

International market selection process between Sweden and Germany

Case: Studio Savon

Abstract

Author(s)	Publication type	Completion year
Pervis, Titta	Thesis, UAS	2021
Lönnqvist, Pauliina	Number of pages	
	47	
Title of the thesis		
International market selection process between Sweden and Germany		
Case: Studio SAVON		
Degree		
Bachelor's Degree Programme in International Business		
Name, title, and organization of the client		
Kati Mouhu, Business Owner, Studio SAVON.		
Abstract		
<p>Globalization has become a familiar concept for everyone. The world seems smaller when products and services are available from another side of the world through digital channels. Due to digitalization, global beauty is on the rise and already around 20% of the revenue is generated through online channels. Consumers have followed the trend and changed their purchasing behavior moving to online markets.</p> <p>The thesis aimed to help the case company to examine the chosen foreign markets to enter. We investigated what kind of actions are needed to make the market expansion successful. In this study, we use the country screening matrix for global marketing research. Leaning on reliable theories, the matrix includes market areas and factors that formulate opportunities and threats to the company when entering new markets. They also influence the firm's capacity to attract customers and long-term customer relationships. The global marketing plan model is presented for further research.</p> <p>The study uses qualitative and quantitative research methods and a deductive research approach. The primary data was collected from the case company business owner's statements and interview. The secondary data was gathered from previous literature, statistics, articles, and internet sources.</p> <p>The comparison between the target markets, Sweden and Germany, was done through the screening. The conclusions are drawn by the results of the market screening process. The research questions are answered. Key findings, as well as the most potential target market for the case company with reasoning, are explained.</p>		
Keywords		
Internationalization, market selection, market-entry, market screening		

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1 Introduction

1.1 Research Background

The global beauty industry is worth billions and is growing rapidly each year. The total value of the global cosmetics market in 2019 was 530 billion dollars. Due to COVID-19, the beauty industry dipped in 2020. It is going up from 483 billion dollars to approximately 511 billion dollars in 2021. The growth has been predicted to exceed 716 billion dollars by 2025 and 785 by 2027. (Roberts 2021.) In 2019, 14% of the total profit in the beauty industry was generated from online channels (Holtz 2021). In 2021, e-commerce's share of the total revenue will be approximately 22%, and it continues growing (Statista 2021).

Our case company Studio SAVON was established back in 2008 and was originally a hair and beauty salon located in Lahti, Finland. After COVID-19 hit the city of Lahti back in the spring of 2020, Studio SAVON decided to launch their own online store called savonshop.fi. Nearly a year after savonshop.fi was launched, the business owner Kati Mouhu decided to brighten the company's image and give up the physical store. In the process of changing the company image, Studio SAVON changed their online store address to studiosavon.fi. In the Image 1 below is the front page of the Studio SAVON's new online store called studiosavon.fi.

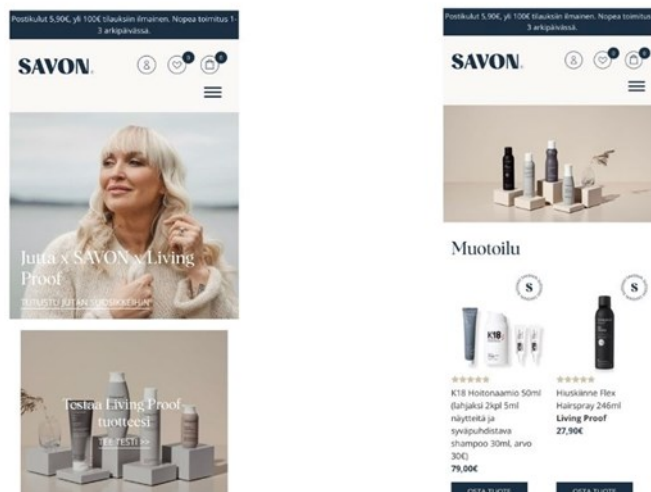


Image 1. Screenshot of Studio SAVON's online store and frontpage (Studiosavon.fi 2021)

Studio SAVON has grown domestically 34% since its launch back in February 2021. In May 2021 Studio SAVON moved its logistics to its new partner Axla Logistics. Axla Logistics can ship merchandise around Europe and that made the idea of internationalization possible for

Studio SAVON. (Studio SAVON 2021 & Axla Logistics 2021.) The business idea of Studio SAVON is to bring beauty accessible and possible to everyone (Studio SAVON 2021). Studio SAVON tries to educate its customers on how to use the products that they have purchased and encourages them to only buy for a need (Mouhu 2021).

Now due to COVID-19, consumers have changed their buying behavior and moved to online markets. This has abled Studio SAVON to spread their business idea nationwide and now possibly outside of the country's borders. Due to the global change and the change in people's minds towards online shopping, companies have also been forced to modify their business operations and even their business ideas to adapt to the markets. There has been a major change in people's online buying behavior and for example, hygiene products consumption has been on the rise. Another trend supporting Studio SAVON's business idea is the ongoing trend of people buying more and more only for a need and from brands that they trust. (Kohli et al. 2020, 5.)

The purpose of this thesis is to investigate possible target markets for the case company to enter and discover what kind of actions are needed to make the internationalization process successful. The selected targeted markets of this research are Sweden and Germany based on the owner's decision. Our goal is to utilize reliable secondary sources and to conduct desk research comparing the two target markets. This pre-internationalization study aims to help Studio SAVON to evaluate these two markets and to find out which market is more attractive to Studio SAVON.

1.2 Thesis Objectives, Research Questions, and Limitations

Well-formulated research objectives allow to operationalize the research question, that is providing the connected steps needed to take to answer the question. Research objectives are evidence of the researcher's clear sense of purpose and direction. Research objectives express the intention of how to structure the research process to answer the question and achieve the aim of the research. (Saunders et al. 2016, 45-46, 60.)

The main objective of this thesis is to research both Swedish and German beauty markets and present the outcome to Studio SAVON. The beauty markets of both countries will be analyzed. Based on the results of the research we will give recommendations on which market we suggest the case company to enter.

The research question expresses what the research is about and will become the main point of the research project. One or more research questions answer the research topic. (Saunders et al. 2016, 45, 60.)

The main research question is:

- What is the potential of the Swedish and German market and which market to enter?

The sub-questions are:

- What are the challenges and opportunities of the two possible target markets?
- What are the key factors to consider in the market screening process?

There are always limitations when conducting research. This research aims to help the case company choose between two potential markets. We concentrate on comparing only two possible markets, Sweden, and Germany from the viewpoint of the online beauty industry. It gives suggestions, particularly for Studio SAVON. The target is to help select the right market for the case company from two of the alternative markets. This study is made only for the case company's needs and will not speak out for the beauty industry itself nor other geographical areas.

1.3 Theoretical Framework

After the research idea is developed and the topic defined to address the research question, the next step in the research is to review the existing literature. The primary purpose of the literature review is to help researchers become familiar with the works or studies that have already been conducted in the selected topic area. (Godwill 2015, 37.)

Hollensen's (2012) five-stage decision model in global marketing contains five steps. To support the market research, we decided to use Hollensen's model and lean our research primarily on that. (Hollensen 2012, 5). The theoretical part introduces the model and explains more accurately two of the first steps this paper concentrates on. The steps are: The decision to internationalize and deciding which markets to enter. Other steps are not covered here, because of their irrelevancy for the research.

Hollensen's model and the steps are presented in the figure below.

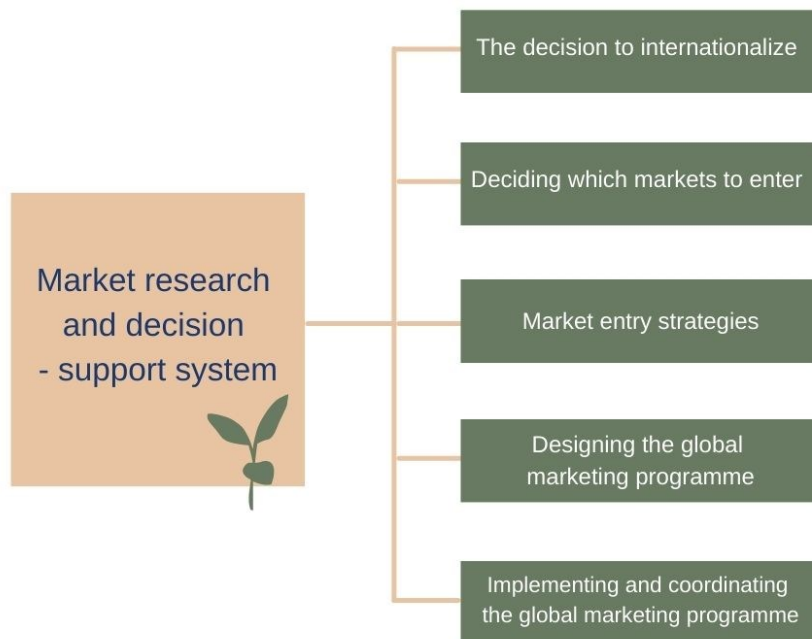


Figure 1. The five-stage decision model in global marketing (adapted from Hollensen 2012, 5)

The theoretical background is presented in chapters 2 and 3. The chapters discuss the internationalization process, common strategies, and Hollensen's five-step decision model.

1.4 Research Methodology and Data Collection

Godwill (2015, 4) defines research as follows: *Research is the process of arriving at dependable solutions to problems through a planned and systematic collection, analysis, and interpretation of data.* The purpose of this research is to study the potential of two different markets through theory and empirical research until the conclusion and suggestions for the case company.

There are two research approaches: inductive and deductive. Deductive research moves from general ideas/theories to specific situations; a particular idea/theory is deduced from a general aspect, for example, broad theories. In deductive research, the objective is to have a clear theoretical position before data collection which can be used to address a specific question or problem. Inductive research moves from particular or specific situations to infer to broad ideas/theories. (Godwill 2015, 11-12.)

This thesis is based on the deductive approach. It starts with the theoretical part that leans primarily on Hollensen's theory. Then, based on the empirical parts, it presents recommendations of which of the two markets the case company should choose. Both approaches are illustrated in the figure below.

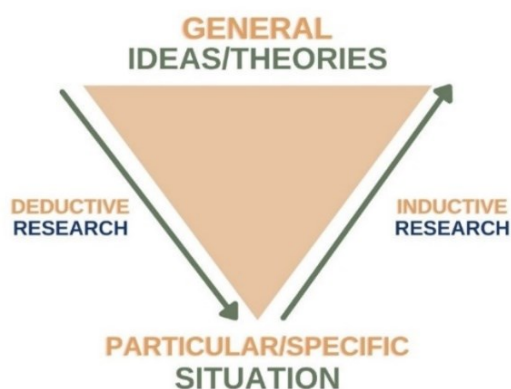


Figure 2. Deductive/Inductive research approaches (adapted from Godwill 2015, 12)

After the research approach has been decided, the next step is to choose the data collection method. This study used both qualitative and quantitative methods. Quantitative research involves collecting and converting data into numerical form so that statistical calculations can be made to draw conclusions. Quantitative research is an inquiry into an identified problem based on testing a theory, measured with numbers, and analyzed using statistical techniques. Qualitative research on the other hand is concerned with personal experiences of the problem that is being studied. It is the collection, analysis, and interpretation of data by observing what people do and say. It refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things. (Habib et al. 2014, 8-9.)

The overview of both qualitative and quantitative research methods is shown in the table below.

	Qualitative Research	Quantitative Research
Purpose	Descriptive and conclusive	Exploratory and no conclusive evidence
Sample Size	Small samples	Large samples
Question Type	Broad range of questioning	Structured questions
Interpretation	Subjective interpretation	Statistical analysis

Table 1. Overview of qualitative and quantitative research (adapted from Habib et al. 2014, 9)

This study covers both qualitative and quantitative parts. Consequently, it is mixed-method research that involves both methods that are combined to describe problems from both concepts. In mixed-method research, the researchers use the qualitative research paradigm for one part of the study and the quantitative research paradigm for the other part of the study. (Godwill 2015, 16.)

In this study, the research data is from primary and secondary sources. Primary data is data that is collected afresh and for the first time and is original in character (Godwill 2015, 79). Here, the primary data consists of Studio SAVON's owner's statements and interview, and the authors' observations.

Secondary data is data that has already been collected by someone else and has already been passed through the statistical process but is recollected and analyzed to compare different studies or present new ideas (Godwill 2015, 79). Secondary data in this research consists of previous literature, internet sources, statistics, and articles. The country-level analysis is based on desk research that utilizes secondary sources. The research approach, methods, and data collection of our thesis are presented in the figure below.

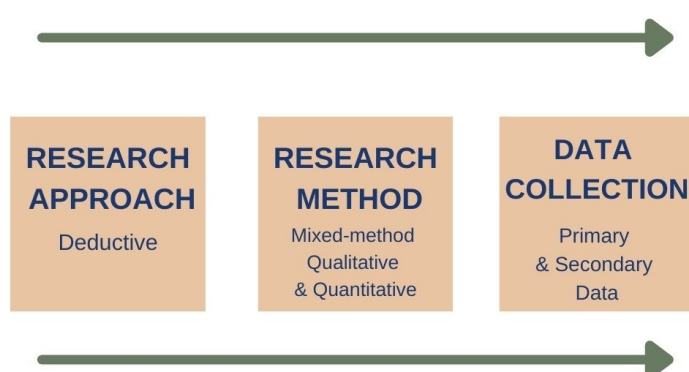


Figure 3. Research approach, methods, and data collection of this thesis.

1.5 Thesis Structure

The structure of this thesis is shown in Figure 4 below. It starts with the introduction which aims to give the basic knowledge of the study and lead to theoretical and empirical parts.



Figure 4. The structure of this thesis

The theoretical part of the thesis is presented in chapters 2 and 3. Chapter 2 introduces the internationalization process. It presents the motives for the globalization of a company, typical internationalization strategies, and Hollensen's five-stage decision model in global marketing emphasizing the first two steps of it. Chapter 3 includes the process of deciding which markets to enter. These two chapters give the theories and models the empirical parts lean on. It helps to understand the basic knowledge about the topic and leads to the empirical parts.

Chapter 4 introduces the case company Studio Savon. It tells the story of the company, its mission, vision, and strategy. This chapter also explores the current state of the case company and its readiness to internationalize.

Chapter 5 includes the empirical part: foreign market research and selection process. This covers the market environment analysis between Sweden and Germany. The country screening matrix we used to rate the countries is presented and the results evaluated.

Chapters 6 and 7 summarize the purpose, core content, and the main results of the conducted research. The conclusions are drawn from the results. This chapter also answers the research questions and gives suggestions for further research.

2 Internationalization

The world has become smaller and the concept of globalization familiar for everyone. Because of the importance of globalization from both theoretical and empirical viewpoints, there is however a need to define the term globalization. The International Monetary Fund (IMF 2021) defines globalization as follows: *The increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders.*

The fundamental reason for internationalization, in most cases, is to make money. However, the motive of internationalization and taking steps forward is usually a mixture of many different factors. Table 2 below provides the major motives for starting export. They are differentiated into proactive and reactive motives. Proactive motives stimulate the change in strategy and are based on the company's attentiveness to benefit its know-how or market possibilities. Reactive motives address that the company reacts to pressures or threats in its home market or foreign ones and adapt passively to them by changing its actions over time. (Hollensen 2012, 35-36.)

PROACTIVE MOTIVES	REACTIVE MOTIVES
<ul style="list-style-type: none"> • Profit and growth goals • Managerial urge • Technology competence/ unique product • Foreign market opportunities/ market information • Economies of scale • Tax benefits 	<ul style="list-style-type: none"> • Competitive pressures • Domestic market: small and saturated • Over production/ excess capacity • Unsolicited foreign orders • Extend sales of seasonal products • Proximity to international customers/ psychological distance

Table 2. Major motives for starting export (adapted from Hollensen 2012, 36)

2.1 Strategies

A company must decide how many countries to enter and how fast to expand. There are various market entry strategies to choose from. This chapter introduces some typical approaches relevant for this study: the waterfall approach, the sprinkler approach, and the combination of these two, the wave approach. In the waterfall approach, the company is

entering countries gradually in sequences. The sprinkler approach means entering many countries simultaneously. (Kotler 2015, 242.) A born global is a company that from its establishment globalizes fast without paving the way for long-run internationalization period (Hollensen 2012, 63). Different internationalization strategies are presented in Figure 5 below.

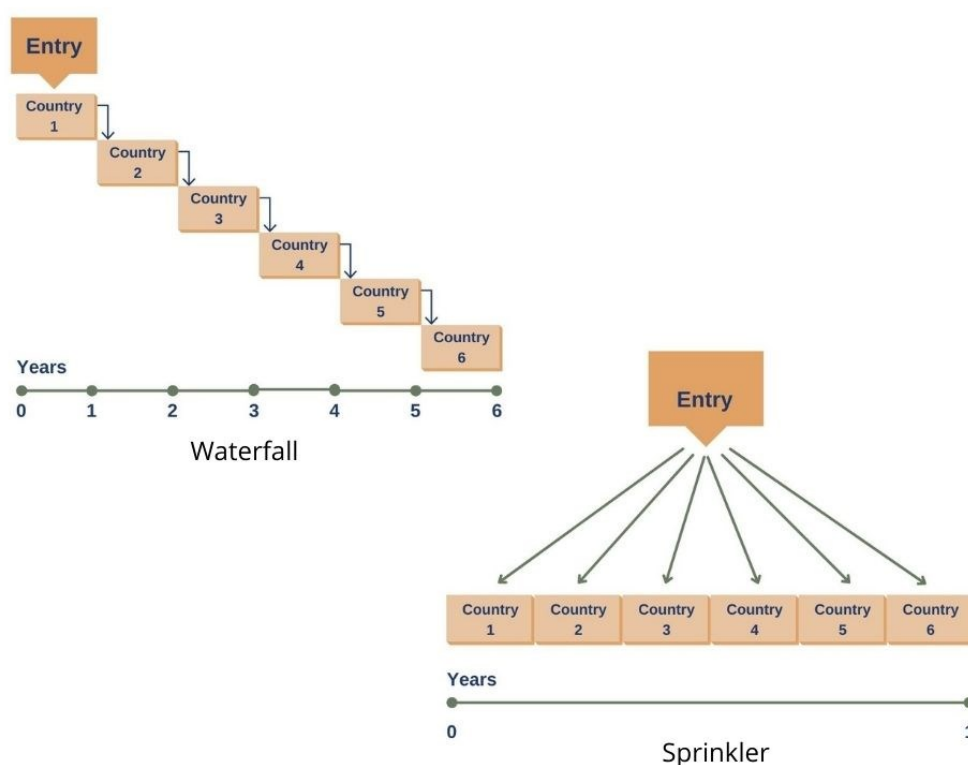


Figure 5. Waterfall and Sprinkler strategies explained (adapted from Hollensen 2012, 185)

Waterfall strategy

The waterfall strategy is a sequential business expansion model to foreign markets. The main characteristic is the usage of clearly defined entry steps and the use of experience sequentially. The knowledge gained through one step is used to pass the next one. In the waterfall approach, the company first enters one foreign market. It sets up itself, promotes the products, and builds the client base. When the company's position in this market is stable, the business is ready to expand to another market using the formerly obtained knowledge. When the gained knowledge is accumulated as the business expands the risk is smaller for each entry. This model reminds a waterfall, where water flows through each step before passing the next one, hence the name of this strategy. The waterfall strategy suits companies with long life cycle, or maturity phase products best. It is because this

model takes more time to set up, build a stable client base and prospect. It is recommendable to choose a foreign market that is equivalent to the firm's domestic one. This minimizes many risks, such as consumers' purchasing culture disparity risk. After settling itself in the foreign market, a company can move to the next stage and embrace another market. The risk is minimized as only one market is entered at a time and all the spreading resources are concentrated there. Therefore, there is less room for failure and the possible losses are comparatively small. (Lymbersky 2010, 59.)

Sprinkler strategy

The sprinkler market entry strategy means simultaneous business expansion to various foreign markets. High risk and high reward are typical for this approach model. A successful sprinkler execution allows accumulated profits from multiple markets. Failed expansion, in turn, tie lots of expenses and contribute little dividend. Unlike in the waterfall approach, in the sprinkler model, a company enters several foreign markets simultaneously, establishing itself, promoting the product, and building the client base at once. Globalization knowledge and profit are gained from different markets at the same time, which makes the expansion effective. This model reminds a water sprinkler where individual drops are small but when spreading the bigger area is watered. The sprinkler approach is a solution for companies with new or growth phase products or companies who produce short life-cycle products. (Lymbersky 2010, 60.)

Wave strategy

In the wave market entry strategy, the business expands simultaneously to various foreign markets, but it limits the number of suitable markets by categorizing them into different groups. The culture and business environment of available markets are analyzed and divided by their similarity to the domestic market. Likewise in the waterfall model, the wave model can be shared into stages. After analyzing the different parameters and diving into the markets the expansion will begin with a group that is closest to the domestic market. Once this spreading is secured, the company can enter the next phase of markets. In this way, profits and the experiences at the previous levels will help to reduce the potential risks in the following markets. The wave strategy takes more time for analyzing lots of markets and is not exploiting the benefits of waterfall and sprinkler strategies to the fullest. On the other hand, it combines the safety of both strategies. (Lymbersky 2010, 62.)

Born globals

Most companies follow traditional patterns. They develop their domestic markets before entering international markets. Gradually they spread their business in multiple foreign markets. Born global companies acknowledge from the start that their competition and customers are global. Sometimes born global firms enter international markets even before their domestic ones. Most companies today start globalization earlier than in the past, even if they are not technically born globals. This is because of the benefits of internationalization. However, a fast entering to the foreign markets can challenge even the most profitable companies because of the remarkable startup costs originating from developing new national markets. (Gillespie & Hennessey 2016, 246.)

2.2 Five-stage Decision Model in Global Marketing

Hollensen (2012) presents the five-stage decision model, which is the process of developing the global marketing plan. The theory is structured to the five main decisions. The figure below introduces the global marketing plan process. The first two steps are emphasized.

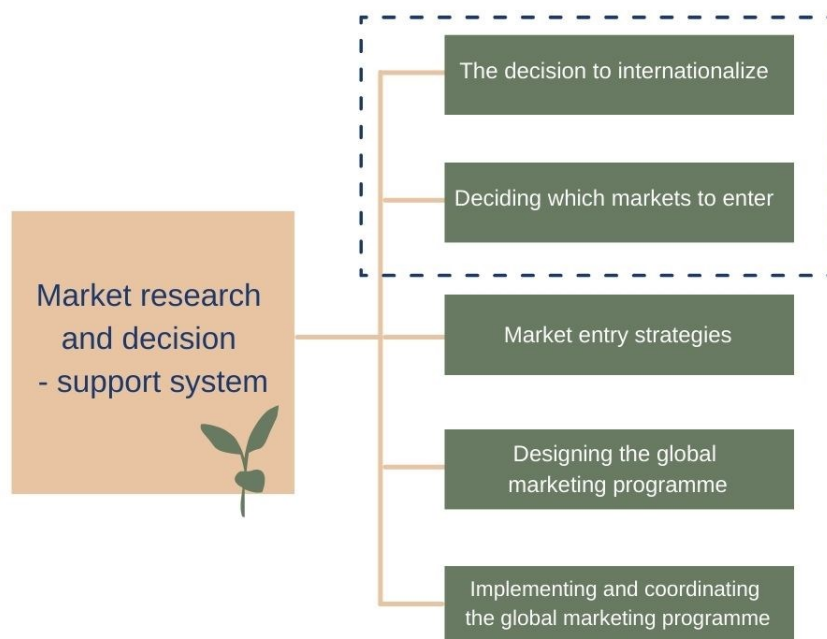


Figure 6. First two steps from the five-stage decision model, that are emphasized in this thesis.

According to Hollensen's (2012) decision-oriented approach, these five steps are the ones that companies' marketing personnel face in the global marketing process. The main purpose of the international marketing plan is to engender a competitive advantage for the

company. Eventually, the company's global competitiveness is mostly reliant on the result of following the global marketing plans' stages. (Hollensen 2012, 10.)

Hollensen's global marketing model is the main theory our thesis leans on. The following chapter introduces how we apply Hollensen's theory and model in our study. Only steps one and two are presented. This research is about selecting the right target market for the case company to enter. Therefore, the following steps three, four, and five, are not relevant in our study. They are only pointed out for further research.

Stage 1: The decision to internationalize

The first stage of Hollensen's five-stage model is the decision to internationalize. The purpose of this step is to assist firms to evaluate their readiness for globalization. It presents different internationalization theories and models for developing and analyzing the firm's global competitiveness. (Hollensen 2012, 6.)

Stage 2: Deciding which markets to enter

The second step, deciding which markets to enter, introduces the fundamentals of international market research. It discusses how different factors affect the expansion decision. Models for the international market selection process and strategies for spreading the market are given in this stage. This step underlines the political, economic, social, and cultural forces when entering new markets. (Hollensen 2012, 6.)

Step 2's international market selection process is the main object of this thesis. It is important to understand the process. It can be a significant element of a firm's successful-, or failed internationalization operation. The following chapter presents the theoretical viewpoint of the target market selection process.

3 Which Market to Enter

The company should try to interpret its international marketing objectives and policies before going abroad. The wanted volume of foreign sales should be defined. When going abroad, most companies start small. Some plan to stay small, others intend to have an international business that equals to or is even more important than their domestic business. (Kotler et al. 2018, 578.)

Next, the company must select in how many countries it desires to merchandise. Companies must be cautious not to expand too thin or spread in too many countries too soon and exceed their capabilities. The company also requires deciding on which types of countries they enter. The market attractiveness is determined by the product, geographical factors, political climate, population, income, and other elements. (Kotler et al. 2018, 579.)

When the possible international markets are recorded, they must be evaluated. Various factors need to be deliberated and relevant questions to be asked. After evaluating possible global target markets, they should be ranked on various factors. These factors include market size and growth, the cost of doing business, competitive advantage, and risk level. Different indicators are used to define the potential of different markets, and which offer the best return on investment in the long run. The next chapters present the theories and indicators of market potential that are relevant for our research when deciding which markets to enter. (Kotler et al. 2018, 579.)

3.1 Market Analysis

Market analyses give companies better comprehension of customer needs, behaviors, expectations, in addition to their current and lifetime value to the company (Kuada 2008, 18-19).

Internal analysis

The main goal of internal analysis is to contribute a vision of a company's key resources, skills, and means to deal with the environment. This analysis makes the company able to specify its strengths, weaknesses, and distinguishing expertise. (García-Merino & Santos-Álvarez 2011, 56.) SWOT analysis is commonly used to identify the firm's competencies and international competitiveness. The strengths and weaknesses from inside the company include elements like education level, international experience, and reputation in the firm's area of expertise. (Hollensen 2012, 6.)

External analysis

By analyzing the environment, the company can develop its activities. The macroeconomic environment analysis is applicable for the formulation of both corporate-, and business strategies. The external analysis typically evaluates threats and opportunities the firm occurs. (García-Merino & Santos-Álvarez 2011, 55.) These possible influences come from outside the company and can not be controlled. They however must be identified and ranked by order of importance. The external analysis includes factors such as political-, economic-, and sociocultural forces and market size. SWOT analysis is a tool also for studying influences, opportunities, and threats, from outside of the company. (Hollensen 2012, 6.) The most frequently used model for the external environment analysis is Porter's (1980) five forces (García-Merino & Santos-Álvarez 2011, 55).

3.2 Global Marketing Research

In this research, a country screening matrix covers the global marketing research. The country screening matrix is originally adapted from the book *Effective Small Business Management* (Scarborough et al. 2009, 411). The authors have modified the country screening matrix to suit the use of this study. It consists of five main areas.

These areas form opportunities and cause threats to the company. They also affect a firm's ability to attract customers and generate customer relationships. (Kotler 2018, 90.) The country screening matrix areas are presented in the following subsections.

The demographic and physical environment

Demographics is a crucial base for segmentation. Demography studies human populations regarding size, density, location, age, gender, and other statistics. When demographics change, the market changes. (Kotler 2018, 96.) Other market factors of the demographic and physical environment are shipping distance, product-significant demographics, and communication network (Scarborough et al. 2009, 411).

Political and legal environment

Countries are different in their political and legal environments. The firm must observe aspects such as the nation's orientation towards international buying, political stability, government bureaucracy, and monetary regulations. (Kotler et al. 2018, 574.)

When a company wants to invest in a foreign country, it must be aware of that nation's political concerns. The company should compose a screening system that helps to evaluate

the political risks thoroughly. These risks include factors such as expropriation, nationalization, or restrictions on imports and exports. Through careful screening, political risks can be diminished or neutralized. The importance of different political and legal factors varies in different countries and companies. It is still beneficial to consider them all to secure a whole picture of the political and legal outlook for doing business in a certain country. The political-legal factors that can be studied are inter alia a change in government policies, the host countries' attitude towards foreign businesses or relationship with the rest of the world, the fairness and honesty of administrative procedures. (Hollensen 2012, 144.)

Economic environment

The economic environment is a crucial aspect of market potential and opportunity. Remarkable fluctuations in national markets derive from economic distinctions. Population characteristics stand for one significant aspect. The wealth and income of the people are highly important because they define purchasing power. Countries' economies can be assessed using different methods. One good indicator is the country's national production, measures like the gross national product and gross domestic product. Also purchasing power parity or the relative potential of two nations' currencies to purchase the same goods in those two nations. (Hollensen 2012, 144.)

Social and cultural environment

Culture has an important role in consumers' reactions to the world's different markets. Consumers' thoughts, behaviors, and norms vary from country to country. Cultural norms and differences can not be ignored when designing international marketing strategies. (Kotler & Armstrong 2014, 581.) Culture is an apparent element of differentiation between global markets.

For a global marketing research, culture can be defined as *the learned ways in which a society understands, decides, and communicates* (Hollensen 2012, 150).

The social and cultural environment includes elements such as literacy rate, educational level, the existence of middle class, similarities, and differences in relation to the home market (Scarborough 2009, 411.) One remarkable factor, in addition, is language and other cultural considerations. Language itself can be divided into both spoken-, and silent languages (Hollensen 2012, 154).

Edward T. Hall (according to Hollensen 2012, 152) presented the concept of high and low context cultures. *Low-context cultures* depend on written and spoken language for understanding the meaning of the message. *High-context cultures* interpret rather the factors

around the message to evolve the understanding of the message. (Hollensen 2012, 152-153.)

Market Access

Although the demand for firms that go abroad is constantly larger, the risks are also greater. The companies may encounter unsteady currencies or governments, restrictive regulations and policies, and notable trade barriers. Governments may prescribe high tariff levels and quotas, or documentation and import regulations. (Kotler et al. 2018, 569.) Local standards and practices and other non-tariff barriers differ in different countries. Other issues that may be taken into account are patents and trademark protection, and legal considerations for investment, taxation, repatriation, employment, code of laws, and so on. (Scarborough et al. 2009, 411.)

3.3 International Market Selection Process

The international market selection process is the main concept of our thesis. Identifying the most potential market to enter is significant for many reasons. Particularly in the early stages of globalization, it can be a vital concern of success or failure. (Hollensen 2012, 171.) This chapter presents the international market selection process for SMEs (Small and medium-sized enterprises) and the market segmentation model to find the potential target markets.

As stated before, we will formulate a country screening matrix for a relevant country screening process. By comparing and processing the results, it aims to find out the most potential target market for the case company to enter. Based on the wishes of the case company's business owner, the authors will select the most relevant criterion to observe when comparing and selecting a target market.

International market selection: SME's (Small and medium-sized enterprises)

According to Hollensen (2012, 171), the international market selection of small and medium-sized enterprises is built on the following criteria (Johanson and Vahlne 1977, according to Hollensen 2012, 171.)

- *Low psychic distance*: low riskiness about distant markets and low recognized complexity of obtaining information about them. Defined as dissimilarities in language, political system, culture, level of education, and -industrial development.
- *Low cultural distance*: low perceived dissimilarities between the home and target cultures (typically considered as part of psychic distance.)

- *Low geographic distance* (Hollensen 2012, 171.)

The company's choice of foreign markets can be divided by possible determinants. Part of the determinants deliberates the company itself and another part the market environment. The figure below demonstrates the partition between different determinants.



Figure 7. Potential determinants of the firms' choice of foreign markets (adapted from Hollensen 2012, 172)

The firm's determinant part consists of the company's experience, resources, and nature of the business. The environmental part concentrates on the industry structure and degree of the internationalization of the market.

Market-screening model

The previous figure presented an outline model for international market selection. The following Figure 8 illustrates in more detail the international market segmentation. It shows the process of narrowing down and choosing a firm's potential markets. Narrowing down potential markets contains four steps. Steps 1 and 2 aims to define criteria and develop segments. Step 3 includes the screening of segments, different markets, and countries. Step 4 consists of micro-segmentation that screens the narrowed segments further to find the potential target markets.

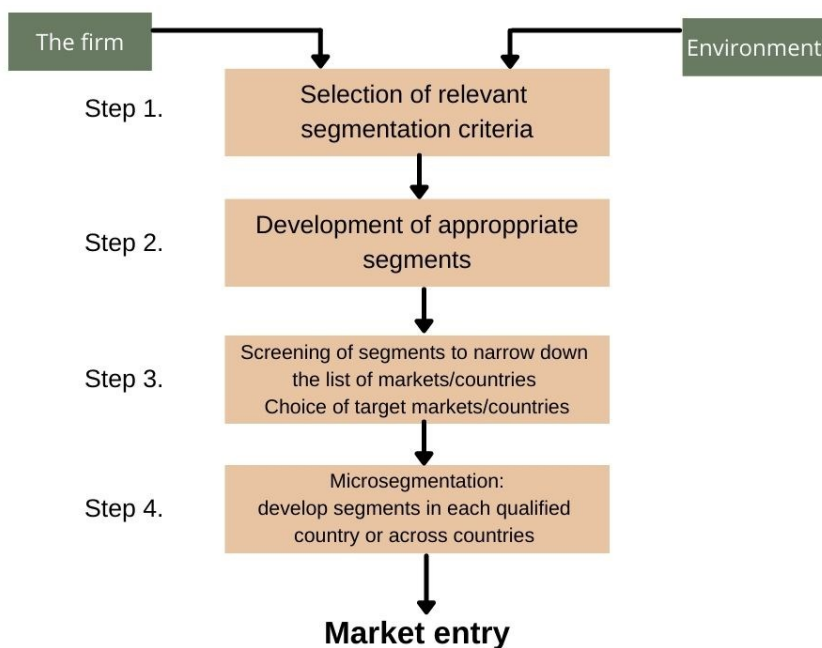


Figure 8. International market segmentation (adapted from Hollensen 2012, 173)

Steps 1 and 2: Defining criteria and developing segments

The global markets can be segmented roughly into two stages by characteristics. General characteristics are somewhat easier to measure because the accessibility of the information is higher. These characteristics include factors such as geographic location, language, economy, and education. Specific characteristics hold a lower degree of measurability. Specific characteristics cover aspects like cultural characteristics, lifestyle, personality, and attitudes. (Hollensen 2012, 174.) Figure 9 below presents the basis of international market segmentation.

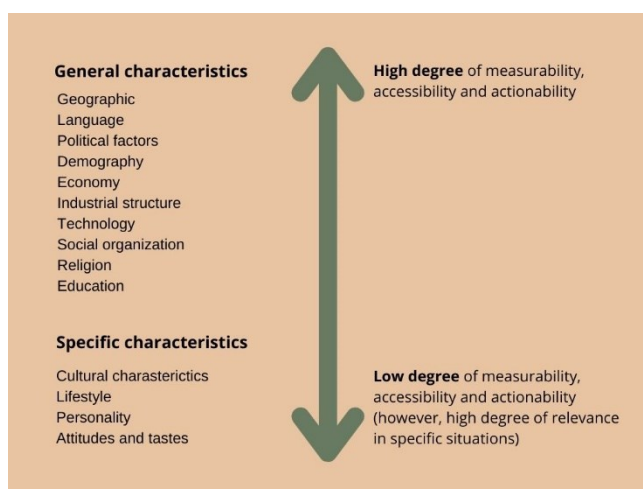


Figure 9. The basis of international segmentation (adapted from Hollensen 2012, 174)

Step 3: Screening of segments (countries and markets)

This screening process step can be divided into two parts: Preliminary screening and fine-grained screening.

In preliminary screening markets or countries are screened principally in line with external screening criteria (the state of the market). The limited internal resources (for example financial resources) must be considered, especially in the case of SMEs. This helps to exclude many countries as potential markets beforehand. The number of markets is decreased by macro-oriented methods based on measures like restrictions in the export, gross national product, government spending as a percentage of GNP, and other things. (Hollensen 2012, 177.)

Fine-grained screening is where the company's competitive power and special competencies in the different markets can be considered. Fine-grained screening is an effective support to the application of the market attractiveness and competitive strength in the best opportunity target countries. (Hollensen 2012, 178.)

Step 4: Microsegmentation

When the primary markets have been recognized, micro segmentations' purpose is to evolve subsegments in each qualified country and throughout the countries. Markets can be segmented with different variables such as lifestyles, geography, buyer behavior, demographic or economic factors. (Hollensen 2012, 180.)

This is the stage where, for example, analyses of the demand potential of a company's products within the target customer group in a given market are considered.

3.4 Summary of the Market Screening Process

The aim of this research is not to conduct a complete market selection process. As stated before, the purpose is to compare two possible target markets the business owner have chosen. Through screening, the authors' objective is to find out the most potential target country for the case company to enter.

Figure 10 below demonstrates the international market segmentation and screening process. The process goes through segmentation towards screening of single markets until the potential target market is reached.

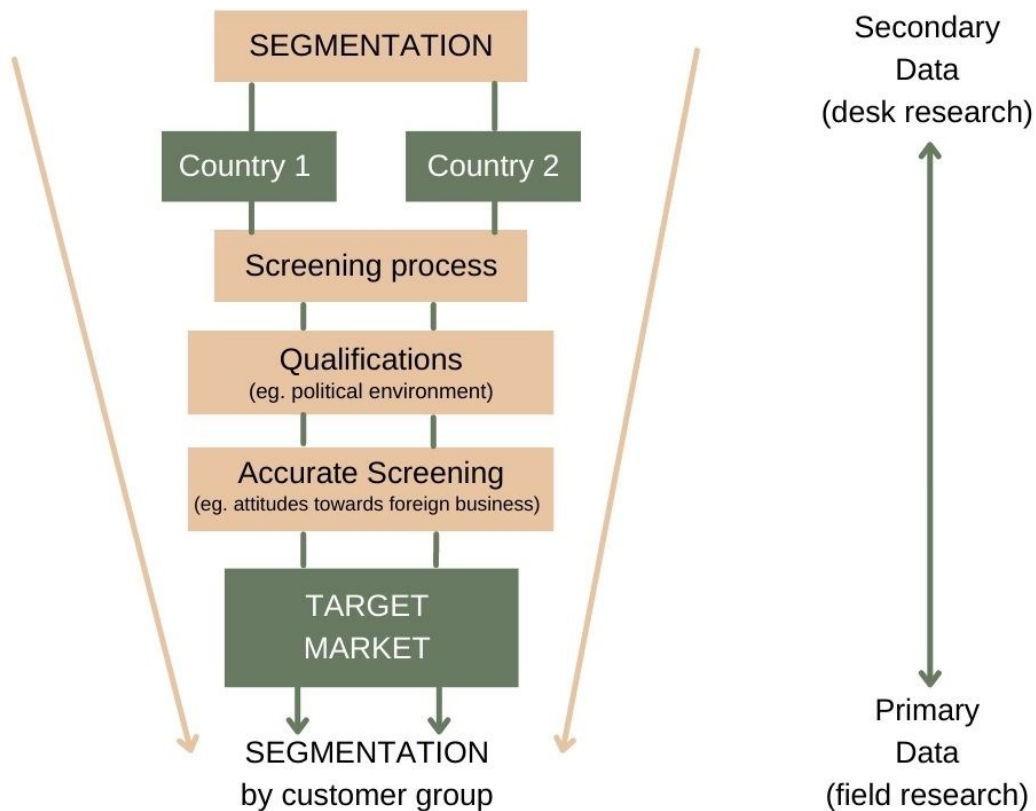


Figure 10. The international market segmentation/screening process (adapted from Hollensen 2012,183)

The market selection process is explained in this section to give a basic understanding of the theories and steps needed when deciding which markets to enter. It helps to continue to the empirical part and comprehend the intention of the market research.

4 Case company Studio SAVON

4.1 Case company introduction

Studio SAVON is a small Finnish company owned by Kati Mouhu who has 17-years of experience in makeup artistry, hairdressing, and product development. SAVON was founded back in 2008 in Lahti, Finland, and was originally a local hair salon. The company name SAVON comes from the owner's hometown Savonlinna and the word soap in the French language. (Mouhu 2021.)

In January 2021, Studio SAVON had €311,000 in sales and €48,000 in profit, the profit margin being 15.3%. The company does not currently employ anyone outside of its owner but uses freelancers for branding, social media marketing, website development, etc. (Fonecta 2021.)

Throughout the years the owner gained more knowledge in the beauty industry and SAVON started changing into a wholesome beauty brand. Today, Studio SAVON is completely run online and has no face-to-face operations. (Studio SAVON 2021.)

The whole business idea of SAVON is to provide beauty to as many people as possible. SAVON offers tips and tricks on how to gain confidence and luxury in one's everyday life. Through online beauty school and a strong social media presence, the company has won over a large following and customer base. (Mouhu 2021.) Studio SAVON's customer segment is women between the ages of 30- to 60-year-olds divided into three different groups.

The first customer group is women between the age of 30- to 35-year-olds that do not necessarily know what they want or need and would want Studio SAVON's help in understanding their beauty needs. The second age group is women between the age of 40- to 45-year-olds that want to put the effort into their personal hair care and beauty, but do not know how or what products to do it with. The third and the last customer segment is over 50-year-olds that want to explore the online beauty markets but want to buy from a company that they trust and from pages that they know how to use. For this third customer segment, it is also highly important that the product descriptions are accurate and descriptive enough. (Mouhu 2021.)

Studio SAVON's customer groups are great from the sales point of view, when you look at the statistics of the European women between the ages of 40-year olds to the 60+ year-olds buying at least twice as much cosmetics per year, compared to the younger age groups. (Cosmetics Europe with support from Risk & Policy Analysts Ltd (RPA), 10)

Studio SAVON has three main product categories: hair, skincare, and makeup. In all these categories, there is a minimum of products available to help customers to find joy in achieving beauty with as little as possible. SAVON wants to be a part of the environmentally friendly movement and promotes a customer to only buy for a need. Some of the products in their selection are also natural skincare and makeup products without any harsh chemicals. (Studio SAVON 2021.)

The uniqueness of Studio SAVON comes from its owner Kati's personality and her set of skills including beauty industry knowledge, photography, and impeccable customer care skills, just to mention a few. The company's goal is to go international and bring Nordic beauty available for people around to world. (Mouhu 2021.)

4.2 Studio SAVON's Mission

The mission of Studio SAVON in 2021 is to *strengthen our customer's confidence and encourage them to be brave enough to enjoy their own beauty* (Mouhu 2021). Studio SAVON focuses on teaching the customers how to use different beauty products that they have purchased from studiosavon.fi. The company's mission is to help everyone find their own beauty through minimal use of beauty products.

Mission statement analysis

With its mission statement Studio SAVON is encouraging the customers to go back to beauty basics. They tackle the ongoing trend of natural beauty and everyone enchasing their own beauty.



Image 2. Studio SAVON models are their real customers (Studiosavon.fi 2021)

All the models on the Studio SAVON website studiosavon.fi are real customers of the company and their appearance has not been photoshopped. By not doing any kind of picture or

video editing to their models, they encourage their customers to think that there is not just one kind of beauty but that everyone has beauty in their own way. (Mouhu 2021.)

Reports and data (2021) analyze in their *Top trends that will shape the cosmetics and beauty market in 2021*-article that because of the pandemic, one of the most popular beauty trends is going to be the *no-makeup*-makeup. People are increasingly going back to the basics and allowing their natural skin structure to shine. (Reports and data 2021.) This trend is in Studio SAVON's best interest since the whole business idea is to emphasize women's natural beauty and not cover it with excess makeup.

4.3 Vision Statement

The vision of Studio SAVON is to “*make classic and sustainable beauty accessible for everyone*” (Mouhu 2021). Studio SAVON launched its makeup school concept back in November 2021 (Studio SAVON 2021). The popular makeup school concept is something that the owner Kati Mouhu started years ago in the beauty salon in Lahti. Now that the company moved its operations strictly online, it was a natural step to move the popular makeup school concept online as well.



Image 3. Studio SAVON owner Kati Mouhu (Studiosavon.fi 2021)

Vision Statement Analysis

According to the owner Kati Mouhu (2021), the makeup school concept is just the beginning. The next step for Studio SAVON is to do a hair school and maybe even a skincare school. The whole idea of these online schools is to teach the customer how to use the products

that they have bought from Studio SAVON. *“Everyone can sell beauty products online so we need to make sure to differentiate ourselves from the enormous competition.”* (Mouhu 2021.) Giving the customers more value through the makeup school will engage them and make them want to come back and keep buying the same products over and over again instead of going elsewhere.

Studio SAVON's vision supports the goal of going international and providing something different to the foreign markets. To make the vision possible, Studio SAVON will have to produce all its material either in English or in the language of the chosen country. The hardest part in translating the concept is to make sure the delivery is the same and as inspiring as it is in Finnish.

4.4 Strategy

Studio SAVON's strategy is to be the professional source of information in beauty (Mouhu 2021). Their goal is to show the expertise that the owner has gotten through working in the beauty industry for years. Showing the customer that beauty is achievable for everyone, at any age and anywhere is highly important. For Studio SAVON to achieve its goal, the owner Kati Mouhu uses her experience and humble customer-based communication style on all the platforms of the company.

Currently, the primary source of information on the products is on the website studiosavon.fi. The material on how to use these products in everyday life is on social media and specifically on Instagram. The Studio SAVON Instagram page is full of tutorials and customer references on all the different products that are on sale. Most of the customers of studiosavon.fi currently come from Instagram, after being inspired by the owner or the real customer's references.

The strategy in choosing which products to sell is based on the idea of premium quality (Mouhu 2021). All the products that the company decides to sell must be tested by real customers and then approved by the owner Kati Mouhu.

All the products we sell have to somehow be a solution to a problem. Let's say the customer has flat hair and wants more volume, the product we have for that really needs to deliver and work in bringing volume to the hair. Nothing we sell has been chosen based on a pretty package or a good smell. (Mouhu 2021.)

And the company makes sure to let the customers know this. Knowing the decision-making process behind the product selection builds trust within customers and makes them want to be a part of this problem-solving beauty company.

One of the most appreciated features among the customers has been the customer profile section on the Studio SAVON website. All the customer favorites and for example makeup shades have been stored in the system and the customer can literally keep ordering the same products repeatedly without any questions. Kati Mouhu (2021) says that this feature not only is great customer service but also eases the load of the customer service that answers these shade and product questions. (Mouhu 2021.) Another service that goes a long way is the shopping cart service. After the customer contacts the company about product selection, they are given a URL code that gives them all the recommended products straight in their shopping cart. The products chosen for them will also be saved in the customer system so that the customer can go back and see what products suit them and were chosen personally for them.

With all these actions, Studio SAVON's goal is to keep its customers as long as possible and make them loyal. Instead of constantly finding new customers, Studio SAVON tries to have premium products and premium customer service so that the existing customers will stay and continue buying their favorite products over and over again. Saving the customer's information on the system will give the customers the convenience they need to stay with the company instead of going to the competitors.

Studio SAVON's strategy in choosing to go international is to first grow domestically for 3 to 5 years before entering new markets. In our thesis, we were guided by the business owner Kati Mouhu to compare the differences between the German and Swedish markets. According to Mouhu (2021), these two foreign markets are relatable and understandable to her based on her experience and knowledge of them. In Mouhu's opinion, the hair and skin types in these two target countries are the closest to Finland's. She thinks that there might be a market for the classical and Scandinavian beauty that Studio SAVON represents. (Mouhu 2021.)

5 Foreign market research and selection process

To help us in finding the right market for Studio SAVON to enter we decided to use the Country Screening Matrix. We have chosen these market factors considering their relevance to Studio SAVON's business. The original Country Screening Matrix includes factors such as climate and weather variations and natural resources that are irrelevant for the case company.

The following factors in Figure 11 below are rated between the scale of 0 (lowest) to 1 (highest). Based on the ratings, we will be able to determine which country out of Sweden or Germany has the highest score in the different environments. The original Scarborough's Country Screening Matrix grades the countries from 1 (lowest) to 5 (highest). (Scarborough et al. 2009, 411.) As we are only comparing two countries, we chose to give one point to the country that we think would fit the case company better and zero points to the other.

A Country Screening Matrix	
Grading the factors from 0 to 1.	
Market Factor	Sweden Germany
Demographic/ Physical Environment	
Population size, growth, density	
Product-significant demographics (women)	
Communication network	
Political Environment	
System of government	
Ideological orientation	
Attitudes toward foreign business	
Economic Environment	
Economic growth	
Role of foreign trade in economy	
Currency: inflation rate, availability, controls, stability of exchange rate	
Disposable income and expenditure patterns	
Social/ Cultural Environment	
Literacy rate, educational level	
Existence of middle class	
Similarities and differences in relation to home market	
Language and other cultural considerations	
Market Access	
Documentation and import regulations	
Legal considerations for investment, taxation, repatriation, employment, code of laws	

Figure 11. Country Screening Matrix (adapted from Scarborough et al. 2009, 411)

5.1 Demographic and Physical Environment

In this chapter, we will compare the differences in demographic and physical environment between the two target countries.

Population size, growth, and density

According to Worldometer (2021), the current population of Germany is 84.1 million and the density of the population is 240/km². German population's growth has been approximately 0.5% each year for the past five years. Despite the growth in the past few years, it is estimated that the population will start to decline soon by 0.1% each year. (Worldometer 2021.)

According to Worldometer (2021), the current population of Sweden is 10.2 million and the density of the population is 25/km². Sweden's population growth has been approximately 0.7% each year for the past years. Sweden's population growth seems to be declining but there is no sign of it completely stopping or decreasing. (Worldometer 2021.)

Product-significant demographics

As Studio SAVON is a beauty, haircare, and makeup-oriented company, most if not all their customers are women and between the ages of 30- to 60-year-olds. It is important to understand the size of the targeted customer group within the target market.

According to Trading Economics (2021) in October 2021, 49.91% of Sweden's population are women (Trading Economics 2021). More specifically, Sweden has a little over 5 million women and out of those 5 million women, around 3 million are between the ages of 15- to 64-year-olds (United Nations 2021.)

According to Trading Economics (2021) in 2020, 50.57% of Germany's population were women (Trading Economics). Again, more specifically, Germany has roughly over 42 million women and out of those 42 million women, around 27 million are between the ages of 15- to 64-year-olds (United Nations 2021.)

Communication Network

The broadband internet expansion in Sweden is around the EU average. Roughly 95% of all residents have access to the Internet. About 40% have a fast Internet connection. (Worlddata 2021.) In the ranking of social networks, Facebook had the largest market share in Sweden in May 2021. Facebook made up almost 79% of the total market. Instagram ranked second with 6%. The usage of social networks has increased in Sweden being 72% of all the internet users in 2019. The business to Consumer (B2C) eCommerce market in Sweden accounted for 10 billion USD in 2019. (Statista 2021.)

In Germany, about 90% of all residents have access to the Internet. Around 43% have their own fast connection. (Worlddata 2021.) In 2020, the most popular social media platform in Germany was WhatsApp, which covered 87% of all internet users. YouTube took second place with a 69% share. Facebook followed with 63%. (Statista 2021.)

5.2 Political Environment

In this chapter, we will compare the differences in political environment between the two target countries.

System on Government

For Studio SAVON to go international in either Germany or Sweden, the government system does not play a major part in the business operations. As shipping of the products for Studio SAVON will happen through Axla Logistics in Finland. (Mouhu 2021.)

The system of government in Sweden is a constitutional monarchy. Even though King Carl XVI Gustaf is Sweden's non-political head of state, the parliament is the one making decisions and the government implements them. (Swedish government 2021.)

The system of government in Germany is a parliamentary democracy. The head of state is President Frank-Walter Steinmeier and the federal counselor is Olaf Scholz. Germany is led by the counselor of its parliament (Bundestag). (German Government 2021.)

Ideological Orientation

Openness and transparency are vital parts of Swedish democracy. Despite Sweden being a constitutional monarchy, it brides in its citizens' freedom in seeking information, organizing demonstrations, forming political parties, and practicing their religion. (Swedish government 2021.)

According to Expatrio (2021), the German culture is to a large extent all about reason and logic. Germany is a very structured country, and everyone is expected to follow the order of things. Germany being a very historic country in Europe, it holds a lot of power in areas such as politics and art culture. (Expatrio 2021.)

Attitudes toward Foreign Business

To make Studio SAVON's success internationally possible it needs to enter a market that has an open attitude toward foreign businesses. The target country's openness towards foreign businesses does impact the business's success tremendously.

According to the Swedish government's website, Sweden and its economy have an open and liberal approach to trade and doing business with foreign companies (Swedish government 2021). Sweden is also one of the top ten most competitive countries in the world and technologically extremely advanced (World Economic Forum 2021).

Foreign businesses often find entering the German markets challenging due to the attitudes of the local consumers and businesses. The German customers expect conclusive and independent evidence that whatever product presented to them is of benefit and gives a solution to a certain problem. (Business development Germany 2021.) Regardless of these challenges, Germany is ranked as 20th in the world by the World Bank in openness toward foreign business (World Business Culture 2021).

5.3 Economic Environment

In this chapter, we will compare the differences in economic environment between the two target countries.

Economic growth

According to the latest press release from the Swedish Ministry of Finance, Sweden is expected to show strong economic growth this year and the next. One of the drivers for the potential of strong economic growth is the growing household consumption seen among Swedish consumers. (Ministry of Finance 2021.)

Germany has had consistent economic growth in recent years and is a global economic driving force. The German government is specifically supportive of small businesses and wants to present the message of the size of the business not being a big factor, but that all the businesses have an impact on the economic growth. German economic growth is estimated to potentially reach up to 2 percent in the next two years. (Business Development Germany 2021.)

Role of foreign trade in economy

According to the International Trade Administration (2021), Sweden constantly ranks in the top 10 countries for its foreign business climate (International Trade Administration 2021). This makes Sweden a great starting point for companies that want to expand into the Nordics and/or Baltics.

Germany is the world's third-largest in both importing and in exporting goods. The yearly amount of goods imported to the country is worth over 1 billion euros. Most of Germany's

imported goods and services come from its primary trade partner European Union. (Santander 2021.) Germany is also the biggest exporting country in Europe (alongside France) for cosmetics and holds together with France a 50% market share of all the cosmetics exports. (Cosmetics Europe with support from Risk & Policy Analysts Ltd (RPA), 7)

Currency

The official currency of Sweden is Swedish Krona, which means literally “crown” in the Swedish language (Trading Economics 2021). According to the World Bank (2021), the inflation rate in Sweden in 2020 was 0.5%, being the exact same as Germany’s (World Bank 2021). According to the Deutsche Bundesbank, since the tax relief measures have ended inflation will be higher than it was the following year (Deutsche Bundesbank 2021).

As Germany’s currency is the euro just like Finland’s, Studio SAVON does not have to consider the stability of the exchange rate in case of entering the German market.

Disposable income and expenditure patterns

Sweden’s disposable personal income as of today is at its highest since 2018 and is now SEK69.2 million that is 69.1 million in euros. Disposable personal income in Germany is currently at €514 billion compared to Sweden’s SEK69.2 million. Interestingly, although the disposable personal income is higher in Germany than in Sweden right now, the development there has been going down within the past six months compared to Sweden’s numbers going up. Germany’s disposable personal income has gone down by €6 billion, compared to Sweden’s rise of SEK85.1 million. (Trading Economics 2021.)

Consumer spending in Sweden has expanded within the past six months (November 2021) and is now SEK56.9 million compared to SEK56.3 million that it was back in May 2021. In Germany, according to Trading Economics, consumer spending is now at a level of €395 billion and has gone up by €12 billion within the past six months. To compare, the current consumer spending level in Finland is €29.6 million. (Trading Economics 2021.)

In the recent research done by Eurostat (2021), 87% of German consumers are buying goods online. The same number for Sweden is 86%. (Eurostat 2021.) Germany is the biggest beauty industry market in Europe. From the German cosmetics market, hair, skin, and face care products are the most popular ones with the biggest market share. The cosmetics market in Germany is expected to keep growing in the following years. (Mordor Intelligence 2021.) Out of all the cosmetics consumers in Germany, 31% of them bought their cosmetics online (Cosmetics Europe with support from Risk & Policy Analysts Ltd (RPA), 31).

The beauty and personal care market revenue adds up to €1.7 billion in Sweden 2021. From the beauty and personal care market, 39.8% of the total profit is created through online sales. (Statista 2021.)

5.4 Social and Cultural Environment

In this chapter, we will compare the differences in social and cultural environment between the two target countries.

Literacy rate, educational level

Swedish tax-financed school system is at least ten years in length and children go to school when they turn 6-year-olds (Swedish government 2021). The literacy rate in Sweden was 99% back in 2019 (UNESCO 2021).

In Germany, according to UNESCO (2021), the literacy rate is at 99% and compulsory education lasts 13 years from 6 to 18 year-olds (UNESCO 2021).

Sweden and Germany's education levels and literacy rates are remarkably like Finland's. Finland's literacy rate is also 99% and education is compulsory from age 6 to the age of 15 (UNESCO 2021).

Existence of middle class

The Organisation for Economic Co-operation and Development (2009) explains that Sweden has an exceptionally high percentage of middle-class adults. In Sweden, 79% of its people have an income between 67% and 150% of the median income, making them middle-class citizens (OECD 2009).

In Germany, the middle-class share ranges between 72% and 75%, being the same as Finland's (Kochhar 2017, 9). Being in the middle-class of Germany means having a median disposable income of €40,000 to €41,000 in a year.

Similarities and differences in relation to the home market

Even though Germany and Finland share the same currency, according to the Deutsche Bundesbank (2021), Germany's prices are higher than they are on average in Europe (Deutsche Bundesbank 2021). On the contrary, Statistics Finland (2021) says that Sweden is 9% more affordable than Finland (Statistics Finland 2021).

According to Mouhu (2021), women from Sweden and Germany both have similar skin tones and hair types that Finnish women have. Haircare, skincare, and makeup lines that Studio SAVON carries should all fit the targeted market well. (Mouhu 2021.)

Sweden as a country is very open to online shopping outside of country borders. According to the study by HST Groep (2020), Scandinavian countries like Sweden and Finland are more open to purchasing goods online and trust online stores outside of their own country more than other European countries do. (HST Groep 2020.)

Language and other cultural considerations

The official language of Sweden is Swedish but the official business language in Sweden is English, which makes it easy for businesses to enter the country (International Trade Administration 2021).

The official language of Germany is German but just as with Sweden, the official international business language is English. When selling in Germany, it is important to make sure all the communication materials are in German and with as good of German translations as possible (Institution of Export and International Trade 2018).

5.5 Market Access

In this chapter, we will compare the differences in market access between the two target countries.

Documentation and import regulations

Since Studio SAVON is importing goods from another EU country to another, there are no importing regulations or extra taxes to be paid. According to the official customs office of Sweden, Tullverket (2021), when a person from Sweden orders goods from another EU country, there are no customs duties or other taxes to be paid by the customer (Tullverket 2021).

Axla-Logistics will be handling all the documentation needed for Studio SAVON to enter either the Swedish or German markets (Mouhu 2021). Axla-Logistics has agreements with the main carriers in both Sweden and Germany, such as Deutsche Post and Postnord (Axla-Logistics 2021).

Legal considerations for investment, taxation, repatriation, employment, code of laws

Since Studio SAVON is importing its goods from an EU country to another no export declaration is needed. In case the yearly value of the exports goes over a certain limit, Finland's customs office will ask the company to provide an Intrastat declaration. (Tulli 2021.) This is something that Axla-Logistics will handle for Studio SAVON. Other legal exporting factors like taxation do not need to be considered in Studio SAVON's case since the company is

selling products within the European Union (Vero 2021). At least at the beginning of internationalization, Studio SAVON is not planning on hiring anyone directly from another country so in this thesis, we have not taken employment or code of laws into consideration (Mouhu 2021).

5.6 Country Screening Matrix conclusions

In this chapter, we present our findings on all the categories mentioned above. The market factors that are analyzed here are the ones with the most value to the case company Studio SAVON. The country screening matrix with all its factors and their scores is presented below. Here we compare different environments and score them based on their attractiveness.

The following table presents the scoring of the screening factors. It shows that these two target countries' business environments are like each other's. Next, we are analyzing each of the environments more specifically.

A Country Screening Matrix	
Grading the factors from 0 to 1.	
Market Factor	Sweden Germany
Demographic/ Physical Environment	
Population size, growth, density	0 1
Product-significant demographics (women)	0 1
Communication network	1 0
Political Environment	
System of government	1 1
Ideological orientation	1 0
Attitudes toward foreign business	0 1
Economic Environment	
Economic growth	1 0
Role of foreign trade in economy	1 1
Currency: inflation rate, availability, controls, stability of exchange rate	0 1
Disposable income and expenditure patterns	1 0
Social/ Cultural Environment	
Literacy rate, educational level	1 1
Existence of middle class	1 0
Similarities and differences in relation to home market	0 1
Language and other cultural considerations	1 0
Market Access	
Documentation and import regulations	1 1
Legal considerations for investment, taxation, repatriation, employment, code of laws	1 1
Overall Score	11 10

Table 3. Scoring of the screening factors

In the demographic and physical environment, we ranked Germany higher. The population and density of Germany are significantly higher than Sweden's. There is no major difference

in the growth of the population between Sweden and Germany. By only looking at the amount of population as a factor, Germany in Studio SAVON's point of view has more potential customers. Since there is more population in Germany, there are also more potential customers in the targeted demographic. In the category of the social network, both countries have good access to the internet. Sweden, on the other hand, is more comfortable in using social media and specifically Facebook and Instagram, which are both important sales avenues for Studio SAVON.

As both Sweden and Germany are part of the EU, there are no significant differences between the two countries and their ideological environments. Sweden is overall more open of a culture and Germany more structured. When looking at the attitudes toward foreign businesses Germany scored higher. German customers are seeking solutions to a problem and whatever goods they are purchasing, must solve an issue. German customers fit well on Studio SAVON's strategy of only selling for a need and making sure the customers know how the products work for them.

In the environment of economic growth, both Sweden and Germany are expected to have rapid growth in the near future. However, Sweden's household consumption is on the rise and Germany's has been declining. This would mean that the potential customers in Sweden are more likely to use their money on new products and a new company entering the market. Both countries ranked high in importing of goods and attitudes toward foreign businesses. Germany got a score for it having the same currency as Finland and both countries have equal inflation. Even though Germany's disposable income is higher, it has been going down by the billions in the recent past. This combined with the higher prices in Germany in general compared to the rest of the EU signed the deal for Sweden to get ranked higher in this category.

Sweden's disposable personal income has been on the rise for the past six months. Even though Germany is the highest-ranked country in Europe in the beauty industry sales, it also has the biggest competition in the market. When comparing the online beauty markets, even though Germany has a larger volume of sales, Sweden's share of specifically online cosmetics sales is larger. Germany is also the biggest beauty industry exporter in Europe and based on these facts, we decided to give our point to Sweden in this section.

The literacy rate and educational level in Sweden and Germany are both like Finland's and for that reason don't play a big part in the internationalization process. Since most of Studio SAVON's customers are middle-class women, Sweden got a score for the existence of the middle-class section. Sweden has an exceptionally high percentage of 79% of middle-class citizens.

When looking into the similarities and differences between the Swedish and German markets compared to the Finnish markets, we gave our point to Germany. Mouhu (2021) mentioned that both Sweden and Germany have very similar skin tones and hair types compared to Finland, so that did not divide the two countries (Mouhu 2021). Germany got a score from this category strictly based on the market price in the country. Products are sold with a much higher markup in Germany than they are in Finland. Sweden having even cheaper prices than Finland would make it almost impossible for Studio SAVON to make a profit from their sales in the country.

Language could be a big factor when a company is going international. Since neither of the target countries has the same language as Finland, Studio SAVON has to enter the foreign markets with English or their native language. As Studio SAVON is a small company, it is going to be easier to enter a new country first by using English as a business language. Sweden is highly accepting towards foreign businesses and their official business language is English. This would make entering Swedish markets easier for Studio SAVON. In the interview, the business owner Kati Mouhu (2021) mentioned that she does realize that she will have to translate her online store into another language (Mouhu 2021). But entering the new markets first in English would be possible rather in Sweden.

Table 4 below illustrates the market factors with the highest importance for Studio SAVON's pre-internationalization process.

Factors With the Highest Importance		
<small>Grading the factors from 0 to 1.</small>		
Market Factor	Sweden	Germany
Demographic/ Physical Environment		
Product-significant demographics (women)	0	1
Communication network	1	0
Political Environment		
Attitudes toward foreign business	0	1
Economic Environment		
Economic growth	1	0
Currency: inflation rate, availability, controls, stability of exchange rate	0	1
Disposable income and expenditure patterns	1	0
Social/ Cultural Environment		
Existence of middle class	1	0
Similarities and differences in relation to home market	0	1
Language and other cultural considerations	1	0
Overall Score	5	4

Table 4. Market factors with the highest importance

We conducted this more accurate screening of the two target countries since the country screening matrix itself was more general. We wanted to give more weight to these factors

in Table 4 above to get more differences between the two very similar beauty markets. In the country screening matrix, from the factors with the highest importance, Sweden scored five points and Germany four. In the end, we found Sweden to be a slightly more attractive market for Studio SAVON to enter.

6 Conclusion

In this conclusions chapter, we are presenting answers to our main research question and its sub-questions. We also report the key findings to the research questions. The reliability and validity of the thesis are assessed. In the end, we are giving suggestions to Studio SAVON on how to proceed based on our findings.

6.1 Answers for Research Questions

This thesis aims to find the right target market for Studio SAVON to enter. With first answering to the sub-questions the main question *What is the potential of the Swedish and German market and which market to enter* is answered.

Sub-questions

What are the challenges and opportunities of the two possible target markets?

The domestic market is fairly small and expanding within the Finnish markets is limited. In order for Studio SAVON to grow, it needs to go outside of the country's borders. Sweden and Germany both as target markets are similar to Finland and compared to each other. The beauty market in both target countries is large and the possibilities to find the specific niche customer group from each of the countries is high.

Both target countries are heavy users of cosmetics and currently, about a third of the sales come through online shopping. The online beauty market keeps growing rapidly and there is space for new companies to enter. Germany is one of the top two cosmetics selling countries in Europe and the high competition combined with the lower number of online sales might be a challenge for Studio SAVON. The markets in Sweden are very open to new and foreign businesses but are significantly smaller compared to Germany.

The language might become an issue for a small new company that is trying to enter the beauty markets. Even though the business language in both target countries is English.

What are the key factors to consider in the market screening process?

The theories regarding the international market selection process led to the conclusion that the key selection criteria can harshly be divided into two: General characteristics and specific characteristics. General characteristics, that we have included in both our theory- and market research parts, cover selection criteria elements such as geographic factors, language, political factors, demography, economy, and education. Specific characteristics have a high degree of relevance in additional information when analyzing differences

between market environments. These differences are harder to measure. In this thesis, specific characteristics included for example cultural factors and target customer behavior.

Main question

What is the potential of the Swedish and German market and which market to enter?

As a result of the market screening process, we have chosen Sweden as the most potential target market for the case company to enter. When comparing the two markets and countries we have made the conclusion of Sweden's beauty markets being a better fit for Studio SAVON as its current state.

Sweden is taking part in the strong trend of growing beauty markets. Their share of online sales of cosmetics is already at a high percentage and it keeps growing. The online network channels in Sweden are very close to Finland's and their usage of social media like Facebook and Instagram is high. One of the main marketing channels for Studio SAVON is social media and Sweden's large usage of it is a great advantage when trying to enter the markets. The social media usage and share of online beauty purchases were the main reasons for us to pick Sweden as a suggested target country.

Compared to Germany's declining household consumption, Sweden's numbers have been going up. Although the total amount of money used in cosmetics in Germany is higher due to the larger population the personal yearly average of cosmetics purchases is higher in Sweden. If looking at the targeted customer group, the amount of middle class and aging of the population are numbers to look at. In Sweden, there is an exceptionally high share of the middle class. Both Sweden and Germany have a trend of the aging of the population. If you combine the two factors, Sweden is the most favorable one for Studio SAVON.

The openness and attitude towards foreign businesses are at a high level in Sweden and it would potentially be a welcoming market to enter. Germany is not reluctant towards foreign businesses but due to its highly structured business culture and rule-oriented atmosphere, it would be a more difficult environment for a new business.

Research Questions	Key Findings
What are the challenges and opportunities of the two possible target markets?	<ul style="list-style-type: none"> • Similarity to home market • Purchasing behaviour • Purchasing channels • Beauty market size • Language
What are the key factors to consider in the market screening process?	<p>Key selection criteria</p> <ul style="list-style-type: none"> • General Characteristics • Specific Characteristics
What is the potential of the Swedish and German market and which market to enter?	<ul style="list-style-type: none"> • Potential of the targeted customer group (similarity to home market) • Attitude toward foreign business • Growing online beauty market

Figure 12. Research questions and key findings

6.2 Validity and Reliability

The purpose of this thesis was to investigate two possible target markets to answer the research question and the sub-questions. The questions were answered precisely according to the results of our study.

In this study, we used primary and secondary sources. The primary data was accumulated from the case company's business owner interview and statements. The secondary data exploited in this study was utilized from reliable sources such as noted literature and both target countries' government websites and statistics. The empirical part leaned on broadly acknowledged theories.

Considering all the factors mentioned above, the study is valid and reliable.

6.3 Suggestions on Further Research

This thesis aimed to find the potential target market between Sweden and Germany for the case company to enter. The study focused on the market screening process and comparing the markets the business owner had chosen. When entering a foreign market, the case company needs to conduct additional research on the beauty market's current state in the targeted country. Because of the constant changes in the market environments like the

share of online sales and behavior of the target customer groups, further research needs to be conducted.

When internationalization becomes timely for the case company, we suggest making precise screening of the customer target groups. To identify the most potential market by preliminary screening, the main customer groups' behavior should be analyzed, before moving forward with the global marketing process.

7 Summary

The purpose of this thesis was to analyze possible target markets for the case company to enter and discover what kind of actions are needed to make the successful internationalization process. The main research question processed *what is the potential of the Swedish and German market and which market to enter*. The sub-questions' objective was to support answering the main question. *What are the challenges and opportunities of the two possible target markets* and *What are the key factors to consider in the market screening process*. To be able to answer all these research questions, this thesis included empirical research that consisted of a deductive research approach and used both quantitative and qualitative research methods. In this study, the research data was collected from primary and secondary sources.

The first chapter presented the research background, thesis objectives, and research questions. It continued with the limitations and theoretical framework. After that, there was the literature review, research methodology, data collection and thesis structure explained.

The second chapter introduced the internationalization process theory. It explained the reasons for globalization and the steps of the process of developing a global marketing plan. In this chapter, we also included commonly used internationalization strategies.

The objective of the third chapter was to help understand the international market selection process from the theory point of view. It also aimed to explain the steps needed to screen the markets when deciding which market to enter.

Case company introduction and Studio SAVON's mission, vision, and strategy were presented in chapter four. Both mission and vision were analyzed from the internationalization point of view.

In the fifth chapter of the thesis, the key market factors were explained and analyzed. This chapter covered the main objective of this thesis that was the market selection process. Chapter five was the empirical part of the study and was the main research of this thesis.

The final chapter concluded this thesis. It answered the main research question and the subquestions. In addition, it discussed the validity and reliability of the study. Lastly, suggestions for further research were introduced.

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APPENDICES

APPENDIX 1: Interview

1. Why and when do you want to internationalize? What are the motives?
2. Why did you choose Sweden and Germany to be the possible target markets?
3. In which language do you intend to operate?
4. Are you going to internationalize the whole concept or just some part of it?
5. What is the status of brands in the destination countries?
6. Where does your client come from?
7. The brand is strongly personalized with you and business is based on it. How is the business transferred abroad?
8. Will the other country have its own social media?
9. Will the other country have its own customer service?
10. How do you budget the expansion? What volume are you going to expand with?
11. How much are you going to do yourself? Are you going to hire employees? Are you recruiting from Finland or the target countries?
12. What is the woman type in different target countries? Do you choose products according to that?

