

Finding an Export Market for a Small Finnish Boating Accessories Web-Shop

A case study

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<p>Abstract:</p> <p>Technological developments and regional integration have increased the amount of international business transactions. Organizations of all sizes now have a possibility to take advantage of international business opportunities. By internationalizing firms can find new sources of growth and innovation, and escape unfavorable home market conditions. This thesis is an empirical study of potential export markets. The thesis is a case study of a small Finnish boating accessories web-shop. The thesis deals with the concepts of internationalization, international market selection and evaluation.</p> <p>Candidate markets are selected and evaluated using a three-step evaluation process. Markets are evaluated using general market and industry specific indicators. The candidate markets are evaluated by using a scoring model resulting in the selection of the most attractive market for in-depth analysis. Two analytical tools are used for the in-depth analysis of the most attractive market. A PEST-analysis is used to evaluate the macro-environment. Then Porter's five forces analysis is used to evaluate the industry environment. The author uses publicly available qualitative and quantitative secondary data for the evaluation and analysis of the candidate markets. Estonia, Germany, Norway and Sweden are identified as candidate export markets. Sweden is identified as the most attractive export market. The in-depth analysis reveals the Swedish market to currently be unsuitable for market entry by the case firm. The Swedish boating industry market is stagnating and has high levels of competition. This leads the author to recommend the case firm to focus on improving their performance in the home market, and re-evaluate the Swedish market environment in two years.</p> <p>Analyzing the boating industry environment in the other candidate export markets is recommended as further research.</p>	
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CONTENTS

1	Introduction.....	7
1.1	Research Topic and Problem.....	7
1.2	Aim of the Research.....	9
1.3	Significance of the Research.....	9
1.4	Methodology and Material.....	10
1.5	Limitations.....	11
1.6	Shortly About MK.....	11
1.7	Structure.....	11
2	Internationalization.....	13
2.1	International Opportunities and Threats.....	14
2.1.1	<i>E-Commerce and the Internet.....</i>	<i>15</i>
2.2	Developing an Internationalization Strategy.....	16
2.3	International Market Selection.....	18
2.4	Market Selection Process.....	18
2.4.1	<i>Reactive Approach.....</i>	<i>18</i>
2.4.2	<i>Proactive Approach.....</i>	<i>19</i>
2.4.3	<i>Market Selection Procedures: Expansive.....</i>	<i>20</i>
2.4.4	<i>Market Selection Procedures: Contractible.....</i>	<i>21</i>
2.5	International Market Selection: Small vs. Large firms.....	21
2.6	Market Selection Strategies.....	22
2.7	Market Segmentation.....	24
3	Identifying Candidate Markets.....	26
4	Market Evaluation.....	27
4.1	Market Evaluation Criteria.....	28
5	Evaluation and Analysis.....	30
5.1	Methodology.....	30
5.2	Three-step Evaluation Process.....	31
5.3	Evaluation/Elimination Criteria Being Used.....	33
5.3.1	<i>GDP per Capita (General).....</i>	<i>33</i>
5.3.2	<i>GDP per Capita Growth (General).....</i>	<i>34</i>
5.3.3	<i>Foreign Currency (General).....</i>	<i>35</i>
5.3.4	<i>Country Risk (General).....</i>	<i>35</i>
5.3.5	<i>Language (General).....</i>	<i>35</i>
5.3.6	<i>Household Levels of Internet Access (Industry).....</i>	<i>36</i>

5.3.7	<i>Individuals Having Ordered Goods or Services for Private Use Over the Internet (12 months) (Industry)</i>	36
5.3.8	<i>Delivery and Return Cost of a Standard Parcel to and from the Candidate Market (Industry)</i> 36	
5.3.9	<i>Delivery time of a Standard Parcel from the home market (Industry)</i>	37
5.3.10	<i>Consumption of Boating Equipment and Boat Motors (Industry)</i>	37
5.3.11	<i>Cultural Distance</i>	40
5.4	Candidate Evaluation	41
5.4.1	<i>Elimination of Candidates</i>	42
5.4.2	<i>Scoring</i>	42
5.5	Macro-Environmental Analysis	44
5.5.1	<i>PEST-analysis</i>	45
5.5.2	<i>Conclusion</i>	49
5.6	Industry Analysis	50
5.6.1	<i>Dobb's Five-Forces Template</i>	51
5.6.2	<i>Application/Analysis</i>	53
5.6.3	<i>Conclusion</i>	59
6	Discussion	61
7	Conclusion	63
	References	66
	Appendices	72
1	Appendix	72

Figures

Figure 1: Finnboat members revenue 1989-2013 (Finnboat, 2013, p.6).....	8
Figure 2: Factors explaining internationalization (Luostarinen, 1997, p.7 cited in Albaum and Duerr, 2008, p.10).....	14
Figure 3: Process for developing an internationalization strategy (Grünig and Morschett, 2012, p.150).....	17
Figure 4: Overview of the evaluation process (Grünig and Morschett, 2012, p.102)....	32

Tables

Table 2: Market evaluation criteria (Grünig and Morschett, 2012, p.101)	29
Table 3: Estimation by analogy results.....	39
Table 4: Cultural distance between home and export markets	41
Table 5: Country evaluation	42
Table 6: Scoring table used for elimination	42

1 INTRODUCTION

1.1 Research Topic and Problem

Globalization has made the world a smaller place and will continue to make it smaller. “Worldwide, most companies are now selling to, buying from, competing against, and/or working with enterprises in other nations [...] for many companies, small as well as large, international sales provide additional profits, and are all that enable some companies to make a profit at all” (Albaum and Duerr, 2008, p.2). For most firms it is not a question of if, but when the international expansion should happen.

Dr. Sc. Econ, Pasi Sorjonen, economist at Nordea bank frets over the current situation in the Finnish market in a recent interview by Uusi Suomi. Conditions in the Finnish market aren't looking very good. Consumption in the private sector has fallen two years in a row. Sales figures for wholesalers and retailers are at 2003 levels, as few industries have experienced any growth in the last 5-10 years (Sorjonen, 2015).

Marinekauppa (MK) has been operating in the boating industry since 2001 and launched a web-shop for selling boating equipment and accessories in 2009. In 2008 the boating industry reached its peak year but started declining during the recession, and growth has been weak or negative ever since as can be seen from figure 1, which shows the revenue developments of Finnish Marine Industries Federation (Finnboat) member firms.

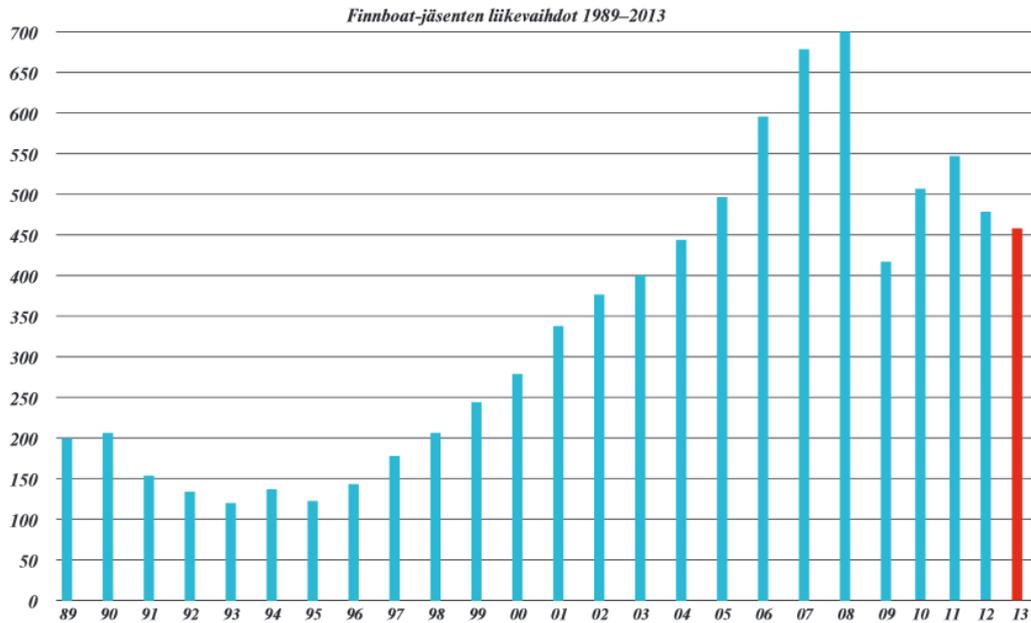


Figure 1: Finnboat members revenue 1989-2013 (Finnboat, 2013, p.6)

MK has worked hard to improve its performance, but has been unable to achieve significant growth in the past years. Now the industry is showing signs of recovery, however, the outlook for the Finnish economy is still weak. The stagnating home market has lead MK to look for alternative growth opportunities in foreign markets. Albaum and Duerr (2008, pp.9-10) write that “exporting is no longer just an option, but an imperative for survival in the increasingly competitive business environment”.

The opportunities of exporting and the web-shop have also been recognized by MK’s leadership and management as they are now looking to surrounding foreign markets for business opportunities.

Neighboring markets, Sweden and Norway, are showing a much better economic outlook. GDP is expected to grow and consumption and consumer confidence are increasing. These markets also have sizeable boating industry markets. MK is a micro-sized organization with scarce human and capital resources. They are looking for market opportunities that require low investment, and cost efficient ways of evaluating these opportunities. The problem arises here. MK has recognized the need and opportunity of an international expansion in the near future. Establishing a position in a foreign market requires time, money and commitment. The firm already suspects Norway, Sweden and Germany to have attractive markets. However, a micro-sized organization cannot afford to enter a market based on intuition and feeling. The firm’s resources are scarce and

therefore they cannot afford to employ costly market research agencies. So how is a small Finnish boating accessories web-shop supposed to evaluate candidate export markets and select a target market to enter?

1.2 Aim of the Research

MK is looking for export market opportunities within the European Union (EU). MK has asked the author to evaluate the attractiveness of potential export markets. The aim of the research is to select international export market candidates. Evaluate the potential of the candidate markets which will then result in the author selecting the market showing most potential, and recommending whether or not MK should enter this market.

Thesis statement:

Finding an export market for a small Finnish boating accessories web-shop.

Research question:

Which out of the identified export markets is most attractive, and is that market attractive enough for market entry by the firm?

1.3 Significance of the Research

MK has been improving its performance over the last years but growth has been very hard to achieve. Now the leadership and management of the firm are looking for international opportunities that could lead to growth and improved profitability. The first step in internationalization planning is initiating the process and being open to opportunities. Then potential markets have to be evaluated and the most attractive ones selected. This thesis aims on completing the first step in the internationalization process: market selection and evaluation.

MK has a limited amount of resources and capital to invest into market research which is why the research made in this thesis will come of actual use. These same resource and capital constraints are encountered by countless other small- and micro-sized enterprises that are looking to grow out of their small home market and expand internationally. This is why this topic is so interesting and fits so well as a thesis topic. The goal is that the

thesis can work as a basis for MK in their future planning and developing of an internationalization strategy and market entry program.

1.4 Methodology and Material

This research was done through a comprehensive literature review of business books, academic journals and articles, and qualitative analysis as well as a qualitative interview. The supporting literature and theory was gathered from business books, and by using the internet to access various academic articles and journals. The analytical tools used were found from business books and then applied and adapted to the current situation and task.

The qualitative and quantitative data used in the analysis were found through online research and an interview. The author has relied on secondary data found on publicly available websites. The author has accessed official publications provided by Eurostat, The World Bank etc. for general market information, and official publications provided by boating industry institutions like Finnboat, Swedish Marine Industries Federation (SweBoat) etc. for industry specific market information. The author interviewed the Chief Executive Officer of Sweboat to gain a local input about the Swedish boating industry.

The information gathered about the candidate markets from the various sites is then used in the analysis of the candidate markets. The analysis will start with a three-step evaluation process to quickly establish the attractiveness of the candidate markets. In the three-step evaluation process the author will use general and industry specific indicators to evaluate the potential of the candidate markets. The author uses a scoring model to identify the most attractive market out of the candidates. The candidate market with the highest score will be selected for in-depth analysis. When evaluating potential markets one has to look at the macro-environment, industry environment and competitive environment. The author will then use two analytical tools, PEST-analysis and Porter's competitive forces, to conduct an in-depth evaluation of the most attractive market's macro-, industry-, and competitive environment.

1.5 Limitations

The internationalization process of a firm is a wide topic to which many business books have been dedicated. The Internationalization process of the firm will be presented briefly, as the thesis focuses mainly on the external analysis part, in a firm's internationalization process, and will be specifically limited to international market selection and evaluation. These topics will therefore be covered more in detail.

For small- and micro-sized organizations the Internet is recommended for information search in order to keep the process cheap and within its timetable. Therefore the author will limit the research to free sources of publicly available data accessible online. The author will also select only one market, the one showing most potential, for the in-depth analysis. This will keep the project more focused.

1.6 Shortly About MK

MK was founded back in 2001 in Helsinki. At that time the firm was focused mainly on selling Rigid Inflatable Boats (RIB) to the Finnish market. This was the firm's main source of revenue, but it wasn't sustainable.

In 2009 the firm developed a web-shop for selling boating equipment and accessories. The web-shop has been running ever since and has been the firm's primary source of development and revenue. The product assortment offered in the web-shop has steadily grown since the launch in 2009 and now (2015) consists of over 3000 products. Outdoors products related to boating and summerhouse activities have also been added to the assortment. Revenue in 2015 was a little under 1 million after taxes.

The most grossing product groups are: Inflatable boats, Outboard motors, marine electronics, safety equipment and water sports.

The firm's target customer group is boat and summerhouse owners between the ages of 25-60.

1.7 Structure

The next chapter will discuss Internationalization. The chapter discusses the international environment influencing firms and their internationalization processes. It aims to

give the reader a view of the internationalization process and the factors influencing international market selection and evaluation. The latter part of the chapter covers different approaches and procedures involved in international market selection, and different market selection strategies and factors that influence them. Chapter three will briefly discuss the identification of the potential candidate markets, followed by chapter four that covers market evaluation and market evaluation criteria. The empirical part starts in chapter five, which is dedicated to the evaluation and analysis of the candidate markets. The chapter will present the evaluation criteria, and analytical tools being used in the evaluation of candidate markets more in detail. Chapter six is dedicated to the discussion of the findings and chapter seven to concluding thoughts and then recommendations.

2 INTERNATIONALIZATION

International business is becoming increasingly important for firms of all sizes. The world of business is becoming more dynamic. This bundled with fast growth is making it harder for governments and local firms to isolate and defend themselves from foreign competition. Goods, services, technologies and ideas are moving over national borders more easily than ever before (Albaum and Duerr, 2008, pp.1-2). Firms worldwide are selling, buying, competing and working with firms in other nations. Many small- and medium sized enterprises (SMEs) are facing unfavorable conditions in the home market. Dreaming of the opportunity to expand abroad and find new customers that could lead to a new source of revenue and growth.

Internationalization can be defined as a process, end result, and a way of thinking whereby a firm becomes more involved in and committed to serving markets outside its home country (Albaum and Duerr, 2008, p.687). Reduced tariffs, economic unions and trade agreements, improved communications and transportation technologies all signal that the internationalization of firms will keep on increasing. This development in internationalization will lead to innovative and better quality products, lower prices and a larger selection of goods for consumers, as well as increased sales and innovation for firms.

Foreign market development requires long-term commitment of both resources and capital. This combined with an increasing amount of factors to consider in international business operations, and lack of information, has resulted in international business being perceived as a high risk business activity. The perceived risk associated with international activities can be radically reduced through proper due diligence and lots of homework (Farrell and Updike, 1997 cited in Czinkota, Ronkainen and Moffett, 1999, p.365). Proper research and planning will improve the performance and success rate of the firm's internationalization process. Sohlberg (1997 cited in Hollensen, 2012, p.11) however, argues that firms with limited international experience and a weak position in the home market have no reason to engage in international markets, but instead they should focus on improving their performance in the home market. The following parts

of this chapter are aimed to give the reader a basic understanding of the factors and requirements involved in the internationalization of a firm. Starting with opportunities and threats experienced by the firm in the international business environment.

2.1 International Opportunities and Threats

The rapidly changing international business environment creates new opportunities for expansion of international business activities (Czinkota, Ronkainen and Moffet, 1999, p.294). When firms start engaging in international business they are responding to opportunities and threats imposed by the international business environment. Domestic firms have an increasing amount of opportunities to enter foreign markets (Albaum and Duerr, 2008, p.9). The threat of foreign firms to enter the home market of domestic firms is also increasing. This has resulted in increased competition in the international business environment. Firms are faced with increasing competitive threats from abroad and a challenging economic environment in the home market. In the home market firms may face a stagnating economy or a small consumer market. This paired with outside competition is what Albaum and Duerr (2008, pp.9-10) describe as a domestic push that leads firms to look abroad for new places to exploit their competitive advantage. Large foreign country markets with possible niche markets creates an international pull that encourages firms to engage in international business.

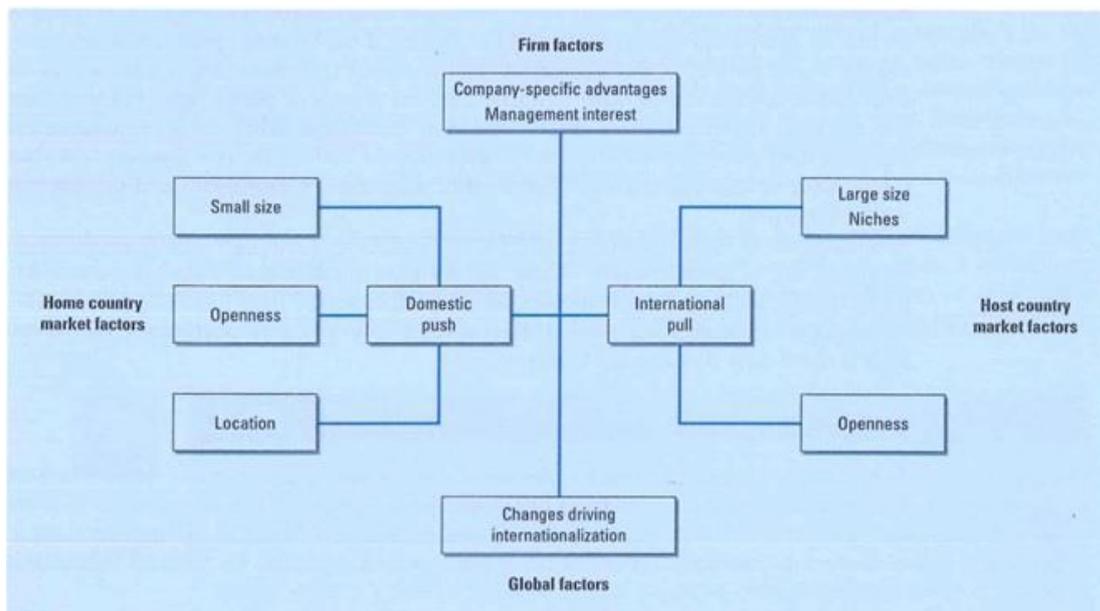


Figure 2: Factors explaining internationalization (Luostarinen, 1997, p.7 cited in Albaum and Duerr, 2008, p.10)

Figure 2 illustrates the business environment surrounding firms and the push and pull effect it imposes. This environment surrounds almost all businesses but far from all take advantage of the opportunities and threats surrounding them. Many firms, often through lack of knowledge, fail to react to the environmental factors illustrated in figure 2. Firms need to be more active and take advantage of all profitable market opportunities, whether abroad or at home in order to gain above average returns and an edge over the competition.

A Firm's primary reason for internationalizing is the opportunity for growth and profit. "Sales in foreign markets can aid in stabilizing revenue and turnover fluctuations, whether those fluctuations are caused by seasonality, technology changes, saturated markets, or economic conditions. New markets help a firm to use its production capacity better, extend product life-cycles, increase competitiveness, and perhaps gain a tax advantage" (Albaum and Duerr, 2008, pp.77). The process preliminary to the internationalization of a firm will be discussed next.

2.1.1 E-Commerce and the Internet

The Internet is becoming an increasingly important medium in everyday business. The Internet is being used for information, commerce, communication and entertainment (Gerald and Albaum, 2008, pp.335-6). "Distance and length of communication have no impact on cost" (Gerald and Albaum, 2008, p.335) and businesses using electronic commerce (E-commerce) can do business with customers that would otherwise be out of reach due to time and location limitations of more traditional channels of distribution.

Foley (1999, pp.33-5 cited in Albaum and Duerr, 2008, pp.335-6) identifies additional advantages emerging from the use of Internet:

- Low capital investment: access to the internet is inexpensive and the development of a website can be cheaper than developing a promotional brochure;
- Small size makes no difference: a firm's website is its public image and small firms can usually afford the same website as big firms;
- Updates are easy and immediate: information can be updated and modified easily and quickly;

- Translating can be less expensive: the translation of a website to a foreign language is usually very inexpensive since text are separate from graphics;
- More reliable: more reliable means of communication as more countries increase their levels of internet support;
- Audit trail: firms have full control over what can and cannot be sent over the internet by the structure and controls built into the website.

The Internet allows firms to expand their operational activities with low capital investment in both existing and new markets (Kraemer et.al. 2002 cited in HUI, 2011, p.78). Then Internet makes geographical distances between the business and consumers almost obsolete, as many firms are using the internet to target a much larger market than would be possible without it. The Internet can help in making even small niche markets profitable, which would be almost impossible with only a physical shop.

The second decade of the 21th century will see more and more businesses develop webshops and move business functions to the Internet as technologies progress and high-speed Internet connections become more widespread.

2.2 Developing an Internationalization Strategy

“The keys to achievement in foreign markets are information, preparation, and commitment” (Albaum and Duerr, 2008, p.77). The internationalization strategy for a new market is a document that supports the planning and execution of geographical diversification (Grünig and Morschett, 2012, p.91). Three major factors to consider in the planning of the internationalization strategy are: (1) where to engage in international marketing activities (2) which specific markets to enter (3) how to best serve these markets (Albaum and Duerr, 2008, p.16).

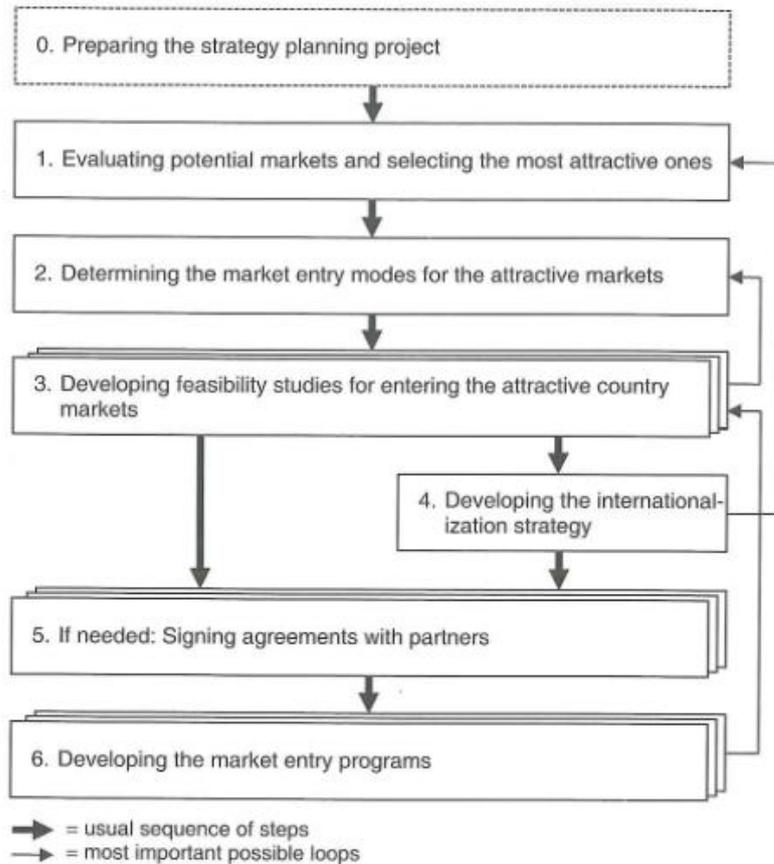


Figure 3: Process for developing an internationalization strategy (Grünig and Morschett, 2012, p.150)

Figure 3 shows an example of what the process of developing an internationalization strategy can look like. The arrows indicate possible loops in the process. In the beginning the firm has to establish a framework of conditions and a timetable for the project (Grünig and Morschett, 2012, p.149). After that the potential markets have to be evaluated in order to identify the most attractive one(s). Then the firm has to choose the most suitable mode to enter the market(s). Then the firm will conduct feasibility studies for each market it wishes to enter and develop an internationalization strategy for these markets. The internationalization strategy and the feasibility studies will then work as a foundation for developing the market entry programs that will lead on to the actual execution of the entire project. International market selection was the topic of this project, and the processes and procedures it involves will next be discussed more in detail.

2.3 International Market Selection

International market selection (IMS) is part of a firm's international marketing strategy, or internationalization strategy. IMS is "the process of opportunity evaluation leading to the selection of foreign markets in which to compete (Albaum and Duerr, 2008, p.179). IMS deals with the issues on how a firm identifies and selects the target export markets. At the beginning of the process, firms need to decide how many markets are sought after and which desired characteristics the markets need to contain. The process of market selection is unique for every company and is very dependent on a firm's size and its internal resources and capabilities as well as the external environment. IMS decides which markets will be evaluated in the market evaluation process. The market selection process usually starts off with several candidate markets that are evaluated and analyzed through several rounds of screening after which candidates are subsequently eliminated. The evaluation process narrows down the candidates so only the most attractive markets are left. These markets are then subject to in-depth analysis. The amount of rounds and the framework used for analysis is very dependent on the time and capital allocated for the process by the firm. Large corporations usually have very extensive evaluations and often consult with external marketing research firms. However, small- and micro-sized firms are often constrained by capital and human resources that lead them to rely more on experience and intuition in their decisions.

A study (Yip et al., 2000; Brouthers and Nakos, 2005 cited in Hollensen, 2012, p.171) of recently internationalized US firms showed that on average firms do not follow highly systematic approaches. However, those firms using a sequence of steps in IMS showed better performance. In this chapter the market selection process will be discussed, and then continuing in to the empirical part of evaluating the target markets.

2.4 Market Selection Process

2.4.1 Reactive Approach

Many firms start their international expansion in an unplanned manner by filling unsolicited orders. Firms act passively as foreign buyers take initiative and indirectly select the market for the firm. Albaum and Duerr (2008, p.189) refer to this process as reac-

tive. The process is characterized as informal, unsystematic and purchase oriented. Foreign buyers take initiative by making inquiries through active buying or by finding the contacts of the exporter through established indirect media. The Internet becomes an increasingly important tool for connecting businesses. This approach of passive market selection is used by many small- and medium-sized enterprises that have very little international business experience. This approach enables exporters to gain short-term profits at very low cost.

2.4.2 Proactive Approach

In this approach the exporter responds to opportunities in the international business environment (Albaum and Duerr, 2008, p.189). The exporter is active in selecting potential markets and further segmenting these markets. This approach is characterized as systematic and formal as exporters make decisions based on research or intuition.

There is no clear-cut division between these two approaches. Many exporters tend to use a mix of both, and apply the proactive approach to what are considered primary markets and the reactive approach to secondary or marginal markets (Albaum and Duerr, 2008, p.189).

Papadopolous and Jansen (1994 cited in Albaum and Duerr, 2008, p.189) report that many studies have found that managers whether using a proactive or reactive approach are heavily influenced by one or more of the following:

- *Psychic distance*: feeling of uncertainty about foreign markets, and of the perceived difficulty of finding information about them;
- *Cultural distance*: the perceived differences between the manager's own and the destination culture;
- *Geographic distance*: refers to the proximity of the export market to the home market

In IMS it is very important that the firms use broad considerations and do not base the target market selection purely on marketing grounds. The company skills, capabilities and goals must also be taken into consideration and the IMS process must be placed in

the context of the overall strategy of the company so that it aligns with the firm's goals and objectives (Albaum and Duerr, 2008, p. 179).

When applying a proactive approach there are several market selection procedures available. Two commonly used procedures are the expansive methods and contractible methods.

2.4.3 Market Selection Procedures: Expansive

In the expansive methods the home market, which is the core of the firm's business, is used as a starting point (Albaum and Duerr, 2008, pp.190-2). Market selection is done gradually over time, one market to another. Market selection is based upon similarities between the home core market and the export markets. Similarities in political, social, economic, or cultural structure are emphasized. Highly similar markets are sought after, as minimum amount of adaptation is needed to product or other export marketing parameters. The expansive methods rely a lot on the experience of the executive or manager. Environmental proximity or trade policy proximity can have a strong influence in determining the market selection process. Environmental proximity leads decision makers to look first to immediate neighboring markets where a high degree of similarities can be found in economic, political, sociological, and cultural standing. Because of these similarities firms can use an almost identical marketing program in the export market as in the home market (Albaum and Duerr, 2008, pp.190-2). Albaum and Duerr refer to this approach as the nearest neighbor approach. In this approach the most attractive markets can be found in the geographic clustering of the surrounding markets. This is well illustrated in Scandinavia.

Trade policy proximity refers to a common market and economic union structure (Albaum and Duerr, 2008, pp.190-2). It is only natural for exporters to look first to markets where customs duties and other trade policy measures have been harmonized. The European Union (EU) is a great illustration of this and it is only natural that a firm operating within the EU will look to other markets within the same region.

2.4.4 Market Selection Procedures: Contractible

The contractible methods start out with a large number of potential markets that are broken down into regional groupings based on political, economic, language and other criteria (Albaum and Duerr, 2008, pp.192-3; Czinkota, Ronkainen and Moffett, 1999, pp.450-62). In order to find the most optimal market for the firm the potential markets are put through a systematic screening process. The firm will choose knock-out factors that will eliminate the least attractive markets. Previous research (Albaum and Duerr, 2008; Grünig and Morschett, 2012) has found that two sets of factors should be used in the screening process: (1) General market indicators and (2) Specific product- or industry indicators.

According to Albaum and Duerr (2008, pp.192-3) the contractible methods involve three stages:

1. Preliminary screening criteria for examining the countries are identified
2. The second stage determines which country characteristics are to be used in evaluating marketing opportunities and how each should be weighted. Albaum and Duerr recommend examining four types of variable: Operating risk, market potential, costs and potential local and foreign competition.
3. Countries are evaluated on the basis of the criteria selected in the second stage, and they are rank ordered on the basis of the scores derived.

The most attractive markets are then selected for in-depth analysis.

2.5 International Market Selection: Small vs. Large firms

Small firms restricted by their resources. Usually use an expansive selection procedure. By selecting highly similar markets the firms can reduce the amount of product and operational adaptation. They can use almost identical marketing mix elements as in the home market. This will lead to cost savings and shorter planning periods. Highly similar markets are usually found geographically close to the home market as countries in regions often have similar political, social, economic and cultural structures.

Hollensen (2012, pp.171-2) argues that small firms, who limit their international market selection to highly similar nearby markets, are left with only a decision, to go or not to go, to the selected markets. Large firms with more capital and resources can choose between different amounts of commitment by selecting different entry modes for different markets. Hollensen has found that executives and management of small firms, with limited human and financial resources, often find it hard to resist the temptation of selecting first entry target markets, which are largely unknown, based on intuition in order to save time and resources.

Large firms with existing operations in multiple countries have to decide in which of these markets to introduce new products or to enter a completely new market (Hollensen, 2012, pp.172). Large firms already established in international markets can draw benefits from existing operational networks. Hollensen writes that: by drawing on existing operations, large firms have easier access to product-specific data in the form of primary information that is more accurate than any secondary database. Large firms can also draw benefits from human- and financial resources that allow them to have separate marketing divisions that often aren't feasible for smaller firms. These divisions can then be dedicated to market research and analysis in order to gain a greater understanding of the potential export markets.

2.6 Market Selection Strategies

Market selection strategy refers to the number of markets to enter and the allocation of resources among these markets. The two most common strategies discussed in business literature are market concentration and diversification (Czinkota, Ronkainen and Moffett, 1999, pp.484-5; Albaum and Duerr, 2008, pp.197-9).

The concentration strategy implies slow and gradual growth in a small number of markets (Albaum and Duerr, 2008, pp.197-9). A concentration strategy is more suitable for small firms or firms that market specialized products to clearly definable markets (Czinkota, Ronkainen and Moffett, 1991, pp.484-5). A concentration strategy is also easier to manage if the firm has little or no international experience. With the same levels of financial and organizational resources, the allocation of resources to each market will be higher in the case of a market concentration strategy (Albaum and Duerr, 2008,

pp.197-9). The benefits of a market concentration strategy lie in the power of specialization, scale and market penetration, greater market knowledge and higher degree of control in export marketing (Albaum and Duerr, 2008, pp.199-200). Over time the firm gets better at export tasks. According to Albaum and Duerr “improvements take place throughout the export learning process”. The firm gets better at export operations because of improvements in knowledge and expertise dealing with a small group of markets. These improvements are a result of recurrent problems that are solved more easily as the experience of export personnel develops, personal contacts are established, influence patterns emerge, and control is increased.

Market diversification implies fast growth into a larger number of markets at the early stages of international market expansion (Czinkota, Ronkainen and Moffett, 1999, pp.484-5). This strategy is more suitable for large consumer-oriented firms that have sufficient resources for broad coverage in the target markets. The benefits of market diversification are based on the weaknesses of market concentration. “Market diversification offers a position of greater flexibility, less dependence on particular export markets, and a lower perception of risk and uncertainty in the international marketplace. Small market shares are gained at low cost” (Albaum and Duerr, 2008, p.201). Hitt, Ireland and Hoskisson (2005, p.256) argue that greater international diversification actually creates more risk. This happens because when the amount of national markets increases, the amount of risk multiplies and that makes it harder for the firm to implement and manage international operations.

The two market expansion strategies lead to selecting different levels of marketing efforts and marketing mixes in each country. There are many factors that affect the choice of market selection strategy. Firms usually end up choosing a strategy somewhere between the two extremes of market concentration and diversification (Albaum and Duerr, 2008, pp.199-200). The factors affecting the decision market selection strategy, is largely dependent on the resources and capabilities allocated toward internationalization by the firm, and the business environment of the firm at that specific time.

The strategic options the firm chooses depend a lot on management’s subjective judgment of the risks associated with the alternatives faced and the objectives of the firm (Albaum and Duerr, 2008, pp.199-200). Management’s perception of the economic and

political risk in the export market largely depends on the expertise and knowledge found within the firm, accumulated experience, and the availability and quality of information of export market environments, customers and competitors.

Small- and micro-sized firms are usually found closer to the concentration strategy spectrum as they are restricted by their resources and have to move one market at a time (Albaum and Duerr, 2008, p.201). This leads to selectivity, which is crucial to the process of international market selection and market selection strategies. The goal is to find the market where the ratio between resource allocation and profits is maximized. Small firms usually move in a step-by-step manor, one market at a time, exploiting domestic market opportunities that can later be used in the international market. New markets should be developed so that consolidation and profitability can be achieved, before moving on to a new market.

2.7 Market Segmentation

Most markets are very heterogeneous, meaning they are very diverse in character and content. Albaum and Duerr (2008, p.182) explain “segmentation as the activity of breaking down the market for a particular product or service into segments of customers that differ in terms of their responses to marketing strategies”. Customers of different segments differ in their needs, wants and demands. Through segmenting the firm can tailor its marketing policies to the specific needs of specific segments. This will usually lead to more cost efficient marketing that will result in greater profits than are possible by using a strategy through which an entire market is targeted. Albaum and Duerr argue that the importance of segmentation is even greater in export markets.

Most firms, especially small- and micro-sized firms, have a limited amount of financial and organizational resources to allocate toward their internationalization efforts. That is why it is essential the export firm tries to find the most attractive segments it can serve in terms of segment preferences, patterns of competition and firm strengths (Albaum and Duerr, 2008, pp.183-4). However, it is crucial that the benefits of these segments must be greater than the cost of reaching them with the firm’s marketing strategies. Research (Albaum and Duerr, 2008, pp.183-4; Hollensen, 2012, p.174) shows that the criteria for effective segmentation are:

- *Measurability*: the degree to which the size and purchasing power of resulting segments can be measured;
- *Accessibility*: the degree to which the resulting segments can be effectively reached and served;
- *Profitability*: the degree to which the resulting segments are large and/or profitable enough to be worth considering for separate marketing attention. In export marketing there can be excessively high costs involved in segmenting markets because of necessary adaptation to local markets specific needs and demands;
- *Actionability*: the degree to which effective programs can be formulated for attracting and serving the segments.

Hollensen (2012, p.173) defines the international markets in two separate ways: (1) The international market as a country or a group of countries or, (2) the international market as a group of customers with nearly the same characteristics. The latter indicates that a market can consist of customers from several countries. Hollensen however, points out that most books and studies in global marketing have attempted to segment the world market into the different countries or groups of countries. There are two motivations behind this:

1. International data are more easily (and sometimes exclusively) available on a nation-by-nation basis. It is very difficult to acquire accurate cross-national statistical data.
2. Distribution management and media have also been organized on a nation-by-nation basis. Most agents/distributors still represent their manufacturers only in one single country. Few agents sell their products on a cross-national basis.

This division between country markets is lessening through regional integration like the European Union, however it is still strong because of differences in cultures and language. The Internet also makes it easier for firms to target groups that consist of customers from different countries. Hollensen (2012, p.173) says: “in most cases boundary lines are the result of political agreement or war and do not reflect a similar separation in buyer characteristics among people on either side of the border.

Because of the difficulties to find accurate cross-national statistical data, let alone accurate and up to date national market and industry statistical data for this project. The author will evaluate international markets on a nation-by-nation basis.

3 IDENTIFYING CANDIDATE MARKETS

The identification of potential export markets can happen in a few different ways as discussed in the previous chapter. MK has taken a proactive approach to the task by assigning the task of market evaluation and selection to the author. MK is looking for export markets within the EU with similar characteristics as the home market. Finding an export market within the EU, with geographical and trade policy proximity will significantly reduce the adaptation needed by the firm and help management of international operations.

The Estonian, German, Norwegian and Swedish markets were selected for evaluation by MK, as they perceived the markets to have low geographical, cultural and psychic distance. This perception is based on MK's observations of the international business and industry environment, where Finnish firms with similar organizational characteristics have already entered some of these markets by exporting. The 2013, latest, annual report produced by Finnboat (Finnish Boating Industries Federation) also shows significant industry trade between the candidate markets and the home market. This indicates that there is a boating industry and demand for related products in these markets. MK has also received traffic from these countries to their web-shop, which has added to their interest toward these markets. This traffic was tracked by the Google analytics program the firm uses to monitor customer behavior in their web-shop.

Markets like France, Italy, United Kingdom and Spain were not considered because of the geographical distance between the markets and the home market. This would increase transportation costs and delivery time and therefore significantly affect the competitiveness of MK's products. Russia was considered, but left out due to the political situation resulting in sanctions and trade blocs between Russia and the EU.

The author will evaluate the attractiveness of the markets by adapting the market evaluation processes provided by Albaum and Duerr (2008) and Grünig and Morschett (2012). The author will first compare the markets to the Finnish market based on gen-

eral and industry specific indicators in order to identify the market with most potential. The market showing most potential will then be subject to in-depth analysis in order to properly evaluate if it's a suitable market for MK to export to.

4 MARKET EVALUATION

Market evaluation refers to the process in international market selection where a market's attractiveness is estimated on the basis of different evaluation criteria.

International markets have been identified to consist of two dimensions (Hollensen, 2012, p.172; Grünig and Morschett, 2012, p.100). The first dimension refers to the general market environment and the second refers to the industry environment that involves more specific indicators relating to a firm and its products and services. The general market dimension has a higher degree of measurability, accessibility and actionability compared to the industry specific dimension, however, the industry specific dimension has a higher degree of relevance for the evaluation of export market attractiveness (Hollensen, 2008, p.174)

“The evaluation of new markets and the selection of the most attractive ones is a difficult task, both in terms of content and methodology” (Grünig and Morschett, 2012, pp.99-100). The complexity in content arises from the fact that entry into a new market can mean not only entering a new geographical market but also a new industry market. This means that it may be hard to attain all the desired information needed for decision-making.

The methodological difficulty arises from a dilemma. The data collection process for new potential markets is expensive and time consuming. This would suggest that only a small number of potential markets should be considered and that the analysis should be made quickly. This approach can seem to make sense in financial terms but it is accompanied by the danger that attractive markets may be eliminated at an early stage of the process, if the evaluation of the markets has been vague.

It is extremely important that a firm conducts proper analysis of its internal and external environments at early stages of the internationalization process (Albaum and Duerr, 2008, pp.179-181). The external analysis focuses mainly on the international business

environment in the selected target markets. In addition, it is equally important that a firm thoroughly analyzes its internal capabilities. Capabilities referring to a firm's abilities to support the international expansion. A firm should also look at the success and failure of other firms in the industry. Analyzing their efforts within the country, looking at what they have done successfully, and where they failed. This is included in the analysis firm's should perform when evaluating the attractiveness and competitiveness of an industry in an export market.

Ultimately it comes down to creating value. A firm needs to evaluate if it can bring value to the customers in the selected targets markets. This is hard to quantify until a firm has actually entered one or more of the targeted markets. However, a firm can look at foreign competitors, consumption patterns and industry data, if available, to arrive at broad-brush estimates.

This thesis focuses mainly on the analysis of the external environment. Since both the internal and external parts are broad topics, the author has decided to focus on the external part in order to keep the project focused and within limits.

4.1 Market Evaluation Criteria

In order to evaluate the candidate markets potential for MK, appropriate evaluation criteria have to be selected. Previous research (Albaum and Duerr, 2008; Hollensen, 2012; Grünig and Morschett, 2012) shows that in international market evaluation two dimensions need to be considered, as discussed previously. Criteria from both these dimensions need to be included in the evaluation of the markets.

Table 2 is taken from Grünig and Morschett's book *Developing International Strategies: Going and Being International for Medium-Sized Companies* (2012, p.101). It shows the criteria they recommend medium-sized firms use as criteria for evaluating and selecting the most attractive country and industry markets.

Table 1: Market evaluation criteria (Grünig and Morschett, 2012, p.101)

Criteria for evaluating the geographical market in general	Criteria for evaluating industry markets inside the geographical market
<p>Key figures</p> <ul style="list-style-type: none"> ▪ Development of population ▪ Development of GDP ▪ Development of GDP per capita 	<p>Key figures</p> <ul style="list-style-type: none"> ▪ Development of quantities in total and per sub-market ▪ Development of prices in total and per sub-market ▪ Development of market volume in total and per sub-market
<p>Legal restrictions for foreign economic activities</p> <ul style="list-style-type: none"> ▪ Possible legal forms ▪ Conditions for profit repatriation ▪ Conditions for sales (e.g. local production) ▪ Operations risks 	<p>Market system</p> <ul style="list-style-type: none"> ▪ Players ▪ Flows of products and services ▪ Flows of information
<p>Society</p> <ul style="list-style-type: none"> ▪ Political system ▪ Ethnic and religious groups ▪ Languages ▪ Demographic structure ▪ Cultural distance ▪ Political risks 	<p>Producers and traders</p> <ul style="list-style-type: none"> ▪ Sub-markets ▪ National and international competitors ▪ Wholesalers and retailers ▪ Competitive intensity
<p>Infrastructure</p> <ul style="list-style-type: none"> ▪ Traffic infrastructure ▪ Telecommunications infrastructure ▪ Health care system 	<p>Customers</p> <ul style="list-style-type: none"> ▪ Customer segments ▪ Link between customer segments and sub-markets; industry segments ▪ Demand similarity

These criteria have been taken into consideration by the author in the evaluation process. However, it is important to note that for some industries information regarding these criteria cannot be attained. This is somewhat true for the Swedish-, Norwegian-, German- and Estonian boating industry and their sub-markets. Finnboat, which is the Finnish Marine Industries Federation, has very detailed industry specific data regarding the Finnish market. The candidate countries have similar institutions but only the Swedish market could match the data produced by Finnboat. Hence, the author will use pub-

licly available secondary data for the evaluation process. It is good to remember that this data has been gathered for another primary purpose.

Primary data would have to be obtained through quantitative surveys, or from market research firms. This would be either costly or time consuming or both, and therefore not always an option for a micro-sized firm. Because of the price tag of market research it is often not a suitable option for small firms with scarce capital resources (Kotler and Armstrong, 2006, pp.122). Before initiating market research, the firm needs to evaluate whether the information gained will be worth more than the cost of collecting it (Blythe, 2012, pp.98). In some cases it is cheaper for the firm to just proceed with a project without conducting any market research at all.

The cost of converting the website of MK to English, and then to the native languages of the candidate export markets, as well as locating appropriate distribution channels would be relatively cheap for MK. And therefore, the option of going ahead with the expansion without acquiring pricy market research should be considered. As the market research firm might arrive at a conclusion that matches the intuition of the management of MK. A bachelor's thesis or master's thesis is therefore a perfect way for a small- or micro-sized firm to acquire cheap preliminary market research. Before initiating any bigger research efforts.

5 EVALUATION AND ANALYSIS

5.1 Methodology

In order to identify the most attractive markets for MK. The author will have to evaluate the selected candidate export markets. The author will use a three-step evaluation process to compare the candidate markets with indicators from the general market and industry dimensions. The three-step evaluation process will help eliminate the less attractive markets, and filter out the most attractive one, for the in-depth analysis. The author will adapt the three-step procedure provided by Grünig and Morschett (2012), with support from the research of Hollensen (2012) and, Gerald and Albaum (2008).

For comparing the cultural aspects of the candidate markets the author will use Hofstede's model. His research lead him to create a model consisting of six dimensions through which countries could be compared. Hofstede's model will be used to compare the candidate markets culture to the Finnish home market culture. Hofstede's model is used to cover the cultural aspect of the analysis in order to portray the cultural distance between the candidate market and the Finnish home market.

After the most attractive market has been identified, the author will conduct an in-depth analysis of that market. For the in-depth analysis the author will use a PEST-analysis to evaluate the general macro-environment of the export market, and Porter's five competitive forces to evaluate the attractiveness of the boating industry in that export market.

The PEST-analysis will cover the political-, economic-, social-, and technological environments of the most attractive candidate export market.

Porter's five competitive forces is an industry evaluation tool. The five forces are used to determine the competitive intensity and attractiveness of an industry market within a country. These five forces are competitive rivalry, buyers, suppliers, new entrants, and substitutes.

Through these tools the author hopes to make a thorough analysis of the most attractive candidate markets for MK.

5.2 Three-step Evaluation Process

The three-step evaluation process is shown in figure 3. Process can involve multiple different tables and evaluation rounds. The number of rounds will depend on the amount of candidates subject to analysis and the requirements set by the firm issuing the evaluation (Grünig and Morschett, 2012, pp.103-6). The three-step evaluation process will be presented next:

- Step 1: producing an initial list of potential candidate markets and selecting the elimination criteria; primarily quantitative data for country markets and industry markets. Objective of the first round is to reduce candidates.

- Step 2: evaluating the potential candidates based on the evaluation criteria and eliminating the less attractive candidates; here another round will be repeated if there are too many candidates.
- Step 3: selecting the most attractive markets for in-depth analysis.

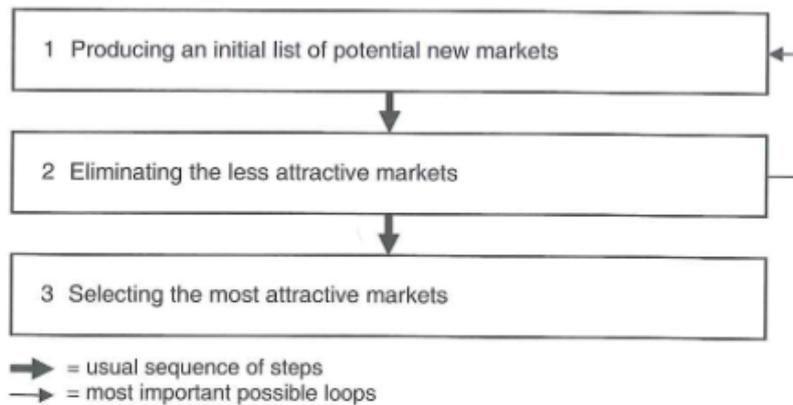


Figure 4: Overview of the evaluation process (Grünig and Morschett, 2012, p.102)

This three-step process is based on two heuristic principles: factorization and sub-goal reduction (Grünig and Kühn, 2009, p.71 cited in Grünig and Morschett, 2012, pp.100-1):

- The heuristic rule of factorization means that the original, overly complex problem is disassembled into a series of manageable sub-problems.
- The principle of sub-goal reduction proposes that a complex goal can be attained by completing a series of simpler tasks. In step 2 the sub-goal of eliminating less attractive markets is addressed. Then, in step 3 the most attractive markets are selected from those remaining on the list.

Grünig and Morschett are quick to point out that in any heuristic process, loops may occur within the process. There may be a case after step 2 that there are no candidates remaining. In this case it is necessary to go back to step 1 and draw up a new list and re-evaluate the evaluation criteria.

5.3 Evaluation/Elimination Criteria Being Used

In the three-step evaluation process firms usually rely on quantitative data. The time spent on the three-step evaluation process must be kept within limits, which is why the internet is recommended for use of secondary data (Grünig and Morschett, 2012, pp.103-6). The elimination criteria will involve indicators of the two dimensions previously discussed. The general market environment and the industry specific environment.

Grünig and Morschett (2012, pp.103-6) recommend the use of agencies and branches in the foreign local market. However, many small- and micro-sized firms don't have resources to do this. They argue that irrespective of entry mode, building a new market position in a foreign country requires significant investment. This is why all necessary measures must be taken to hinder the firm from investing in the wrong market.

It is recommended to use a table presenting the elimination criteria (Grünig and Morschett, 2012, p.113). The table will consist of mostly quantitative data, gathered from publicly available sources. The table will also include some qualitative data. The Finnish home market will also be included in the table. This will make it easier to benchmark and compare the candidate markets. The author will then apply a scoring model in order to identify the most attractive market.

Next the ten indicators used in the three-step evaluation process will be explained, and their use will be motivated. The three-step evaluation process will contain five general indicators and five industry indicators. The explanation of the indicators will be followed by the evaluation table used to evaluate the markets and identify the most attractive one.

5.3.1 GDP per Capita (General)

Gross domestic product (GDP) is the value of all goods and services produced by the domestic economy of a country over a one-year period. GDP per capita is a country's income per person (Hollensen, 2012, p.132). It is calculated by taking the GDP of a country and dividing it with total population. It is often used when comparing the relative performance of countries. A rise in GDP per capita signals growth in the economy and increase in productivity.

Economic forces are of great interest to the international marketer because of the impact they have on market potential. High GDP per capita often indicates high economic development. The income and wealth of people are relevant as they determine the purchasing power of consumers. Albaum and Duerr (2008, p.129) have found that: “on a broader scale, the extent of economic development of a market influences the lines of business and methods by which business can be carried out in a country. Infrastructure is affected, as are all types of institutions within the country”.

Per capita GDP is often used as an indicator of standard of living. Higher per capita GDP is interpreted as a country enjoying a high living standard (Investopedia, n.d.)

The average purchase a customer makes in the web-shop of MK’s home market is between 100-300 euros. Individuals living in a country with a GDP per capita higher or similar to the home market would be likely to afford the product offerings of MK.

The numbers used in the evaluation table are from 2013 and are taken from the website of the World Bank (The World Bank, 2013).

5.3.2 GDP per Capita Growth (General)

GDP per capita is a primary indicator of a country’s performance. GDP per capita growth indicates whether a country’s economy is expanding or contracting. A positive number is favorable for firms contemplating exporting to the market.

The figures used in the table are from 2012-2013 and are taken from the website of the World Bank (2013). The author has derived the figure by calculating the growth of GDP per capita between 2012 and 2013. The numbers used in the calculation are in dollars and adjusted under PPP. PPP stands for purchasing power parity and is an economic theory that estimates the amount of adjustment needed on the exchange rate between countries in order for the exchange rate to be equivalent to each country’s purchasing power. (Investopedia, n.d.)

GDP per capita growth = $(2013/2012)-1$

5.3.3 Foreign Currency (General)

Having the same currency in the candidate export markets as in the home market makes exporting operations a lot easier to manage. Unfavorable movements in exchange rates make financial planning and pricing more complicated (Hollensen, 2012, p.129). There are methods for insuring against exchange rate movements but most of these methods are too expensive for small- and micro-sized firms. Having the same currency in all export markets would be optimal, however, considering the many currencies used in the world makes it highly unlikely. Having the same currency in the export and the home markets would be a definite bonus, but not a must.

5.3.4 Country Risk (General)

For the assessment of country risk the author has chosen to use Euromoney's country risk index. This index monitors the political and economic stability of 185 countries (Hollensen, 2012, p.172). Hollensen says that "results focus foremost on economics, specifically sovereign default risk and/or payment default risk for exporters [...] Euro-money and other services measure the general quality of a country's business climate.

The numbers used in the table are from 2011 and provided by Euromoney's country risk index (2011a, 2011b, 2011c, 2011d, 2011e) website.

5.3.5 Language (General)

The organizational language of MK is Swedish, Finnish. Language similarities between candidate markets and the home market will help negotiations and communication with foreign firms and customers. The translation of the website that is the primary source of marketing, customer contact and sales, can be done internally which saves costs and eases operational management. In, addition customer service does not have to be outsourced. These factors favor a candidate market with a language similar to the organizational languages.

5.3.6 Household Levels of Internet Access (Industry)

A large part of MK's revenue comes from online purchases made through the web-shop. In order for customers to find the web-shop and purchase through the web-shop it is important that they have access to the internet. Eurostat (2015a) is the statistical office of the European Union situated in Luxembourg. Its task is to provide the European Union with statistics at European level that enable comparisons between countries and regions. Eurostat provides statistical information regarding the household levels of Internet access within the candidate export markets. This figure indicates the percentage of a country's total households that have access to the internet.

5.3.7 Individuals Having Ordered Goods or Services for Private Use Over the Internet (12 months) (Industry)

Eurostat (2015b) also provides information regarding the online purchasing behavior of individuals in Europe. This indicator shows us how common it is for individuals in different countries to purchase goods or services over the internet. The figures used in the evaluation table show us the percentage of a country's individuals who've purchased goods or services for private use over the Internet during a 12 month period. Countries having a high percentage are more attractive for firms who use the internet as their main marketing and sales platform.

5.3.8 Delivery and Return Cost of a Standard Parcel to and from the Candidate Market (Industry)

MK generates most of its revenue through online purchases made by customers through their web-shop. The purchased goods are then delivered to the customers by mail or other mode of transportation. The delivery cost of the product is paid by the customer. If the delivery cost is too high, it affects the competitiveness of many of the products. The competitiveness of delivery costs is very essential for the competitiveness of a web-shop. This is why the cost of delivery and return, of a standard parcel (3kg), to the candidate export markets will be included in the evaluation table.

MK had got an offer from Ville Niemi at PostNord logistics (Niemi, 2015). The information given in that offer was used as reference by the author for the purpose of evaluation criteria between the candidate markets, however slightly changed to protect the pricing of PostNord logistics. The offer clearly shows the delivery prices to the candidate export markets from Finland.

5.3.9 Delivery Time of a Standard Parcel from the Home Market (Industry)

A large number of the products purchased through MK's web-shop are delivered. The time it takes to deliver a product from the day of purchase is very important for the competitiveness of a web-shop. If a customer knows he is ordering a product from a foreign country he often accepts a longer delivery time. However, the competitiveness of many of the 3000 products available through MK's web-shop will be reduced if the delivery time is too long. Many customers accept the expensive price of the local dealer if they can get the product within a reasonable amount of time. This will affect the competitiveness of many of the generic products, that when buying customers will not take into account a two week delivery time and hence be forced to buy locally.

The information given in the offer by PostNord logistics (Niemi, 2015) was also used for the for the purpose of this evaluation criteria.

5.3.10 Consumption of Boating Equipment and Boat Motors (Industry)

The most important industry indicator used in the three-step evaluation table is the estimated consumption of boating equipment and motors. To estimate the consumption of boating equipment and motors in the candidate export markets the author will use estimation by analogy method. Estimation by analogy "is essentially a single-factor index with a correlation value (between a factor and demand for a product) obtained in one country applied to a target export market" (Albaum and Duerr, 2008, p.233).

Albaum and Duerr (2008, p.232) argue that, estimation by analogy, is a very simple method of analysis. Whenever data for product sales and a single estimating factor are available, the estimation by analogy method can be used to provide estimates for candi-

date markets. Keegan and Green (2000, pp.229-230 cited in Albaum and Duerr, 2008, p.232) provide the following caveats about the method:

1. Are the two countries for which the analogy is assumed really similar?
2. Have technological and social developments resulted in a situation in which demand for a particular product will not follow previous patterns?
3. If there are differences among the availability, price, quality etc. associated with the product in the two markets, market conditions are not comparable so demand will not develop into actual sales.

Market potential can be defined as “the amount of a product that the market could absorb over some indefinite time period under optimum conditions of market development” (Albaum and Duerr, 2008, p.232). The estimated market potential is very important factor to consider when evaluating market potential and whether to enter a market.

5.3.10.1.1 Estimation by Analogy

According to Finnboat’s (Finnish Marine Industries Federation) annual report of 2013 its members had a total revenue of 460, 7€ mil. in 2013, out of which 261, 7€ mil. were from the Finnish home market, and 199€ mil. were from exports. Therefore, we assume that the Finnish market has consumed boating goods and services of 261, 7€ mil. worth. Out of the 261, 7€ mil., 136€ mil. was spent on boating equipment and motors. MK is involved mainly in the retailing of boating equipment, accessories and outboard motors through their web-shop. The data, used in the calculations that are explained below, which got us to the results displayed in the table 3 are provided by the World Bank (2015a?; 2015b?; 2015c?; 2015d?; 2015e?; 2015f?) and Finnboat (2013).

By using the estimation analogy; we assume that:

The author has used the working age population, all 15-64 year old individuals of a country’s population, as the correlating factor in the calculation.

The X represents boating equipment and motors

Xg represents the consumption of X in Finland (136€ mil. in 2013)

Yg represents a factor that correlates with demand for X in Finland,

data from Finland (2,43 mil. working age population)

Xs represents the demand for X in Sweden

Ys represents a factor that correlates with demand for X in Finland,

data from Sweden (4,13 mil. working age population)

We further assume that:

$$\frac{X_g}{Y_g} = \frac{X_s}{Y_s}$$

Since Xg, Yg and Ys are known, we can solve for Xs as follows:

$$X_s = \frac{(X_g) (Y_s)}{Y_g}$$

Table 2: Estimation by analogy results

Country	Working age population (15-64)	Estimated consumption of boating equipment and motors (2013)
Sweden	4,13	231
Norway	2,35	132
Germany	38,69	2165
Estonia	0,64	36
Finland	2,43	136
Numbers shown in millions		

The working age population has been calculated by using the age dependency ratio (% of working age population) and the total population of the candidate export markets. “Age dependency ratio is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those ages 15-64.” (The World Bank, 2015?a)

According to Albaum and Duerr (2008, p.232) there are two key dimensions in assessing the potential of a market: (1) the number of possible users of a product, and (2) the maximum expected purchase rate.

When analyzing the results in the table above it is important to note that Finland, Sweden and Norway are highly similar markets. However, the consumption of boating equipment and motors in Sweden is most likely larger than estimated in the table above,

this is based on the fact that Sweden has a more lakes and a much longer coastline than Finland, this would advocate for more maritime activity. The markets of Estonia and Germany are less similar to the Finnish home market than Sweden and Norway, therefore the real consumption of boating equipment and motors is much less considering that both Germany and Estonia have fewer lakes and much shorter coastlines than Finland.

5.3.11 Cultural Distance

A firm might not have the time or resources to study the cultures of various export markets. It is still important for the firm to get familiar with the cultural aspects of a potential export market. According to Hollensen (2012, p.160) cultural differentiators can provide useful guidance for corporate strategy development.

One approach to identifying fundamental differences of national cultures is provided by Professor Geert Hofstede (2010?). Geert Hofstede conducted a comprehensive study involving IBM employees. The study consisted of 116000 questionnaires and involved participants from 72 different countries. Hofstede's research leads him to create a model consisting of six dimensions through which countries could be compared. The six dimensions in the model of national culture are: power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance index, long-term orientation vs. short-term normative orientation, indulgence vs. restraint. The research shows that the candidate export markets are very similar in their cultural dimensions to the Finnish home market. This similarity is shown in table 4. This is no surprise considering the geographical proximity of the countries. Norway and Finland have the shortest cultural distance. Germany and Finland have the longest cultural distance out of the candidate export markets. In addition, the author has chosen to include Russia in the comparison with the aim of portraying the cultural distance that can reside between markets despite the geographical proximity of neighbors

Research conducted by Wood and Robertson (2000) on how managers value information when selecting export markets. Found that out of six variables culture is least valued in export market selection. The six information criteria being evaluated in the

study were: market potential, legal considerations, politics, infrastructure, broad economic indicators, and culture.

Considering the findings of Wood and Robertson (2000), and the cultural similarities of the candidate export markets implicated by Hofstede’s research (2010?). The author has decided to exclude any further cultural criteria from the evaluation process.

Table 3: Cultural distance between home and export markets

Indices difference -> Country difference	Differences in powerdistance index	Differences in individualism index	Differences in masculinity index	Differences in uncertainty avoidance index	Differences in long term orientation index	Differences in indulgence index	Total difference
Difference Estonia and Finland	7	3	4	1	44	41	100
Difference Germany and Finland	5	7	36	5	45	34	132
Difference Norway and Finland	2	6	18	9	3	2	40
Difference Sweden and Finland	2	8	21	30	12	21	94
Difference Russia and Finland	60	24	10	36	43	37	210

5.4 Candidate Evaluation

Table 5 depicts the setup the author has used for the evaluation of the candidate markets. The table is comprised of the general and industry indicators discussed previously in the chapter. The goal of the evaluation was to find the most attractive market for MK and then analyze that market in-depth.

In table 6 the candidate country markets have then been scored based on the general and industry indicators displayed in table 5. The management of MK has decided the importance of each criterion from the perspective of their firm. The importance of each criterion was decided on a scale from 1-3 as shown in figure 6. 1 indicates low importance, 2 indicates medium importance and 3 indicates high importance for MK.

Table 4: Country evaluation

COUNTRY	GENERAL MARKET INDICATORS					INDUSTRY INDICATORS				
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
ESTONIA	25823	4 %	EURO	58,79	Estonian	83 %	49 %	10 €	1-2 days	< 34
FINLAND	39740	-1 %	EURO	86,96	Finnish	90 %	68 %			136
GERMANY	43883	1 %	EURO	84,98	German	89 %	70 %	12 €	3-4 days	< 2134
NORWAY	64405	-1 %	NOK	93,44	Norwegian	93 %	77 %	13 €	2-5 days	147
SWEDEN	44658	2 %	SEK	88,74	Swedish	90 %	75 %	11 €	1-3 days	> 245
	1. GDP per capita		6. Household Levels of Internet Access (Industry)							
	2. GDP per capita growth		7. Individuals Having Ordered Goods or Services over the internet for private use (last 12 months) (Industry)							
	3. Foreign currency		8. Delivery and Return Cost of a Standard Parcel to and from the Candidate Market (Industry)							
	4. Country risk		9. Delivery time of a Standard Parcel from the home market (Industry)							
	5. Language		10. Consumption of Boating Equipment and Boat Motors (Industry)							

5.4.1 Elimination of Candidates

By looking at the total country scores in table 6 we can see that the Swedish market is the most attractive market for MK, 10 points ahead of Germany. Based on the results in figure 6, the Swedish market will now be subject for in-depth analysis. The in-depth analysis will start with a PEST-analysis of the Swedish macro-environment.

IMPORTANCE OF THE CRITERION ->	GENERAL MARKET INDICATORS					INDUSTRY INDICATORS					TOTAL SCORE
	3	2	2	1	3	3	3	3	3		
COUNTRY	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
ESTONIA	1	4	4	2	1	3	2	4	4	1	66
GERMANY	3	3	4	3	1	4	4	2	3	4	80
NORWAY	4	2	1	4	1	4	4	2	2	3	70
SWEDEN	3	3	1	4	4	4	4	3	4	4	90
Importance of criterion: 3 = high 2 = medium 1 = low						Scores: 4 = very positive 3 = positive 2 = negative 1 = very negative					
	1. GDP per capita		6. Household Levels of Internet Access (Industry)								
	2. GDP per capita growth		7. Individuals Having Ordered Goods or Services over the internet for private use (last 12 months) (Industry)								
	3. Foreign currency		8. Delivery and Return Cost of a Standard Parcel to and from the Candidate Market (Industry)								
	4. Country risk		9. Delivery time of a Standard Parcel from the home market (Industry)								
	5. Language		10. Consumption of Boating Equipment and Boat Motors (Industry)								
	11. Total country score										

Table 5: Scoring table used for elimination

5.4.2 Scoring

The general market and industry specific indicators from figure 5 were scored on a scale from 1-4. A score of 4 indicates very positive, 3 indicates positive, 2 indicates negative, and 1 indicates very negative for MK. The results are shown in figure 6.

The scoring was based on the judgement of the author of the thesis and will be motivated as follows:

1. *GDP per capita*: 1= <30000, 2= 30000-40000, 3=40000-50000, 4= >50000

Norway had the highest GDP per capita and was thus given the score of 4. Germany and Sweden had a higher GDP per capita than Finland and were given a score of 3. Estonia had a much lower GDP per capita which is unfavorable to MK and was thus given a score of 1.

2. *GDP per capita growth*: 1= <0,0%, 2= 0%, 3= 0,5-2% 4= >2%

Estonia had the highest growth in GDP per capita and was given a score of 4. Germany and Sweden also showed small growth in GDP per capita and were thus given a score of 3. Norway's GDP per capita was shrinking and was thus given a score of 1.

3. *Foreign currency*: 4= Euro, 1= foreign currency

Estonia and Germany both use the Euro as their currency and were thus given a score of 4. Norway and Sweden both have their own currency which is unfavorable to MK and were thus given a score of 1.

4. *Country risk*: 1= 50-65, 2= 66-70, 3= 71-85, 4= 86-100

Norway and Sweden have very low country risk and were thus given the score of 4. Germany has a little higher country risk than Norway and Sweden even though it is still low and was thus given the score of 3. Estonia has moderate country risk and was thus given a score of 2.

5. *Language*: 1= Foreign language, 4= One of the organizational languages (Swedish, Finnish)

Sweden's official language is Swedish. The organizational languages of MK are Swedish and Finnish. Therefore, Sweden was given the score of 4 and Estonia, Norway and Germany were given the score of 1 as their official languages are completely foreign to MK.

6. *Household levels of internet access*: 1= 50-65%, 2= 66-70%, 3= 71-85%, 4= 86-100%

Swedish, Norwegian and German households have a high level of internet access and were thus given a score of 4. Estonian households have a good level of internet access and were thus given a score of 3.

7. *Individuals having ordered goods or services over the internet for private use (last 12 months):*

1= <50%, 2= 50-59%, 3=60-69%, 4= >70%

Sweden, Norway and Germany had a higher figure than Finland and were thus given a score of 4. Estonia had a much lower figure than Finland and was thus given a score of 2.

8. *Delivery and Return cost of a standard parcel to and from the candidate market:*

1= >14€, 2= 12-13€, 3= 11€, 4= 10€

Estonia had the lowest delivery cost and was thus given a score of 4. Sweden had the second lowest delivery cost and was thus given a score of 3. Germany and Norway had a higher delivery cost and were thus given a score of 2.

9. *Delivery time of a standard parcel from the home market:*

1= >5 days, 2= > 4 days, 3= > 3 days, 4= < 3 days

Estonia and Sweden both had a short delivery time and were thus given a score of 4. Germany had little longer delivery time than Sweden and Estonia and was thus given a score of 3. Norway had the longest delivery time and was given a score of 2.

10. *Consumption of boating equipment and boat motors:*

1= much smaller market than Finland, 2= a little smaller market than Finland, 3 = similar to Finland's market, 4= bigger than Finland's market

5.5 Macro-Environmental Analysis

The performance of a firm in an export market is influenced by its internal resources and capabilities, and industry specific factors, and by the general business environment of a nation, also referred to as the macro-environment, can have a substantial impact on the success of an exporting firm in the foreign market. The macro-environment of a country consists of factors that are uncontrollable to the firm (Hollensen, 2012, p.119). These factors shape opportunities and pose threats to the firm and all other actors that operate in the environment (Kotler et al., 2008, p.184). Organizations need to observe the different factors in the macro-environment in order to adapt to the threats and take advantage of the opportunities. The macro-environment of a foreign market consists of four major environmental components (Albaum and Duerr, 2008, pp.113-4). These

components affect the firm's behavior in the market and often require the firm to implement different marketing strategies abroad than at home. Albaum and Duerr have identified these components to be:

- culture and societal structure;
- economic forces;
- political and legal forces;
- and competition

“These components directly affect information requirements and accessibility, negotiations, market entry strategies and modes, channels of distribution, product and pricing decisions, financing and methods of payment, promotion and marketing communications, logistics, and organization structure. Other components that affect international marketing include differences in geography, infrastructures, and levels of technology” (Albaum and Duerr, 2008, pp.113-4)

By applying the PEST-analysis to the Swedish macro-environment the author can analyze many of the major environmental components discussed above. “The PEST-analysis systematizes an examination of the political, economic, social and technological elements of the macro-environment” (Kotler et al., 2008, p.43). The competitive aspect will be analyzed later when the author uses Porter's five competitive forces model to evaluate the attractiveness of the Swedish boating industry.

5.5.1 PEST-analysis

PEST is an acronym for Political, Economic, Social and Technological. PEST-analysis is a commonly used tool for assessing macro-environmental factors in a market where a firm tends to operate or offer its trade (Pestleanalysis, 2013). The author will now apply the PEST-analysis tool to examine the Swedish macro-environment.

5.5.1.1 Pest-Analysis of Sweden

Sweden has a population of 9,7 million. Sweden has an area 450,295 square kilometers and is the third largest country in the European Union (CIA, 2015). Sweden is situated in Northern Europe and lies west of the Baltic Sea and Gulf of Bothnia. Sweden shares maritime borders with Denmark, Germany, Poland, Russia, Lithuania, Latvia and Estonia and Finland. Sweden is home to 95700 lakes and has a coastline 3218km long (Wik-

ipedia, 2015a). Many Swedes have a very active maritime lifestyle and according to a study released in 2010, the Swedes have a boat park that consists of roughly 943000 boats (Transportstyrelsen, 2010). Boat park refers to the total amount of boats in a country. Sweden has an annual GDP of \$579 billion and is classified as a high income country by the Organization of Economic Co-operation and Development (OECD) (The World Bank, 2015?).

5.5.1.2 Political

Sweden's capital Stockholm lies on the East coast of the country (CIA, 2015). Stockholm and its metropolitan area inhabit approximately 2,1 million people (Swedish Institute, 2014). Sweden is a constitutional monarchy, with parliamentary democracy, and the reigning king is Carl XVI Gustaf (Wikipedia, 2015b), and the current prime minister is Stefan Löfven. Sweden's primary legislative body is the Riksdag which is elected every four years (CIA, 2015). The leader of the majority party or the majority coalition party usually becomes the prime minister. The prime minister then appoints the minister cabinet. After the last parliamentary elections the two biggest parties are the Social Democratic Party and the Moderate Party, with 113 and 84 seats out of the 349 (Sveriges Riksdag, 2014). The Moderate party is center, center-right and generally supports tax reductions and economic liberalism (Wikipedia, 2015c). The Social Democratic Party wants to improve welfare, education and employment before any tax-cuts or privatization (Socialdemokraterna, 2014).

According to an annual corruption perception index, that measures the perceived levels of public sector corruption in 175 countries, provided by Transparency International which is a global institution against corruption, Sweden is ranked the fourth least corrupt nation in the world just after Finland (Transparency International, 2014).

Sweden joined the European Union (EU) in January 1995 (European Commission, 2014). This implies that Sweden is part of the single market, which removed barriers to trade and enabled free movement of goods, services, capital and labor between member states (Hollensen, 2012, p.134). Hollensen writes that "The removal of barriers to the free movement of goods, services, capital and people in Europe was ratified by the passing of the Single European Act in 1987 with the target date of 31 December 1992 to complete the internal market. In December 1991 the European Economic Community

(EEC), which was later incorporated into the EU, agreed in Maastricht that the so-called 1992 process would be a step towards cooperation beyond economic dimension". The EU was effective from 1 January 1994 and the formation of a full economic union requires the surrender of a large measure of national sovereignty to a supranational body, in this case the EU. Finland's and Sweden's membership in the EU implies that there are no barriers to trade, tariffs or duties, between the two country markets.

5.5.1.3 Economic

The economic union created through the EU requires the integration of economic policies in addition to the free movement of goods, services and factors of production across borders between members (Hollensen, 2012, p.134). Under an economic union, members harmonize monetary policies, taxation and government spending. The EU introduced a common currency, the Euro, in 2002. However, Sweden has not adopted the Euro, instead they use Swedish crowns (SEK), which floats freely against the Euro, and has been relatively stable since the Euro's introduction in 2002. After the crisis in 2008 the Swedish crown depreciated about 20% to a value of 10.4-11 SEK per Euro (Wikipedia, 2015d).

Due to the Greek crisis and the expansionary monetary policy implemented by the European Central Bank, the Swedish crown has since 2012 steadily appreciated against the Euro, and is now at 8,9-9,6 SEK per Euro (ECB, 2015). The current strength of the Swedish crown makes goods bought from Finland, who is using the Euro, relatively more affordable for the Swedish consumers.

In 2014 Sweden had a GDP growth rate of 2,1% and an inflation rate of -0,1% (CIA, 2015). In 2014 Sweden had a labor force of 5,124 million and an unemployment rate of 7,9%. In 2014 Sweden had a GDP per capita of \$44700 and was classified as a high income country by the OECD. Household disposable income grew at an annual rate of 2% in 2014 according to data provided by the OECD (OECD, 2014).

Sweden is home to world known companies such as IKEA, Spotify, AstraZeneca, Skype, H&M and Ericsson (Swedish Institute, 2014). "Aided by peace and neutrality for the whole 20th century, Sweden has achieved an enviable standard of living under a mixed system of high-tech capitalism and extensive welfare benefits" (CIA, 2015).

The OECD forecasts that the real GDP growth rate will rise as demand for Swedish exports continues to grow stronger in 2015. Consumption is also projected to increase and unemployment is expected to decrease (OECD, 2014). This will mean greater domestic demand for goods and services in 2015. The more accommodative stance taken by the Riksbank since mid-2014 and gradually shrinking slack should help push up inflation, however, monetary and fiscal policies need to remain supportive for some time according to the economic forecast summary of Sweden provided by the OECD in November 2014.

5.5.1.4 Social

Sweden has a population of 9,7 million out of which 85% live in cities (Swedish Institute, 2015?). The median age in Sweden is 41,2 years and the largest age group is 25-54 years that amount to 39,2% of the total population (CIA, 2015). The average life expectancy for a Swede is 81,89 years.

The only official language is Swedish, but there are also small Sami- and Finnish speaking minorities. Lutheran is the largest religion in Sweden with 87% of the population. Population growth in 2014 was estimated at 0,79%.

The Swedish educational system requires all Swedes to complete nine years of compulsory schooling. Most pupils continue to the three-year upper secondary school and about one-third go on to higher education at universities (Swedish Institute, 2014). The standard work week in Sweden is 40 hours and minimum paid vacation is 5 weeks. Sweden is one hour ahead of Finland (GMT +1).

Sweden has a lot of nature and is sparsely populated country. Some 20% of the population has summerhouses where they spend a lot of time during the summer which starts in June (Swedish Institute, 2014b). Swedes also like maritime activities and according to previous research conducted in 2010 (Transportstyrelsen, 2010), an estimated 1,5 mil households own boats which accounts for 2,5 mil adults between the ages of 20 and 74. The boating season in Sweden is from May to September, and during that time an estimated 134000 boats were in use every day. The Swedish boat park is estimated to consist of 94300 boats out of which approximately 880000 are sea worthy. Half of the total boats are situated inland and on the east coast. Motorboats with 10 horsepower, or greater, outboard engines are the most common type of boats in Sweden. Swedes are

keen on safety as the average boat owner owns 8-10 life-vests. Maritime lifestyle also impacts the health of many Swedes as three out of four boat owners say it has had positive effects on their health. Sweden has a boat density ratio of eight people per boat and similar numbers can only be found in Finland, Norway and New Zealand (SweBoat, 2015).

5.5.1.5 Technological

Sweden is a highly developed country with gross domestic spending on research and development at 3,3% of GDP in 2015 (OECD, 2014). Sweden is among the top three spenders on research and development in the EU. An index published by the European Commission ranks Sweden as the leading country for innovation among EU member states (Swedish Institute, 2014c). Innovation is closely related to research and development spending. The Swedes ability to innovate is well known in the world and is well illustrated in the Harvard Business School's national innovation capacity index, a study of different countries innovation potential, where Sweden ranked eight out of 173 countries (Harvard Business School, 2010). In terms of trained engineers per capita Sweden has ranked second in the world after Japan. The Swedish government has chosen to focus strategic investments on three key areas: medicine and bioscience, technology and climate (Swedish Institute, 2014c).

91,7% of Swedish households have access to the Internet and for every 100 inhabitants there are 113,2 mobile broadband subscriptions (OECD, 2014).

In the measuring information society report of 2013, released by the United Nations International Telecommunications Union (ITU), which is based on internationally agreed information and communication technologies (ICT) indicators, Sweden was ranked third after Denmark and South Korea (ITU, 2014).

5.5.2 Conclusion

The PEST-analysis has revealed Sweden's macro-environment to be very favorable for a boating accessories web-shop. The country is politically very stable and does not face threats from any other countries. Sweden has a very low and insignificant level of corruption which is favorable for business operations. Sweden's membership in the EU en-

sures that the business environment will stay favorable for exports and trade, between the Swedish market and the Finnish home market.

Sweden has been affected by the economic recession in 2008 and the Greek crisis in 2012 but is recovering faster than many countries on continental Europe. The OECD has forecasted increases in consumption and GDP growth for 2015. This is favorable for MK that is planning to export to the Swedish market. The Swedes have eight hour work days like the Finns and holidays in the summer. The cultures are very similar which would favor business operations and negotiations. The country has one of the highest ratios of boats per person, 8 people for each boat, which makes the market very attractive for boating related exports. The country is technologically very well developed. The country is ranked high on innovation indexes and information technology indicators. Swedish households have a high percentage of internet access and the population has a high amount of mobile broadband subscriptions. This is very favorable for MK since they use the internet as their main marketing channel, and also generate most of their revenue through online purchases from their web-shop.

Next the author will analyze the competitive environment of the Swedish boating industry in order to evaluate the attractiveness of the market.

5.6 Industry Analysis

For the author to provide MK with a valid market evaluation, not only the macro-environment of Sweden has to be analyzed, but also the Swedish boating industry. The industry environment is much more relevant to a micro-firm like MK because it provides more specific and in-depth assessments. The industry environment also has a more direct effect on MK's ultimate decision of whether or not to enter the market. The analysis of the macro-environment using the PEST-analysis is based on American business literature, and is most often used in the context of multinational corporations or medium-sized companies, to whom the macro-environmental factors are more relevant. For a micro-sized firm the industry environment is more important, however it is also very important for medium- and large-sized firms.

Porter has developed one of the most useful frameworks for analyzing the competitive structure of an industry (Hollensen, 2012, p.76). Porter (1980 cited in Hollensen, 2012,

p.76) suggests that competition in an industry is rooted in its underlying economic structure and goes beyond the behavior of current competitors.

An industry “is a group of firms that offer a product or class of products which are close substitutes for each other. A market is a set of actual and potential buyers of a product and sellers” (Hollensen, 2012, p.77). An industry can contain several different markets. In the boating industry, markets for boats and engines, and their sub-markets for service and equipment, are largely interdependent as demand for one market affects the other and thus the whole industry.

The state of competition depends upon five basic competitive forces: competitive rivalry, buyers, suppliers, new entrants, and substitutes (Hollensen, 2012, p.76). The combined force of these factors determines the ultimate profit potential in an industry. Hollensen writes that profit potential is measured as the long-run return on invested capital.

5.6.1 Dobb’s Five-Forces Template

Dobbs says that “the five forces tool can be applied to an industry a company is considering to enter [...] it can be used to assess the attractiveness levels of an industry and to gain strategic insights as to how a firm can compete more effectively within its industry” (Dobbs, 2014, p.34).

The author will use Porter’s five forces framework to analyze the Swedish boating industry, and evaluate the attractiveness of the industry from the perspective of MK. The author is familiar with the framework from previous experience, but was worried the analysis would end up vague and unstructured, and therefore decided to use the template and guidelines provided by Dobbs (2014) to incorporate a proper structure and meaning to the analysis. Dobbs (2014, p.33) argues that many people understand the five forces framework and its use in an inordinately shallow way. He has found that misuse of the framework, or lack of understanding can lead to misanalysis, poor decision making, and disastrous organizational outcomes.

The templates have been developed based on experiences with practicing managers, small business owners, industry analysts, academics, and students. The purpose of the

templates is to systematically guide the analyst through a comprehensive assessment of the five forces (Dobbs, 2014, p.32).

5.6.1.1 Standard Format of All Templates

The layout of the templates will now be described shortly according to Dobbs (2014, p.36):”all of the five forces templates share the same underlying format. The particular force to be analyzed is listed at the top with an asterisk that directs the user to an explanation of how this force may threaten the profits of firms in the industry. Below the title are the individual components of the templates.”

- *Sources of threats*: six to eight contributing sources of threats from the underlying structure of an industry are listed for each force. These are taken from Porter’s 1980 and 2008 publications. For most of the threat sources there is consistency between what is listed on the template and what can generally be found in other explanations of the five forces (i.e. in textbooks).
- *Threat level indicator bar*: Each of these six to eight sources of threats is to be analyzed and the user may then indicate the relative threat level by marking (e.g. circling) the threat level indicator bar above the name of the item. The farther right the mark, the higher the analyst perceives the threat level to be (as indicated by the shaded bar just below the title. To aid the analyst, bar labels are provided for each threat source that indicate the value, level, or measurement that is associated with either high or low threat levels. Below the name of each threat source, there is space enough for the analyst to write brief explanations, thoughts, notes, analysis etc.
- *Driving factors*: To the left of each potential threat source, there is a square box labeled “DF”. The analyst is to mark the box(es) of those contributing threat sources he determines to be a driving factor of the threat level of a particular force. The number of driving factors may vary by force and industry.
- *Threats and opportunities*: In an attempt to more directly link analysis to strategic action, space is provided for the template user to indicate key opportunities and threats facing the focus organization. Without an explicit, clearly stated tie-in to opportunities and threats, the full value of an industry analysis utilizing the five forces framework is not realized. Often, the five forces are presented as purely analytical exercise and are not linked to specific resources of the firm.

Specifically linking five forces assessments to opportunities and threats can help strategic thinkers develop powerful responses to industry pressures to improve competitiveness and increase profits.

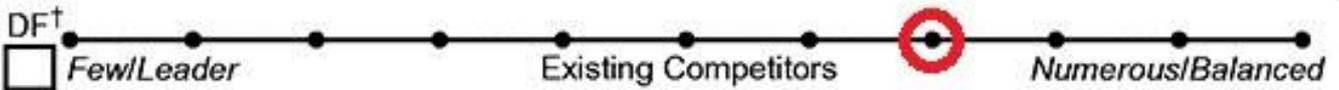
The results of the analysis will be based on the analytical skills and professional judgement of the author. The author has worked in the Finnish Boating industry between 2010-2013, during this time the author also did some business with Swedish firms. The author will base the analysis on industry specific quantitative and qualitative secondary data, and information gathered through a qualitative interview. The author will largely depend on public industry data gathered by SweBoat, which is the Swedish Marine Industries Federation. The author also conducted a qualitative interview with the CEO, Mats Eriksson, of the Swedish Marine Industries Federation. The interview has provided a local perspective to the analysis, which makes the conclusion drawn from analysis more valid. The questions asked by the author were related to the Swedish boating industry environment and its current situation. The questions were drafted by using Dobbs five forces template as a base. The interview, containing questions and answers, is found in appendix 1.

5.6.2 Application/Analysis

Next the author will analyze the Swedish boating industry environment by using the previously described template.

Threat of Competitive Rivalry*

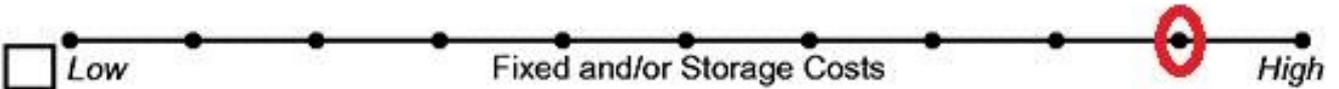
THREAT LEVELS (Low to High)



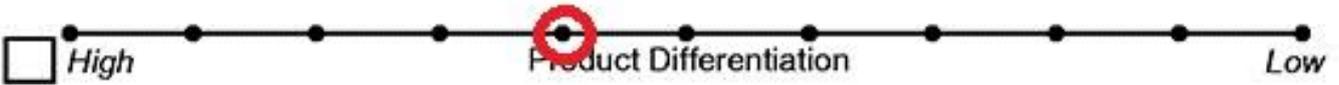
Many firms, a few big ones, competing within the industry. However no dominant players says Eriksson (Appendix 1)



Estimated total market value fell from 1289 (2012) MSEK to 1153 (2013) (SweBoat, 2013).



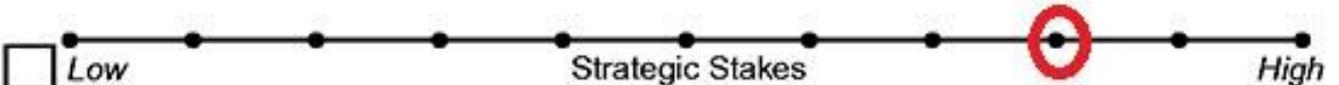
Storing, distributing and selling boats and boat related products requires large facilities says Eriksson (Appendix 1)



Product offerings between retailers are similar but product features differ.



Low switching costs. Customers buy their equipment from several retailers.



Consumers have been spending less. Firms are losing market position in shrinking market.



Market total value fell from 2008 2242 MSEK to 2013 1153. Capacity expansion is cautious and small (SweBoat, 2013).



High fixed costs and storage costs create high exit barriers. This increases competition.

THREATS	
1.	Risk that the industry will take longer to recover, and growth might continue to be negative or close to 0.
2.	Verv few firms have gone bankrupt due to the slumn in the market says Friksson. Increased competition.
OPPORTUNITIES	
1.	Few firms can start selling boating equipment and accessories online. This could improve performance
2.	of firms and brings new sources of revenue.

Threat of Buyers/Buying Groups* (_____)

Low THREAT LEVELS High

DF† **Single/Few** Buyer Orders **Large Volumes**

Buyers order small volumes says Eriksson (Appendix 1). Careful in current market situation.

Low Buyer Information **High**

Industry is very transparent says Eriksson. Svenska Båt Unionen gathers information for its members.

Not Feasible Buyer Backward Integration **Credible Threat**

A few buyers have done this but only, but it requires large resources only possessed by few says Eriksson.

Highly Differentiated Industry Products **Standardized**

Products are somewhat differentiated but there are options for buyers to choose from says Eriksson.

High Buyer Switching Costs **Low**

Switching costs are low but loyal buyers can negotiate better prices and payment terms and get priority in shipping.

Low % Overall Buyer Costs **High %**

Sellers might not have own inventory. All inventory costs are paid by the buyer.

High Profits Buyer Profitability **Operating Losses**

Buyers have low margins. But there haev only been a few firms exiting the industry says Eriksson.

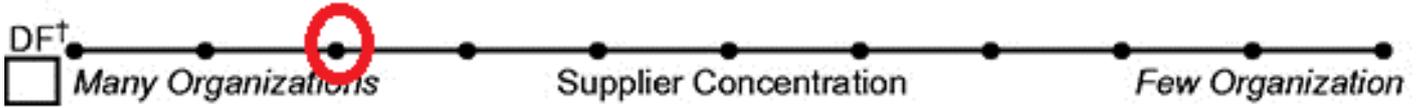
High Impact Buyer Product/Service **Low Impact**

Products have small market shares and are low impact. Buyers have options to choose from

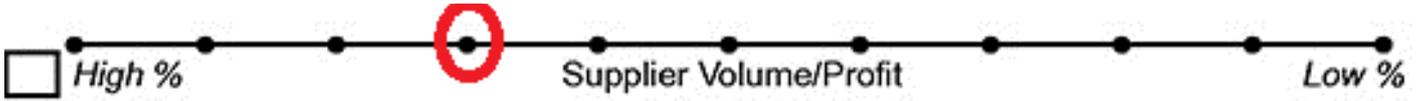
THREATS	
1.	Customers have many options to choose from and are spending less. This puts downward pressure on Buyers
2.	prices and impacts their profitability.
OPPORTUNITIES	
1.	Buyers can increase profitability and differentiate themselves from competition through more differentiat-
2.	ed products and by integrating backwards.

Threat of Suppliers/Supplier Groups* (_____)

Low THREAT LEVELS High



5-15 large ones and hundreds of small ones says Eriksson (Appendix 1)



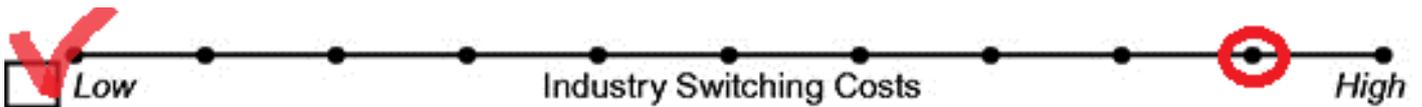
Buyers and suppliers work separate. Suppliers can set prices and margins. No direct pressure from end-consumer



Large suppliers operate worldwide and have possibilities to set-up branded shops in countries.



Suppliers have similar products with different features and brands. Brand value is important.



Suppliers have large storage and production costs. Large storage facilities. Industry specific assets.



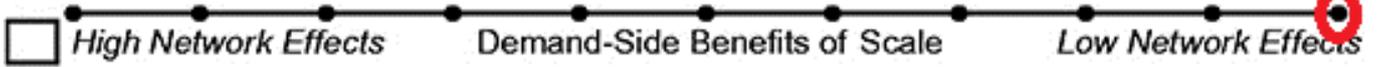
5-15 large suppliers but also many small ones. In total many suppliers.

THREATS	
1.	Moderate threat of suppliers integrating forward. This will happen mostly likely by overtaking a buyer in
2.	financial trouble. Suppliers can also increase prices but not too much as there are many options for buyers.
OPPORTUNITIES	
1.	Opportunities to form strategic alliances with Suppliers in order to gain a competitive advantage over
2.	competition.

Threat of New Entrants*



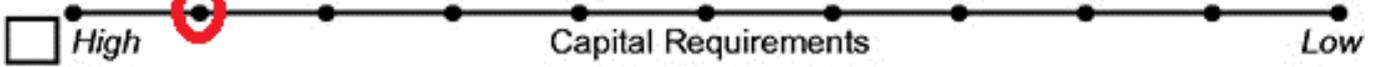
Suppliers are largely dependent on economies of scale in production. Because of high costs.



Customers gain no benefits from network effects.



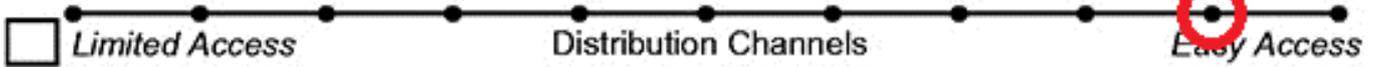
Switching costs are moderate but loyalty is rewarded with better prices and terms = higher margins.



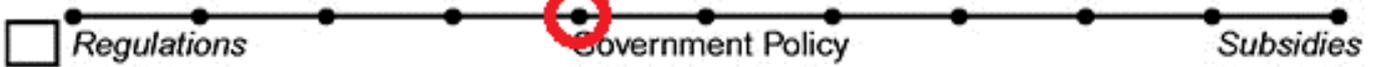
Capital requirements are high says Eriksson (Appendix 1)



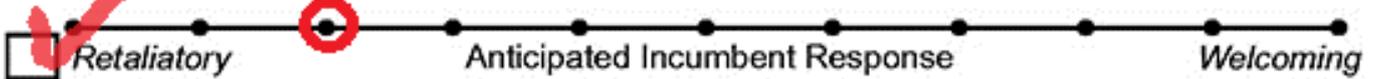
Products normally need a little more time to penetrate the market. Customers make only a few big purchases a year.



Suppliers and buyers use third-party logistics companies.



Many boat products have to be CE or ISO certified in order to be sold.



The industry growth is negative. Market positions are very precious and will be protected. No one can afford to lose customers. New entrants would be seen as a threat says Eriksson.

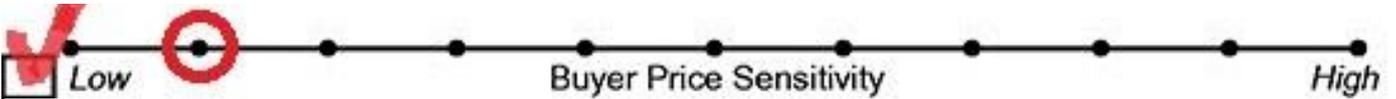
THREATS	
1.	Threats of new entrants is low as the industry requires large capital and is currently recovering from a recession.
2.	
OPPORTUNITIES	
1.	New entrants are very rare, because of declining market, which gives current organizations room to develop.
2.	

Threat of Substitutes*(_____)

Low THREAT LEVELS High



Boating is luxury lifestyle activity. Most others industries have less expensive products says Eriksson (Appendix 1)



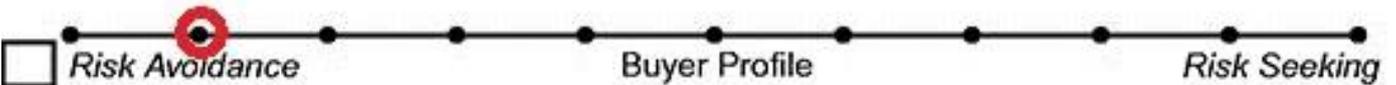
Most customers look for quality and performance over price. Price sensitivity is low compared to other industries says Eriksson.



Cannot say. Depends on the valuation of the customer.



Eriksson says it is easy for a customer to sell their baot on the secondhand market.



Customers avoid risk when they are on the boat. Money is spent on quality products.



Customers look for performance and quality but are becoming a lot more cost aware when buying.

THREATS	
1.	Customers start to go more after price than quality. MK has always been selling quality and performance products.
2.	
OPPORTUNITIES	
1.	Customers look for quality products for affordable prices for their boats. Opportunity for MK to further brand itself as the shop where performance/quality meets price.
2.	

5.6.3 Conclusion

The elements and their scales under each force will be combined to form a final threat level. The value of the middle is 0, and left is positive and right is negative. Every dot on the scale resembles one either negative or positive threat point. A score of -10 or higher would indicate significant threat. And a score of +10 or higher would indicate very favorable conditions.

- Competitive Rivalry: final threat level -17 (max +/- 40) High

According to Dobbs (2014, p.40) “high competitive rivalry necessitates price cuts, new product development, advertising campaigns, service improvements depending on intensity and basis of competition between rival organizations”.

The industry in Sweden has been declining since its high in 2008. Firms are cautious to make large investments in facilities. Short-term, firms are looking to keep their current customers as acquiring new customers cost a lot more. Firms are cautious to start intensive price or promotional wars before signs of industry recovery are visible. Firms are looking to improve their cost structure and performance by downsizing. Competition for customers is high within the industry and with other industries. Opportunity is found in the fact that few shops are devoted to selling primarily online.

- Buyers: final threat level -9 (max +/- 40) High

According to Dobbs (2014, p.41) “powerful buyers and/or price sensitive buyers force down prices, demand better quality/service, and play competitors off one another”.

Buyers are in an unfavorable position to Suppliers. Suppliers (producers) can adjust their prices to stay profitable while buyers have to be more cautious with raising prices as price sensitive customers might switch due to low switching costs. Customers also have many buyers to choose from and are spending less due to the recession. This puts downward pressure on prices of buyers (retailers) and increases competition. Buyers have an opportunity to start sourcing more products straight from Asia; however this requires greater capital investment.

- Suppliers : final threat level +4 (max -/+ 30) Medium/Low

According to Dobbs (2014, p.42) “powerful suppliers charge higher prices, limit product/service and quality and/or shift costs to other industry players”.

Suppliers are in a stronger position than buyers. Suppliers also pose small threats of integrating forward because of the resources and capital they possess. However, this also brings an opportunity for buyers to develop strategic alliances with suppliers in order to gain a competitive advantage over competitors. Emphasis must be placed on finding the right partner so that synergies between company strengths and weaknesses are matched and maximized.

- New Entrants: final threat level +3 (max -/+ 40) Medium/Low

According to Dobbs (2014, p.43) “the threat of new entry puts downward pressure of prices, and upward pressure on costs/rate of investment necessary to keep new entrants out of the industry”.

Due to the Swedish boating industry’s decline in previous years there is not apparent threat of new entrants entering the market before there are signs of recovery and growth. It would be a bad investment to enter a declining market with a big chance of retaliation against new entrants. The industry is also characterized by high fixed and storage costs. Current firms have a chance to develop and improve the performance of their operations. Many businesses that only have traditional shops might develop a web-shop as a new way to market and generate sales.

- Substitutes: final threat level 0 (max -/+ 30) Medium

According to Dobbs (2014, p.44) “substitutes perform the same/similar function as products of the industry but by different means. Viable substitutes place a ceiling on prices and drive up costs related to product performance, marketing, service and R&D”.

The boating industry is differentiated from other industries. Boats and boating equipment are sold in specialized shops and customers look for quality over price. Lately, however, because of the economic recession customers have started to become more price aware. Now buyers and suppliers need to adjust to customer needs

for price/quality products. This creates an opportunity for firms to re-brand themselves, and start marketing themselves as the price/quality shop. Customers have been used to go to the local shop and buy the equipment they need no matter the price. The internet is changing customer behavior as more and more customers go online to look-up prices and product features. The industry is facing a small threat from substitute products in other industries like Golf, Skiing, and Traveling, however, the boating lifestyle has strong roots in the Swedish society which makes many customer loyal to the industry.

Combined threat level is -18, which indicates that the market is unattractive for boat related products, and therefore unattractive for Finnish boat related export products.

6 DISCUSSION

Increased competition from international firms and unfavorable home market conditions are pushing MK to look to international opportunities. These opportunities have been identified but their legitimacy has not yet been proven. An international expansion can provide a new source of growth and revenue for MK. This can be achieved by extending sales of seasonal products and economies of scale. Small firms are hindered by insufficient finances, as well as lack of knowledge about markets and international business experience.

Previous chapters suggest that for small firms with lack of resources, the internet and exporting can provide a means to exploiting international opportunities. The internet levels the playing field between large and small firms, as both can afford the same websites. This paired with low translation costs creates a viable opportunity for small firms. Small firms looking for export market candidates are highly restricted by their resources. Small firms usually apply a market concentration strategy as resources can only be allocated to one or two new markets. This makes the decision extremely important. Not only because the firm is selecting only one, or a few, market(s) but because of the time and money that would be invested in that market. If the expansion is unsuccessful the firm will have lost precious time and money that could have been used to develop home market operations, which can lead to the firm losing precious market share in the

home market. However, planning and due diligence can significantly reduce the risk of this happening.

It is very important that the management of MK have recognized the opportunities and threats in the environment, this will increase the chance of MK not falling victim to these changes, but rather being able to adapt and take advantage of them. As previously mentioned in chapter 2 firms using a sequence of steps in their market selection are much likelier to succeed in their internationalization. MK initiating the information search through this project of market selection and evaluation, will already improve the understanding they have of the international business environment and the candidate markets.

It is easy to draw parallels between the identified candidate export markets of MK and the expansive selection method in chapter 2. As recommended in the previous chapters, it is highly recommended for a small firm to select target export markets that have a high similarity in psychic, cultural and geographical distance. This will allow the small firm to enter the market with minimum amount of adaptation and will also facilitate easy management, cost savings and shorter planning. By using the home market as a base and looking to highly similar and geographically close markets, nearest neighbor approach, the firm identified four candidate export markets. Through the initial evaluation the author found the Swedish market to be most attractive for Finnish boating related exports. In the macro-environmental analysis of Sweden the author found the market to be economically and politically very stable, and technologically well developed. The social part confirmed suspicions that the Swedish people have a very large boat park and that the people highly enjoy and value their maritime lifestyles. This signaled the market to be very attractive for MK's exports. The Industry analysis however revealed the market to be very competitive. Firms operating in the industry face competition from industry competitors and from other industries. This combined with many years of negative growth in the industry has put downwards pressure on the prices of retailers and reduced their margins. Consumers are spending less and have many possibilities to choose from. Therefore the author has found the Swedish boating industry to be highly competitive, moderately risky and unattractive as the target export market for MK.

7 CONCLUSION

By using various evaluation processes and analytical tools the aim of the research was to evaluate candidate export markets for MK, with the goal of finding a market from the candidates that is attractive enough for market entry. In order to answer the research question the author used a three-step evaluation process to compare the candidate markets to each other and the Finnish home market. The three-step evaluation process was a useful tool for quickly evaluating the potential of the candidate markets in a structured and systematic way. The author used a scoring model to identify the most attractive market easier. The scoring model made it easier to evaluate the candidates than it would have been by looking purely the various different indicator values. Evaluating the cultural aspects of the candidates was unnecessary, as the countries are highly similar. However, the author sees it was good to confirm that suspicion.

After the most attractive market was identified, Sweden, the market was subject to in-depth analysis. The PEST-analysis was a useful tool for evaluating the macro-environment of Sweden but the results didn't reveal anything new, and therefore the author considers the analysis somewhat obsolete. Small firms usually target highly similar and geographically close markets. The macro-environment of these markets is often familiar to the firms and a separate analysis might not be needed.

The author used Porter's five forces model to evaluate the attractiveness and competitive environment of the Swedish boating industry. The model proved useful for the analysis and evaluation of the market. Dobbs template helped the author keep the analysis structured and systematic. The macro-environmental analysis indicated potential in the market, however, the industry analysis revealed the market to be very competitive, and as a result of several years of negative growth the market is stagnating. The results of the analysis provided the author with a good understanding of the Swedish industry and the research topic. To conclude from the findings and results the author does not see the Swedish market as an attractive export market, suitable for market entry by MK. Small firms contemplating an international expansion need to know if they should invest abroad or in the home market. The findings of this thesis will help MK make a decision regarding that and aid them in future developments of an internationalization strategy.

The three-step evaluation process helped the author identify the Swedish market as the most attractive one, by taking into account general market and industry specific indicators. However, after further analysis the industry environment was found to be competitive and unattractive for the case firm. Therefore the author failed to locate an attractive export market. By analyzing the other candidate markets industry environments, a possible export market could have been found with less competition and a more favorable buyer (retailer) position.

The strategy of selecting only one market for in-depth analysis was a high-risk high-reward approach. This time it failed as the market selected turned out to be unattractive for MK's exports. The author recommends MK to further evaluate the industries of the other candidate markets. Conducting industry analysis of the other candidate markets could reveal them to be less competitive and have a more favorable position for buyers (retailers) and therefore be more attractive.

Entering a market that is stagnating or declining is very risky. This is why the author recommends MK to re-evaluate the Swedish market in 2 years. During this time the firm can improve their performance in the home market, which is their main source of revenue. Two years will provide the firm with more experience and understanding of their home market and international markets. The author would also recommend MK to develop a strategic alliance, and work together with another firm in the Swedish market. This would give the firm a local presence and access to local resources and knowledge. This cooperation and sharing of resources and knowledge can lead to greater profitability and stronger organizations.

The author does not recommend small- and micro-sized organizations to employ market research firms when evaluating whether or not to enter the Scandinavian boating industry markets. This is because of the high cultural similarity and the geographical proximity of the markets. For further research the author would suggest analyzing the performance of highly similar firms, to MK, in the Swedish industry and looking at their previous years of operation. This can provide the firm with more specific knowledge about how web-shops selling boating equipment are doing in a stagnating market. If these firms are doing well, it would indicate that Swedish consumers are buying more of their

boating equipment online. This would indicate a market opportunity for case firm after all.

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APPENDICES

1 APPENDIX

This interview was conducted through e-mail exchange during the period 18.5.2015 with Chief Executive Officer, Mats Eriksson, at Swedish Marine Industries Federation (SweBoat).

Konkurrensen

Fråga 1: Har Svenska båtbranschen flera stora aktörer som dominerar marknaden eller är spelplanet mera balanserat med flera små- och medelstora aktörer?

Mats Eriksson: Många spelare, ett fåtal stora, men de är ej dominanta

Fråga 2: Har företagen inom båtbranschen i Sverige stora eller små fasta kostnader? Stora eller små lagrings kostnader?

Mats Eriksson: Stor kapitalbindning, stora personal- och lokalkostnader

Fråga 3: Hur lojala är kunderna inom branschen, köper de alltid sina varor från samma butik? Har kunderna några omställningskostnader?

Mats Eriksson: Kunderna är relativt trogna. Omställningskostnaderna relativt låga men man vill känna sig trygg och stannar ofta hos samma leverantör

Fråga 4: branschen har krympt mycket sedan 2008. Har du upplevt många konkursers eller har företag överlevt den nedsatta efterfrågan med nedskärningar osv.

Mats Eriksson: Ett tjugotal konkurser av cirka 1000 så det är mycket få som gått i konkurs. De flesta som gått i konkurs har antingen varit mycket stora eller mycket små

Leverantörer

Fråga 1: Har branschen för båtar och tillbehör flera stora leverantörer eller många små- och medelstora?

Mats Eriksson: Ett tiotal stora och ett hundratal små

Fråga 2: Finns det risk för att leverantörer skulle integrera framåt? t.ex. köpa upp kämpande återförsäljare?

Mats Eriksson: Hittills har vi inte sett några tecken på det

Inköpare (återförsäljare)

Fråga 1: Köper återförsäljarna stora eller små volymer av leverantörerna?

Mats Eriksson: Oftast mycket små volymer

Fråga 2: Är marknaden transparent? Har återförsäljare all den information de behöver? Om efterfrågan, markandspriser etc.

Mats Eriksson: Branschen är nog ganska transparent

Fråga 3: Finns det hot om att återförsäljare skulle integrera bakåt och börja producera själv eller handla direkt från Asien? Gå om leverantörer och distributörer.

Mats Eriksson: Ja, detta existerar redan, men det är bara ett fåtal som har sådana resurser

Fråga 4: Är produkterna återförsäljarna köper differentierade? Är det lätt för en återförsäljare att hitta alternativa produkter om de är missnöjda med en leverantör?

Mats Eriksson: Ja

Fråga 5: Har återförsäljarna i ditt tycke bra eller dåliga marginaler? Är det lönsamt att handla båtar och tillbehör i Sverige? Ge vitsord på en skala från 1-3. 1=lönsamt 2= kanske 3= inte lönsamt. Motiver gärna.

Mats Eriksson: 1 de har för låga marginaler

Nya aktörer

Fråga 1: Kräves det mycket start kapital av nya aktörer?

Mats Eriksson: Ja!

Fråga 2: Hur lätt är det för nykomlingar att hitta distributionskanaler? Använder etablerade företag sig huvudsakligen av utomstående logistic företag?

Mats Eriksson: Vet ej

Fråga 3: Är båtbranschen i Sverige högt eller lågt påverkad av lagstiftning?

Mats Eriksson: Båttillverkningen påverkas av lagar, servicevarven påverkas av t ex reningskrav av spolvatten, toalettömningsystem etc

Fråga 4: Skulle en ny aktör bemötas välkommande av de etablerade bolagen eller som ett hot?

Mats Eriksson: Numera som ett hot med tanke på den recesion vi haft

Ersättningsprodukter

Fråga 1: Båtliv ansers ofta som ett lyx. Anser ni att båtar och tillbehör har hot från ersättningsprodukter? Är dessa produkter då dyrare eller billigare?

Mats Eriksson: Hela livsstilen Båtliv konkurrerar med andra fritidsintressen, t ex husbilar är billigare i förhållande till prestanda etc. Cherterresor, fritidshus, golf, etc konkurrerar

Fråga 2: Är kunder priskänsliga?

Mats Eriksson: Relativt andra branscher, nej

Fråga 3: Hur svårt är det för en kund att ge upp båtlivet och byta till någon annan hobby/livstil?

Mats Eriksson: Beroende på begagnatmarknaden, ganska lätt att sälja båten och säga upp båtplatsen/vinterförvaringen

Fråga 4: Baserar kunderna sina köpbeslut på information och vetenskap eller handlar man med känsla?

Mats Eriksson: Både och. Beror på kundtypen. Mer känsla än vetenskap, dock

Fråga 5: Söker kunderna kvalitet eller pris?

Mats Eriksson: Det finns kunder i båda segmenteten. Ju mer intresserad man är, desto mer går man på kvalitet