

Market research

**Market research of selected European countries and creating
market entry strategies**

Abstract

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	Number of pages 58	
Title of the thesis Market research Market research of selected European countries and creating of market entry strategies		
Degree Bachelor of Business Administration		
Name, title and organisation of the client Case company X		
Abstract <p>Playing is a basic human right and toys are among the first objects babies are touching. The toy industry faces ongoing changes and trends like any other field. Nowadays, consumers think more about the toy origin, materials used in production, toy safety for the kid, and the environment. This research is conducted based on bespoke requirements of the case company X as this Finnish company has ambitions to expand abroad and a market entry plan still needs to be conducted. The two research questions are stated and the aim is to analyse three European markets - Sweden, Germany, and Slovakia as well as the European market in general. For each country, tips and advice for possible market entry strategies are summarized. Data were gathered through collecting secondary information from various sources such as statistics, official documents, social media, and analysing current toy offering and primary information about the Slovakian market through an online survey. Results of the online survey are presented in the market research part. Analysis proved that each market is specific and the company cannot apply the same strategy everywhere. A new idea of learning by playing was developed and the company considered it as an idea with potential. The company concluded that the research was helpful and international market entry will focus on Germany and Slovakia initially.</p>		
Keywords market research, marketing research, market entry strategy, toy industry		

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1 Introduction

1.1 Research background

Market research is a fundamental step before entering a new market. Organized acquiring, evaluating, and interpreting gathered data helps with marketing decisions and diminishes business risk. Market research can be performed as a one-time project or as long-term tracking, for example, of a brand's market share. (Hague, et al. 2004, 10-12.)

Children's right to play is a fundamental human right. (The UN Convention on the Rights of the Child 1989.) The toy industry is an important and very competitive sector of the economies and trends are constantly evolving. In all cultures and countries, children have played with specific toys from the beginning of the times. Toys help kids to develop motor skills, creativity, problem-solving skills, and imagination.

This study is conducted based on the requirements of the case company X, to provide complete insight into the three chosen European markets - Germany, Sweden, and Slovakia - and the European market in general. The gathered information about countries and the situation of the toy industry in the countries will help the case company during the decision-making process concerning which one of the markets is the most suitable for entry and where the highest chance for success is.

1.2 Thesis structure

The first chapter introduces to the reader the thesis goal, research background, objective, research questions, methodology, and data collection.

The second chapter introduces the reader the case company X, its story, vision, mission and goals.

The third chapter includes a theoretical framework based on academic literature. Author explains what a market is as well as what marketing research is, what is its function and where it is used. The chapter continues with describing the marketing research process. The aim of the study is to bring actual information about the situation in the selected countries. When the decision-making process is being conducted, different external and internal factors affecting the business must be considered. For the purpose of interpreting factors, PESTLE analysis, SWOT analysis, and Porter's five forces analyses are conducted along with bringing up information about the toy industry in each country. Therefore, the theoretical background of these analyses is explained in the third chapter.

The fourth chapter starts with general information about the toy industry in Europe. The chapter presents analyses of selected countries, industry analyses as well as e-commerce data. E-commerce is an important part of the modern business world and the level of online shopping and usage of smart technologies in chosen countries is crucial information for the case company. Backed up by research, author summarizes the possible options for entering each country's market.

The fifth chapter consists of a summary and conclusion where it is briefly explained what the thesis is about, its goals and structure. It includes answers for the research questions and it is followed by the list of references and appendices.

1.3 Research objective

The case company X is a toy company currently operating only in the Finnish market but has ambitions to expand abroad. For this purpose, market research of selected countries was conducted based on the initial interview of the author and the company representative. The company representative provided materials and requirements of wanted knowledge about foreign markets. Author's task was to choose proper methods and tools in order to get all the needed information and contribute with suggestions about possible market entry strategies for each country. Two researched questions were specified, and the term "company" is used from now on to refer to company X.

Research questions are as follow:

Q1: *Which country out of the researched three is the most suitable to enter for the company X?*

Q2: *How should a market entry strategy look like in order to succeed in a foreign market?*

1.4 Research methodology and data collecting

Kothari (2004 1.) defines research as *a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation.*

For some companies, it may be cheaper to buy information from an external firm rather than do their own research or have a research and development department. This kind of data, already gathered for other reasons, is called secondary data. The oppositee to this is primary research which involves experiments, questionnaires, observations, or surveys. Primary research offers answers to exact questions which are studied, but ssecondary data has both advantages and disadvantages. Authors write about accessibility, cost efficiency, and time savings. Information may be available from the internet, library, books, internal

company sources, or syndicated data sources which are paid services of gathering data but these data are shared with a large number of subscribers so it is cost-effective. A number of disadvantages related to secondary data are amongst others missing availability or the desired research has not been studied yet as well as relevancy and inadequacy, indicating the material does not provide answers for the exact research question or meets only part of the topic requirements. (Clow & James 2014, 63-65.)

Secondary data and its accuracy need to be inspected and evaluated before company managers or decision-makers should use them. Secondary data is easily available and cost-effective but if it is used wrongly, it may cause the company more problems and expenditures. Therefore, evaluating a Data Source is important. Credible sources which are generally for free are government organizations, educational institutions, and trade organizations. Companies can also purchase data from custom research firms or syndicated data providers. Other steps of secondary data collection which need to be evaluated are the purpose of the study, sample selection, data collection process, data analysis, and data interpretation. While talking about the purpose of the study, researches are at times ordered by brands or companies just to confirm its position - advocacy study. When selecting a sample, a representative sample of the population has to be chosen. In evaluating the data collection process, date, degree of error while analysing, subjectivity/objectivity of the author are necessary to consider. (Clow & James 2014, 66-69.)

According to Clow & James (2014, 70-74) secondary data is used for:

- Preliminary research
- Preparing for primary research
- Describing consumer trends
- Receive Industry information
- Estimating demand
- Selection of target markets, trade areas, facility locations
- Measuring Ad Exposure
- Database marketing and Data Mining

In order to answer the research questions defined above, author needs to collect, analyse and interpret data from various sources. In this research, both quantitative (expressed in numbers) and qualitative (expressed in words) data are collected mainly from secondary sources, for instance Statista, OECD, European Commission, World Bank, each country's official websites (government.se, deutschland.de, slovensko.sk), strategic documents, and

reports. Additionally, analysing competition, suppliers and distributors. Sources of information include websites presenting toy brands and offering of toys and products in the kid's segment, also YouTube videos and discussions on social media are used in data gathering.

After the company evaluated gathered data from secondary sources and read about the possible market entry strategies, decision about the most suitable markets has been made and the company considered Germany and Slovakia as markets with potential. Based on that, additional information for Slovakian market were needed. An online survey as a source of primary data had been taken. Respondents whose kids are aged 4-8 were answering 8 simple questions.

Selected methods of gaining information were the most suitable due to bespoke requirements of the case company X. During the research author received guidance and feedback on work. While describing Germany's market and creating market entry strategy, the topic of learning by playing was introduced, which the case company representatives evaluated as an idea with potential. Hence, author focused more on that in other countries.

1.5 Limitations and difficulties

Analysing of all existing online stores and all existing toy brands was not possible due to for instance language barriers. Some brands and online stores may be in the Swedish or German language or simply they are small players, which is why they are not showing up in search engines. Another problem emerged while searching for distributors as some websites require registration in order to get information and connect with others in the industry. While analysing Slovakia, the latest statistical data were from the year 2017 or earlier, possibly being outdated or not relevant anymore. In general, it was difficult to find information about the toy industry in Slovakia.

2 The case company

The case company X is a Finnish company founded in 2017 by two students from Aalto University School of Business, Heikki and Otto. The two founders met during an ice-hockey practice, and found out they share a common interest, namely cars: Heikki has experience from the toy industry, and Otto from car import business.

Heikki moved to India in 2013 with a dream of starting a toy company. After working for two years in the industry and experiencing extreme pollution around him, he got the idea of building a toy brand which will focus on sustainability in all aspects: the toys have to be manufactured from ecoplastics instead of petroplastics, packaging has to be about of recyclable materials, and the story behind the products will be about a wrecking yard where children are having a summer job and area learning about recycling.

After Heikki came back to Finland and the company was founded, the two founders started developing toys with the goal to combine fun playing experience with sustainability. The toys would be manufactured out of recycled plastic or bioplastics, and the toys would be made of several components, so that it would be fun for the kids to play with. All products are personally tested, and before bringing any new toy to the market, the company is using a third party to perform test in order to make sure all toys pass the European toy safety directive and hence are 100% safe for children hence the company can use the CE mark on their products.

The company is modelling and designing cars itself and using a 3D printing method for manufacturing. As a material, they are still testing a variety of materials including for example ecological PLA bioplastic manufactured by a Swedish company called AddNorth as well recycled PET from the German chemical company BASF. For the printing technology, they trust a domestic Mehta Heino Industries MHI3D printer.

Vision shows the vivid picture of the future where the company tries to get. Defining a vision helps while deciding for strategies which have to be implemented and sets a long-term goal for the organization. (Keffer S. 2014, chapter 2.) The company's vision is as follows:

"Children enjoy crashing and fixing our cars and as a by-product, they learn about the circular economy."

Lymbersky Ch. (2008, 34.) describes company's mission as a communication tool with a purpose of clarifying the firms' values, direction and the ambitions as well as specify the public image, targeted customer and technologies. The case company defines its mission as follows:

“Our mission is to develop sustainable and distinguishable high-action toy cars that create good memories.”

Y is the company's car brand about the world of car scrapyard. Cars can be broken down into three pieces by crashing into each other and then repaired again and again. A child can use creativity, develop motor skills and learn that broken things can be repaired and reused. In the story of the Y, three young heroes arrive at a car scrapyard and their job is to sort and scrap obsolete cars and send their parts for reuse. However, a mysterious spirit comes and brings the cars back to life and they drive away trying to escape their destiny. This makes scrapping cars more difficult and heroes (kids) must constantly develop new ideas on how to catch, scrap and reuse them.

The company has profiles on social media platforms like Facebook and Instagram, as well as YouTube. Currently, the retail customers can buy toys directly through the company's e-commerce website X or through Facebook marketplace. The company started to put more focus on B2B sales recently. The strategy has had some early success, as one significant B2B partnership was signed with Pilke päiväkodit, Finland's largest private kindergarten chain.

In the future, the company plans to broaden its portfolio of cars and add other complementary toys to the X family. This is important for a company manufacturing toys, as customers are expecting to be able to buy new models on certain intervals.

3 Theoretical framework

3.1 Market research and Marketing research

Market research is a branch of marketing research and they are essential for managers and people who conduct decision-making processes in all fields of the economy. In order to make the right strategic or tactical decisions, we should take into account all the information aspects. We will explain what is market and marketing research, why it is important, and how it can be done effectively so it may help with a better understanding of customers, their desires, and needs.

Market research is a managerial tool that helps to understand the market structure, size, condition, actual trends, market leaders, legal issues, and regulations. Market research provides data, statistics and information gathered from different sources, and we can distinguish between quantitative and qualitative market research. Using data from market research for performing decision-making processes is a fundamental part of managerial work and an effective way of using research has to be learned and developed. (Birn 2004, 16-21.)

Marketing research is part of the marketing information system and describes information about consumer behaviour as a reaction to changes in ongoing marketing processes: It helps marketers to develop or improve marketing strategies. Within the company's marketing information system, internal data such as sales trends, price trends in comparison with competitors, data about stock or distributors, and the effects of marketing activities can be monitored. In order to make effective decisions, additional external data about the market structure, shape, and marketing activities of the competitors are needed. (Birn 2004, 26-35.)

The American Marketing Association¹ established definition of marketing research:

Marketing research is the function that links the consumer, customer, and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection

¹ The American Marketing Association - AMA

process, analyses the results, and communicates the findings and their implications.
(AMA 2017a.)

Many organizations, people, publications or practitioners do not differentiate between market research and marketing research and these terms are often used interchangeably. However, as stated earlier, marketing research is broader field, and market research is a branch of it, and it is used to improve knowledge of the exact market and helps to apply marketing research in it. (Burns & Bush 2014, 35.)

3.2 Function and uses of marketing research

Marketing research helps to connect consumers (or customers - when talked about B2B operations) and producers through marketers. It is used for **defining problems** that occurred due to sales or market share depreciation. Marketing research is used as well in the **identification of market opportunities**. As AMA stated in its definition of marketing research (2017b), it can be used to **generate, refine and evaluate potential marketing actions**, which means that based on information managers or companies got from marketing research, they can select the right market and create the right marketing strategy. Marketing strategy consists among others of the marketing mix. The marketing mix includes product research (new products, packaging, etc), pricing research (pricing tactics, willingness to pay a certain amount), promotion research (effectiveness of different kinds of advertisements, PR, promotional offers, salesforce) and distribution research. **Monitor marketing performance** such as own and competitors' sales, employees, and customers satisfaction or performance of products in retailers. Marketing research can **improve marketing as a process** and expand knowledge of marketing. For this purpose, Basic research is conducted. Reasons for Basic research to be done are the increasing understanding of marketing and satisfying of consumers. We can mention that most marketing research studies are Applied research, which means that they are conducted for special reasons such as solving a problem. (Burns & Bush 2014, 36.)

Results of marketing research can be wrong sometimes and don't provide managers with the right answers for solving a problem. Some products can be brought to market without previous research and experience success, while other products with good predictions may fail. Therefore, it doesn't mean that marketing research is useless. Understanding and predicting consumer behaviour is a challenging task and marketing research is widely supported. (Burns & Bush 2014, 39.)

Each company uses different methods for gathering information based on its needs. Analysing markets and customers regularly are crucial for positive results in sales. Companies and their managers can get information about the market from external and internal sources and they can set up an internal marketing information system. With a marketing information system, managers and staff can monitor operations and predict or identify changes and risks. (Birn 2004, 16-21.)

3.3 Marketing research process

The marketing research process has to start with a purpose and definition of where we are and where we want to get. A good understanding of a company's or brand's problems is important for precise interpretation of research purposes. **Research purpose** might be to search, consider and study opportunities, interpret correct understanding of situation or reality, specify problems that have a bad impact on a firm. The purposes stated above are used by marketers to better understand the marketplace, customers, and consumers to evolve and develop the most effective marketing strategies. When the research purpose is clarified, research questions and hypotheses have to be formed but hypotheses are included only when the researcher assumes an answer to the research question. **Research design** is a form that guides the research process and describes how data will be collected. The design may be different in each research and it depends on the issue or question being investigated and on requests of the firm or management. Common requests which influence research design are time, budget, type of information and quality. Research design decisions are divided into two parts. The first is whether to use the Descriptive or Causal Approach and the second is about data collection. The most common methods for collecting data are surveys, observations, and experiments. An experiment is typical for causal research while surveys and observation are used for descriptive research. **The sample selection** process starts with characterizing the population which is the researchers' target group. The critical point in this step is the guarantee of a representative sample of the population. The amount of sample may vary but everything is fine unless it is representative. **The data collection** part of the process refers researchers back to the research design part. It depends on budget, time, quality, etc. Surveys may be done online, through personal interviews, or by telephones. Observations may be done personally or with the usage of technologies, and experiments can be done by interview, observation, questionnaires, depending on what kind of data is collected. **Data analysis** has to be done after all data has been collected in order to become a relevant source of information. **The research report** is being written at the end of the research process and its purpose is to present findings, conclusions, and recommendations. (Clow & James 2014, 30-40.)

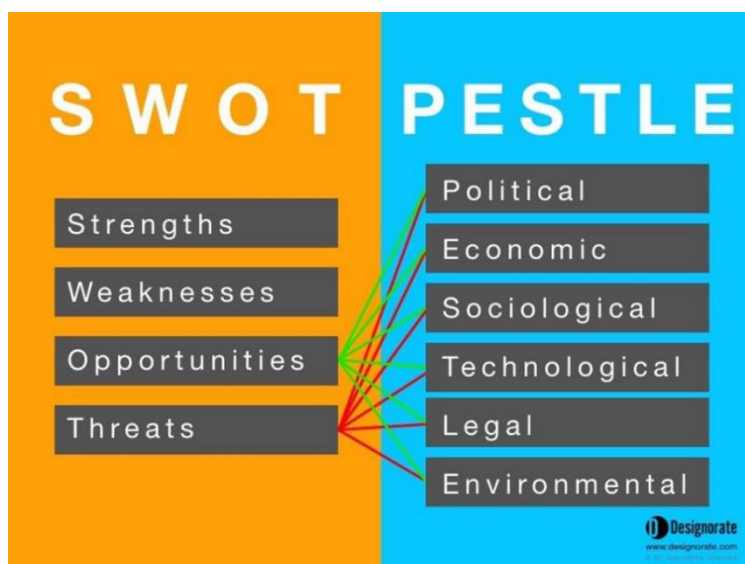
3.4 Environmental analysis

Each company is surrounded by external and internal environments. Various factors can affect firms and these factors usually cannot be controlled by a firm but can influence decision making. When a company plans to expand abroad and is developing a market entry strategy, environmental analysis is needed. This analysis helps to better understand industry environments such as government regulations, economical and sociocultural factors, competition, technological advancements and changes, opportunities, threats. (Analoui & Karami 2003, 66-72.)

As stated earlier, we can classify the environment of the company into two parts, external and internal environment factors, where external can have two subsystems - General surroundings and Industry environment. (Analoui, Karami, 74) General surroundings, factors influencing a company, can be examined by PEST analysis. However, some authors and books use PESTLE (PEST+ legal and ecological factors) analysis or STEEPLED (+ecological, legal, ethics, demographics).

PESTLE analysis

According to Rafiq Elmansy², PESTLE analysis can be expressed as a deeper and detailed version of opportunities and threats, which belong to SWOT analysis of external factors. (Elmansy R.a)



Picture 1: PESTLE analysis according to Elmansy (Elmansy R. b)

² Rafiq Elmansy is lecturer and researcher at Northumbria University in the UK who runs the website designonrate.com

General environmental factors according to Analoui & Karami are (2003, 76):

Political factors: Political stability, bureaucracy, laws - consumer protection, e-commerce, environmental, health and safety, employment, taxation, trade controls, competition regulation. Political factors are essential for companies while the decision-making process as an example, corruption or a high level of bureaucracy can complicate a fair business environment.

Economic factors: inflation rate, GDP, interest rate, growth rates, unemployment trends, level of consumer income, stage of a business cycle

Sociocultural factors: health consciousness, education level, birth and death rate, demographic, attitudes toward imported goods and services, customer service, green products, family size and structure, lifestyles.

Technological factors: internet infrastructure, technological advancement, investment in R&D, level of e-commerce

Legal factors: taxation, changes to taxation that may impact employment, products safety and safety standards, consumer rights, employers/ employee rights

Ecological factors: level of waste recycled, environmental legislation and government attitude, society's attitude towards sustainable living, promotion of green activities of businesses

Hopkin (2012a, 159) claims that PESTLE risk analysis is the most relevant for analysing external risks which are not under the control of the company but can be considered and early action can be taken in order to mitigate them.

Advantages of PESTLE analysis (Hopkin 2012, 159):

- transparent framework
- uncomplicated and easy to understand from the business environment
- helps to minimize or avoid risks
- supports strategic thinking
- helps to classify business opportunities

Disadvantages of PESTLE analysis (Hopkin 2012, 159):

- must be conducted regularly
- data may be too simple for making decisions
- requires diverse people with different opinions to gain a broader perspective
- access to quality data can be complicated, expensive or time-consuming

- difficult to prepare for the future development

3.4.1 Industry analysis

If a company wants to be successful and profitable it should be attractive within the industry. The goal of industry analysis is to find out firm opportunities and threats by building a comprehensive picture of the industry profile in which the company operates, its competitors and defining the strategic groups and key success factors in the industry. Porter's five forces model is the most frequently used approach for analysing the industry. It provides a company with a complex view of the market and helps to develop a unique competitive advantage. Key success factors are skills, know-how, capacities, or aspects which differentiates the company from its competitors. Strategic groups are businesses with similar business models in the industry: identifying a company's strategic group helps to successfully develop a strategy and compete with rivals. (Analoui & Karami 2003, 77-101.)

Analysing the industry profile includes (Analoui & Karami 2003, 77-101):

Industry profitability - the current average level of profitability is a fundamental index to be examined as maximizing profit is a major goal of the business. Long term overview of profitability (positive or negative) is important to predict the future of the industry.

Market analysis - the general condition of the market. It is important to study the industry structure such as the number of rivals (for example oligopoly or fragmented market)

Industry life cycle

Technological changes - the impact of recent development of high tech on the industry as well as on marketing and sales should be considered.

Porter's five-force strategic factors

The model of Porter's five forces was developed by Michael E. Porter, a professor at Harvard Business School, in 1979. It enables companies to understand the industry and various participants on the market in which the company operates and to give knowledge of the relationship between them. It is a crucial tool to identify and understand competitors which helps a firm to better anticipate the future, changes and trends. (Porter M.E. 1985. according to Kotler et. al. 2009. 304.)

The threat of new competitors - new companies are coming to the market intending to gain a market share. Existing companies can set some obstructions such as increased prices or patents in order to make the entry more difficult. Other entry barriers to the industry can be governmental restrictions and rules, access to human or financial resources, marketing and

distribution challenges, economies of scale, and low production costs. (Analoui & Karami 2003, 77-101.)

Competitive rivalry - depending on the difficulty of the market for an industry to operate in, there can be numerous companies, brands, and products existing. In mature markets where big innovations or design shocks are not expected, the rivalry is very high, and it is hard for newcomers to gain market share. In order to keep the market share or gain a customer base, differentiation is needed. (Capon 2009, 79.)

Bargaining power of buyers - Capon explains that there are two types of buyers: commercial and individual. Commercial buyers are more powerful than individuals when choosing suppliers or deciding between different options. Commercial buyers can negotiate for better deals. (Capon 2009, 80.)

Bargaining power of suppliers - in industries where there are not too many possible options or material, technology or components are unique, very expensive or the amount is very small, suppliers have higher power (for example oil-producing nations). (Capon 2009, 80.)

The threat of substitutes - substitute products are a threat when they offer the same or similar function for the same price or even cheaper. Sometimes products can have better-added value for the same price. (Capon 2009, 80.)

3.4.2 Internal environment analysis

To identify a company's competitive advantage within the industry or in a new market, external analysis is not enough, and characterization of critical strengths and weaknesses is helpful. The company is then able to benefit from opportunities while avoiding threats in the environment. (Analoui & Karami 2003, 77-101.)

SWOT analysis is an analytical tool which helps strategists describe internal strengths and weaknesses as well as external opportunities and threats. SW - strengths, and weaknesses are gathered from analysing the data from the internal environment of the company (value chain analysis, human resources analysis, resources of the firm, and competitive advantages). OT - opportunities and threats are defined in external environments. (Analoui & Karami 2003, 77-101.)

Value chain analysis offers insights on processes and costs in a company such as procurement of raw materials, resources, production of products, marketing, pricing, distribution including warehousing and logistics as well as installation of final products. Also, human resources can be a potential competitive advantage. (Analoui & Karami 2003, 77-101.)

3.5 Market entry strategy

When marketing research is completed, the company chooses the best option and starts to develop a market entry strategy. The following part will describe possible options of market entry strategy.

Market entry strategy includes entry mode and a marketing plan. Entry mode defines a company's level of control and engagement over marketing activities in the target market. During the implementation of the market entry strategy, it is crucial to create distribution channels. (Albaum & Duerr 2011, 392.)

Various sources stated that the ideal market entry strategy does not exist. Companies may use one or a combination of modes when entering a foreign market. Hollensen (2017, 345.) describes three main forms of entry mode namely 1. Export modes, 2. Intermediate modes, and 3. Hierarchical modes.

Factors influencing the choice of entry mode are often opposing each other and in conflict thus the decision should be based on a good evaluation of all factors while profit is always the main goal. Factors can be internal, external, desired mode characteristics, or transaction-specific behaviour. (Hollensen 2017, 352.)

Internal factors: **Firm size** - smaller companies may not have enough sources necessary to ensure a high level of control activities. **International experience** - If a company or managers have previous or actual international experience probability of success in a foreign market is higher. **Product or service** - depending on product value or weight ratio and level of control over the production, the company decides which entry mode to choose. Services can be divided into hard and soft services while soft services require high control entry mode because they cannot be decoupled. (Hollensen 2017, 350-364.)

External factors: **Socio-Cultural distance between the home country and host country** - establish cooperation with countries that have similar language, business practices, culture, distance, or economy, as it might be easier than with countries that are far and cultural differences are present. **Country risk/demand uncertainty** - while planning the entry mode, firms should investigate risks in the market such as political stability, exchange rate or investment risks. **Market size and growth** - are key parameters while deciding entry mode. Small and isolated countries are harder to reach in comparison with large markets which are neighbouring and easy to access and manage operations there. **Direct and indirect trade barriers** - some countries may protect the domestic market by tariffs, quotas, trade regulations, or customs. Therefore, companies have to develop an entry mode that does not harm the domestic market, involves local companies, and brings mutual benefits.

The intensity of competition - markets with a high number of comparable products are usually less profitable. **A small number of intermediaries available.** (Hollensen 2017, 350-364.)

Desired mode characteristics - **risk-averse, control** - is associated with the number of resources available. and **flexibility** - hierarchical models are the least flexible and the most expensive as the opposite is an export model which is highly flexible and cost-efficient. (Hollensen 2017, 350-364.)

Transaction-specific factors - **opportunistic behaviour, tacit nature of know-how** - means that firms' special know-how is difficult to write down or express. (Hollensen 2017, 350-364.)

In a book Strategy for Business, Mazzucato (2006. 146.) cites Jay Barney, who is known for his contributions to the resource – based theory of competitive advantage, and claims, that company should search for and develop its internal resources and capabilities instead of only searching for environmental opportunities. Competitive advantage is the object of the strategy and it is developed when internal resources and capabilities add value to the company, are rare and hard to imitate.

4 Practical research

In the practical part of the research, the toy industry in the European market is described in general. After that, focus is placed on 3 countries in a more detailed perspective while each country analysis is followed by possible market entry strategy and advice based on data gathered and observations made of the market. The method for this research is gathering secondary data from available public sources such as European and world organizations, websites of countries and online stores. While analysing Slovakia, an online survey is taken in order to get further first-hand information related to created market entry strategy. Data analysis is an important step to get relevant information for the company's needs.

4.1 The toy industry in the European market

Industry information includes sales, market size, market share, competitors, major companies which are growing fast or those which are not successful, industry costs, and regulations. For estimating demand and selecting target markets, geographical, demographic data, geocoding, population figures, and psychographic information are valuable. (Clow & James 2014, 70-74.)

The toy industry is dynamic and innovative. Toy Industries of Europe (2017a) claim *that around 1/3 of toys on the market are newly developed products*. Toys and games play an important element in a child's mental, physical, and social development, supporting emotional health and well-being. In each age category, different toys which can support cognitive and motor skills are suitable for kids.

Young infants need toys that they can shake, hold, teething toys, toys that make noise, play simple melodies or have bright colours. Older infants (7-12 months) are moving a lot: they are sitting, crawling, jumping, start to stand and big and simple toys such as balls, plastic bowls, cars, wooden cubes, dolls to play with, are suitable for this age category. At 1-2 years old, kids start to walk, talk, recognize pictures of animals and real objects, learn the language they're exposed to very quickly, and start more and more to explore their environment. Suitable toys for this age group are those which develop their problem-solving skills, creativity, and motor skills - small objects which they can hold, throw or kick. Pre-schoolers can already keep their attention longer, like to experiment, play, ask a lot of questions, learn fast, and still develop motor skills better than the previous age group. Activities like drawing, building, constructing, solving puzzles, creative activities, or even playing computer games are typical for this age group.

Toys should be safe to play, made from non-toxic materials, and easy to clean. Every child has a right to play and the United Nations Convention on the Rights of the Child (1989b.) points out playing as a basic human need.

Economic data

In the European Union, the toy industry is essential for the economy. It contributes to the economy with more than 222 000 job positions in around 5 600, mostly (99%) small and medium-sized companies. (Toy Industries of Europe, 2017b.)

In 2017 the EU imported toys worth 7.4 billion Euro (mostly from China 86%, Vietnam 3%, Hong Kong and Indonesia 2%) and exported toys worth 1.4 billion Euro to non-European countries (main target countries were Switzerland, United States both with 15% and next Russia with 14%). The biggest toy exporters are the Czech Republic (25%) and Germany (21%). (Eurostat 2018a.) Eurostat's study from 2018 shows that 26% of imported toys went to the United Kingdom, 15% to Germany, and 11% to the Netherlands. (Eurostat 2018b.)

The biggest toy markets in Europe are UK, Germany, France, Italy, and Spain. As of February 1st 2020, the United Kingdom withdrew from the European Union hence newest data would show a different rank order.

Worldwide revenue of the toys and games segment in 2019 reached 297 billion US dollars which is a 4.6% growth compared to 2018. For 2020, the expected revenue is 331.9 billion US dollars, which is 6.8% higher than previously expected as the growth of e-commerce offset the declining sales in brick and mortar. In 2019, Australia and Hong Kong spent the most on toys and games per-capita, 162.6 (Australia) 152.5 (Hong Kong) US dollars. In European countries with the highest spending's per capita are (in US\$) Iceland (136), the United Kingdom (120), Luxembourg (112), Switzerland (109) and Norway (102). In Europe, toys and games have a total revenue of 49.7 billion US dollars in 2020, at a CAGR³ of 3 % from 2012 to 2025. Predicted numbers for the following years are 48.2 billion US\$ for 2021 and 48.4 billion US\$ for 2022. (Statista 2020a.)

The biggest players in the toy industry worldwide by the revenue are LEGO Group, Hasbro, Inc. and Mattel, Inc. (Statista 2020b.)

Toy safety

Toy safety is crucial and all imported and home-produced toys which are available on the European market should meet the criteria defined in Toy Safety Directive⁴ developed by the

³ CAGR – Compound Annual Growth Rate / average growth rate per year

⁴ <https://support.ce-check.eu/hc/en-us/articles/360008714699-Toy-Safety-Directive-2009-48-EC-in-Details>

European Union. This document sets the criteria for toy manufacturers in topics like child safety and applicable tests by product category that have to be performed by the manufacturer before a CE sign can be attached to the product and hence sold to the customer.

Toy Industries of Europe (TIE⁵), an association which gathers all the biggest members of the toy industry (worldwide known as well as local), represents interests of its members in the European Parliament in Brussels, provides communication, focuses on safety, ethics, ecological and sustainable production controls and regulations. Earlier in 2019, TIE bought 193 toys from 4 online marketplaces - Amazon, eBay, AliExpress, and Wish in seven EU countries - Denmark, Germany, Netherlands, France, Italy, Spain, and Sweden. Results demonstrated that 97% of 193 inspected toys did not meet EU toy safety rules, 76% of 134 toys that were safety-tested had defects that made them dangerous, and 83% of toys inspected did not contain the necessary traceability information. Marketplaces were notified about illegal and dangerous toys offered by third parties on their platforms. (Toy Industries of Europe 2020.)

This example shows that consumers should be careful with buying toys online, as toy safety is the manufacturers responsibility, and the authorities do not have enough resources to control if all of the toys on the market are meeting the toy safety standards.

4.2 The toy industry in selected countries

For a detailed analysis of countries, author decided to focus on Germany, Sweden and Slovakia. The following part explains why.

After consultations with the case company X, author decided to study Germany, as company representatives were interested in a deeper knowledge of the market. Germany is the biggest European market and it is very attractive although it is very competitive. Germany represents the DACH⁶ region which is one of the most progressive in the world, with a strong economy and high standard of living. Sweden represents Scandinavian countries, it is a neighbouring country with Finland, has a similar economic and social system, and as well it is the largest country in this region. Slovakia is a representative country of the Visegrad Group⁷ and the economy, social system, standards of living, and mentality of people are slightly different than in Western and Northern European countries. For each of the selected countries, author describes the industry environment, conducts PESTEL analysis, Porter's

⁵ TIE - Members of TIE include international companies as well as national associations from Bulgaria, Denmark, France, Germany, Italy, the Netherlands, Spain, Sweden and the UK.

⁶ DACH is an acronym for Germany, Austria and Switzerland (German-speaking Europe)

⁷ Visegrad Group – the Czech Republic, Hungary, Slovakia and Poland (countries of the Central Europe region)

five forces analysis, and SWOT analysis which are followed by ideas about the strategy of entering the market. Regarding the SWOT analysis, in the Germany part, all four SW and OT are described, in Sweden and Slovakia parts, only OT for the exact country are described as SW remain the same.

4.2.1 Germany

Industry analysis

For the period 2006 to 2009, the sales revenue in the German toy market depreciated, but since year 2010 the revenue has been regularly growing. In 2019 sales revenue summed as 3.4 billion euros. (BVS & NPD Group 2020, according to Statista 2020.)

The industry is highly competitive and companies are striving for customers both in retail and e-commerce. The industry revenue of 'manufacture of games and toys' amounted to 4.502.76 million U.S. dollars in 2019 and predictions show growth to 5.330.3 million U.S. dollars by 2024. (Statistisches Bundesamt 2020a, according to Statista 2020.)

The biggest toy manufacturers in Germany based on sales revenue are (in descending order): LEGO (509 million), Brandstätter (237.5 million), Ravensburger (200.4 million), and Mattel GmbH (155.1 million). (Statista 2019a.)

According to statistics of the distribution of points of purchase, 43% of customers bought toys online in 2019 (40% in 2018), 28% in specialized shops (28% in 2018), 10% in supermarkets (11% in 2018), 6% in department stores (7% in 2018), and 5% in grocery discounters (3% in 2018). Other points of purchase include bookstores, coffee shops, furniture stores and clothing stores, which represent 8 % of purchases (10% in 2018). (BVS 2019, according to Statista 2019.)

Advertising costs for toys in Germany amount to 216.7 million euros for the year 2017. Expenditure tends to grow every year, for example in 2016 it was 214.7 million euros, and in 2015 193.67 million euros. (Media Impact 2018, according to Statista 2018.)

Different sources show different rankings of the most popular online stores in the toy segment in Germany but amazon.de and mytoys.de take the first two places almost in all rankings which were available to study. Other popular online toy stores are jako-o.de, galeriakaufhof.de, and kidoh.de. Online stores which are not specialized on toys but offer toys and which are ranked in 'The top 100 online stores with the highest revenue' according to Statista (2020c.) are amazon.de, otto.de, mediamarkt.de, and lidl.de.

A key topic in Germany's toy industry in 2019 according to Euromonitor's research (2020.) is digitalization. In addition, companies should focus on sustainability and eco-friendly options.

PESTEL Analysis

PESTEL Analysis describes a framework of macroeconomic factors affecting the business and the company environment. A firm cannot influence these factors.

Political factors

- democratic republic
- political stability
- value-based approach
- diverse political landscape
- Global Freedom Score 94/100 (Freedom House 2021a.)
- Internet Freedom Score 80/100 (Freedom House 2021b.)

Economic factors (European Economic Forecast 2020a.)

- the largest European economy
- GDP 3449.1 bn EUR in 2019, annual percentage change -5,6% in 2020, expected growth by 3,5% in 2021 and 2,6% in 2022
- unemployment rate 4 %
- inflation under 1% in 2020 and expected to increase but not exceed 1,5% in 2021

Social factors

- the largest EU country, 83 million inhabitants (Statistisches Bundesamt 2020b.)
- approximately 3.8 million of age 3-5 (OECD.Stat 2020a.)
- high standard of living
- multicultural society
- in measures of wellbeing by OECD, Germany placed above average in education, work-life balance, jobs and earnings, wealth, environmental quality, social connections, health, civic engagement, housing, personal security, and subjective wellbeing

Technological factors

- 3,17 % of total GDP spent on R&D in 2019 (OECD 2021a.)
- 96 % of households have an internet connection (Eurostat 2021a.)
- world leader in innovation (Schwab, K. 2019a.)

Environmental factors

- high sustainability attitude
- climate neutrality understood as an important challenge by 75,5% of people surveyed by the IUBH University of Applied Sciences (deutschland.de 2020.)
- Germany is a pioneer in the development of renewable energies
- Germany leads the way in climate protection

Legal factors

- standard corporate tax rate is 15% (Deloitte 2021a.)
- VAT is 19% (Deloitte 2021b.)
- non-resident companies are taxed on their Germany-sourced income
- important documents - German civil code, German Act Against Unfair Competition, Act against Restraints of Competition

Porter's five forces analysis

Porter's five forces analysis is often termed as industry analysis and it is a useful tool for business strategists. This analysis is similar to a SWOT analysis which describes strengths, weaknesses, opportunities, and threats within an industry. The opportunities and threats are detailed in Porter's five forces of competition. Nowadays, the business environment is very competitive therefore it is important to know all factors which can threaten, influence or even ruin the business.

Competitive rivalry - German toy manufacturers are well-established family companies usually with a long history and they have succeeded in the international market. These companies are Bruder, Simba Dickey Toys, Maerklin, HABA, Grimms, Ravensburger, Brandstatter Group and Beleduc. Not considering foreign companies such as LEGO and Mattel, out of the above-mentioned German companies, Bruder, Simba Dickey Toys, and Playmobil (a subsidiary of Brandstatter) are the biggest competitors as Bruder focuses mainly on cars and trucks and the other two have toy cars in their portfolio. During the research, author did not find any toy companies producing by 3D printing method or companies which are offering 3D toy cars modelling. However, 3D printing companies where customers can send requirements for modelling or custom design as well as print their own were found.

The threat of new competitors - German toy market is competitive and as Germany is very technologically advanced author assumes that sooner or later more firms will start to produce toy cars by 3D printing. However, German parents trust traditional brands which they

know from their own childhood. (Brand Licensing Europe 2018.) They are careful with newcomers as they focus on safety and new private brands do not have a reputation yet. (Euromonitor International 2020a.)

Bargaining power of buyers - German economy is strong and consumers have higher disposable income than average in European countries. The highest purchase power index is in Hamburg and Munich (NIM, 2018). Euromonitor International research (2020b.) of consumer behaviour in the German market explains that the majority of toy spending is on toys for kids aged 0-6 years and out of it, the most go for toys for kids older than 18 months. Parents are more likely to spend on toys that have educational or development benefits over entertainment. (Euromonitor International 2020c.)

The threat of substitutes - Consumers rather spend on well-known brands. Licensing is as popular in Germany as in other European countries and sales of licensed toys is developing more than traditional and non-licensed toys. The most famous licensors who bring interesting revenues to the toy industry are Walt Disney, Warner Bros or Universal Brand Development. Among the most famous licenses in Germany are Biene Maja, CoComelon and Die Maus. (Spielewarenmesse 2020.)

Bargaining power of suppliers - As the German market is very competitive, ensuring customer and consumer satisfaction is the key by providing high-quality products and services which meet expectations. Delivering quality products to the market requires management systems for quality and safety, identification of risks during product development, and maintaining good relationships to ensure smooth processes throughout the supply chain. In Germany, a possible option for placing toys to one of the biggest online shops mytoys.de is through mytoysgroup.de, which is for B2C sale. For B2B operations, it is better to search on abconline.de - the online platform for B2B information about companies operating in the German market. On www.wlw.de it is possible for a company to register as a supplier, dealer, manufacturer, or wholesaler. visible.com is a marketplace which helps medium and small companies to be more visible on the searching engine of Google (focuses on B2B). Through wlw.de companies can register for the DACH region (Germany, Austria, Switzerland), or by registering on EUROPAGES a company can be reached by purchasers worldwide.

SWOT Analysis

It is extremely hard to keep up with industry trends and every company should be aware of its strengths in order to know the added value in comparison with the competition as well as weaknesses to improve or theoretically hide, so competition cannot push on weak points.

Every market has its opportunities and threats and companies should be able to make the best of it.

Strengths - all products are personally controlled and tested by a third party before selling, the company focuses on sustainability, circular economy, and renewable materials since it was founded with its story behind, products are made in Europe, easy to adapt to new trends and situations, focus on B2B, focus on unique design.

Weaknesses - new on the market, products are easy to imitate and to produce by others, the company needs financial resources, the material is eco-friendly but when produced in small amounts it is expensive, company does not have regular flow/demand of products, none of team members/owners is expert in the field. It is necessary to hire professionals from the toy industry or retail industry which would make the company more convincing. Also, it is difficult for a small company to compete with the big players because the competition has large volumes hence their unit costs are lower than with company X.

Opportunities - German market is huge hence chances of success are good, company representative speaks German which can ease communication and remove language barriers as owners, who usually also run most of the SME's, many times are unsecure about their English and prefer German language to be used for business.

Threats - the market might be very competitive, for German consumers product may be interesting but not really a game-changer. Also, there might be some pending patents or intellectual property rights owned by someone of the competitors which company X does not know about.

Market entry strategy

The case company X is currently operating mainly B2B in the Finnish market and the same model would be preferred in Germany. Information about various international toy exhibitions held in Germany were found during the research. Trade fairs are a very good and effective way for developing networks within an industry in a country. Participation in an exhibition might be costly but assuming that meeting other manufacturers, distributors, wholesalers, and salespersons face to face with a good presentation of the product may bring benefits.

IAW, the International Trade Fair for Retail Promotions and Imports, is held in Cologne, Germany twice every year. Retail and wholesaler representatives from different sectors can meet at one place. Based on a list of exhibitors in 2019, companies that could become potential distributors were found in the toy category:

Toi-Toys International is a company located in the Netherlands and it is the largest toy import and wholesale company in Europe. Two of their showrooms with changing offers based on the trends in the toy market are located in Germany (Ankum) and Netherlands (Eindhoven). Toi-Toys is the market leader for patent-free toys in the Netherlands, Germany and Belgium. However, their toy manufacturers are from China, Taiwan, and Hong Kong so it is necessary to contact them and get information about cooperation with European manufacturers. (toi-Toys.com)

Jono Toys B.V. is a young company in the Netherlands where also its showrooms and warehouses are located. The company has customers mostly from Scandinavia, Germany, Belgium, the Czech Republic, and other European countries. Jono Toys supplies wholesalers, retail stores, and discounters.

Branded Toys company supplies branded toys to its B2B partners all over Europe and has a sales office in Warsaw and a distribution center in Zagnańsk, Poland. It is possible to contact them and start cooperation via email or phone in English. (brandedtoys.eu)

Nürnberg Spielwaren-Großhandel GmbH & Co. KG - Company imports branded toys from the Far East, Italy, and Eastern European countries, which are later sold to discount shops, hypermarkets, department stores, and online shops through more than 15 European countries. Company representatives are located in Goodies Center in a German town Ankum and it is possible to contact them via phone and email as well. (goodies-center.com)

Spielwarenmesse

Spielwarenmesse is a traditional and international world-leading toy fair held in Nuremberg Germany since 1949. Each January, trade professionals from within the industry get together for networking. It is the most important toy event in Europe with a large audience as for example in 2020, 2 843 exhibitors from 70 countries attended Spielwarenmesse as well as 62 357 visitors from 136 countries.

The 2021 exhibition will be exceptionally held in July due to the ongoing COVID -19 pandemic. Costs for participation at the fair amounts to approximately between 3 000 and 4 000 Eur, depending on stand requirements (electricity connection, corner/row stand, marketing package, etc).

Halls are divided into 12 product groups such as electronic toys, baby and infant articles, games, books and learning, lifestyle, etc. The largest product group at Spielwarenmesse is technical, educational, and action toys in which products of my case company belong to as well. This group has a significant number of visitors each year.

The exhibitors and visitors are a diverse group as it includes manufacturers, sellers, online stores, gift shops, supermarkets, educational, social and public institutions, as well as nurseries.

Learning about the circular economy by playing

As mentioned before, the company X has created their own toy brand called Y. The products are inspired by a story taking place inside a scrapyard for cars and the target group are children aged 3-5. It is easy for kids at this age to understand the importance of reusing, repairing, and recycling of products by telling the story of Y simultaneously with letting them play with the toys. Good potential channels to tell the story to kids could be for example YouTube, as kids in this age group nowadays are regularly watching YouTube.

The material used for production is ecological, made sustainably and similar to competitors in the segment, these products have a long-life time. If something gets broken, it is easy for the consumer to recycle the toy and the material can be reused depending on the local recycling system.

According to Forbes, the current trends in the toy industry are among others sustainability in the production process, STEAM (Science, Technology, Engineering, Mathematics, and Art), companies should focus more on educational aspects of toys and encourage kids to learn about science, medicine or technology. (Kestenbaum 2020.) My case company should implement and emphasize these trends in its product development and marketing activities.

Toys delivered to customers directly or to public institutions such as kindergartens with stories, where illustrations or colouring papers with the easy explanation of the circular economy, kids can not only play but learn about important topics of today's world. Learning aspect of the toys represents a good added value for new customers not only on the Finnish market but abroad as well and the company could stand out from its competitors. It requires cooperation with teachers or parents while explaining the circular economy to kids.

Social media such as Instagram, Facebook, and Twitter are good tools for promoting goods. Target advertising and cooperation with influencers in Germany is a good way of spreading brand awareness. Companies are widely using Influencer Marketing to increase and drive sales.

Portal socialmediatoday.com claims, that a more effective way is to cooperate more with influencers, who have fewer number of followers. It could be more effective and cheaper rather than cooperation with one or two influencers who have "millions" of followers. Celebrity influencers usually have a lot of companies cooperating with and the target group may be smaller than micro influencers who have for example 100 000 or 10 000 followers, but

these people have similar tastes, activities, or passions so advertising is more effective. (Bullock 2017.)

4.2.2 Sweden

Industry analysis

In 2018 the number of enterprises in the toys and games industry in Sweden amounted to 248 and the number of enterprises in the toyshops' industry amounted to 327. (Statistics Sweden 2020a, according to Statista 2020.) The number of employees in the toyshop sector was 1404 in 2018. (Statistics Sweden 2020b, according to Statista 2020.) Industry revenue of manufacturing of games and toys in 2018 was 31.8 million US dollars and it is predicted to decrease in the following years. (Eurostat 2020a, according to Statista 2020.) Industry revenue of retail sale of games and toys in specialized stores in 2019 was approximately 361.26 million US dollars and predictions show a decline in 2020 and the next two years. (Eurostat 2020b, according to Statista 2020.)

E-commerce in Sweden

In 2019, Sweden had 8 million e-commerce customers, hence already 77% of the Swedish population shop online. By 2024, the number of e-commerce users is expected to grow by additional 10%. Net sales in 2018 were 9.5 bn US dollars and the top five Swedish online stores have a market share of 12%. Consumer electronics, clothing, beauty/healthcare products, and media are mainly searched and bought online, but toys are still searched and bought online on a low level. When locals in Sweden buy in online stores for example amazon.com, revenue is considered cross-border, and when they buy cdon.se revenue is considered domestic. Cross-border sales in Sweden represent 3% of Swedish e-commerce net sales in 2019. (ecommerceDB 2020.) The most preferred payments in online shopping are credit card (28%), invoice (30%), direct payment (13%), Swish (10%), PayPal (14%), cash on delivery (1%) other (3%). (PostNord 2020a.) Interestingly, the return rate of toys bought online is only 2%, for comparison, return rate of clothes is 32% and electronics 4%. In general, 15% of products bought online were returned by shoppers in first half of 2019 according to PostNord. (PostNord 2020b.)

The most popular online shops in Sweden

Ranking for the most popular online toy shops in Sweden was not found. However, available sources show the top 100 online stores by net sales and cdon.se which ranks 8th is the highest-ranking store which also offers toys in its portfolio. Other online stores which are

specialized or offer toys in its portfolio are: lekmer.se (specialized for toys and kids assortment, ranks 34th on the list, net sales 39 million US dollars in 2019) jollyroom.se (specialized for toys and kids assortment, ranks 32nd on the list, net sales 42 million US dollars in 2018) and vidaxl.se (not specialized for toys but offers toys in its portfolio, ranks 61st, net sales 25 million US dollars in 2018). Babyland.se is specialized for toys and kids assortment and ranked 94th in the list, with the net sales of 12 million US dollars in 2018, but did not place in 2019. (ecommerceDB & Statista 2020.) Other shops specialized in toys and kids' segment are Eurotoys.se, vikingtoys.se, and pinkorblue.se. During the research, author did not find any online shop which offers 3D modelling of toys or sell 3D printed toys.

Important drivers for buying toys in Sweden are competitive prices and convenience. Manufacturers focus on sustainable packaging and product materials that should be free from chemicals, plastics, have longer durability, and pose recyclable materials. Sustainability is more and more important for consumers and producers and in 2019 showed positive growth. (Euromonitor International 2020d.)

For 70% of respondents, sustainability during production and delivery is important while shopping toys online, (PostNord 2020c, according to Statista 2020.) Sales of traditional toys and games are predicted to decline due to increased demand for video and computer games in Sweden as a result of digitalization of playtime. Online shopping is growing but at the same time, shoppers prefer mass merchandisers. (Euromonitor International 2020e.)

PESTLE analysis

This part offers an overview of external factors affecting the business in Sweden. The external environment of the company is complex, dynamic, varied and must be analysed on multi-dimensional levels locally and globally. It is important to monitor the environment however, a firm can never have detailed and total knowledge of the environment or future changes. (Wetherly P. & Otter D. 2018. 27.)

Political

- constitutional monarchy
- parliament chosen by direct elections of Swedish citizens
- Global Freedom Scores 100/100 (Freedom House 2021c.)
- Corruption Perceptions Index 2020 3/100 rank, 85/100 score (Transparency International 2021b.)

Economical (European Economic Forecast 2020b.)

- 2019's GDP was 5021.3 bn SEK, decreased by -3.4% in 2020, expected to grow by 3.3% in 2021 and by 2.4% in 2022
- the unemployment rate was 8.8% in 2020
- private consumption projected to fall by 5% in 2020, projected to grow by 3.1% in 2021
- HICP inflation was 0.6% in 2020, projected to pick up slightly to over 1% in 2022

Sociocultural

- 10 million inhabitants
- age 3-5 approximately 400 000 in 2020 (OECD.Stat 2020b.)
- 5 official national minorities
- work-life balance within society
- gender equality
- above the average in Better Life Index measures conducted by OECD in education, health status, wealth, safety, subjective well being

Technological

- 3.4 % of GDP invested in R&D in 2019 (OECD 2021b.)
- 2nd place in Global Innovation Index (Schwab, K. 2019b.)
- well-functioning infrastructure
- government's aim to connect all of Sweden to high-speed internet by 2025
- 94% of households have internet access (Eurostat 2021b.)

Environmental

- 54.5% share of renewable energy (Sweden.se)
- a long tradition of environmentally friendly production
- 49% of plastics recycled, on average 68% of packaging (all) (Natur Vårds Verket 2020.)
- special advisory for circular economy in parliament

Legal (Deloitte 2021c.)

- corporate income tax rate and branch tax rate 20.6%
- employment tax rate is progressive (approximately 30% to 52%)
- VAT is 25%

Porter's five forces analysis

The following part describes the analysis of Porter's five forces of competition affecting the toy industry in Sweden.

Competitive rivalry - The most famous worldwide known Swedish toy manufacturer is BRIO, which was acquired by the German Ravensburger Group in 2015. BRIO mainly focuses on manufacturing wooden toys. Companies Alga and Kärnan focus mostly on board games, therefore, do not represent competition to my case company. Micki is another Swedish toy company with a long history that started back in the 1980s. Micki focuses mostly on wooden toys. Playsam is a leading Scandinavian design company that focuses on creating innovative and timeless designs of wooden toys. As the case company X stated that in the future it would like to focus only on the design and manufacturing of cars with 3D printing, Playsam may be the biggest competitor in the Swedish market. During the research, author did not find any companies which offer toys made by a 3D printing method.

The threat of new competitors - for newcomers to the Swedish market - it might be hard to gain market share as it is a generally known fact that Swedish consumers have high standards for design and prefer local brands. Wooden products, natural materials, and unique design are popular in Sweden hence companies that focus more on mass production and cost-effective materials such as plastic may not succeed. However, there is a positive attitude to sustainability and eco-friendly materials which is a priority for my case company.

Bargaining power of buyers - Swedish households have a relatively high disposable income per capita in comparison with the rest of European countries. Swedish shoppers prefer local brands and companies rather than global giants. (Mitzner 2018.) It is known about Swedish consumers that they like design, are keen on sustainable living attitude and prefer eco-friendly and green products.

The threat of substitutes - during the research of online shops in Sweden which sell toy cars, author noted plenty of wooden toys with a really nice design. Consumers may decide to buy products from local brands instead of foreign ones. The same situation might occur when my case company focuses on public institutions, where authorities could support local over foreign companies.

Bargaining power of suppliers - the power of foreign suppliers in the Swedish market can be low as buyers/consumers do not rely on suppliers of toys from abroad as there are Swedish toy companies and substitutes available. However, author have not found companies that supply 3D printed toys or provide design modelling and when talking about toy substitutes, wooden and classic plastic toys such as Lego are available.

SWOT Analysis

SWOT analysis describes possible threats and opportunities which can occur in the Swedish market. Strengths and weaknesses are not mentioned as these are written in the German part already and remain the same.

Opportunities in the Swedish market

Design could be a big opportunity as the company models and creates its own products and could address customers who tend to like modern and simple designs. Assuming that a Finnish company may be successful in Sweden because of the similar culture, mentality, and lifestyle attitudes of the two countries. Geographical proximity might be an advantage too and ease of distribution.

Threats in the Swedish market

Competition of a design company like Playsam as well as toy producers of Swedish origin such as BRIO or well-known brands like LEGO. However, Playsam's design toys are priced higher than authors' case company's products, hence case company X has an advantage and can attract price-oriented customers.

Entering the Swedish market

If production is located in the company's home country, the company can export products directly or indirectly to a foreign market. Exporting is the easiest way of entering a new country and does not have minimal impact on the firm. The difference between direct and indirect export is in the level of the company's involvement in the handling of activities or processes in foreign sales. In indirect export, third parties such as agents, merchants or other organizations are present. In direct, the producer company's export department takes care of the sales. (Albaum & Duerr 2011, 392.)

Nowadays, more companies are using e-commerce as a tool for direct selling to a foreign market as it requires low capital investment, companies are building public image, translation is affordable and less costly as well as more reliable. (Albaum & Duerr 2011, 480.)

Most of the information about entering the Swedish market were gathered from the webpage verksam.se where four government offices provide services for businesses. These agencies are the Swedish Companies Registration Office, the Swedish Tax Agency, the Swedish Public Employment Agency, and the Swedish Agency for Economic and Regional Growth. This webpage contains all information about how to start and run a business in Sweden, tax rules, information about import and export as well as links that refer to many essential documents, data or advice.

As stated in the theoretical part, section 3.5, Hollensen (2017) points out the importance of good evaluation of internal and external factors influencing the choice of entry mode. Among the external factors is socio-cultural distance between the home country and host country. Considering this, Sweden could be the good option as it has similar culture, economy as well as its geographical proximity.

Apart from that, author did research on possible suppliers or companies which could deliver toys from Finland to Sweden. It is possible to register on the page toys1.com where different companies - agents, distributors, importers /exporters are listed and contact them regarding supply and distribution. Case company X could contact most of the distributors which are mentioned in the market entry strategy for Germany as well, as these distributors operate on the European market and there is the possibility of traveling from Finland to Scandinavia.

Various information about financing via public sources from European Union were found. Through the web pages of the Swedish Agency for Economic and Regional Growth, author was referenced to another webpage delegationcircularekonomi.se where companies or start-ups which have ideas linked with the circular economy can apply for financing. The application period for year 2021 is running until end of March.

The idea of the learning by playing strategy where kids can learn about the circular economy is probably not relevant in Sweden, as it ranks among the most innovative countries and author assumes that it has been incorporated in the education system already. Further market research is needed in case company decides for this strategy.

Een.fi - Enterprise Europe Network helps small and medium-sized companies to find suitable business partners when an enterprise tries to internationalize. EnterpriseEurope.se is a web page for Sweden. On these pages, international matchmaking events are held online currently and these events are organized regularly by different industries – for example toy industry, fashion industry etc. By participating, companies could create networks and potentially expand.

In case a company X decides to start mass production, author recommends to focus more on social media and find influencers whose target group are parents with small kids. Social media campaigns are proven boosters of sales nowadays as we can see the majority of companies are using social media such as Instagram, Facebook, or Twitter for communication.

4.2.3 Slovakia

Industry analysis

The most recent data which summarize the toy industry in Slovakia are from the year 2017. The industry revenue of toys and games manufacturing was 38.43 million US dollars in 2017 and dropped by almost 50% for the year 2018. Projections for years 2019-2020 are showing a significant growth to up to 141.05 million US dollars in 2023. (Eurostat 2019a according to Statista 2019) The number of toy and games manufacturers in Slovakia in 2017 was 218 according to Statista. (Eurostat 2019b according to Statista 2019.) On the Slovakian webpage Azet.sk, there are currently 48 toy manufacturers listed. Most of these manufacturers usually offer handmade toys.

The biggest and most famous Slovakian toy sellers, which have eshops or brick and mortar stores are Dráčik, rajhraciek.sk, Alltoys.sk, toyeto.sk, pompo.sk, pompomtoys.sk. and kralovstvo-hraciek.sk. During the research, author found online shops which are specialized only in toys that are made of ecological materials, support children's development and educate them. These shops usually do not offer toy classics such as LEGO, Bruder, Mattel, or Ravensburger, but instead smaller and not well-known brands which are specialized on products manufactured from green materials with a minimum carbon footprint during production. Examples of shops are mojtoj.sk, dobrahracka.sk or drevko.sk. The most famous and the biggest online stores with a baby segment that offer toys as well are predeti.sk and babyplace.sk.

E-commerce in Slovakia

In 2019, there were 12 600 e-shops on the Slovakian market and the number of online shopping activity increases each year. In 2019 e-shops turnover was 1356 mil Eur according to Heureka, a web page comparing e-shops quality and prices in 9 countries in Central and Eastern Europe. The biggest amount of money was spent on electronics. The sales of kids' segment grew by 28% in comparison with the previous year. Braverman, CEO of Heureka Group claims that Slovakia is an extremely strong market for e-commerce, relative to the size of the population, if compared for instance with Hungary, Slovenia, or Croatia. Slovakian shoppers buy online on average 34 times per year, the European average is more than 40 per year. (DPD 2020.) The most preferred ways of payment are in cash when the product is delivered to the door (65%), Visa/Mastercard (45%), and bank transfer (38%). (BESTETO 2020, according to Forbes 2018) The biggest online shops which have toys on their offer are Alza.sk and Mall.sk.

PESTLE Analysis

The following part offers an overview of external factors affecting the business in Slovakia.

Political

- parliamentary democracy
- the least in the trust in police and justice system in the EU (Eurobarometer 2019.)
- Global Freedom Scores 88/100 (Freedom House 2021d.)
- Corruption Perceptions Index 60/180 (rank) 49/100 (score) in 2020 (Transparency International 2021b.)

Economical (European Economic Forecast 2020c.)

- The unemployment rate was 6.9% in 2020, expected to grow to 7.8% in 2021 and decrease slightly to 7.1% in 2022
- GDP decreased by 7.5% in 2020, projected to grow by 4.7% in 2021 and 4.3% in 2022
- the general government deficit projected to decrease to around 8% of GDP in 2021
- inflation rate growth expected to slow down to 0.7% in 2021 and grow to 1.4% in 2022
- public investments expected to grow due to the EU funding program period ending in 2021
- export and import decreased significantly in 2020 due to COVID-19
- average net disposable income per capita is 20 474 USD a year which is below OECD average

Sociocultural

- approximately 5.5 million inhabitants (2020) (Statistical office 2020.)
- age 3-5 approximately 272 000 in 2020 (OECD.Stat 2020c.)
- above the average in Better Life Index measures conducted by OECD in social connections, civic engagement, work-life balance, personal security and below the average in health status, wealth, subjective well-being, housing, jobs and earnings
- low education expenditure

Technological

- 86% of households have an internet connection (Eurostat 2021c.)
- In the Digital Economy and Society Index released by the European Commission, Slovakia placed 21st in 2019, below average among European countries. For comparison, Finland placed 1st, Sweden 2nd, and Germany 12th. (European Commission 2020d.)
- In the Global Innovation Index, Slovakia ranked 39th among 131 economies
- 0.82 % of GDP invested on R&D in 2019 (OECD 2021c.)

Environmental

- less than 5% of energy comes from renewable sources (Agora Energiewende and Ember 2021.)
- 39% waste recycled in 2019 according to IEP (2020.)
- positive attitude towards solving the climate crisis, important strategic documents signed to decrease waste, emissions and improve the environment in Slovakia by 2030
- in HODYSE 2020, research conducted by the FOCUS Agency with cooperation of Slovak Academy of Sciences, 70% of respondents had a positive attitude towards a green economy (Strapcová 2020.)

Legal

- difficulties with starting and running a business
- a lot of bureaucracy, law enforcement, slow processes at the authority offices
- 4th highest taxes and statutory deductions among EU & EFTA countries (PwC 2020.)
- high corruption
- distrust in police and justice highest in the EU (The Slovak Spectator 2021.)

Porter's five forces

This part describes the analysis of Porter's five forces of competition affecting the toy industry in Slovakia.

Competitive rivalry - during the research of online shops, and toy shop offering, author did not find any companies which offer 3D printing or modelling of toy cars. However, small Slovakian toy producers which focus on sustainable materials such as wood were found. These are Veva.sk (building blocks of different wooden animals, cars, castles, or houses), MyJoy (toy cars, trucks, and trains), Drevoart (cars, trucks, planes, animals). Mojtoj.sk is an online toy store that offers only brands producing toys made from ecological and sustainable materials as well as design toys. In the online store, American, French, and Dutch brands are. The biggest players in the Slovakian toy industry are sellers such as Dráčik, rajhračiek.sk or Alltoys, which do not focus on design or ecological materials. In their portfolio author could find all types of toys and they try to attract masses with actual trends, licensed toys with favourite characters from movies, cartoons, and fairy tales (e.g. Frozen, Paw Patrol, Harry Potter or Star Wars).

The threat of new competitors - in the Slovakian market - there are no companies that produce 3D printed toy cars or offer 3D modelling. Also, there are no Slovakian companies that produce toy cars from recyclable, sustainable materials like the case company X does, hence newcomers could call attention. Vast majority of toys offered online are made out of petroplastic.

Bargaining power of buyers - Slovakian shoppers are price-oriented and net disposable income is below the OECD average. However, shoppers emphasize quality and this trend is likely to grow. Shoppers are trying to find the best quality for the most promising price. According to GfK quality, price, customer services, easy and comfortable online shopping with fast delivery, are requirements that are valued by the buyers. The origin of the toy does not change consumer buying behaviour. (Touchit 2017.)

The threat of substitutes - as a Slovakian shopper is usually price-oriented, the customer might choose a cheaper product rather than the one which has a low carbon footprint during production and distribution. American manufacturer Green Toys offers similar toy cars from recyclable plastic, priced at 14,90€. Direct substitutes - companies which produce the same product, are not currently on the market.

Bargaining power of suppliers - the power of foreign suppliers in Slovakia could be discussable, as there are local producers without mass production and a huge variety of products. Slovakian companies produce mostly textile toys (animals, dolls), wooden toys (building blocks, vehicles) or board games, and puzzles. Based on a comparison of online stores author noticed that Slovakian producers, their work, and products are usually more expensive than imported toys and big brand names. Data from 2017 shows that Slovakia placed 12th out of the European Union countries in the export of toys (mainly trains and plastic building blocks). (TASR 2018.) Dráčik, the biggest player in the Slovakian toy market, states on its website that it distributes toys on its own. Cfttoys.sk is a Slovak company that manufactures and distributes toys and has an international network. 123dopyt.sk is a web page that connects sellers and suppliers after registration. Eshopassociation.eu is a web page where based on category, e-shops can find suppliers or manufacturers and contact e-shops with their products. The web page is in English and very transparent which is an advantage in comparison with 123dopyt.sk.

SWOT analysis

SWOT analysis describes possible threats and opportunities which can occur in the Slovakian market. Not mentioning strengths and weaknesses as these are written in the German part already and remain the same.

Threats – possible language barrier as Slovakia placed 22nd out of 100 countries in English language knowledge, 4th among Visegrad Group countries in a 2020 study of EF English Proficiency Index. (EF 2020.) High level of bureaucracy and low level of digitalization could pose problems for a foreign company, and product price may be high for shoppers.

Opportunities – backed up with research of the Slovakian market, author assumes that Slovakian customers would be open for new products as toys that have an educational character about sustainability don't have much competition on the market at the moment. The necessity of spreading awareness about sustainable living is important as well and the chance to receive EU funding for an educational program which would include case company X cars could be high as Slovakia uses EU funds very poorly.

Market entry strategy

Slovakian consumers are currently price-oriented but also quality is important. World is changing due to the climate crisis and a global trend of limiting consumption and buying fewer products, but of better quality, is growing, however, still almost 40% of products end up in waste due to impulsive shopping in Slovakia. (Buchláková L. 2020, according to openi-azoch.zoznam.sk 2020.) Forbes published a list⁸ of Slovakian influencers or people with high social impact such as journalists, politicians, actors, or singers who are trying to educate people about the importance of changing buying behaviour. They often promote ecological alternatives to products of everyday life and it can be seen that they are successful as they have high engagement rates. (Gulisová S. 2020.) Based on the Forbes list as well as other popular Slovakian journalists or influencers, author followed several social media profiles for 5 months, and in discussions, comments or live streams, it is noticeable that people are interested in the topic, and demand for systematic changes, government or education system support is high. The education system in Slovakia is outdated and does not include environmental education or includes it only very poorly.

As mentioned in PESTLE analysis, education in Slovakia is below the average of OECD countries and the country's history has a high impact on consumer and buying behaviour. Czechoslovakia was a socialist country and in the past market options were limited and people were lacking basic food or material things such as clothes, electronics, or toys. Now, thirty years after the Velvet Revolution people are materialistic, tend to buy more than they need as this "lacking" of products remains in their minds. Slovakian shoppers are sensitive to marketing activities as well. (Smolka 2019.)

⁸ <https://www.forbes.sk/kto-nas-ladi-na-ekovnu-toto-su-zname-tvare-socialnych-sieti-ktore-ukazuju-ako-zit-udrzatelne/>

The combination of bad education and the impact of the country's history led the research author to the conclusion, where a strategy on how to improve circular economy/sustainability awareness with examples on case company's products is introduced.

Author advise the case company to contact the online store mojtoj.sk with a proposal. In case this online store considers case company X products as suitable for their portfolio, hiring influencer(s) who can promote it on social media could be a suitable way to boost sales. The best option for entering the Slovakian market might be through an agent as there might be a language barrier.

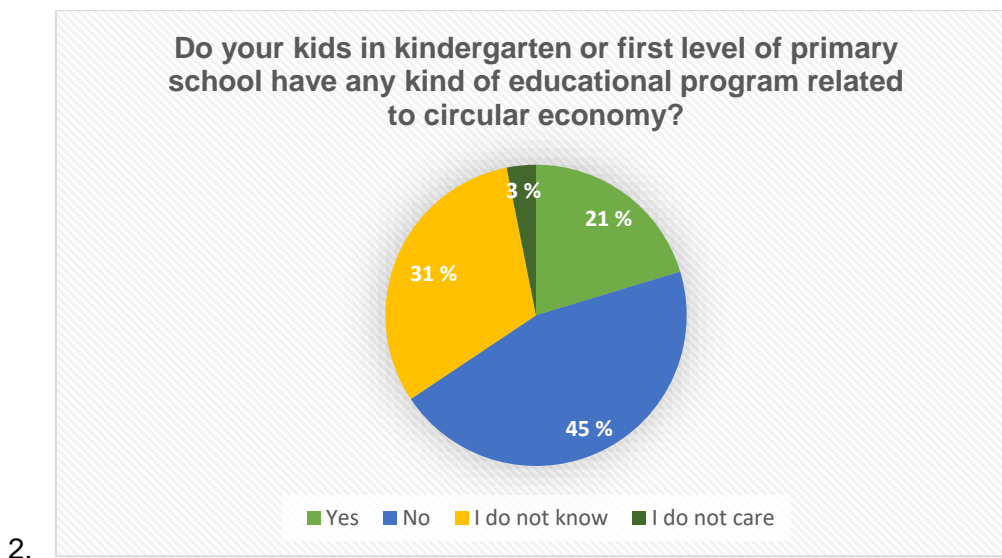
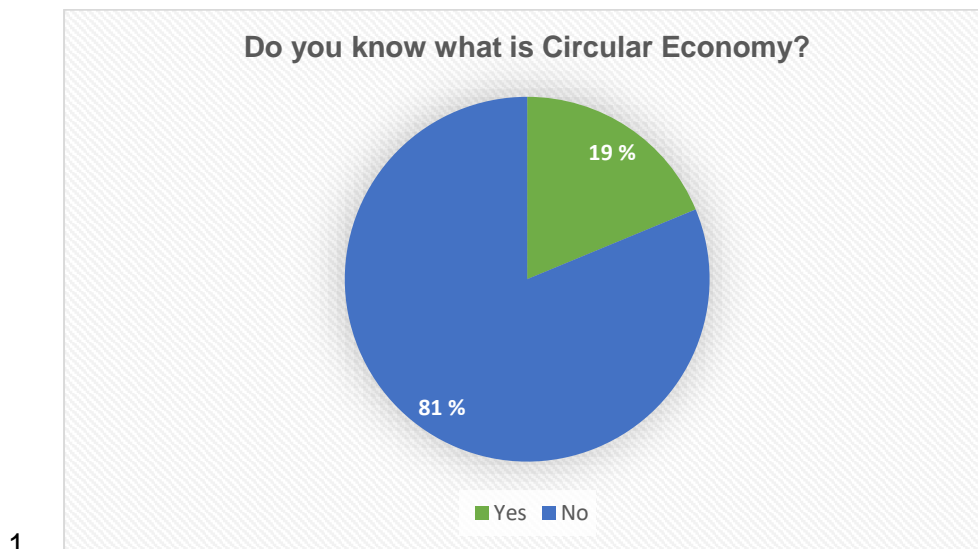
The company could use distributors mentioned in the strategy for Germany as most of them operate in the Czech or Slovakian market as well. The easiest way of entering the market is to contact individual shops and online stores and present the products.

A more complicated but doable market entry strategy is learning by playing as it has been mentioned already in strategy for Germany and Sweden. Currently, there are very few educational programs related to sustainable living in Slovakian kindergartens. Mostly about waste management, animal protection, and carbon footprint. (The Ministry of Education, Science, Research and Sport of the Slovak Republic 2019.) However, The Ministry of Environment of the Slovak Republic supports non-formal educational activities in cooperation with Slovak Environment Agency, National Zoological Garden Bojnice, State Nature Conservancy of the Slovak Republic and others. (The Mistry of Environment of the Slovak Republic) Author researched financing options from public sources (European Union programs), and found that Slovakia spent only about 33% of EU funds in year 2020. (Drapáková D. Koreň M. 2020.) Hiring a responsible person, creating a project which focuses on the education of small kids through Slovakian kindergartens about sustainability, and applying for EU funding could be a good way to enter the market and company could save its own sources. Competition is low or scarcely any. Production and providing kids with toys/colouring books with explanations about climate, sustainability together with storytelling about Y could be a good way to spread brand awareness. The only problem author sees now is that the case company X produces toy cars which may catch boys' eyes more than girls'. However, if company decides for this strategy, further research or ideas about how to impress girls too should be done.

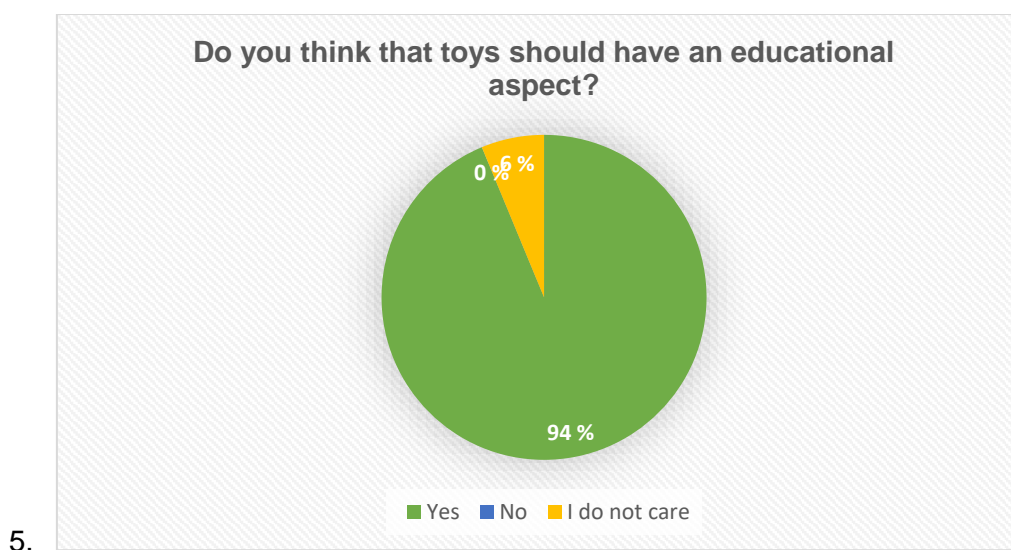
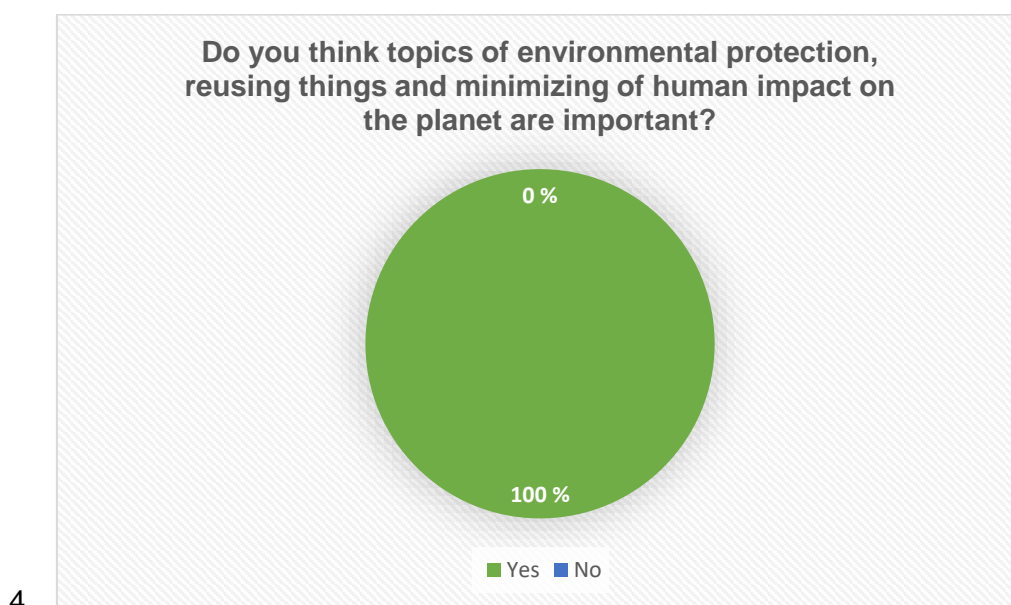
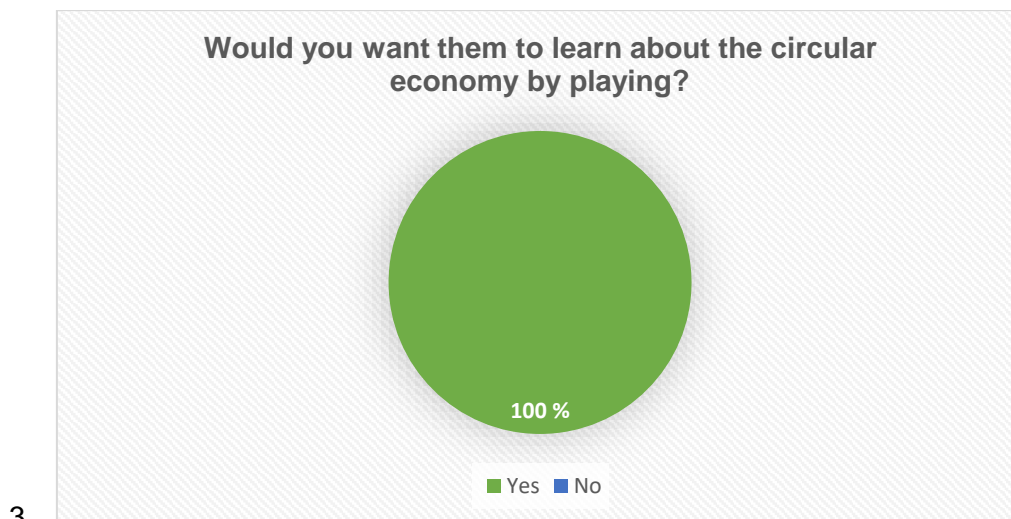
4.2.4 Results of the online survey

For the purpose of better knowledge of the Slovakian market, author carried out a short online survey which was addressed to the parents of children aged 4-8. 64 respondents whose kids are attending schools or kindergartens answered the questions. In the following

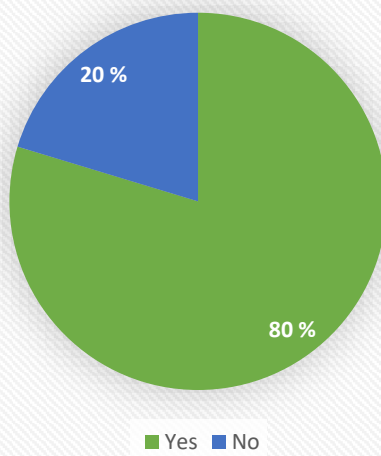
part, the results of the survey are described. Readers can see the screenshots of the survey in the Appendix 1⁹.



⁹ The survey was taken in the Slovak language however, the questions were translated and the same form was created for the purposes of implementing screenshots into thesis.

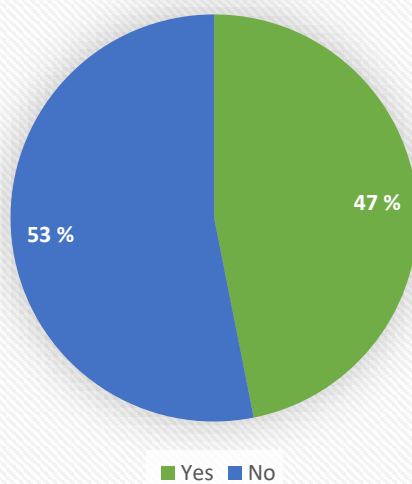


Are you interested from what kind of materials are your kid's toys made and whether they contain dangerous chemicals?

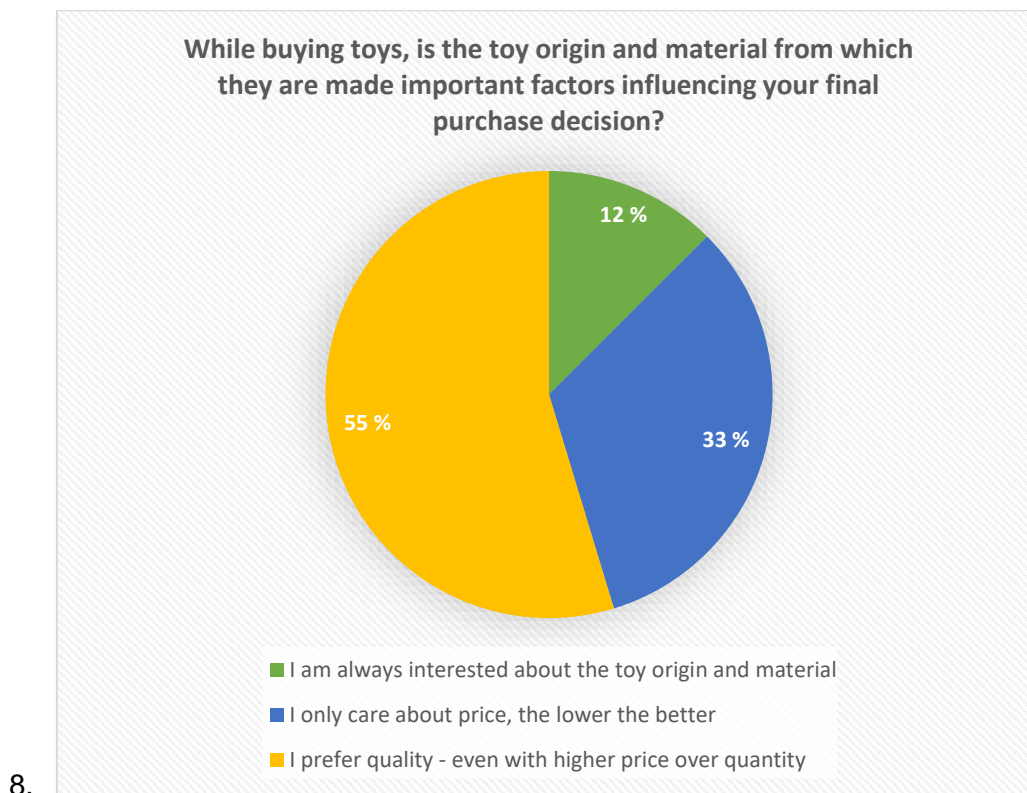


6.

While buying toys, do you care about where they were produced and whether they have all necessary safety certifications?



7.



The data from secondary sources showed that the Slovakian customers are price oriented but the trend of preferring quality over quantity is visibly growing. The online survey proved that as 55% prefer quality – even with the higher price over quantity.

We can see that only 19% of respondents know what is circular economy and only 21% of respondents' kids learn about the circular economy or similar (environmental protection) in their schools or kindergartens. These answers prove that the current education system in Slovakia is outdated and there is minimum of focus on the important topics. All parents think that topics of environmental protection and minimizing of human impact on the planet are important and 100% of them would want their kids to learn about the circular economy by playing. 94% of respondents think that toys should have an educational aspect.

Additional questions were about the origin of the toys and materials used in production. We can see that 53% of respondents do not care about the origin of the toys and whether they have all safety certifications while buying the toys, but 80% of respondents answered that they are interested whether the toys are free from chemicals. We can assume that parents trust the manufacturers, as it is their responsibility to meet all the safety standards, and the sellers as well, so they do not have to think about the safety of the toys themselves.

5 Summary and conclusion

Kids like to play and it is their right. Every child should get a chance to play with safe toys which help to develop their creativity, imagination, motor skills and eventually educate them about our planet, life, nature or the human body. All of this is what my case company X is trying to provide kids through its toys.

The thesis is divided into five parts, chapter one is introductory, where the thesis purpose, goals, limitations, and methodology are explained. The second one introduces the reader to the case company X, its mission, vision, and values. The third part is theoretical where market research-related subjects are described based on the academic literature. The fourth part is where theoretical knowledge is applied into practice and the fifth is a summary and conclusion followed by a list of references and appendices.

Market research of this thesis aimed to study and analyse three selected European markets Germany, Sweden, and Slovakia and answer research questions created in the beginning after an initial interview with the other co-founder of company X. The company is currently operating only on the Finnish market and plans to expand abroad. The company was clear about the knowledge needed for their decision-making processes and based on that author decided to conduct a SWOT analysis, PESTEL analysis, Porter's five forces analysis, and industry analysis in general for each country. The research questions were as follows:

Q1: Which country out of researched three is the most suitable to enter for the company X?

Q2: How should a market entry strategy look like in order to succeed in a foreign market?

To answer the research questions, primary and secondary data were collected and analysed. As secondary data, author used publicly available sources such as statistical data, strategic documents of countries, social media platforms, online journals, articles, annual reports, and for describing the current toy offering, author analysed data from toy online stores. For the purpose of gathering the first-hand data about the Slovakian market, online survey was conducted.

For each country, author suggested a possible market entry strategy and ideas on which the company could focus. All advice is backed up with arguments and author did discuss them with the co-founder during work. Important to mention is that the co-founders are not very familiar with social media and influencer marketing and author was asked to focus more on B2B options as they thought it would be a better option initially.

Answer to research question 1: Germany and Slovakia. Author developed the idea of learning by playing and the company considered it as an idea with potential. After discussions, conclusion is that Germany is a huge market, and adding colouring papers with a Y story which is about the reusing and repairing of old cars could be a good way of how to explain kids the point of the circular economy. In Slovakia, the education system is below the average of OECD, and topics of circular economy or sustainability are not the priority within the society but are growing in popularity. Author noticed, that there is low competition in terms of ecological toys and almost no competition in terms of ecological toys in combination with the educational aspect about the circular economy. Online survey was taken and 64 respondents all over Slovakia with kids aged 4-8 answered 8 questions. The results show and prove that data which were gathered from secondary sources are relevant and circular economy awareness is low in Slovakia. Based on this market analysis as well a competitor benchmarking, the company sees educational programs as an opportunity and as a viable market entry strategy.

Answer to research question 2: The crucial thing while entering the German market is to visit the exhibition Spielwarenmesse where important industry players are present as well as kindergartens or school representatives, build a network and present their products. As this exhibition is very well known, people from the toy industry from all over Europe are visiting, hence it can be a good investment and starting point of expanding outside of Finland. For Slovakia, author would recommend contacting mentioned online stores and distributors firstly, and highlight the focus on learning by playing strategy. The company could consider educational projects and funding from European Union through an agent.

The importance of having good supply chain management and logistics applies to both countries. International business is about cooperation, transparency and a good relationship. The company could re-evaluate its approach to influencer marketing in new markets as it is proven, modern, and a very good marketing tool to boost and increase sales.

Company could consider further research or developing ideas about adding new products to its portfolio as toy cars may be interesting more for boys than girls.

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Appendix 1. Online Survey

Education of kids aged 4-8

Thank you in advance for your time spent with filling this online survey.

Do you know what is Circular Economy?

- Yes
- No

In case your answer to previous question was no, please read the short and simple definition of Circular Economy.

The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended. In practice, it implies reducing waste to a minimum. When a product reaches the end of its life, its materials are kept within the economy wherever possible. These can be productively used again and again, thereby creating further value. (European Parliament 2021.)

Do your kids in kindergarten or first level of primary school have any kind of educational program related to circular economy?

- Yes
- No
- I do not know
- I do not care

Would you want them to learn by playing about the circular economy?

- Yes
- No

Do you think topics of environmental protection, reusing things and minimizing of human impact on the planet are important?

- Yes
- No

Do you think that toys should have an educational aspect?

- Yes
- No
- I do not care

Are you interested from what kind of materials are your kid's toys made and whether they contain dangerous chemicals?

- Yes
- No

Are you interested from what kind of materials are your kid's toys made and whether they contain dangerous chemicals?

Yes

No

While buying toys, do you care about where they were produced and whether they have all necessary safety certifications?

Yes

No

While buying toys, is the toy origin and material from which they are made important factors influencing your final purchase decision?

I am always interested about the toy origin and material

I only care about price, the lower the better

I prefer quality - even with higher price over quantity