube's latest announced plans is the opening of the Gulf's most modern kiln dry wood facility at Jebel Ali, as a part of Dh 17 million expansion, covering an area of 350,000 sq.ft.

In February 2007, Al Danube launched its "House of Lminates" (the world's largest collection of wood laminates) at Dubai Woodshow 2007 and closed USD1million during the show.

In March 2007, Al Danube announced its regional expansion into Bahrain with an investment of Dh30 million, as a part of its regional growth strategy to exploit high market demand for its products.

**b) Al Rahmani General Trading Co. LLC:**

Al Rahmani was established in 1917 in Dubai as a small trading concern, and had expanded through the years to be considered one of the leaders in building materials and interior decorative items in the Gulf region. Its product portfolio includes a **complete line of building materials from roof to ceiling, wall to flooring**: building materials (hardwood, exotic and construction timber, plywood, boards/panels, doors, veneers, cements, structural steel), interior decoration items, ceiling and partitioning products (ceiling tiles and gypsum boards), in addition to a complete range of hardware,



plumbing and sanitary ware, paints and accessories, hand/power tools and more, totaling to around 10,000 items.

In addition to its presence in Dubai and Abu Dhabi, Al Rahmani exports its various products to the USA, Europe, Africa, Russia, and many CIS countries apart from GCC member countries.

**c) Al Nibras Trading Co. LLC:**

Al Nibras Trading Co. imports and trades **in all kinds of building materials** (especially timber and boards), doors, windows and gates and interior decorations. The company was established in 1989, and it now owns the largest wood kiln dryer in the UAE.

**d) Fritz Kohl Middle East LLC:**

Established in 1951, Fritz Kohl is a worldwide company with main headquarters in Germany that deals with the manufacture and trade of veneers, logs, and lumber. The company has four main subsidiaries worldwide based in USA, France, Hungary, and the UAE, with around 250 employees.

***Fritz Kohl is a leader in the world of veneers.*** where production of the veneers takes place in the company's facilities with high required standards. Approximate productions per annum are: 14 million square meters of veneers, 5,000 cubic meters of timber, and 5,000 cubic meters of round logs. In addition, the company purchases around 25,000 cubic meters of round logs annually which it further processes as required.

## **2.6- CONCLUSION: IMPLEMENTING THE RIGHT ENTRY STRATEGY**

After reviewing and assessing the company's internal strengths and current performance, and after performing a research and analysis on the country and market of expansion, taking the right entry strategic decision becomes the critical step.

In order for the company to specify a strategic direction for its expansion in the wood market of Dubai, and to allocate resources to obtain the desired short and long run performance, it needs to plan and implement the right country and market entry strategy. The consequences of such an entry will greatly affect the overall company's long-term performance.

This raises the following critical questions for any company aiming to expand its operations into the Middle East Region:

- What are the main capabilities for success: both country-specific and market-specific factors that should be studied?
- Can these factors be integrated in a comprehensive and measurable model that provides a basis on which the expansion decision will be made?

## **CHAPTER 3: PROCEDURES AND METHODOLOGY**

### **3.1 INTRODUCTION**

This study, with its grounding in the theoretical basis of strategic market planning and the practical researches of the importance and characteristics of country risk, provides a framework to develop predictions of the impact of particular foreign country and market specific factors for companies expanding in the Middle East Region.

Thus, before entering the foreign market and choosing the appropriate entry mode, thus committing resources and facing risks, the company should ask two main questions:

**-1- What are the main capabilities for success: both country-specific and market-specific factors that should be studied?**

**-2- Can these factors be integrated in a comprehensive and measurable model that provides a basis on which the expansion decision will be made?**

### **3.2 RESEARCH HYPOTHESIS**

This research draws one main hypothesis to be tested:

- The study of both the host's country and market specific factors will form a strategic direction for the company on which it will base its entry mode decisions to the market in question.

### 3.3 RESEARCH METHODOLOGY

#### 3.3.1 Testing the Hypothesis:

To test the research hypothesis and to answer the research questions, a survey was conducted using a detailed questionnaire.

**The questionnaire thus constituted a test for the developed model.**

**This model is composed of two indexes:**

**-the first one is a Country Attractiveness index integrating the country-specific factors to be studied, and**

**-the second being a Market Attractiveness index integrating the market-specific factors to be studied.**

- The survey comprised thirty businessmen and academic persons who were chosen as to be familiar with both Dubai as a business investment center and the Dubai wood market and/or construction industry, as the two being directly and closely related industries.

The survey population was divided as follows:

-33.33% being owners and/or managers of Lebanese-based wood-working companies having operations in Dubai, U.A.E.

-33.33% being engineers or project managers of Lebanese- based contracting companies having operations in Dubai, or of Dubai-based construction companies.

-33.33% being businessmen, such that they are:

either teaching M.B.A. courses related to management, economics, marketing or finance and familiar with Dubai wood or construction industry,

or managers/ department heads of Lebanese-based corporations having subsidiaries in Dubai.

### 3.3.2 The Data Used: Questionnaire and Measures:

#### The Questionnaire:

The survey used a structured questionnaire to collect data from the sample. The questionnaire was divided into two parts:

- part one calculating the “Dubai Attractiveness Index”, and
- part two calculating the “Dubai Wood Market Attractiveness Index”,

\*The questionnaire is fully detailed in Appendix D.

These two indexes are quantitatively measurable, to reach an overall index over 100, in the following order:

- Grades Assignment:

- 1- Each index is divided into **three Major Forces**. Each Force should be assigned a **Relative Importance Percentage**, so that the 3 forces will total 100%.
- 2- Each major force is divided into **three minor variables** constituting it, which also should be assigned a **Relative Importance Percentage**, having a total of 100%.
- 3- **Each minor variable** should be assigned an **Attractiveness Rating** according to its attractiveness in the specific country/market. This rating should be within a range from ‘0’ = ‘very unattractive’ to ‘100’ = ‘very attractive’.

- Indexes Computation:

- 1-The attractiveness rating of each minor factor is multiplied by the relative importance of that factor to obtain a weighted individual factor attractiveness score.
- 2-The **sum** of these individual scores for each dimension is computed and multiplied by the importance given to that dimension, this reaching a sub-total attractiveness scores for each major force.
- 3- The **sum** of three subtotals will produce the overall index, rated from “0”: very unattractive to “100”: very attractive.

**b) The Model Measures:**

Specific measures were employed for country and market attractiveness, as detailed below:

• **Country Attractiveness Index:**

**-A- Political Forces (POLT):** are forces dealing with the homogeneity of society, the government stability and the foreign conflicts with other nations:

1- Government Stability (STB). Measured by nature of the regime, clarity of the succession process, and the efficiency of the government.

2- Society Homogeneity (HOM). Reflected by ethnic, racial and/ or religious equilibrium, ratio of foreigners/ nationals, wealth distribution, and social conflicts existing.

3- Foreign Conflicts (CON). Include existence or serious risks of a declared armed conflict, and the quality of the country's relations with neighboring countries, the EU, and the USA.

**-B- Economic and Financial Factors (ECFI):** are forces dealing with the economy, currency, and public debt:

1- Fundamental Economic Equilibriums (EQU). Include GDP, inflation, interest rates, economy growth and diversification, etc.

2- Currency Risk (CUR). Measured by the monetary control of the foreign exchange rates, and the risk ratings of international rating organizations such as Standard & Poor and Moodys.

3- Public Debt (DET). Includes the default risk on public debt, and the government's bonds rating by Standard & Poor, Moodys and others.

**-C- Business Environment Forces (BUSN):** are forces dealing with the foreign investments, working conditions, and the governance laws of the country:

1- Foreign Investments (INV). Determined by inflows of foreign direct investments, working conditions, and the governance laws of the country.

2- Working Conditions (WRK). Include labor, transport and energy quality available, the country's hiring laws, and the degree of dependency on foreign skills.

3- Good Governance (GOV). Defined by the intensity of "bureaucratic obstacles" and level of corruption, respect of the law and the legal rulings, and the main existing forms of corporations.

- **Market Attractiveness Index:**

**-A- Market Forces (MRKT):** are forces that deal with the industry itself: its size, growth rate, and the relative buyer power:

1- Market Size (SIZ). Defined by the relative importance of the industry with respect to the country's general trade volume.

2- Industry's Growth Rate (GRW). Reflected by the industry/related industries boom in the country, and the relative import and export growth of the products.

3- Buyer Power (BUY). Determined by the availability of substitute products in the market, the switching costs between suppliers, and the customer purchase volume from the suppliers.

**-B- Competitive Intensity Forces (COMP):** are those that reflect the competitive nature of the industry:

1- Competitors (CMP). Include the stage of the industry's life cycle, number of existing competitors in the industry, and their offered product mix to the market

2- Existing Rivalry (RIV). Measured by both the price competition or wars and/or product differentiation among the existing suppliers.

3- **Entry Barriers (BAR)**. Include the capital requirements, the product availability, the international supplier relationships, i.e. the product sourcing, and the technology intensity needed.

**-C- Market Access Forces (ACCS):** are forces dealing with the supplier-customer relationships in the industry, and by the ways that customers can be reached by suppliers:

1- Customer Familiarity (FAM). Determined by the customers' brand awareness and price sensitivity, and by the advertising campaigns and/or exhibitions, where suppliers-customers interaction is very efficient.

2- Channel Access (CHN). Include the direct or indirect marketing channels used, and the relative sales force required.

3- Sales Requirements (SLS). Reflected by the marketing and operating expenses needed for the efficient reach of customers.

### **3.4 CONCLUSION**

The data that are obtained from the questionnaire shall be analyzed by performing a **mean computation and a frequency distribution** for each variable studied.

The survey output and analysis will provide a useful guide for decision makers planning to expand their business operations in the Middle East, by shedding significant light on what are the critical country and market risk factors that the company should include in its strategic planning process for market expansion.



## CHAPTER 4: FINDINGS

### 4.1 INTRODUCTION

For data analysis, a frequency distribution and descriptives tables were calculated for each variable, clustered into four groups for each index, in the following sequence:

First, the three major forces comprising the index were studied together, and then the three variables comprising each force were also studied together. This method permits the analysis of each group separately, and thus allowing a clearer view of the critical factors to be studied.

### 4.2 MAIN RESULTS

\*The detailed results of both the frequency distribution and descriptives for each group of variables are attached in Appendix E.

The main results are as follows:

#### **-The Frequency Distributions:**

The frequency distributions were found to be realistic for most variables, where the data are closely clustered around the mean, implying that output data studied are realistic and rational. However, because of the relatively small sample size, the error factor effects are apparent in some variables although in very a small scale.

#### **-The Means:**

The results of the means for each variable are summarized in the following two tables:

## DUBAI WOOD MARKET ATTRACTIVENESS MEAN RESULTS

	Market Attractiveness Mean Rating	Relative Importance Mean %
<b>-A- Market Forces</b>		
1- Market Size	64	31.78%
2- Growth Rate	89.33	37.78%
3- Buyer Power	74	31.11%
		36.06%
<b>-B- Competitive Forces</b>		
1- Competitors	76	28.61%
2- Existing Rivalry	68	35.28%
3- Entry Barriers	65.67	36.11%
		38.56%
<b>-C- Market Access Forces</b>		
1- Customer Familiarity	71.67	32.33%
2- Channel Access	76.33	39.17%
3- Sales Requirements	71.33	28.67%
		25.39%
<b>Market Attractiveness Mean Index</b>		<b>73.6</b>

## DUBAI ATTRACTIVENESS MEAN RESULTS

	Country Attractiveness Mean Rating	Relative Importance Mean %
<b>-A- Political Forces</b>		
1- Government Stability	91	42.72%
2- Society Homogeneity	71.67	27.06%
3- Foreign Conflicts	73.33	29.56%
		35.11%
<b>-B- Economic and Financial Forces</b>		
1- Fundamental Economic Equilib.	90.17	42%
2- Currency Risk	83.33	32.83%
3- Public Debt	90	25.50%
		36.78%
<b>-C- Business Environment Forces</b>		
1- Foreign Investments	87.17	40.56%
2- Working Conditions	77.33	34.72%
3- Governance	67	24.72%
		28.11%
<b>Country Attractiveness Mean Index</b>		<b>82.5</b>

### 4.3 DISCUSSIONS OF THE FINDINGS

The calculated mean results give clear guides and indications for a company undertaking an expansion decision in the Middle East, on which variables to concentrate as to minimize the risk of a false entry strategy :

- **The Country Attractiveness :**

-Considering the major country attractiveness forces: The greatest attention in the entry strategy must be given to the **Economic and Financial Forces** and to the **Political Forces** of the country of expansion, which have close mean importance percentages of 36.78% and 35.11% respectively.

-With respect to the **political forces**, the **government stability** is the critical variable to be analyzed in the Middle East, where most countries are considered emerging countries, with a high risk of government inefficiency. This variable has the highest mean importance of 42.72%, compared to the other two, foreign conflicts and society homogeneity, with respective means of 29.56% and 27.06%.

-In the **economic and financial forces**, the highest mean importance is attributed to the **fundamental economic equilibriums**, being 42%, which constitute the basis of the economy. Therefore, if the economic fundamentals of the expansion country are healthy, this will surely affect positively the currency risk and the public debt of the government.

-Finally, studying the **business environment forces** in the Middle East, the greatest attention must be given to the **foreign direct investments** to the country, with a mean importance of 40.56%, thus reflecting the investors' confidence in the country's business policies and implementations.

- **The Market Attractiveness :**

-When studying the major attractiveness forces in the Middle East, the company should mainly focus on both the **Competitive Forces** and the **Market Forces**, which have close respective mean attractiveness grades of 36.11% and 36.06% respectively. The **Market Access Forces** come in third importance category, with a mean of 25.39%.

-In the detail study of the **market forces**, the most important variable is the **growth rate** of the market to be considered. So, although the market size can be relatively small, the market can be experiencing a boom, with a significant growth rate, and thus prove to be an attractive investment option.

- The most two important variables to be assessed in the market **competitive forces** are the **entry barriers** to the market, and the **existing rivalry** among competitors, which have taken respective mean attractiveness of 36.11% and 35.28%. These two variables will give the company a clear vision of how to enter the market and where to position itself with respect to the other existing competitors.

- In dealing with the **market access forces**, the **channel access** variable recorded the highest mean attractiveness of 39.17%. Therefore, before the market entry, the company should possess a clear idea of the direct or indirect marketing channels and the sales force required for the efficient reach of customers.

#### **4.4 DISCUSSIONS OF THE HYPOTHESIS**

After results analysis, the company will have two basic information:

-What are the country and market variables that should be given the greatest attention in the foreign market entry strategy.

-What are the country's and market's positions, i.e. their ranking, relative to the importance percentage of the variables studied.

Therefore, the company will possess a strategic direction on which it can now base its entry strategy and its entry mode decisions, its risk dissemination, and its control over foreign operations.

Thus, the main hypothesis that this study aims to test is supported and validated through the entry model formulation.

## **4.5 CONCLUSION**

The attractiveness indicators are integrated into an attractiveness index, thus giving an overall rating to both the host country and market of expansion. The overall results will inform the company of whether it is expanding into the right country, and if so, has it chosen the right market. The company will thus have sufficient information on which to base its entry mode decisions, and thus to minimize the risks to be taken.

## CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

### 5.1 INTRODUCTION

This research's formulated indexes of risk assessment for entry decisions to the Middle East region are a basic tool that will always be needed by decision makers every time a new expansion consideration is studied, and every time a reassessment of previously taken decisions is needed. The company thus reevaluates its past actions and takes the necessary strategic modifications needed when major external factors are changed.

### 5.2 COMPARISON OF MAIN RESULTS WITH MAIN THEORIES

This research was based on three main previous studies: One theoretical being Best's strategic planning process and focus on market attractiveness and the company's competitive advantage. And the other two empirical, the first being Parks' dissertation studying the importance of analyzing country risks in entry strategies , and the second being Terrier's report and emerging country ratings , based on well-defined criteria of country risk.

The research output was an assimilation of those three previous studies, where both the country risks and market attractiveness were integrated into one comprehensive risk assessment model formulated of two measurable indexes, detailing the specific country and market factors to be analyzed for strategic entry decisions.

### 5.3 RESEARCH LIMITATIONS

This study includes **two basic limitations**:

- **First, the sample survey base was relatively small** due to two major factors:

-The nature of the answers required which are numerical grades assigned by the person filling the questionnaire .This fact necessitates the personal interaction between the

researcher and the person answering the questions, for an efficient feedback and discussion of results.

-The nature of the questionnaire itself, which requires knowledge of strategic thinking, the emirate of Dubai, and Dubai wood market or construction industry.

These two facts resulted in a relatively small survey sample, and thus for a greater possibility of output error.

- **Second, the study is limited to Dubai as the expansion target**, which imposes limits on the degree of generalization of the study in the Middle East Region.

These two limitations can be enhanced and be the challenge of a Ph.D. Dissertation.

#### **5.4 RECOMMENDATIONS FOR FUTURE RESEARCHES**

This study used a basic risk assessment model to guide decision makers in their entry strategy. Therefore, future researches can expand this model to comprise:

-**A large survey sample**, consisting of decision makers of Lebanese-based large, mid-sized, and small-sized firms, having subsidiaries in the Middle East Region.

- **A study of several expansion Middle East countries**, based on different characteristics and risk assessments for each country, although being in the same geographical region

-**A further more specific breakdown and rating of the variables studied**, which can lead to a deeper analysis of the host country and market.

-**An incorporation of CEO's characteristics**, such as their experience, leadership style or traits, since CEOs have a great influence on the decision-making of entry strategies and the risks to be taken.



-Finally, while this study generated different results in analytical methods based on previous research, future research may need to **apply other analytical methods** in order to reinforce the findings of this study.

## **5.5 MANEGERIAL IMPLICATIONS**

For managers of companies aiming to expand in the Middle East region, this integrated model provides a basic strategic direction and implication for managerial practices for:

-**Deciding on entry-mode decisions**, which vary from exporting, licensing/franchising, joint venture, to wholly –owned subsidiaries in the host country; thus taking decisions about resource commitment considerations, dissemination of risk, and control over foreign operations. It allows managers to recognize the identified variables that determine the ultimate decision in their entry strategies.

-**Periodical post-entry reassessing** of the country and market of expansion, where the indexes can be used as reevaluation tools of the company's market position after the entry, thus maybe leading to critical decisions to expand, protect current position, or retrench from the given country or market.

-**Creating a risk-assessment portfolio on a long-tem basis**, composed of a country portfolio index, an area portfolio index, and a regional portfolio index, with further expansions taken by the company.

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# APPENDEXES

## APPENDIX A:

### THE FOUR MAJOR WOOD PRODUCER COUNTRIES IN THE WORLD

The center of the wood world market is in Asia, where are situated the biggest world producers (Indonesia, Russia, Malaysia, India, and Thailand), as well as the biggest consumers (Japan and China). Brazil, in Latin America and the U.S.A. are the most important exceptions:

#### a) Indonesia:

Indonesia, an important ITTO member (International Timber Trade Organization), is a major timber producer:

- The most important **log producer** of the world for **tropical timber**.
- The second most important **sawn wood producer** of the world of **tropical timber**, after Brazil.
- The first **plywood producer and exporter** of the world for **tropical timber**.

Exploitation of *'tropical rainforests'* in Indonesia is distinguished geographically between Java and the Outer Islands. Timber on Java is produced from the 1.4 million hectares of plantations which consist mainly of **teak, pine, and mahogany**.

The government's plan for year 2006 was to increase the harvest quota for natural forest by around 30%, aimed at revitalizing the country's forestry based industries and increasing export earnings of up to U.S.\$8 billion in year 2007 from around U.S.\$5 billion in 2007.

#### b) The Russian Federation:

**The Russian Federation contains a staggering 25 percent of the world's forests.** One quarter of this vast resource lies in the Russian Far East, where species of **Siberian Larch, spruce, birch, ash and oak woods** prevail. It is estimated that 40 percent of the

Siberian forests remain economically inaccessible due to difficult mountain landscape of the northern forest region.

Due to its geographic location, Russia has the ability to **capture the Far East wood market**: especially **China and Japan**, and to continue to be the **largest supplier to China** (the top importing country worldwide of industrial round wood).

### c) Brazil:

Brazilian solid wood products exports reached \$2,512 million in January-October 2005, up only 0.6% from the same period in 2004. Exports of **pine plywood**, a major export product, were 189,000 m<sup>3</sup> (\$51.7 million) in October, up 8.5% from the same month in 2004.

**Basic Data:** Brazil is

- The first **particleboard producer** of the world (50% of ITTO members' production.)
- The fifth most important **plywood producer** and the third **exporter of tropical plywood**, after Indonesia and Malaysia.
- Second **log producer and consumer** of the world for **tropical timber**. after Indonesia.
- First **sawn wood producer** of the world for **tropical timber**.
- Fourth most important **veneer producer** of the world for **tropical timber**. after China, Malaysia and the Philippines.

**The country is now the first U.S. supplier for plywood, and the first sawn wood supplier to Spain.**

### d) The United States of America:

All hardwood forests in the continental United States are '*temperate*'-not tropical: They are home to the: **red oaks, hard and soft maples, cherry, ash, poplar, cedar and other species**, many of which grow nowhere else in the world. Most hardwood forestland is in the eastern half of the United States.

Aside from one or two bright spots offshore, **Canada remains U.S.'s largest trading partner in virtually all export products in value and volume.**

## **APPENDIX B:**

### **DETAILED LEBANESE TARRIF ON WOOD:**

The Lebanese customs differentiates between different forms of wood, veneers, and boards according to the following:

- ✓ **All forms of solid wood are not subject to customs tariff, including:**
  - Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.
  - Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6mm.
  - Wood (including strips and friezes for parquet flooring, not assembled), continuously shaped (tongued, grooved, rebated, chamfered, v-jointed, beaded, moulded, rounded or the like) along of any of its edges, ends or faces, whether or not planed, sanded or end-jointed.
- ✓ **All kinds of veneers are not subject to customs tariff, as detailed below:**
  - Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for other similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6mm.
- ✓ **Boards on the other hand are divided according to the availability of local production or not, as follows:**
  - Zero% tariff for: Particle board and similar board (for example, oriented strand board and wafer board) of wood or other ligneous materials, whether or not agglomerated with resins or other organic substances, (since not produced in Lebanon).
  - Zero% tariff for: Fiberboard of other ligneous materials, whether or not bonded with resins or other organic substances. Examples include M.D.F and H.D.F. (since not produced locally).
  - 5% tariff on Plywood, Block boards, veneered panels and similar laminated woods, (since local production exists).

✓ **25% Tariff on the following:**

-Wood marquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles of wood; statuettes and other ornaments of wood; and wooden articles of furniture.



## APPENDIX C:

## DETAILED LEBANESE IMPORTS AND EXPORTS:

YEARS :2003-2005

*Detailed Average Lebanese Imports by Category: 2003-2005*

<b>DETAILED LEBANESE AVERAGE WOOD IMPORTS BY CATEGORY MAJOR TRADING PARTNERS A THREE-YEAR COMPARATIVE:2003-2005</b>
---

<b>WOOD (category 4403-4407-4408)</b>	
Romania	39.30%
Russian Federation	23.50%
United States	9.76%
Ghana	5.39%
Ivory Coast	3.37%
Canada	3.11%
Turkey	2.28%
Italy	2.79%
Brazil	1.66%
Others	8.84%
<b>TOTAL</b>	<b>100.00%</b>

<b>VENEER (category 4410)</b>	
Spain	29.35%
Italy	23.62%
Greece	18.36%
Bulgaria	14.91%
Romania	6.06%
Austria	3.11%
Others	4.59%
<b>TOTAL</b>	<b>100.00%</b>

<b>BOARDS (category 4411-4412)</b>
------------------------------------

Indonesia	19.29%
Italy	17.20%
China	16.76%
Romania	10.72%
Spain	8.68%
Malaysia	5.59%
Germany	3.43%
Russian Federation	2.51%
Belgium	1.97%
Brazil	1.97%
U.K.	1.69%
Others	10.19%
<b>TOTAL</b>	<b>100.00%</b>

<b>WOOD MARQUETRY &amp; OTHER (category 4420)</b>
---

China	53.04%
India	9.75%
Thailand	6.98%
Italy	5.81%
France	5.43%
Indonesia	2.82%
Taiwan	1.86%
Syria	1.70%
Others	12.61%
<b>TOTAL</b>	<b>100.00%</b>

Source: Lebanese Customs Statistics

*Average Lebanese Wood Exports: 2003-2005*

<b>Average Lebanese Wood Exports :2003-2005</b>
<b>Major Trading Partners</b>

Country	Average % of total exports
Iraq	35.10%
Jordan	24.74%
Syrian Arab Republic	7.80%
United Arab Emirates	6.83%
Saudi Arabia	6.78%
Egypt	5.58%
Cyprus	1.77%
Qatar	1.62%
Kuwait	0.91%
Others	8.87%
<b>TOTAL</b>	<b>100%</b>

Source: Lebanese Customs Statistics

**APPENDIX D:**  
**THE QUESTIONNAIRE**

**Thank you for accepting to be part of this study.**

**It will take you only several minutes to fill a questionnaire studying the strategy of business growth in the Middle East region.**

The results from this questionnaire will be a basic input to my MBA Thesis, titled "Growth Strategy and Model in the Middle East" taking the case of the wood industry in particular.

### **-I- THESIS OBJECTIVE:**

**The basic objective of my thesis is to formulate a growth business strategy and model in the Middle East region for any company aiming to expand its operations abroad.**

To be able to work precisely, I studied a specific industry, which is the wood supply industry, and a specific company in this industry called "Chabros s.a.r.l."

The study comprised:

- ✓ **First**, the world wood industry and its future trends
- ✓ **Second**, a more specific study of the Lebanese wood supply industry and of Chabros in particular
- ✓ **Third**, an expansion study in the Middle East, taking **Dubai** as a target market. The questionnaire that you will complete fits in this part, where country and market indexes will be formulated as an output.
- ✓ **Finally**, the results will be generalized to formulate a strategy and a model for any company in any industry aiming to expand in the Middle East region.

### **-II- QUESTIONNAIRE OBJECTIVE:**

**The objective of this questionnaire is to calculate *ATTRACTIVENESS INDEXES* for DUBAI, concerning both "Dubai the investment emirate" and "Dubai the wood supply market".**

If you are not familiar with the wood market in Dubai, you can relate it to the construction boom that is currently taking place in the UAE in general and in Dubai in particular.

### **-III-PROCEDURE:**

**You have to fill two ratings, taking an investor's point of view:**

- The "**Attractiveness Rating**": on a scale from 0 to 100, where 0=very unattractive and 100=very attractive.
- The "**Relative Importance %**": from 0% to 100%, where 0%=unimportant and 100%=very important.

**These ratings should be given by the following order:**

1- The index is divided into 3 Major Forces (A, B, and C).

Each Force should be assigned a relative importance %, so that the 3 forces will total 100%.

2- Each major force is divided into 3 main factors (1, 2, and 3), which also should be assigned a relative importance %, having a total of 100%.

Remark: For further clarification, brief definitions of each factor are supplied (see attachment).

3- Finally each factor (1, 2 and 3) should be rated according to its attractiveness within a range from '0' = 'very unattractive' to '100' = 'very attractive'.

4- I will continue the computations to reach the Attractiveness Index for both country and market.



**DUBAI ATTRACTIVENESS INDEX**

**Attractiveness Rating**

Very Unattractive 0	Unattractive 20	Somewhat Unattractive 40	Somewhat Attractive 60	Attractive 80	Very Attractive 100
------------------------	--------------------	-----------------------------	---------------------------	------------------	------------------------

	<b>Country Attractiveness Rating</b>	<b>Relative Importance %</b>
<b>-A- Political Forces</b>		
1- Government Stability		
2- Society Homogeneity		
3- Foreign Conflicts		
<b>-B- Economic and Financial Forces</b>		
1- Fundamental Economic Equilibriums		
2- Currency Risk		
3- Public Debt		
<b>-C- Business Environment Forces</b>		
1- Foreign Investments		
2- Working Conditions		
3- Governance		

<b>Country Attractiveness Index</b>	
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**DUBAI WOOD MARKET ATTRACTIVENESS INDEX**

**Attractiveness Rating**

Very Unattractive 0	Unattractive 20	Somewhat Unattractive 40	Somewhat Attractive 60	Attractive 80	Very Attractive 100
------------------------	--------------------	-----------------------------	---------------------------	------------------	------------------------

	<b>Market Attractiveness Rating</b>	<b>Relative Importance %</b>
<b>-A- Market Forces</b>		
1- Market Size		
2- Growth Rate		
3- Buyer Power		
<b>-B- Competitive Forces</b>		
1- Competitors		
2- Existing Rivalry		
3- Entry Barriers		
<b>-C- Market Access Forces</b>		
1- Customer Familiarity		
2- Channel Access		
3- Sales Requirements		

<b>Market Attractiveness Index</b>	
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**APPENDIX E:****RESULTS OF FREQUENCY DISTRIBUTIONS AND  
DESCRIPTIVES**

**COUNTRY ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:**  
**Political, Economic and Financial, and Business Environment Forces**

**Frequency Table**

**Political Forces**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	1	3.3	3.3	3.3
.3000	14	46.7	46.7	50.0
.3333	1	3.3	3.3	53.3
.4000	13	43.3	43.3	96.7
.6000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Economic and Financial Forces**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .3000	11	36.7	36.7	36.7
.3333	1	3.3	3.3	40.0
.4000	16	53.3	53.3	93.3
.5000	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Business Environment Forces**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .1000	1	3.3	3.3	3.3
.2000	6	20.0	20.0	23.3
.3000	20	66.7	66.7	90.0
.3333	1	3.3	3.3	93.3
.4000	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Political Forces	30	.2000	.6000	.351110	7.25738E-02
Economic and Financial Forces	30	.3000	.5000	.367777	5.96827E-02
Business Environment Forces	30	.1000	.4000	.281110	6.17012E-02
Valid N (listwise)	30				

# COUNTRY ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:

## Political Forces

### Frequency Table

#### Government Stability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.2500	1	3.3	3.3	3.3
	.3333	2	6.7	6.7	10.0
	.4000	19	63.3	63.3	73.3
	.5000	6	20.0	20.0	93.3
	.6000	1	3.3	3.3	96.7
	.7000	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

#### Society Homogeneity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.1000	1	3.3	3.3	3.3
	.2000	10	33.3	33.3	36.7
	.2500	4	13.3	13.3	50.0
	.3000	9	30.0	30.0	80.0
	.3333	2	6.7	6.7	86.7
	.3500	1	3.3	3.3	90.0
	.4000	2	6.7	6.7	96.7
	.5000	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

#### Foreign Conflicts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.0000	1	3.3	3.3	3.3
	.1500	1	3.3	3.3	6.7
	.2000	6	20.0	20.0	26.7
	.2500	2	6.7	6.7	33.3
	.3000	9	30.0	30.0	63.3
	.3333	2	6.7	6.7	70.0
	.3500	1	3.3	3.3	73.3
	.4000	7	23.3	23.3	96.7
	.5000	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Government Stability	30	.2500	.7000	.427220	8.28730E-02
Society Homogeneity	30	.1000	.5000	.270553	8.06663E-02
Foreign Conflicts	30	.0000	.5000	.295553	.100280
Valid N (listwise)	30				

**COUNTRY ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:  
ECONOMIC AND FINANCIAL FORCES**

**Frequency Table**

**Economic Equilibriums**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .3000	1	3.3	3.3	3.3
.3333	6	20.0	20.0	23.3
.4000	16	53.3	53.3	76.7
.5000	4	13.3	13.3	90.0
.6000	2	6.7	6.7	96.7
.7000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Currency Risk**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .1500	1	3.3	3.3	3.3
.2000	1	3.3	3.3	6.7
.2500	2	6.7	6.7	13.3
.3000	11	36.7	36.7	50.0
.3333	6	20.0	20.0	70.0
.4000	8	26.7	26.7	96.7
.5000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Public Debt**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .1000	3	10.0	10.0	10.0
.1500	1	3.3	3.3	13.3
.2000	7	23.3	23.3	36.7
.2500	2	6.7	6.7	43.3
.3000	11	36.7	36.7	80.0
.3330	1	3.3	3.3	83.3
.3333	5	16.7	16.7	100.0
Total	30	100.0	100.0	

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Economic Equilibriums	30	.3000	.7000	.419993	8.99619E-02
Currency Risk	30	.1500	.5000	.328327	6.95010E-02
Public Debt	30	.1000	.3333	.254983	7.50491E-02
Valid N (listwise)	30				

**COUNTRY ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:  
BUSINESS ENVIRONMENT FORCES**

**Frequency Table**

**Foreign Investments**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	2	6.7	6.7	6.7
.3000	3	10.0	10.0	16.7
.3333	2	6.7	6.7	23.3
.4000	17	56.7	56.7	80.0
.5000	2	6.7	6.7	86.7
.6000	4	13.3	13.3	100.0
Total	30	100.0	100.0	

**Working Conisitions**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	3	10.0	10.0	10.0
.2500	1	3.3	3.3	13.3
.3000	9	30.0	30.0	43.3
.3333	2	6.7	6.7	50.0
.4000	13	43.3	43.3	93.3
.5000	2	6.7	6.7	100.0
Total	30	100.0	100.0	

**Governance**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .1000	5	16.7	16.7	16.7
.2000	11	36.7	36.7	53.3
.2500	1	3.3	3.3	56.7
.3000	7	23.3	23.3	80.0
.3333	2	6.7	6.7	86.7
.4000	3	10.0	10.0	96.7
.5000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Foreign Investments	30	.2000	.6000	.405553	.101365
Working Conisitions	30	.2000	.5000	.347220	7.83066E-02
Governance	30	.1000	.5000	.247220	.101904
Valid N (listwise)	30				

# COUNTRY ATTRACTIVENESS INDEX: ATTRACTIVENESS RATING:

## Political Forces

### Frequency Table

#### Government Stability

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 80	6	20.0	20.0	20.0
90	15	50.0	50.0	70.0
100	9	30.0	30.0	100.0
Total	30	100.0	100.0	

#### Society Homogeneity

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 40	1	3.3	3.3	3.3
50	2	6.7	6.7	10.0
60	7	23.3	23.3	33.3
70	6	20.0	20.0	53.3
80	9	30.0	30.0	83.3
90	5	16.7	16.7	100.0
Total	30	100.0	100.0	

#### Foreign Conflicts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 40	1	3.3	3.3	3.3
50	2	6.7	6.7	10.0
60	6	20.0	20.0	30.0
70	4	13.3	13.3	43.3
75	2	6.7	6.7	50.0
80	10	33.3	33.3	83.3
90	3	10.0	10.0	93.3
100	2	6.7	6.7	100.0
Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Government Stability	30	80	100	91.00	7.12
Society Homogeneity	30	40	90	71.67	13.41
Foreign Conflicts	30	40	100	73.33	14.40
Valid N (listwise)	30				

# COUNTRY ATTRACTIVENESS INDEX: ATTRACTIVENESS RATING

## conomic and Financial Factors

### Frequency Table

#### Economic Equilibriums

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	80	4	13.3	13.3	13.3
	90	21	70.0	70.0	83.3
	95	1	3.3	3.3	86.7
	100	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

#### Currency Risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	60	2	6.7	6.7	6.7
	70	2	6.7	6.7	13.3
	80	12	40.0	40.0	53.3
	90	12	40.0	40.0	93.3
	100	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

#### Public Debt

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	80	7	23.3	23.3	23.3
	90	16	53.3	53.3	76.7
	100	7	23.3	23.3	100.0
	Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Economic Equilibriums	30	80	100	90.17	5.33
Currency Risk	30	60	100	83.33	9.59
Public Debt	30	80	100	90.00	6.95
Valid N (listwise)	30				



**COUNTRY ATTRACTIVENESS INDEX: ATTRACTIVENESS RATING:  
Business Environment Forces**

**Frequency Table**

**Foreign Investments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	40	1	3.3	3.3	3.3
	60	1	3.3	3.3	6.7
	70	1	3.3	3.3	10.0
	80	5	16.7	16.7	26.7
	90	19	63.3	63.3	90.0
	95	1	3.3	3.3	93.3
	100	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

**Working Conisitions**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	50	1	3.3	3.3	3.3
	60	4	13.3	13.3	16.7
	70	6	20.0	20.0	36.7
	80	11	36.7	36.7	73.3
	90	7	23.3	23.3	96.7
	100	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

**Governance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20	1	3.3	3.3	3.3
	50	5	16.7	16.7	20.0
	60	9	30.0	30.0	50.0
	70	6	20.0	20.0	70.0
	80	4	13.3	13.3	83.3
	90	4	13.3	13.3	96.7
	100	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Foreign Investments	30	40	100	85.83	11.75
Working Consitions	30	50	100	77.33	11.72
Governance	30	20	100	67.00	16.64
Valid N (listwise)	30				

**MARKET ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:**  
**Market, Competitive and Market Access Forces**

**Frequency Table**

**Market Forces**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2500	1	3.3	3.3	3.3
.3000	8	26.7	26.7	30.0
.3333	5	16.7	16.7	46.7
.4000	15	50.0	50.0	96.7
.5000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Competitive Forces**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .3000	4	13.3	13.3	13.3
.3333	5	16.7	16.7	30.0
.4000	18	60.0	60.0	90.0
.5000	3	10.0	10.0	100.0
Total	30	100.0	100.0	

**Market Access Forces**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .1000	1	3.3	3.3	3.3
.2000	14	46.7	46.7	50.0
.2500	1	3.3	3.3	53.3
.3000	8	26.7	26.7	80.0
.3333	5	16.7	16.7	96.7
.4000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Market Forces	30	.2500	.5000	.360550	5.51035E-02
Competitive Forces	30	.3000	.5000	.385550	5.44503E-02
Market Access Forces	30	.1000	.4000	.253883	6.80370E-02
Valid N (listwise)	30				

# MARKET ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:

## Market Forces

### Frequency Table

#### Market Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.2000	3	10.0	10.0	10.0
	.2500	2	6.7	6.7	16.7
	.3000	14	46.7	46.7	63.3
	.3333	4	13.3	13.3	76.7
	.4000	6	20.0	20.0	96.7
	.5000	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

#### Growth Rate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.2000	1	3.3	3.3	3.3
	.3000	6	20.0	20.0	23.3
	.3333	4	13.3	13.3	36.7
	.4000	16	53.3	53.3	90.0
	.5000	2	6.7	6.7	96.7
	.6000	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

#### Buyer Power

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.1000	1	3.3	3.3	3.3
	.2000	5	16.7	16.7	20.0
	.2500	2	6.7	6.7	26.7
	.3000	8	26.7	26.7	53.3
	.3333	4	13.3	13.3	66.7
	.4000	10	33.3	33.3	100.0
	Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Market Size	30	.2000	.5000	.317773	6.69428E-02
Growth Rate	30	.2000	.6000	.377773	7.49655E-02
Buyer Power	30	.1000	.4000	.311107	8.21552E-02
Valid N (listwise)	30				

# MARKET ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:

## Competitive Forces

### Frequency Table

#### Competitors

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	9	30.0	30.0	30.0
.2500	3	10.0	10.0	40.0
.3000	9	30.0	30.0	70.0
.3333	4	13.3	13.3	83.3
.4000	5	16.7	16.7	100.0
Total	30	100.0	100.0	

#### Existing Rivalry

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2500	3	10.0	10.0	10.0
.3000	8	26.7	26.7	36.7
.3333	4	13.3	13.3	50.0
.4000	14	46.7	46.7	96.7
.5000	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Entry Barriers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	4	13.3	13.3	13.3
.3000	4	13.3	13.3	26.7
.3333	4	13.3	13.3	40.0
.4000	15	50.0	50.0	90.0
.5000	3	10.0	10.0	100.0
Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Competitors	30	.2000	.4000	.286107	7.09893E-02
Existing Rivalry	30	.2500	.5000	.352773	6.11343E-02
Entry Barriers	30	.2000	.5000	.361107	8.35453E-02
Valid N (listwise)	30				

# MARKET ATTRACTIVENESS INDEX: RELATIVE IMPORTANCE %:

## Market Access Forces

### Frequency Table

#### Customer Familiarity

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	4	13.3	13.3	13.3
.2500	4	13.3	13.3	26.7
.3000	11	36.7	36.7	63.3
.3333	3	10.0	10.0	73.3
.4000	6	20.0	20.0	93.3
.6000	2	6.7	6.7	100.0
Total	30	100.0	100.0	

#### Channel Access

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .2000	2	6.7	6.7	6.7
.3000	3	10.0	10.0	16.7
.3333	3	10.0	10.0	26.7
.3500	1	3.3	3.3	30.0
.4000	14	46.7	46.7	76.7
.5000	7	23.3	23.3	100.0
Total	30	100.0	100.0	

#### Sales Requirements

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid .0500	1	3.3	3.3	3.3
.2000	7	23.3	23.3	26.7
.2500	3	10.0	10.0	36.7
.3000	10	33.3	33.3	70.0
.3333	3	10.0	10.0	80.0
.4000	6	20.0	20.0	100.0
Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Customer Familiarity	30	.2000	.6000	.323330	9.77326E-02
Channel Access	30	.2000	.5000	.391663	8.17401E-02
Sales Requirements	30	.0500	.4000	.286663	8.26273E-02
Valid N (listwise)	30				

# MARKET ATTRACTIVENESS INDEX: ATTRACTIVENESS RATING:

## Market Forces

### Frequency Table

#### Market Size

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20	1	3.3	3.3	3.3
40	2	6.7	6.7	10.0
50	4	13.3	13.3	23.3
60	9	30.0	30.0	53.3
70	7	23.3	23.3	76.7
80	5	16.7	16.7	93.3
90	1	3.3	3.3	96.7
100	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Growth Rate

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 60	1	3.3	3.3	3.3
70	1	3.3	3.3	6.7
80	6	20.0	20.0	26.7
90	13	43.3	43.3	70.0
100	9	30.0	30.0	100.0
Total	30	100.0	100.0	

#### Buyer Power

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 40	1	3.3	3.3	3.3
60	3	10.0	10.0	13.3
70	10	33.3	33.3	46.7
80	14	46.7	46.7	93.3
90	2	6.7	6.7	100.0
Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Market Size	30	20	100	64.00	16.10
Growth Rate	30	60	100	89.33	9.80
Buyer Power	30	40	90	74.00	10.03
Valid N (listwise)	30				

# MARKET ATTRACTIVENESS INDEX: ATTRACTIVENESS RATING

## Competitive Forces

### Frequency Table

#### Competitors

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 40	1	3.3	3.3	3.3
60	1	3.3	3.3	6.7
70	9	30.0	30.0	36.7
80	17	56.7	56.7	93.3
90	1	3.3	3.3	96.7
100	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Existing Rivalry

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 40	1	3.3	3.3	3.3
50	1	3.3	3.3	6.7
60	9	30.0	30.0	36.7
70	13	43.3	43.3	80.0
80	5	16.7	16.7	96.7
100	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Entry Barriers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 40	2	6.7	6.7	6.7
50	2	6.7	6.7	13.3
60	8	26.7	26.7	40.0
70	14	46.7	46.7	86.7
80	3	10.0	10.0	96.7
90	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Competitors	30	40	100	76.00	10.03
Existing Rivalry	30	40	100	68.00	10.95
Entry Barriers	30	40	90	65.67	11.04
Valid N (listwise)	30				



# MARKET ATTRACTIVENESS INDEX: ATTRACTIVENESS RATING:

## Market Access Forces

### Frequency Table

#### Customer Familiarity

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 50	2	6.7	6.7	6.7
60	5	16.7	16.7	23.3
70	13	43.3	43.3	66.7
80	7	23.3	23.3	90.0
90	2	6.7	6.7	96.7
100	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Channel Access

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 60	4	13.3	13.3	13.3
70	7	23.3	23.3	36.7
80	16	53.3	53.3	90.0
90	2	6.7	6.7	96.7
100	1	3.3	3.3	100.0
Total	30	100.0	100.0	

#### Sales Requirements

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 30	1	3.3	3.3	3.3
60	4	13.3	13.3	16.7
70	15	50.0	50.0	66.7
80	8	26.7	26.7	93.3
90	2	6.7	6.7	100.0
Total	30	100.0	100.0	

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Customer Familiarity	30	50	100	71.67	11.17
Channel Access	30	60	100	76.33	9.28
Sales Requirements	30	30	90	71.33	11.06
Valid N (listwise)	30				

COUNTY AND MARKET ATTRACTIVENESS INDEXES:  
DESCRIPTIVES

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Country Index	30	62.6	96.8	82.520	6.289
Market Index	30	59.0	94.6	73.603	6.078
Valid N (listwise)	30				