

# ‘Escape Croatia’

A market selection and approach formulation

Bachelor Thesis - Industrial Engineering & Management

Wouter IJgosse, Osijek/Enschede, May-August 2008



# ‘Escape Croatia’

A market selection and approach formulation

Bachelor Thesis - Industrial Engineering & Management



---

Author:	Wouter IJgosse (s0093521)
Study:	Industrial Engineering & Management
Company:	Escape Web Solutions
Company supervisor:	Z. Radovancevic
Examiner:	Dr E. Constantinides
2nd Supervisor:	Ir. S.J. Maathuis
Date:	May 6, 2009

---

## Management Summary

The reason for this research is that Escape Web Solutions, a Croatian website development company, wants to grow by extending its services abroad to either the Netherlands or the United Kingdom. This research examines these countries and selects the best market and entry mode combination.

The structure of the research is based on the Market Entry Mode Selection model [Koch-2, 2001]. The first step being the determination of selection criteria based on the characteristics and wishes of the company. After this the target market and market entry modes are evaluated and finally the best market and entry mode combination is selected by means of a multi-criteria selection.

The research questions used are:

1. What are the decision criteria for the market and entry mode selection?
  - a. How does the company work internally?
  - b. What is the strategy of the company and what are its strategic objectives?
2. What are the characteristics of the target countries and markets?
  - a. On a macro level?
  - b. On a micro level?
3. What are possible ways for the company to enter the target countries?
4. Which market and entry mode combination is the best?
  - a. What possible combinations of entry modes and markets are possible
  - b. How do these combinations compare on the set criteria?

To answer the first two research question interviews and desk research are used, making use of primary, secondary and tertiary input. After this the findings and theoretical framework are used to answer the third and fourth research questions.

The conclusions from the company overview are that the most important strengths of the company are its flexibility, customer oriented approach and high quality products. The most important weaknesses are its weak financial situation, underdeveloped management skills and work capacity. This knowledge contributed to setting up the following decision criteria to make the selection for the target market and entry mode:

- Effort involved
- Risk/Reversibility involved
- Revenue contribution
- Ease of Communication

The market review found that there exist no major differences between the two target countries in the macro environment that influence the decision whether to expand the company's services to these countries.

On the micro level can be concluded that the Dutch market is still in the growth phase of the product life cycle, while the United Kingdom is already beginning to mature. This leads to the conclusion that while both growth markets would have a demand for web shop development and thus form opportunities for the company, the demand from the Dutch market will be stronger. With regard to the market segment to target it can be concluded that firms in the categories 'Household goods' & 'Food/Groceries' and maybe 'Financial Services' & 'Computer Hardware' are potential clients in the Netherlands. In these categories online sales have grown considerably over the past years but in the United Kingdom the amount of sales is still higher.

The feasible entry modes that were identified in the entry mode review are direct export and indirect export by either an agent or an outsourcing partner.

From the comparison of combinations of potential markets and entry modes the best scoring alternative was selected, namely to export E-commerce tools to the Netherlands by means of indirect export. Sales of the service in the target country are to be handled by a local agent who represents the company.

Before the company can start exporting it will need to do some further research and planning in the form of a marketing plan. This research already highlights the mission, vision and objectives of the company, as well as its unique selling proposition, namely the high quality of its web solutions for a price lower than the competition.

A strategy that can be used by the company when entering the market is to focus on differentiation; selling custom designed complete E-commerce solutions that attract traffic to the website through Search Engine Marketing/Optimization.

What's needed further to complete the marketing plan is a clear planning of the activities to undertake and on the financial effort and expected return involved. Furthermore it is necessary to formulate a marketing mix and naturally the company should look for representation in the form of an agent in the target country.

## Table of Contents

List of illustrations.....	7
1. Introduction.....	8
2. Research design.....	9
2.1. Background.....	9
2.2. Research problem.....	9
2.3. Research questions.....	9
2.4. Methodology.....	10
2.5. Research model.....	10
3. Theoretical framework.....	11
3.1 Company overview.....	11
3.2. Market selection.....	12
3.3. Entry modes.....	12
3.3.1. Non-Equity entry modes.....	13
3.3.2. Equity entry modes.....	13
3.4. Entry mode selection.....	14
3.5. Market entry mode selection model.....	15
3.6. Application of the MEMS-model.....	16
3.6.1. Decision criteria.....	17
3.6.2. Market review.....	18
3.6.3. Entry mode review.....	21
3.6.4. Market and entry mode selection.....	22
3.7. Combined framework.....	22
4. Decision Criteria.....	24
4.1. Company overview.....	24
4.1.1. Operations.....	24
4.1.2. Marketing and sales.....	26
4.1.3. Services.....	26
4.1.4. Technology development.....	27
4.1.5. Human resource management.....	27
4.1.6. Firm infrastructure.....	27
4.1.7. Strengths and weaknesses.....	28
4.1.8. Conclusions company overview.....	28
4.2. Strategic objectives.....	29
4.3. Decision criteria.....	30
5. Market review.....	32
5.1. Macro analysis.....	32
5.1.1. Index.....	32
5.1.2. Political/Legal.....	33
5.1.3. Economic.....	33
5.1.4. Social.....	34
5.1.5. Technology.....	34
5.1.6. Conclusions macro analysis.....	34
5.2. Micro analysis - E-Commerce software market.....	35
5.2.1. Enterprises.....	35
5.2.2. Individuals.....	36
5.2.3. Categories of online commerce.....	37
5.2.4. Demographics.....	38
5.2.5. E-Commerce turnover.....	38
5.2.6. Conclusions micro analysis - E-commerce software market.....	39
5.3. Micro analysis - Online marketing.....	39
5.3.1. Online advertising spending.....	40
5.3.2. Elements of online marketing.....	41
5.3.3. Top Sectors.....	41
5.3.4. Growth.....	42
5.3.5. Conclusions micro analysis - Online marketing.....	42

5.4. Market competitiveness.....	43
5.4.1. Substitute products.....	43
5.4.2. Threat of new entrants .....	43
5.4.3. Supplier power .....	43
5.4.4. Competitive rivalry.....	44
5.4.5. Customers .....	44
5.4.6. Conclusions market competitiveness.....	45
5.5. Competitor analysis.....	45
5.6. Conclusions market review.....	47
6. Entry mode review .....	48
6.1. External factors .....	48
6.2. Internal factors.....	49
6.3. Feasible entry modes .....	50
6.3.1. Direct export .....	50
6.3.2. Indirect export .....	50
6.3.3. Conclusion .....	50
7. Market and entry mode selection .....	51
7.1. Combination markets and entry modes .....	51
7.1.1. Feasible entry modes.....	51
7.1.2. Potential markets .....	51
7.1.3. Combinations .....	51
7.2. Comparison of combinations.....	51
7.3. Final decision .....	55
8. Conclusions and recommendations.....	56
8.1. Conclusions .....	56
8.2. Recommendations.....	57
References.....	58
Appendix I - PEST Analysis - United Kingdom.....	59
Appendix II - PEST Analysis - The Netherlands.....	64
Appendix III - Interview transcript .....	69
Appendix IV - Analytical Hierarchy Process .....	75

## List of illustrations

Figure 1: Research model.....	10
Figure 2: Porter's Value Chain [Porter, 1980].....	11
Figure 3: Combined company overview framework .....	12
Figure 4: Hierarchical model of choice of entry modes [Pan & Tse, 2000].....	13
Figure 5: Market Entry Mode Selection - model [Koch-2, 2001] .....	15
Figure 6: Adapted Market Entry Mode Selection Model.....	16
Figure 7: Combined macro analysis framework.....	20
Figure 8: Combined micro analysis framework.....	21
Figure 9: Entry mode selection approach [Root, 1994] .....	21
Figure 10: Combined theoretical framework .....	23
Figure 11: Primary process .....	24
Figure 12: Corporate taxation .....	33
Figure 13: Personal taxation .....	33
Figure 14: Activities of enterprises on the internet.....	35
Figure 15: Online buying behaviour of individuals.....	36
Figure 16: Categories of online purchases (Source: Eurostat) .....	37
Figure 17: Online purchases by gender and age.....	38
Figure 18: Online purchases by level of education .....	38
Figure 19: Online advertising spending per web user in 2007 .....	40
Figure 20: Online advertising spending in Europe .....	40
Figure 21: Product offering of web design companies.....	45
Figure 22: Income distribution in the United Kingdom.....	62
Figure 23: Income distribution in the Netherlands .....	67

## **1. Introduction**

This research deals with making a selection for a target market and formulating a strategy as to how to approach that market. The report consists of three parts, starting with the research design in which the research problem is broken down in several research questions and the methodology to be used is explained.

The second part deals with the theoretical background of market and entry mode decisions and sets up the theoretical framework that is used throughout the rest of the chapters to outline the analysis.

In the third part the theoretical background is applied to the research problem at hand, starting of with a company analysis; examining the company and setting up selection criteria. This is followed by an assessment of the markets and entry modes which gives input in forming market & entry mode combinations. These combinations are scored on criteria and after this the final decision is made.



## **2. Research design**

In this chapter the background and the research problem are formulated, the research questions are established and the methodology to be used is explained.

### **2.1. Background**

In 2003, the company 'Escape Web Solutions' was founded by three friends from the university. They used to be the administrators of the website for the Economic Faculty of Osijek University, and the first assignments as web design company were for the university.

The first three years the three of them did all the work, sometimes with the help of a hired part-time employee. There was no clear vision of the future in terms of goals or strategy. After these three years they formulated their ambitions and goals in a new business plan. The big choice that had to be made was whether they would develop a product of their own or sell the implementation of open source web software. The choice was made for the latter, selling Content Management System and Web shop designs and implementations. The major reason for this was that it was not possible to obtain funding to cover the expenses of developing their own product.

Now the company is outgrowing Osijek and Croatia and would like to grow by extending its services abroad to either the Netherlands or the United Kingdom.

### **2.2. Research problem**

The research problem is formulated as:

Which countries are interesting for Escape to extend its services to and what strategy should Escape use to enter these markets?

The definitions used are:

- Services: E-commerce tools development and online marketing
- Countries: The Netherlands and the United Kingdom.

To keep the project of an appropriate size for the bachelor assignment this restriction was set up together with the company. These markets were chosen due to the high level of English of the Dutch, in contrast to the German and French markets where knowledge of the local language is necessary to conduct business.

### **2.3. Research questions**

This research problem is broken down to the following research questions with the aid of the adapted MEMS model as depicted in Figure 6 on page 16:

1. What are the decision criteria for the market and entry mode selection?
  - a. How does the company work internally?
  - b. What is the strategy of the company and what are its strategic objectives?
2. What are the characteristics of the target countries and markets?
  - a. On a macro level?
  - b. On a micro level?

3. What are possible ways for the company to enter the target countries?
4. Which market and entry mode combination is the best?
  - a. What possible combinations of entry modes and markets are possible
  - b. How do these combinations compare on the set criteria?

## 2.4. Methodology

To answer the research questions and find the solution to the research problem, the following methodology is used (Q numbers referring to research questions):

1. Develop a theoretical framework to provide a structure to answer the research questions.
2. Find the answers to Q1 through first giving an overview of the company, based on interview(s), and analysing what is important to the company. After this Q1 can be answered.
3. Conduct desk research to find the answers to Q2 making use of secondary sources, such as the bureau of statistics and reports of trade organisations, and a tertiary source, the 'Economic Freedom Index' of the Heritage Foundation.
4. Along the lines set out by the theoretical framework find the feasible modes of entry (Q3), assess the attractiveness of market combinations and modes of entry and select the best market and entry mode combination (Q4).

## 2.5. Research model

The research questions and chapter-layout are depicted in the research model in Figure 1.

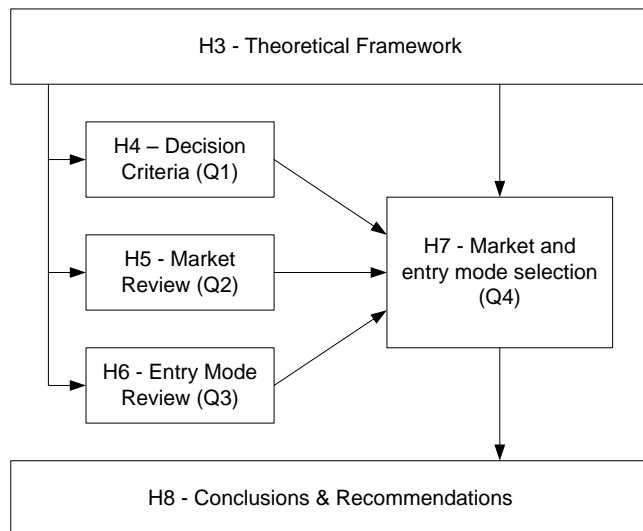


Figure 1: Research model

### 3. Theoretical framework

This chapter contains the theoretical background and builds up the theoretical framework that helps formulate a solution for the research problem.

The steps to take in the research are to first getting an overview of the company, then to make a market selection followed by an entry mode selection, respectively to determine which country to enter and which entry mode to use to enter that country.

#### 3.1 Company overview

The company overview is carried out by means of a value chain analysis [Porter, 1980] (Figure 2), to get a better insight into what the company is doing and how it is doing this, and to identify competitive advantages.

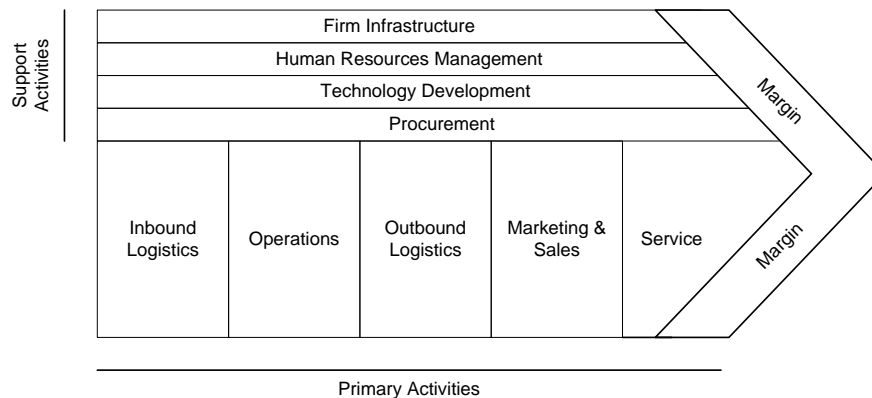
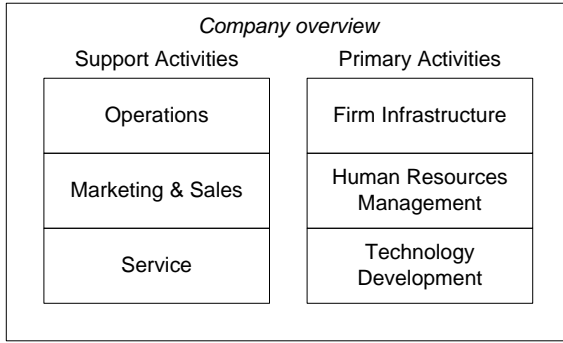


Figure 2: Porter's Value Chain [Porter, 1980]

Not every element of the value chain is relevant for this research. Since the company does not have procurement or in- and outbound logistic functions, due to the intangible characteristics of the product, these will be left out.

From the company overview the strengths and weaknesses of the company are determined and ranked with the use of the 'Analytic Hierarchy process' [Kurttila et al., 2000]. This method ensures objectivity by comparing different factors by pairs and weighing the importance of these two factors over each other. With the resulting matrix weights are calculated for the different factors, resulting in a ranking of the elements. This ranking shows which strengths and weaknesses are more important, which is used for the market and entry mode selection.

This gives the framework for the company overview as depicted in Figure 3.



**Figure 3: Combined company overview framework**

### 3.2. Market selection

When a firm wants to grow by expanding its services abroad, it first has to decide on which foreign market(s) it wants to enter. It can use a ‘market selection model’ to make this decision.

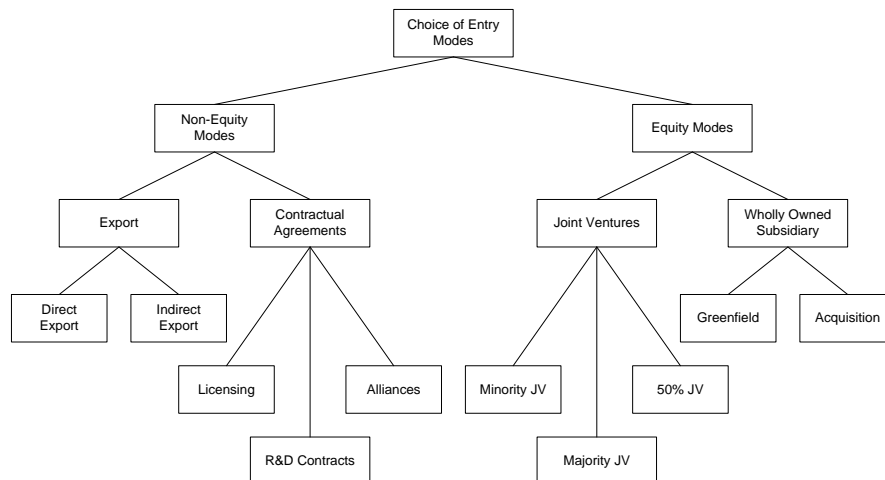
Most market selection models have three stages: screening, identification and selection. These models start with a pool of possible target countries and in every stage countries are eliminated until one or more final target markets are selected [Koch-2, 2001].

1. During the screening stage macro environmental factors are evaluated to eliminate countries that do not meet the objectives of the firm.
2. During the identification phase the firm researches industry-specific information, such as market size/level of competition/entry barriers, on which to base a short-list of potential country segments.
3. The selection phase involves studying firm-specific information, such as profitability, product compatibility with the existing portfolio as well as possible limitations, to select the market(s) to enter.

### 3.3. Entry modes

Once the firm has decided which foreign market to enter, it has to decide on the mode of entry for that market. This decision is one of the most critical strategic decisions for the firm since it affects all future decisions and operations of the firm in that target country. Because every mode of entry has a different level of resource commitment and associated risk, it is difficult to change from one mode to another without considerable loss of time and money [Root, 1994].

Kumar & Subramian [1997] find that a hierarchy exists among the various modes of entry. These can first be classified as equity and non-equity modes of entry based on the amount of resource commitment that is necessary to establish operations in the chosen foreign market. On the next level of hierarchy, equity modes are further split into wholly owned operations and equity joint ventures, while non-equity modes are divided into contractual agreements and export [Pan & Tse, 2000]. The hierarchy thus established is depicted in Figure 4.



**Figure 4: Hierarchical model of choice of entry modes [Pan & Tse, 2000]**

The different entry modes are explained in the following two paragraphs [Root, 1994],[Kotler & Keller, 2003].

### 3.3.1. Non-Equity entry modes

There are two types of non-equity entry modes: exporting and contractual agreements.

Exporting means that a company makes products in one country and sells them in another country, either indirect (through a sales intermediate) or direct (by the firm itself). Advantages are the high speed of entry, the low associated risk and investment and the efficient use of the firm's current facilities. Disadvantages are the difficulty to acquire new clients, the fact that the company is viewed as an outsider and the limited access to local market information.

Contractual agreements involve the transfer of technology or human skills from an international company to an entity in a foreign country. It is possible that export opportunities come from this cooperation, but this is not the objective. Advantages of this are the low investment and associated risk, the high speed of entry and the possibility of evading trade barriers. Disadvantages can be that the returns from marketing and manufacturing stay at the licensee and there is a lack of control over the use of the licensed assets.

### 3.3.2. Equity entry modes

Equity entry modes involve joint ventures and wholly owned subsidiaries.

Joint ventures are partnership firms formed by a domestic partner with an international firm in which both share ownership and control. Depending on the size and power of the partners one can be a majority partner and the other a minority partner or the firms can participate as equals with a 50% share. An advantage of joint ventures is the ability to evade restrictions of foreign ownership. Further advantages are the bridging of cultural distance and the fact that the company is viewed as an insider by the target market. Disadvantages however can be that joint ventures are difficult to manage, that it involves greater risk than exporting and licensing and that the partner may in a later stage become a competitor in the target market.

Wholly owned subsidiaries involve setting up or buying a company in a foreign country. The advantages are the high degree of control, easy access to local market information and once again the fact that the company is considered to be an insider in the target market. Disadvantages are the high level of resources required and the degree of risk.

### **3.4. Entry mode selection**

As stated earlier, a firm has to decide on a mode of entry to enter a foreign country. There are three basic approaches to this entry mode selection [Root, 1994]:

1. The naïve or sales approach.  
This approach is characterized by the absence of systematic selection criteria or effort to control overseas distribution. This is more a description than a real approach, and is meant for instance for a company that starts exporting when it follows a client overseas.
2. The pragmatic approach.  
The company uses a market entry mode it is already familiar with and adjusts this to the target country's needs.
3. The systematic approach.  
This approach considers strategic rules and involves systematic comparisons of alternative entry modes to produce better quality decisions.

Different strategies have been developed for this systematic approach, such as the gradual involvement model. This model stipulates that firms internationalize gradually from non-equity to equity forms of conducting business with increasing investment and risk [Johanson and Vahlne, 1990]. Another strategy is the transaction costs approach of Anderson and Gatignon [1986] in which the company internationalizes those activities in which it has a cost advantage, or Dunning's [1988] model that bases the entry mode decision on location-specific, ownership-specific and internationalization factors.

All of these strategies assume that only after the selection of the target market the entry mode is determined. This two-step approach however rules out the option to examine the different combinations of target markets and entry modes, which in turn might lead to less than optimal decisions. Therefore it is better to integrate the market selection and entry mode selection, as formulated by Koch [2, 2001] in the 'Market Entry Mode Selection'-model.

### 3.5. Market entry mode selection model

The 'Market Entry Mode Selection'-model (MEMS) rejects the proposition that in international expansion decisions the market is evaluated first and after this has been done the market entry mode is decided upon. Instead it proposes a systematic examination of all feasible country/market entry mode combinations. The advantage is that it allows for comparisons between competing feasible market/market entry mode options to be conducted against a number of criteria.

Compared to alternative entry mode selection models, MEMS includes more influences in the decision process design and analysis and stresses the need to consider the long-term implications of individual market entries [Koch-2, 2001].

A schematic view of the model is shown in Figure 5.

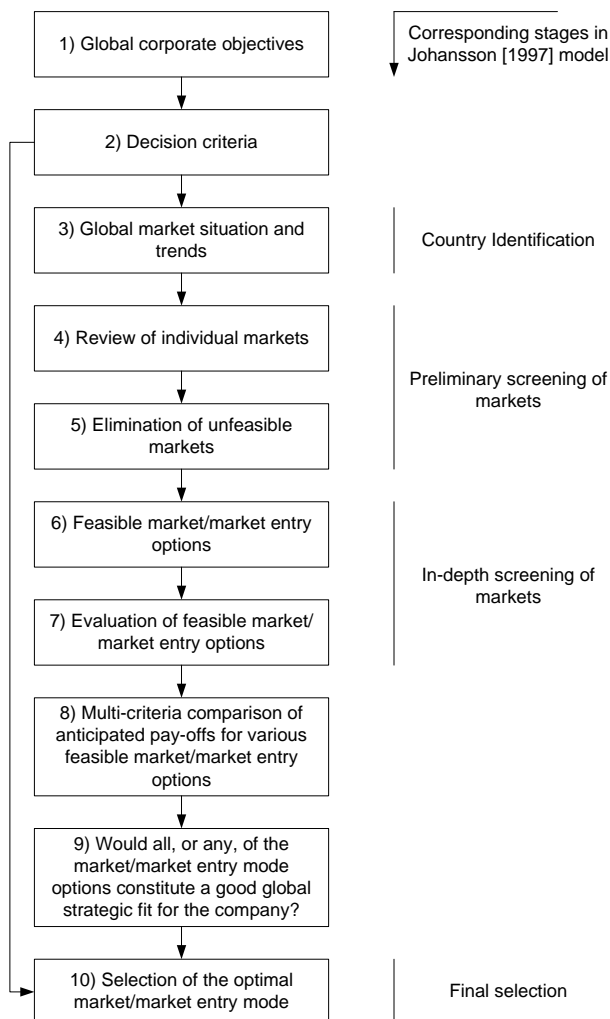


Figure 5: Market Entry Mode Selection - model [Koch-2, 2001]

### 3.6. Application of the MEMS-model

There are two reasons why the entire MEMS-model is too extensive to be used in this research. First the research is only limited to consider the Dutch and the British market, which makes the country identification and preliminary screening unnecessary. And second there is too little information to complete the ‘anticipated pay-offs for various feasible market/market entry options’. Therefore the MEMS-model is adapted to the needs of this research, as depicted in Figure 6. In the following paragraphs, the stages of this adapted model are further explained.

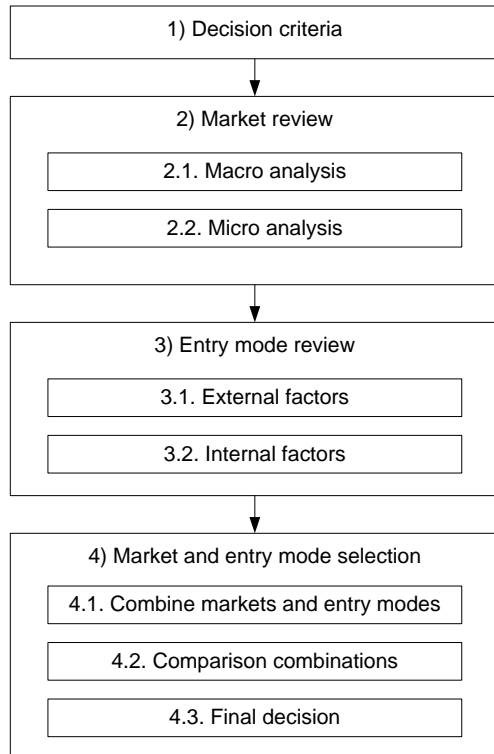


Figure 6: Adapted Market Entry Mode Selection Model



### 3.6.1. Decision criteria

Koch [1, 2001] states possible factors that influence the market and market entry selection, as outlined in Table 1. These factors form the starting point for the definition of the decision criteria. These criteria however depend on the company's identity, position and goals and are selected once a complete overview of the company has been attained.

Market Selection	Market Entry Mode Selection
<i>Internal</i> <ul style="list-style-type: none"> <li>• Anticipated overseas market risks</li> <li>• Competitive significance of the overseas market</li> </ul> <i>Mixed</i> <ul style="list-style-type: none"> <li>• Country market potential</li> <li>• Networking</li> <li>• Similarity/Proximity of the overseas market</li> <li>• Expansion sequence optimisation</li> <li>• Market portfolio congruity</li> <li>• Own/Accessible resources</li> </ul> <i>External</i> <ul style="list-style-type: none"> <li>• Calculation method applied</li> <li>• Overseas market selection experience</li> <li>• Stage of internationalisation</li> <li>• Company strategic orientation</li> <li>• Company strategic objectives</li> <li>• Company international competitiveness</li> </ul>	<i>Internal</i> <ul style="list-style-type: none"> <li>• Image support requirements</li> <li>• Global management efficiency requirements</li> <li>• Market barriers</li> <li>• Popularity of individual market entry modes in the overseas market</li> <li>• Industry feasibility/viability of market entry mode</li> <li>• Characteristics of the country business environment</li> <li>• Market growth rate</li> </ul> <i>Mixed</i> <ul style="list-style-type: none"> <li>• Profit targets</li> <li>• Competencies, capabilities and skills required/available for each market entry mode</li> <li>• Management risk attitudes</li> <li>• Calculation method applied</li> <li>• Sufficiency and reliability of information inputs</li> <li>• Market share targets</li> <li>• Company size/resources</li> <li>• Management locus of control</li> </ul> <i>External</i> <ul style="list-style-type: none"> <li>• Experience in using individual market entry modes</li> </ul>

Table 1: Factors influencing market and entry mode selection [Koch-1, 2001]

### 3.6.2. Market review

In the market review stage the potential of different markets for the products of the company are assessed. This is done by first comparing the two target countries on a macro level followed by a more detailed look and comparison on the micro level.

#### Macro analysis

For the macro analysis a P.E.S.T.-analysis is conducted to find the factors that have an influence on business in the respective countries, and a tertiary source of information is consulted: the Economic Freedom Index.

The abbreviation P.E.S.T. stands for 'Political/Legal, Economic, Social & Technological' [Kotler & Keller, 2003] and gives a structure to evaluate macro-environmental forces for a country. Under each of these four factors, there are a lot of different topics contributing to the impact that factor has (12manage.com), as listed in Table 2.

Political/Legal	Economic
<ul style="list-style-type: none"><li>• environmental regulations and protection</li><li>• tax policies</li><li>• trade regulations</li><li>• employment laws</li><li>• competition regulation</li><li>• political stability</li><li>• safety regulations</li><li>value added taxes</li></ul>	<ul style="list-style-type: none"><li>• economic size &amp; growth</li><li>• interest rates &amp; monetary policies</li><li>• trade</li><li>• government spending</li><li>• unemployment policy</li><li>• taxation</li><li>• exchange rates</li><li>• inflation rates</li><li>• stage of business cycle</li><li>consumer confidence</li></ul>
Social	Technological
<ul style="list-style-type: none"><li>• income distribution</li><li>• demographics, population growth rates, age distribution</li><li>• labour / social mobility</li><li>• lifestyle changes</li><li>• work/career and leisure attitudes</li><li>• entrepreneurial spirit</li><li>• education</li><li>• fashion/hypes</li><li>• health consciousness &amp; welfare, feelings on safety</li><li>living conditions</li></ul>	<ul style="list-style-type: none"><li>• government research spending</li><li>• industry focus on technological effort</li><li>• new inventions and development</li><li>• rate of technology transfer</li><li>• life cycle and speed of technological obsolescence</li><li>• energy use and costs</li><li>• information technology use</li><li>internet use</li></ul>

Table 2: P.E.S.T. Factors

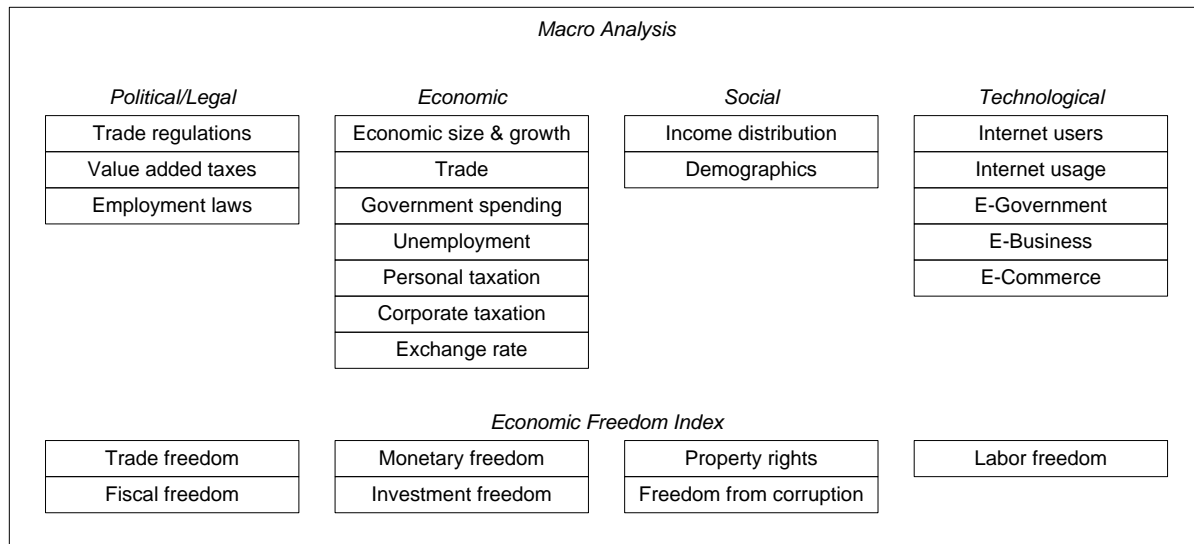
Not all the factors from the full list in Table 2 are relevant for this research. The factors as listed in Table 3 are excluded.

<b>Political/Legal</b>	<b>Economic</b>
<ul style="list-style-type: none"> <li>• Environmental regulations and protection This factor is excluded since environmental regulations and protection do not influence the export of internet software.</li> <li>• Tax policies This factor is excluded since it is double with taxation items under 'Economic' and with 'Value added taxes'.</li> <li>• Competition regulation This factor is excluded since it is double with 'Trade regulations'.</li> <li>• Political stability This factor is excluded because both developed countries have fully functional democracies and are members of the European Union, therefore not relevant for the research.</li> </ul> <p>Safety regulations This factor is excluded since safety regulations do not influence the export of internet software.</p>	<ul style="list-style-type: none"> <li>• Stage of business cycle This factor is excluded from the Macro analysis but will be looked at during the Micro analysis.</li> <li>• Consumer confidence This factor is excluded because consumer confidence numbers are too broad to be used to compare the economies of these countries. The Micro analysis will explore customer habits thoroughly.</li> </ul>
<b>Social</b>	<b>Technological</b>
<p>The following factors are excluded because they do not have a direct influence on the export of internet software to the two target countries:</p> <ul style="list-style-type: none"> <li>• labour / social mobility</li> <li>• lifestyle changes</li> <li>• work/career and leisure attitudes</li> <li>• entrepreneurial spirit</li> <li>• education</li> <li>• fashion/hypes</li> <li>• health consciousness &amp; welfare, feelings on safety</li> <li>• living conditions</li> </ul>	<p>The following factors are excluded because they are characteristics of the target markets that do not have an influence on the export of internet software; the product being offered by the company is advanced in terms of technology but this is dependent on the company itself, the amount of research spending in the target country doesn't come into view when selecting an export market.</p> <ul style="list-style-type: none"> <li>• government research spending</li> <li>• industry focus on technological effort</li> <li>• new inventions and development</li> <li>• rate of technology transfer</li> <li>• life cycle and speed of technological obsolescence</li> <li>• energy use and costs This factor is excluded because the energy use and costs of the web servers running the software play no role in the buying decision of the company's clients.</li> </ul>

**Table 3: Excluded factors from P.E.S.T. Analysis**

The relevant factors for this research are depicted in a summarized form in Figure 7.

The tertiary source of information, in the form of the Economic Freedom index, is used to lighten the amount of research for the macro factors. This index is maintained by the Wall Street Journal and the Heritage Foundation, a Washington based think-tank. The index researches and analyses economic policies in countries around the world. The goal of the index is to denote economic freedom and to establish a benchmark by which to gauge a country's chances of economic success.



**Figure 7: Combined macro analysis framework**

## Micro analysis

In the micro-level analysis the market for the services of the firm in the respective countries is evaluated.

Porter's Diamond theory [1990] is about the competitive advantage of countries over others, and describes four attributes of a nation's environment that play a role in allowing domestic firms to gain competitive advantage. Since the purpose of this research is to find markets that are interesting to export to, the five forces model is better suited to describe and compare the market-specific situation in these countries.

Porter's five forces model [1980] describes five forces that have an influence on the market situation in a given market. These forces are 'Threat of substitute products', 'Customer bargaining power', 'Supplier bargaining power', 'Barriers for entry' and 'Competitive rivalry'.

Two topics are added to the micro analysis next to Porter's five forces, namely a competitor analysis, to get a better insight into the competition, and a market potential analysis. The markets are evaluated in terms of growth, trends and developments. These additions are necessary because the five forces model researches only the competitiveness in markets, not the market potential.

The combined framework for the Micro analysis is depicted in Figure 8.

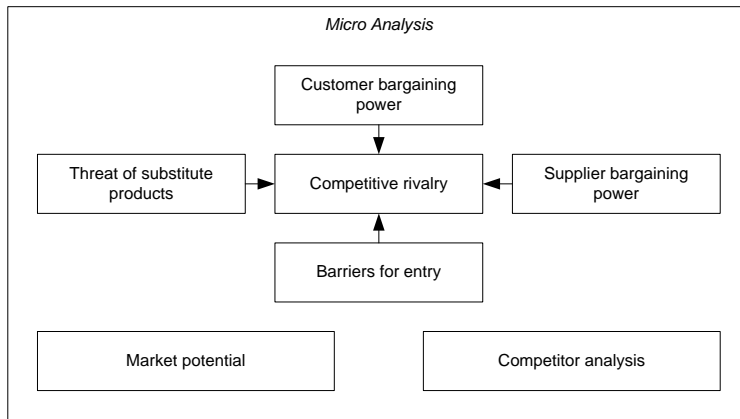


Figure 8: Combined micro analysis framework

### 3.6.3. Entry mode review

In the ‘Entry mode review’ stage, the feasible entry modes to be used by the company are identified. To come to this selection of entry modes, the selection model from Root [1994] (Figure 9) will be partly used. The purpose of Root’s approach is to come to the right entry mode. In the adapted form of the MEMS model used in this research that is not necessary, therefore only the beginning of the model is used to find the feasible entry modes.

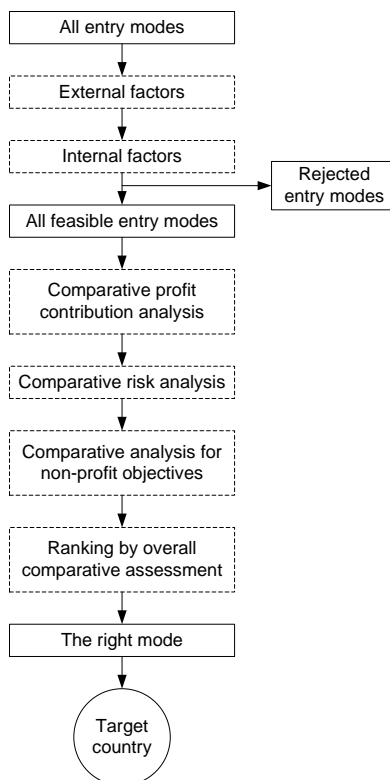


Figure 9: Entry mode selection approach [Root, 1994]

The input for the ‘All entry modes’ stage are the entry modes from the hierarchy of Pan & Tse [2000], as depicted in Figure 4 on page 13. These entry modes are evaluated on the factors put

forward by Albaum et al [1989], as listed in Table 4. First the external factors are considered and after this the feasible entry modes remaining are evaluated on the internal factors.

External factors	Internal factors
<ul style="list-style-type: none"> <li>• Target market <ul style="list-style-type: none"> <li>○ Nature, size and geographical distribution of customers</li> <li>○ Needs, requirements and preferences of customers</li> </ul> </li> <li>• Legal barriers</li> <li>• Nature of the product <ul style="list-style-type: none"> <li>○ Handling in sales &amp; distribution</li> <li>○ Stage of development/life cycle</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Financial strength</li> <li>• Experience of company with entry modes</li> <li>• Size of company and width of its product line</li> <li>• Extent of control that is desired</li> </ul>

**Table 4: Factors to influence entry mode selection [Albaum et al, 1989]**

### 3.6.4. Market and entry mode selection

In the final Market & Entry mode selection stage combinations of each potential market and each feasible entry modes are formed, resulting in [number of potential markets] x [number of feasible entry modes] number of combinations.

After this, each combination is scored on the decision criteria, giving a score of + for positive, 0 for neutral and - for negative (unfavourable) for each criterion. After this scoring the total score for each combination is calculated (+ counting for 1, 0 for 0 and - for -1), and the combination with the highest overall score is selected.

### 3.7. Combined framework

The combined graphical representation of the theoretical framework for this research is depicted in Figure 10. It was used during the setup of the theoretical framework to determine the structure and gives a quick graphical overview, together with the research model (Figure 1, p10), of the flow of information through the report.

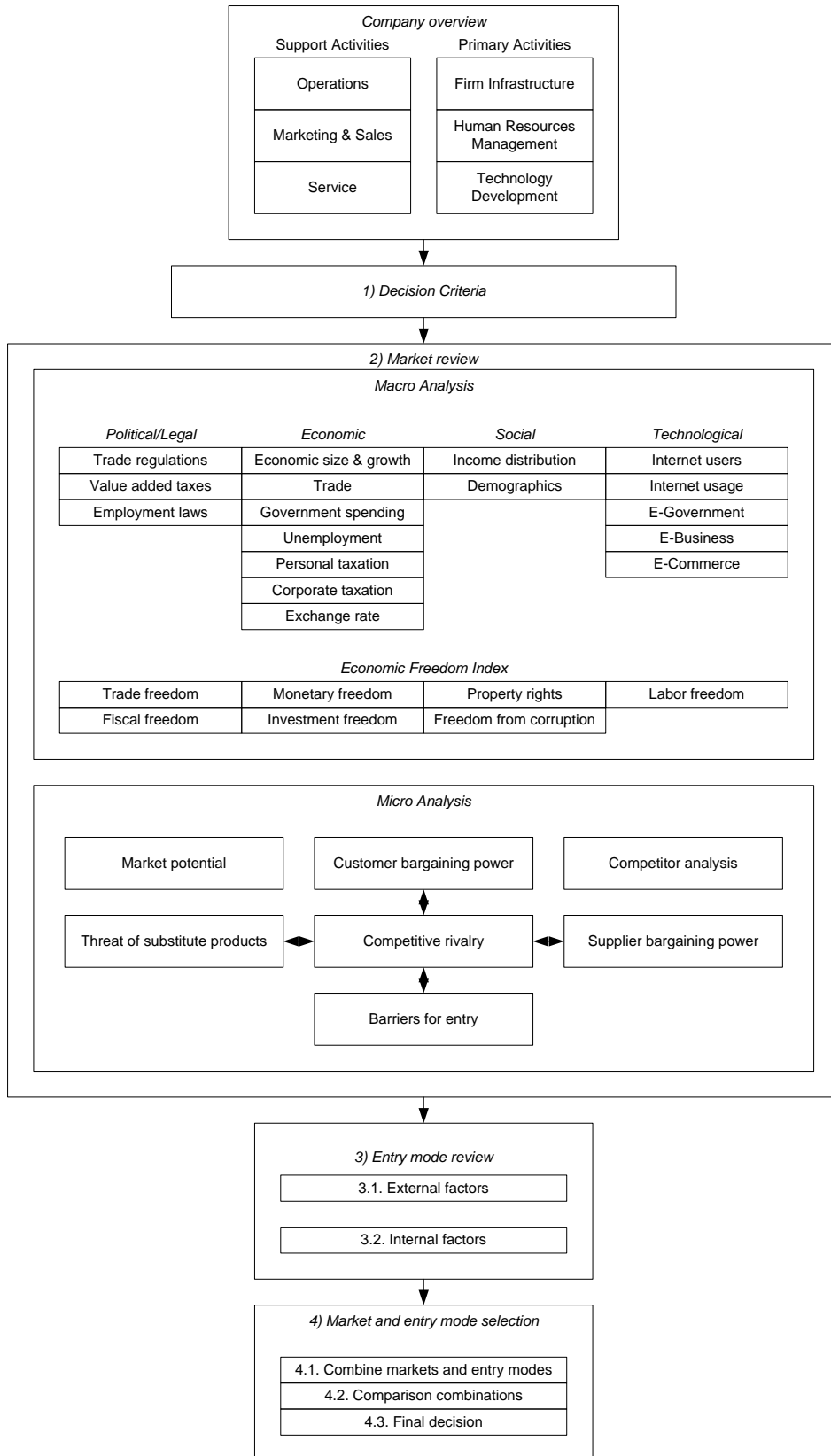


Figure 10: Combined theoretical framework

## 4. Decision Criteria

This chapter answers research question 1:

1. What are the decision criteria for the market and entry mode selection?
  - a. How does the company work internally?
  - b. What is the strategy of the company and what are its strategic objectives?

In this chapter first the two sub-questions to research question 1 are answered, followed by the determination of the decision criteria.

### 4.1. Company overview

In the following paragraphs, the elements of the porter value chain are evaluated, resulting in a ranking of strengths and weaknesses.

The sources of the information described in this chapter are an interview that took place on the 22nd of May 2008 with one of the owners of the company, and general knowledge acquired about the company during every day's work. The structure of this interview as well as a transcript of the answers can be found in Appendix III.

#### 4.1.1. Operations

The company primarily sells implementations of open-source Content Management Systems and Web-shop software. Next to the implementations the company is active in the field of online marketing through Google. For the local market this is still in the development stage; customers are not yet recognizing the full potential.

The primary process for the development of a website is outlined in Figure 11:

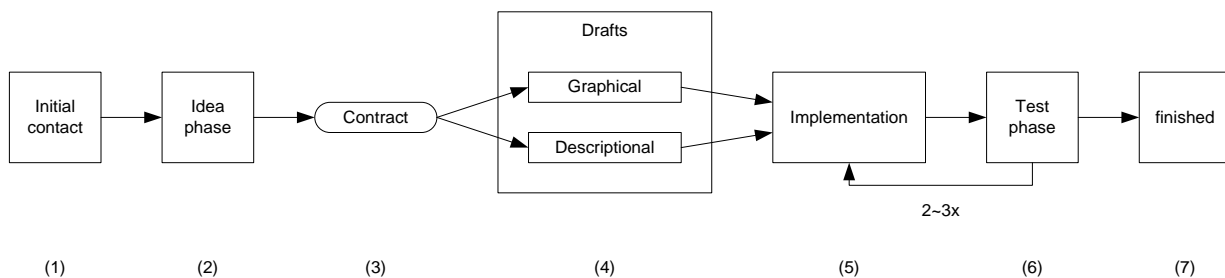


Figure 11: Primary process

Description of this process:

1. Initial contact will be explained under 'Marketing and Sales'.
2. The 'idea phase' is kept informal, which leaves room for the ideas that the company has about the website the client needs. This is done because the client usually has only little knowledge about what would and would not work on a website.
3. Signing of the contract.



4. In this phase two drafts are made:
  - a. Graphical draft: showing the design of the website
  - b. Descriptive draft: explaining how the interface will work and what the content will be.
5. During the implementation phase there is close cooperation between the graphical designer and the developer.
6. After the implementation the website is tested, both by the company and the client. This results in new insights and improvements. Usually it takes two to three iterations to finish the product.
7. The product is finished.

The primary process for an online marketing campaign starts with an introductory letter that is sent to the client, containing:

- Explanation of online marketing
- List of possible keywords
- Small market research for the campaign
- Expected results
- Expected costs

After this the contract is signed and the company starts to build and administer the campaign.

Due to the traffic and revenue the company generates it gets free coupons from Google. These coupons can be used to give a (potential) client a free campaign at first. After the client has seen the initial results paid for by the coupon, the company sells the service to keep the campaign running.

The different products, prices and times of implementation are outlined in Table 5.

Product	Prices	Time
Web shop		
Planning & Design	5000 - 9000 kn	5 days
Implementation	7500 - 15000 kn	10-15 days
Payment gateway	2000 kn	1 day
Content Management System		
Design	4000 - 7500 kn	5 days
Implementation	6000 - 13000 kn	10-15 days
Search Engine Optimization		
Planning	5000 - 10000 kn	2 days
Implementation	..	5-10 days
Search Engine Marketing		
Research for keywords	min 1000 kn (125 kn / hour)	1-5 days
Campaign	10-20% of budget	..

Table 5: Products, prices and times of implementation (prices in Croatian Kuna, 1 kn = 0.138 Euro)

How does the company compare:

- Osijek region:  
The company is the largest developer of websites, having the best clients in its portfolio and is also the most expensive.
- Croatia:  
The market share of the company is smaller than it could be given that the quality of its work is higher than most of its competitors. The price the company was charging for their services was initially set too low which left little room for negotiation. Besides this the company lacks physical representation in for instance Zagreb.
- Foreign:  
Their price/quality level is usually higher than clients expect.

#### **4.1.2. Marketing and sales**

The company gets in touch with new clients through direct contact and through referrals by former and current clients.

The last two years the company has also been working as an outsourcing partner for two sales partners abroad; one in the United Kingdom and one in Denmark. For both these markets the company has done some work directly without partner.

In responding to a 'request for proposal' the company always tries to include information on the benefits and expected end results of the project, based on knowledge from past experiences. The idea behind this is to show the client the company's pro-active approach.

During the past year the company has tried sending brochures through direct mail to potential clients (500~1000) but this turned out to be unsuccessful. The marketing approach that works best is to have a direct link to a new customer; in other words: a direct referral.

The domestic market share of the company is difficult to determine due to the fact that the government does not keep a record of the revenues made in this sector of the software industry. The company also does not have actual data on their foreign market share.

#### **4.1.3. Services**

The after sales service for clients is product training and support. There are only little extra services the company can sell to clients because the products work on a stand-alone basis with no further need for interference. The company does however try to get a good relationship with the customer, and to also sell online marketing services to generate more traffic and possible upgrades or add-on's in the future.

#### **4.1.4. Technology development**

The company is very flexible in terms of the product they deliver. It comes down to the programming skills of the employees and the knowledge of the open source software which is implemented. It is possible to switch if necessary because of the ongoing development on the open source tools the company uses and because there are several packages that can be used.

#### **4.1.5. Human resource management**

Escape is a small company with a workforce of two owners and seven employees. The work is divided as follows:

- Owner: Planning, finance
- Owner: Graphics, sales
- Salesperson
- Designer
- PHP Developer
- Content Management System specialist
- CSS/HTML Templating designer
- AdWords specialist
- Part-timer

When revising the business plan two years ago, several scenarios were outlined in terms of financial targets and the number of employees required. Under the current scenario the company could use two more employees, but will not hire any because of financial constraints. The reason for this is that a mistake was made in evaluating the number of employees required; the mistake being that sending a bill does not immediately generate money. To sustain a financially healthy situation and not depend too much on the timely payment by customers, which is a major issue in the Croatian business environment, the company does without the two extra employees.

#### **4.1.6. Firm infrastructure**

The growth from four to nine employees was a big step, and the owners/directors of the company are still learning how to effectively steer their workforce. For the delegation of the work and the project management the company currently uses an internal forum in which for every project the different tasks and responsibilities are stated. This forum is also used for the communication with the outsourcing partners in Denmark and the United Kingdom.

The preferred end situation is to have one office manager directing three teams of employees. One team for online marketing, one team for development and one team for design.

#### 4.1.7. Strengths and weaknesses

Together with the owner several strengths and weaknesses were identified. These were ranked with the aid of 'Analytical Hierarchy Process'. The calculations for this can be found in Appendix IV which resulted in the lists of the strengths and weaknesses (ordered by weight) in Table 6. In this table the weights sum up to 1 for each list, and show the overall importance of each factor.

Strengths	Weights	Weaknesses	Weights
Flexibility	0.27	Weak financial situation	0.42
Customer orientated approach	0.23	Underdeveloped management skills	0.24
High quality products	0.19	Capacity (amount of work would require 2 employees more)	0.15
Dedicated workforce (pro active)	0.11	Price level set to low	0.09
Customer satisfaction	0.09	Sales force effectiveness	0.08
Skills-level of personnel	0.08	Promotion effectiveness	0.03
Reaching deadlines	0.04		

**Table 6: Strengths and weaknesses**

#### 4.1.8. Conclusions company overview

The company Escape Web Solutions sells implementations of open source E-commerce and CMS software and manages online marketing campaigns.

In the development of its custom designed products, the company strives for high quality and good interaction with the client. Thus being able to build exactly the product the customers of the client would like to use. In comparison with competitors on the regional, national and international level the company's high price/quality level stands out.

In the area of technology the company is very flexible and strong; its main assets are the programming skills of the workforce. Therefore the company is not dependent on one particular open source package but could easily switch if necessary.

This sums up to the competitive advantage of the company being the high quality of its custom web solutions for a price lower than the competition.

The company is less strong in sales and works mainly through two outsourcing partners from abroad. Several marketing and sales approaches were tried but only direct referrals proved to generate new leads.

Another area in which the company is less strong is management skills; the owners/directors are working on it, but task delegation and project management skills are still lacking.

As examined numerically in Table 6 the most important strengths of the company are by far its flexibility, customer oriented approach and high quality products. The most important weaknesses also show a clear top three: Weak financial situation, underdeveloped management skills and capacity.

## 4.2. Strategic objectives

In 2005, two years after starting their company, the first business plan was written, mostly out of necessity in starting up the company. In 2007, it was revised and the content now reflects a clear direction the owners want the company to move in.

The goals that are stated in the business plan for mid 2009 are:

- finish the three new own products
- raise the 'fixed' income to a higher level (more long term contracts)
- hire two more employees
- develop and standardize products (web shops/content management system)
- 40% sales growth
- find one or two new outsourcing partners in EU countries.

The three new own products, as stated in the goals, are:

- A portal for wineries to market and sell products online.  
This portal is being built for the Osijek wine region first and subsidized by the municipality. If proven successful the company can sell the product to other wine regions in Croatia.
- A community website centred on idea generation.  
A place for people to grow ideas and have other people cooperate in developing these ideas online, be it music, art or business.
- The Croatian version of mygift.com.  
Online software helping to pick presents based on certain characteristics of the receiver.  
Generate income from referrals to web shops and from selling the search statistics.

The emphasis in the strategy of the company is on raising more income and building a solid base for the company, wider than just web design.

### 4.3. Decision criteria

In the accompanying article for the MEMS-Model, Koch [1, 2001] states different factors that influence the Market & Entry Mode decision process (as outlined in Table 1, p17). The factors put forward by this article have been evaluated based on the knowledge gained by the company overview and the following four were found to influence this decision process:

1. Company size/resources:  
Smaller companies have limited resources which usually prevent the company from engaging in some market entry modes. They could be lacking enough financial strength or sufficient management potential to deal with the investment and high risk levels associated with fully owned subsidiaries or management intensive international joint ventures.
2. Previous experience in using Market Entry Modes:  
If the company has previous experience in using entry modes this has a beneficial effect on the probability of success.
3. Management risk attitudes:  
The level to which the company will accept various international business risks depends on the context: the company's financial situation, its strategic options, the competitiveness of its competitive environment or its relevant experience. Risks may be estimated by using quantitative approaches, but individual perceptions of risks associated with individual market entry modes or countries may influence companies' decisions as well.
4. Profit targets:  
Various market entry modes will generate different levels of profit. This varies heavily between non-equity and equity based modes of entry. Non-equity based modes will generate profits almost immediately but only up to a certain level, while equity based modes take more upfront investments to generate higher potential profits some time into the future.

The complete argumentation for this selection of factors would be too extensive to include in this report, but overall factors were excluded because they did not apply to the setting of this particular market or market entry decision, because they required information that was not available or because they were simply irrelevant.

Together with the owner of the company the four relevant factors were examined which led to the formulation of the following decision criteria (preceded by their weight and followed by the respective factor(s) in brackets):

- 2 - Effort involved (1,2)
- 1 - Risk/Reversibility involved (3)
- 1 - Revenue contribution (1,4)
- 1 - Ease of Communication (1)

From the company overview, it is found that it is important that new activities generate cash; to bring the workforce up to full strength and to strengthen the financial base. Therefore, more weight is put on the 'Effort involved' as requested by the owner. The company has few resources to undertake bold new actions, and is merely looking for ways to find more clients/projects.

The first three criteria are straightforward in their meaning, by the last one is meant how much communication is necessary to get the project done in the right way. In the different entry modes it is possible that the company is working with or communicating through a partner to the end client. The ease of communication is therefore a criterion in this evaluation.

## 5. Market review

This chapter answers research question 2:

2. What are the characteristics of the target countries and markets?
  - a. On the macro level?
  - b. On the micro level?

First the two target countries are compared on the macro level, followed by a more detailed look on the micro level. Since the complete P.E.S.T. analysis for each country is rather long and contains a lot of factors on which the countries are similar, only the ones that differ or stand out are discussed in this section. The full P.E.S.T. analysis for the United Kingdom can be found in Appendix I, the full P.E.S.T. analysis of the Netherlands in Appendix II.

The Micro-level is an analysis of the market for the services of the company in the respective countries. As stated in the company overview, the company provides two services to its clients: Development of E-Commerce tools and Online marketing. The markets for these services in the target countries are separately evaluated in the Micro analysis.

### 5.1. Macro analysis

This section shows the outcomes of the Macro analysis. In some of the statistics, the numbers for Croatia are included to make the macro-environment of the target countries comparable to the domestic environment.

#### 5.1.1. Index

On the overall 'Economic Freedom Index' the ranking is as outlined in Table 7.

Country	Economic Freedom	# World	# Europe
United Kingdom	79,5%	10	3
The Netherlands	76.8%	13	6
Croatia	54.6%	113	37

**Table 7: Economic Freedom Index rankings**

Both target countries score very high on the Economic Freedom Index, due to the fact that both are EU member states, have highly developed and open economies and share a lot of legislation.

The small differences are that the Netherlands scores lower on 'Labour Freedom' and 'Fiscal Freedom'. The reasons for the lower score on 'Labour Freedom' are the restrictions that exist on the laying off of employees, the high cost of attaining employees and other restrictive employment regulations.

The lower score on 'Fiscal Freedom' is due to the higher taxes in the Netherlands; although the tax rate for higher profits is lower than in the United Kingdom. This is why the Netherlands is attractive for multinational companies to base their headquarters.



### 5.1.2. Political/Legal

Both countries are EU member states thus having the same legislation on foreign trade. There are no restrictions on 'Electronically provided services' and value added taxes on these services are to be handled by the company importing the service. The catch however in this setup is that the software product has to be transferred to the web server of the client over the internet to make it an 'Electronically provided service'. If a company were to send the same software product on a CD, import taxes would have to be paid.

Both countries have open markets for foreign investment, direct export of IT services has no restrictions and if the company chooses to establish a local branch it will be treated equal to domestic investors.

### 5.1.3. Economic

The United Kingdom and the Netherlands are almost on the same level in terms of GDP per capita, as shown in Table 8. The economy of the Netherlands grows faster than the UK and has lower inflation, however since the country is in the Euro zone, it is also affected by the financial state of the other Euro-countries.

In terms of taxes the picture is clear from Figure 12 and Figure 13: taxation in the UK is lower than in the Netherlands, except for corporate profits below 40,000 or exceeding 380,000 euro.

	United Kingdom	The Netherlands	Croatia
GDP - official exchange rate	\$2.756 trillion	\$0.755 trillion	\$51.36 billion
GDP - per capita	\$45,222	\$45,358	\$11,435
GDP - real growth rate	2.90%	3.50%	5.80%
Inflation (CPI)	2.50%	1.60%	2.90%
Total Import	\$595.6 billion	\$402.4 billion	\$26.54 billion
Total Export	\$415.6 billion	\$465.3 billion	\$12.02 billion

Table 8: Economic facts

(Source: CIA World Fact book, all figures 2007 estimates)

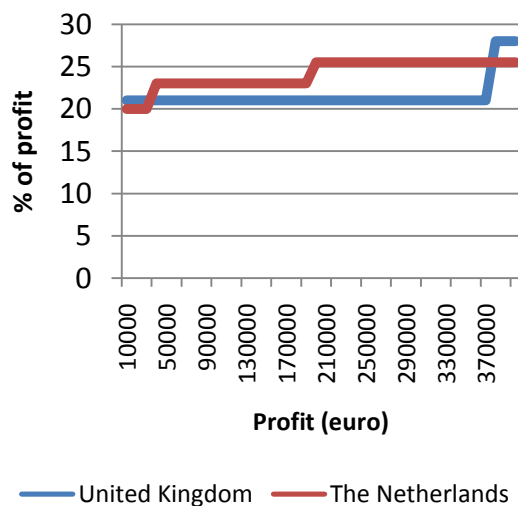


Figure 12: Corporate taxation  
(Sources: Belastingdienst & CIA World Factbook)

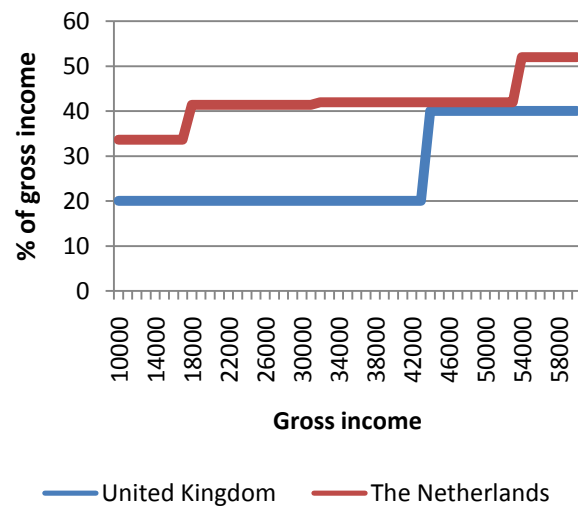


Figure 13: Personal taxation  
(Sources: Belastingdienst & CIA World Factbook)

### 5.1.4. Social

As can be seen from Table 9, the market size of the Netherlands in terms of customers is much smaller than the United Kingdom. Other noticeable facts are that the population of the Netherlands is younger in general and that both countries have a very slow population growth.

	United Kingdom	The Netherlands	Croatia
Population	60,943,912	16,645,313	4,491,543
Population growth	0.276%	0.436%	-0.043%
Age Structure (0-14/15-64/65+)	16.9% / 67.1% / 16%	17.6% / 67.8% / 14.6%	15.8% / 67.2% / 17%

**Table 9: Population size, growth and age structure**  
(source: CIA World Fact book, data for 2007)

### 5.1.5. Technology

In the technological statistics, as outlined in Table 10, the Netherlands stands out in terms of connectivity, broadband penetration (nr 1 in the European Union) and percentage of regular internet users.

	United Kingdom	The Netherlands	Croatia
Broadband penetration	20.4%	29.8%	8.7%*
% of internet users with access at home	55.5%	76.7%	68%**
% of home internet users with broadband	70.1%	82.4%	
% of enterprises with broadband internet access	77.4%	81.7%	
Regular internet users (% of population)	56.8%	76.4%	32.3%**
% of enterprises using internet to receive orders	18.8%	27.9%	
% of enterprises purchasing on the internet	62.4%	45.3%	

**Table 10: Internet statistics**  
(source: i2010 report, <http://www.americanchronicle.com> & <http://www.nationmaster.com> - UK, NL: data for 2006, Croatia: \*data for 2008, \*\*data for 2005)

### 5.1.6. Conclusions macro analysis

The most prominent outcomes from the Macro analysis are outlined in Table 11 (the better scoring alternative is highlighted if applicable). This table shows that on the macro-level there is not much difference between the Netherlands and the United Kingdom. Both countries have open economies for foreign investment and are very close in terms of Gross Domestic Product per capita.

Macro Analysis	United Kingdom	The Netherlands
Economic Freedom Index	79,5%	76,8%
GDP - per capita	\$45,222	\$45,358
Population	60,943,912	16,645,313
Population growth	0.276%	0.436%
Broadband penetration	20,4%	29,8%
Regular internet users (% of population)	55,5%	76,7%
Internet users with home access (% of total)	56,8%	76,4%

**Table 11: Comparison outcomes Macro analysis**

## 5.2. Micro analysis - E-Commerce software market

This section assesses the market potential of the target countries for the development of E-commerce software. The figures for the total market of IT services can be found in Table 12. The term IT Services here includes outsourcing, security services and training. For the market for the development of E-Commerce tools however, no real data is readily available. Therefore the size and growth of this market are estimated by looking at the use of E-commerce by enterprises as well as individuals.

IT Services		United Kingdom	The Netherlands
(in € million)	2006	31,064	5,993
	2007	32,801 (+5,6%)	6,293 (+5,0%)
	2008	34,501 (+5,2%)	6,756 (+7,4%)

Table 12: IT Services size and growth

(Source: United States Commercial Service & EVD)

### 5.2.1. Enterprises

As can be seen from Figure 14, the online activities of enterprises in the United Kingdom have stayed on the same level, whereas the activity of enterprises in the Netherlands has risen 60% on average from 2005 until 2007. However, the level of especially purchasing is still much lower than the United Kingdom. Also, as outlined in Table 13, the actual value of this online activity is low compared to the United Kingdom.

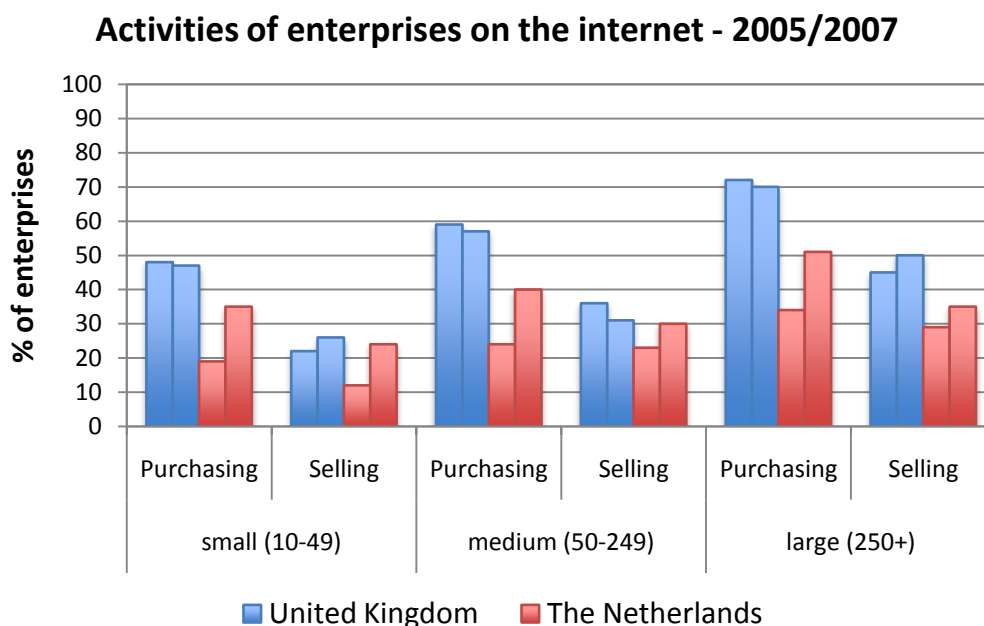


Figure 14: Activities of enterprises on the internet  
(source: Eurostat)

% of turnover from E-commerce	United Kingdom	The Netherlands
2003	12%	9%
2006	17%	11%

Table 13: Percentage of turnover from E-Commerce (sources: Eurostat & CBS)

### 5.2.2. Individuals

As depicted in Figure 15, individuals with broadband internet are more likely to buy goods or services over the internet. Again the UK stayed on the same level from 2005 until 2007, although the overall number of individuals online grew. The number of individuals buying online in the Netherlands however has grown in every category, surpassing even the percentage of individuals having bought online in the past year in the United Kingdom.

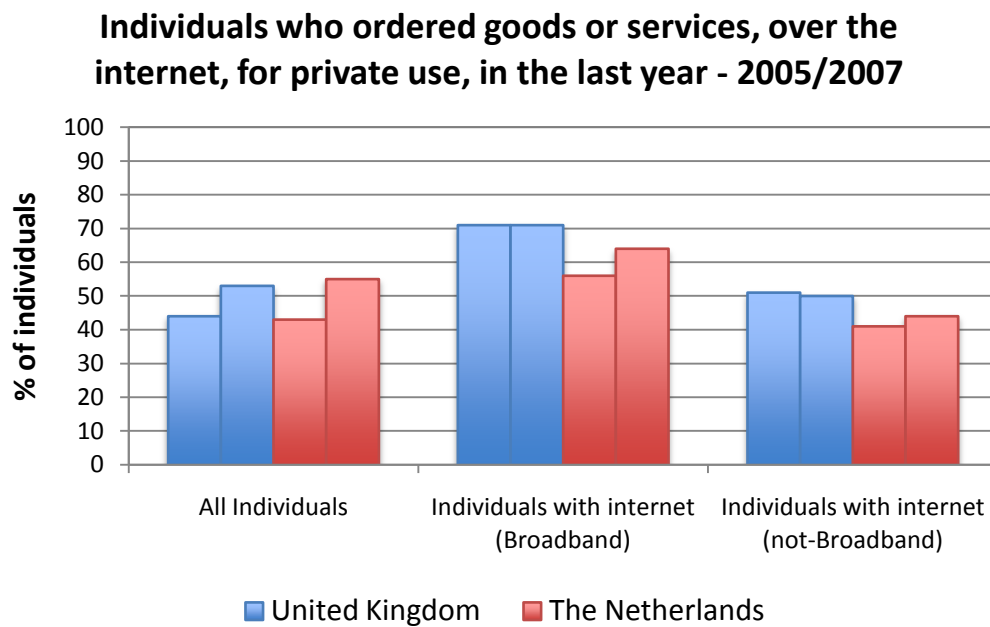


Figure 15: Online buying behaviour of individuals  
(source: Eurostat)

### 5.2.3. Categories of online commerce

The categories of online commerce that have grown in the United Kingdom in terms of individuals shopping online are clothes & sports goods, books/magazines, films & music and household goods. However, the average growth over all of the categories from Figure 16 is only 17.3% for the United Kingdom.

For the Netherlands the average growth is 80.9% with actual growth fluctuating between 50 and 300%. For most categories the Netherlands is catching up to the United Kingdom, only Films & Music, Household Goods and Food/Groceries are lagging behind.

The Dutch bureau for statistics estimates that this growth is due to an increase of the number of frequent online shoppers, which causes the online offering to grow. However, it also estimates that still around 4 million people hold off online transactions because they feel it is not safe.

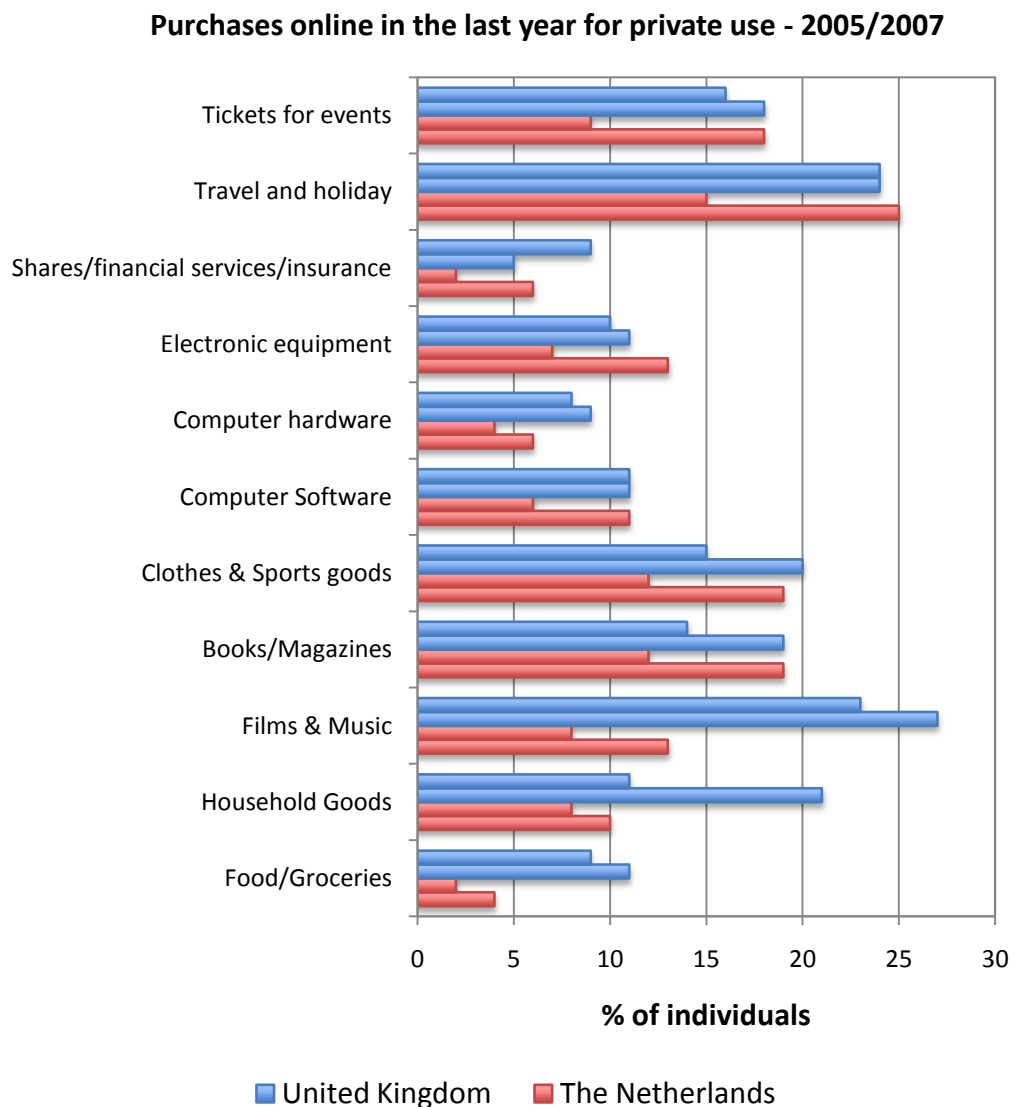


Figure 16: Categories of online purchases (Source: Eurostat)

### 5.2.4. Demographics

As can be seen from Figure 17, the category of 25-54 years old male individuals has the highest percentage of online buyers, though the online buying behaviour of male and female individuals in the age of 16-54 in the United Kingdom and The Netherlands does not differ much.

When viewed outlined to level of education (fig. 18), bigger differences can be seen. The difference between individuals with low or no education and high education in the United Kingdom is enormous (60 percentage points).

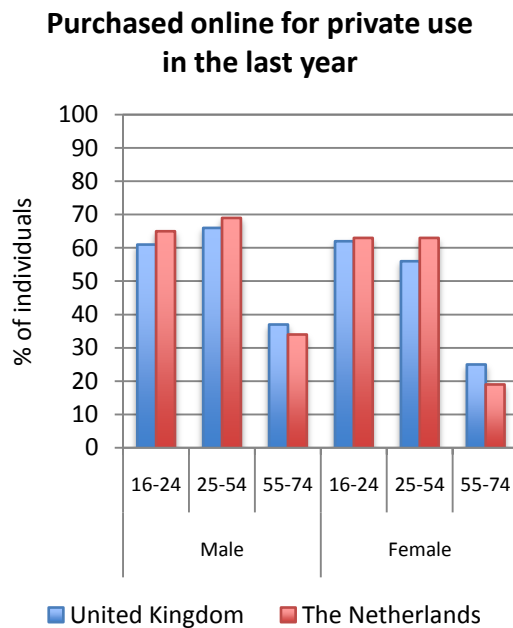


Figure 17: Online purchases by gender and age (Source: Eurostat)

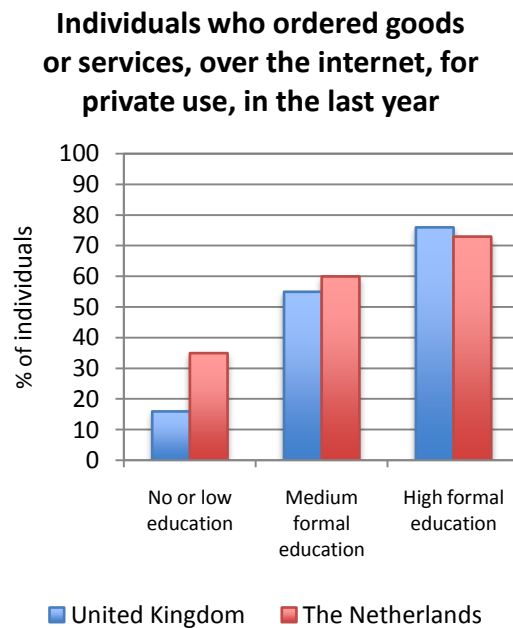


Figure 18: Online purchases by level of education (Source: Eurostat)

### 5.2.5. E-Commerce turnover

The current and forecasted E-commerce turnover for the target countries is depicted in Table 14, which shows a year-on-year growth of 25% for both countries.

E-commerce turnover in € billion		United Kingdom	The Netherlands
	2006	14.00	2.41
	2007	18.8 (+35%)	3.89 (+38%)
	<i>per capita</i>	€309.30	€233.70
Outlook - 2012	Retail sales	57.57	12.00
	<i>per capita</i>	€944.64	€720.92
	'07-'12 year-on-year growth	25.0%	25.3%

Table 14: E-commerce Turnover

(source: ABN Amro, Thuiswinkel.org & Verdict Research, 1 € = 0.78 GBP)

### 5.2.6. Conclusions micro analysis - E-commerce software market

Although people in the Netherlands are more connected and use internet more regularly, this is not reflected in the use of E-Commerce in that country (Table 15). Both in terms of the percentage of enterprises selling and purchasing online as in the percentage of turnover realized by E-commerce the country is lagging behind the United Kingdom in this sense being the front runner of Europe.

Overall the percentage of individuals who buy online is rising to the level of the UK, while more are getting familiar with online transactions. This is also acknowledged by a study by ABN Amro which estimates that the growth in online commerce in the Netherlands will remain strong for the next three to four years until the market starts to mature.

In the United Kingdom the overall levels of E-Commerce are not really moving. The percentage of enterprises selling and purchasing online is stable, as is the percentage of individuals with internet who are buying online. The total percentage of individuals buying online is growing, but this is due to the fact that more people are getting connected with faster internet.

Micro Analysis - E-Commerce		United Kingdom	The Netherlands
% of Enterprises (small/medium/large)	Selling online in 2007	26% / 31 % / 50%	24% / 30% / 35%
	Purchasing online in 2007	47% / 57% / 70%	35% / 40% / 51%
Average growth enterprises selling 2005-2007		+ 5.1%	+ 50.4%
Average growth enterprises purchasing 2005-2007		- 2.8%	+ 67.0%
% of individuals who ordered online in the last year (2007)		53%	55%
Turnover from E-Commerce in 2006		17%	11%
Forecasted turnover growth (2007-2012)		25%	25.3%
Forecasted sales per capita 2012		€ 944.64	€ 720.92

Table 15: Comparison outcomes Micro analysis - E-Commerce

### 5.3. Micro analysis - Online marketing

Online marketing primarily consists of display advertising and search engine marketing, which consists of search engine optimization and pay-for-click results. Search engine marketing means that websites are structured and developed in such a way that they can be more easily found using certain keywords, pay-for-click means that small advertisements are shown for certain keywords, and the advertiser has to pay for each time a web user clicks on one of these links.

### 5.3.1. Online advertising spending

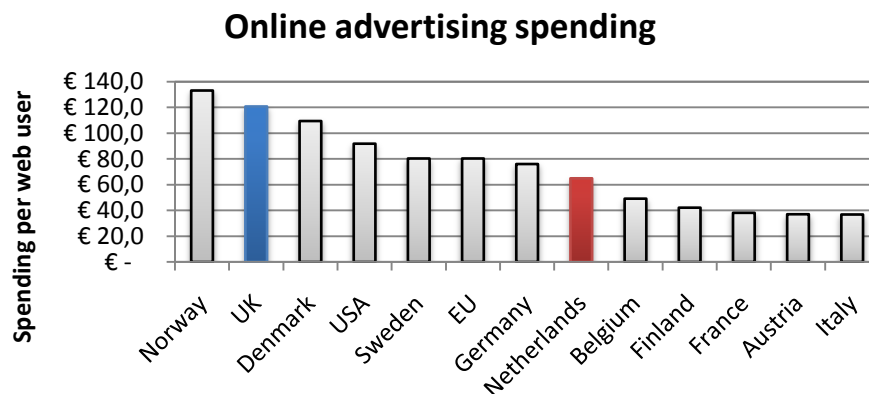
Online advertising spending (in million €)	United Kingdom	The Netherlands	Croatia
2006	3,120	560	-
2007	3,384 (+ 8.5%)	728.5 (+30%)	-
<i>As percentage of total spending</i>	<i>15.30%</i>	<i>18.50%</i>	<i>0.3% (forecast '08: 1%)</i>

**Table 16: Online advertising spending**

(source: <http://www.digitalstrategyconsulting.com>, IAB Europe)

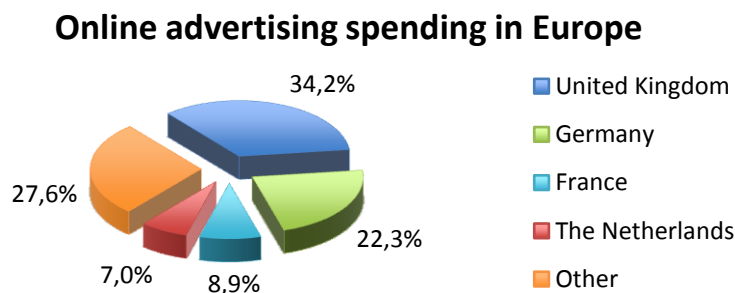
In recent years advertising budgets are moving more and more online (Table 16), with the Netherlands even being number one in Europe when it comes to the percentage of online advertising compared to total advertising spending. These numbers however are not entirely accurate because Google does not disclose figures for the Netherlands, which means that the figures for search marketing are an estimate.

The advertising spend per web user is very high for the Nordic countries and the United Kingdom, and considerably lower for the Netherlands as seen from Figure 19. However, in terms of total online advertising spending in Europe, the biggest three economies also have the biggest stake (fig. 20).



**Figure 19: Online advertising spending per web user in 2007**

(source: IAB Europe)



**Figure 20: Online advertising spending in Europe**

(source: IAB Europe)



### 5.3.2. Elements of online marketing

The market shares of different elements of online marketing are shown in Table 17, from which can be seen that while ‘Search’ marketing is 10 percentage points higher in the United Kingdom, the share of ‘Display’ marketing in the Netherlands is higher. This illustrates that the United Kingdom is ahead in the use of online marketing by making more use of the better targeting of search marketing.

Online spending 2007	United Kingdom		The Netherlands	
Search	2,030.8	60.0%	366.0	50.2%
Display	759.0	22.4%	190.0	26.1%
Other	594.8	17.6%	172.5	23.7%
Total (in € million)	3,384.6		728.5	

Table 17: Online advertising spending in 2007  
(source: IAB Europe, eMarketer. 0.78 GBP = 1.00 Euro)

### 5.3.3. Top Sectors

The top sectors in online advertising spending are depicted in Table 18. These differ greatly between the target countries, the only sector that is present in both is ‘Finance’.

Top sectors	United Kingdom	The Netherlands*
(% of total online ad spending)	Recruitment (25.7%)	Catering Industry, Tourism, Recreation (15.8%)
	Automotive (11.9%)	Finance (12.6%)
	Technology (10.4%)	Telecom/ICT (12.3%)
	Finance (10.0%)	Media (10.7%)
	Property (7.9%)	Retail (7.8%)

Table 18: Top sectors of online advertising spending  
(source: IAB Europe, Nielsen Spending report. \*: without search marketing)

### 5.3.4. Growth

For the Netherlands it was not possible to find a forecast on online marketing, again due to the fact that Google does not disclose figures which mean the sector is already in the dark about how the figures are right now, let alone in the future. The general expectation however is that the percentage of online advertising will rise against the traditional forms of marketing. This is driven by increased broadband penetration and advertiser confidence. The numbers for the United Kingdom and other markets are outlined in Table 19.

IAB Europe estimates that online advertising spending will be bigger than television in the UK by the end of 2009, backed up by an estimate by ZenithOptimedia that in 2012 in Europe online will be the biggest advertising group, followed by television, and with traditional media trailing in the back.

Billion € (% of total ad spending)		United Kingdom	The Netherlands	Europe	United States	Central/Eastern Europe
2007	Online Ad	3.6 (15.3%)	0.7 (18.5%)	6.5 (9.3%)	11 (9.1%)	0.4
	Search	2	0.4	..	2.9	..
2010	Online Ad	5.6 (18.6%)	..	12.6 (15.7%)	15.5 (11.8%)	1
	Search	3.3	..	..	6.5	..
	<i>Yearly growth</i>	<i>18.60%</i>	..	<i>24.70%</i>	<i>12.10%</i>	<i>37.80%</i>

**Table 19: Online advertising spending forecasts**

(sources: IAB Europe, eMarketer & ZenithOptimedia. 0.79 GBP = 1.00 Euro = 1.55 USD)

### 5.3.5. Conclusions micro analysis - Online marketing

The market for online marketing in the United Kingdom is more mature than in the Netherlands, with more knowledgeable customers, a bigger market share of search engine marketing and higher online advertising spending (Table 20). Companies in the Netherlands are only beginning to take advantage of these new possibilities as was, for instance, shown in a recent survey by Checkit that found that only 8% of the top 100 websites uses 'Search Engine Optimization' to make their website easier to find by search engines.

Micro Analysis - Online Marketing	United Kingdom	The Netherlands
Online advertising spending	€ 3,384 million	€ 728.5 million
as % of total advertising spending	15.3%	18.5%
Market share search engine marketing	60.0%	50.2%
Market share online advertising spending in Europe	34.2%	7.0%
Online advertising spending per web user	€ 120.8	€ 65.0

**Table 20: Comparison outcomes Micro analysis - Online Marketing. All figures for 2007**

## **5.4. Market competitiveness**

This section examines the market competitiveness with the aid of Porter's five forces model [1980].

### **5.4.1. Substitute products**

For a custom made E-Commerce web shop the substitute products would be:

- A customized template web shop  
The development of this type of web shop starts from a standard template or design, which is adapted to the client's wishes by adding the clients' colours and logo. This substitute product forms is not a real threat to the company since it is more simple and cheaper to make and therefore targets a different market segment than the company. In other words, these two products are not on the same level, the custom design being one step up in looks and functionality.
- An application service provider  
In terms of looks this is similar to a customized template web shop but no setup or hosting is required. The web shop is run from the server of the application service provider together with a lot of other web shops. This gives the service provider economies of scale and drives the price down, but again in terms of web design the product is not on the same level as the full custom web shop the company is offering, also compared to this substitute the custom web shop is one step up in design and functionality.

For search engine marketing (SEM) the only substitute products that reach such a targeted audience are the narrow-banner networks that display certain banners on websites where the target audience is browsing the web. These networks however lack the scale of search engine marketing.

### **5.4.2. Threat of new entrants**

The threat of new entrants is equal for both the E-Commerce tools development and online marketing markets. Both markets are easy to enter since there is little brand building, there are only small economies of scale for online marketing and no restricted distribution channels exist since the internet is open to all.

On the other hand it is also easy to exit since there are no real assets; these businesses depend on the skills of their workforce.

The fact that it is easy to get in or out of these markets makes the threat of new entrants high, however the quality makes the difference; a firm that can build on a solid and high quality portfolio and adequate promotion has little to fear from new entrants in the current high growth market.

### **5.4.3. Supplier power**

The only real supplier the company has to work with in its primary web design process is its hosting provider. Hosting however is a competitive market, which gives suppliers little power. Furthermore the open source community is a supplier because the company sells implementations of free open source tools. The company is not really dependent on these tools since the employees have the skills to switch to other open source products if necessary.

The company's sole supplier for online marketing is Google, which is therefore a very powerful supplier. There are two reasons why this probably will not hinder the company. First the search engine marketing service 'AdWords' is the program that generates most of Google's income, and Google would not want to hinder its own profits. And second the 'AdWords' service is actually a market place in which the highest bidder gets its advertisement shown, which means that the company is in control of what is happening.

#### **5.4.4. Competitive rivalry**

The intensity of rivalry is influenced by the following industry characteristics:

- Amount of firms  
Large, no real market leadership
- Market growth  
The markets for online marketing and e-commerce tools are growing, which causes less rivalry. By the time the market starts to mature in a few years' time it will be more difficult for firms to survive.
- Fixed costs  
Fixed costs are low, the only expenses are salaries and promotions, there is no stock or logistic processes.
- Costs of switching suppliers  
Since every implementation of a web shop is custom, switching suppliers during development is expensive. After the implementation the product works stand-alone and a client could then switch to another supplier. In online marketing the switching costs would depend on what is determined in the contract for the Ad-campaign.
- Level of product differentiation  
All the web shops basically do the same thing in only slightly different ways with variable complexity. Google AdWords is the standard advertising network almost everybody is using right now.
- Exit barriers  
There are low exit barriers for both products, so there is no real drive to compete before abandoning a product and moving on to another.

#### **5.4.5. Customers**

The customers of the company are businesses (or individuals) that want to conduct business online, be it sales, marketing or just presence by means of a website. The 'Bargaining power of customers' is low, due to high buyer switching costs - products are not standardized and the buyer cannot easily switch to another product. For online marketing customer bargaining power is higher, but still dependent on the terms in the contract.

#### 5.4.6. Conclusions market competitiveness

From the forces examined in this section the conclusions can be drawn that in the markets for both services there is no real market leader, basically all firms are offering similar services and it is easy for firms to enter or exit the market. Normally this would mean a high level of competitive rivalry but since the market is growing this is not yet the case; hence customer bargaining power is moderate but also not yet of influence. Also for both services there is little threat from substitute products and supplier bargaining power is low.

### 5.5. Competitor analysis

To get an overview of the competition, the first forty listed companies in the Yellow Pages of the United Kingdom and the Netherlands have been compared. The first striking fact is that the category 'Internet Web Design & Development' contains 10,450 companies in the United Kingdom and 5,207 in the Netherlands, which underlines the earlier conclusion that these markets attract a lot of new entrants.

The websites of these first 40 companies for each country were examined to see how many of them offer E-commerce tools, Search Engine Optimization and/or Search-Engine-Marketing. The results, depicted in Figure 21, lead to the conclusion that the interest for these services is lower in the Netherlands. Another conclusion from looking at the portfolios of these competitors is that there is a big difference in the quality of the work, the size of the clients and the complexity of the end results.

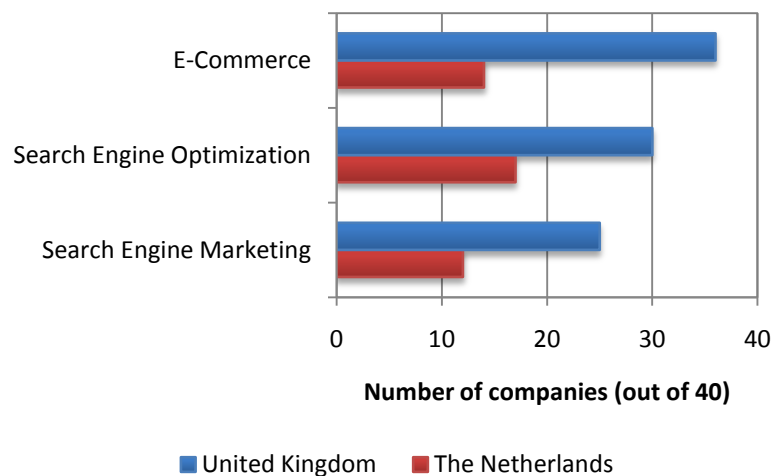


Figure 21: Product offering of web design companies

To compare prices for these markets, one of the websites in the portfolio of the company was shown to web development companies from the United Kingdom and the Netherlands as an example with the question how much a comparable full-fledged E-Commerce website would cost. The results are stated in Table 21.

	United Kingdom	The Netherlands	Escape
1	€1,021	€1,664	€2,500
2	€2,978	€2,101	
3	€4,936	€4,184	

**Table 21: Prices for a web shop of medium complexity**  
(source: anonymized data from UK & NL based web design firms, excluding taxes)

There are two remarks to Table 21. First, company #1 for the United Kingdom and #1 for the Netherlands did not have a strong portfolio that incorporates real custom designed web shops, but more template based ones, which explains the lower price. And second, #2 & #3 from the United Kingdom, and #3 from the Netherlands have probably more web design included in the price, explaining the higher price.

The conclusion from this comparison is that the price the company charges for an advanced custom designed web shop is on the low side of the price-range for both the Netherlands and the United Kingdom.

The prices of online marketing depend on the percentage of the budget that is agreed upon and the cost-per-click, which depends on the other bidders on those keywords.

## 5.6. Conclusions market review

The main conclusion from the macro analysis is that the two target countries are very similar. The only difference that stands out is that more people in the Netherlands are connected and generally use internet more frequently. This could mean that in the Netherlands E-commerce is more commonly used.

However, the micro analysis found that this is not the case. From the usage patterns of E-Commerce by enterprises and individuals the conclusion can be drawn that the Dutch market is still in the growth phase of the Product Life Cycle [Levitt, 1965], while the UK is already beginning to mature. This means that in The Netherlands web shops are still entering and leaving the market, while in the United Kingdom the market is settling in. This leads to the conclusion that while both growth markets would have a demand for web shop development, the demand from the Dutch market will be much stronger.

The consequence of this is that for the company the market potential of the Dutch market is more attractive, especially since the competitor analysis found that not so much competitors are yet offering E-commerce solutions. Furthermore the micro analysis found that the industry to target would be companies in the category 'Household goods' & 'Food/Groceries' and maybe 'Financial Services' & 'Computer Hardware', online sales in these categories have grown considerably over the past years but in the United Kingdom the amount of sales is still higher. One notable addition is to search for clients who sell to the target groups who buy frequently online; namely medium to high educated individuals of 16 to 54 years old.

For online marketing the situation is comparable to E-commerce; the market in the United Kingdom is more mature than in the Netherlands. Although the market share of online advertising in the Netherlands is slightly higher the absolute market size of the United Kingdom is much bigger. Most probably it will be difficult for the company to engage in online marketing in the Netherlands due to the need for keywords in Dutch.

From the analysis of the market competitiveness it is found that there is the possibility of high rivalry when the market starts to mature; this forms a threat to the company that can be reduced by focussing on the specialisation on e-commerce tools and using the strengths of the company (customer oriented approach and high quality level).

Overall, for both the United Kingdom, and the Netherlands, online marketing and E-Commerce tools are market opportunities, but for the Netherlands the market potential is much higher.

## **6. Entry mode review**

This chapter answers research question 3:

3. What are possible ways for the company to enter the target countries?

In this chapter the possible entry modes are evaluated on feasibility. The first evaluation is on external factors influencing the choice of entry mode and next on internal factors. The evaluation starts with Export, Contractual agreements, Joint ventures and Wholly owned subsidiaries as possible entry modes [Pan & Tse, 2000].

### **6.1. External factors**

#### **Target market**

The clients of the company are very divers, both in size of company and in type of company, but also in industry. There are some similarities though; all companies are looking for some kind of online presence, being a website or online marketing. The sales for the E-Commerce product are only limited, once the product is sold it will work stand-alone for quite some time; for Online marketing the usual product is the managing of a campaign, thus sales happen more often. The characteristics of the clients and target market however do not have an influence on the feasibility of one of the entry modes.

#### **Legal barriers**

As researched earlier in the Macro analysis of the target countries, there are no barriers preventing import/export or foreign direct investment. Therefore this factor has no influence on the set of feasible entry modes.

#### **Nature of the product**

The product is either the development of a custom web shop or the managing of an online marketing campaign. This renders 'Contractual agreements' unsuitable to use as entry mode. Contractual agreements are long-term associations between an international company and a domestic company that involves the transfer of technology or human skills. There is however not much Research & Development, there are no exclusive production methods or knowledge to license and there are no human skills to transfer. This means that contractual agreements are not a feasible entry mode.



## **6.2. Internal factors**

In the evaluation of the external factors the 'Contractual agreements' entry modes were removed from the set of feasible entry modes. For the internal evaluation therefore only Export, Joint Ventures and Wholly owned subsidiary remain to be evaluated for feasibility

### **Financial strength**

In the company overview it was found that the major weakness of the company at the moment is its financial situation. Therefore any entry mode that is employed to enter the target countries has to be low cost and start earning money quickly. In this light it would not be an option to employ a 'Wholly owned subsidiary' entry mode, because this would take up a lot of resources from a company in a weak financial position that is internationalizing in order to get more customers. Furthermore, one of the competitive advantages of the company is that it can work cheaper so opening an expensive local branch in a country with expensive labour would not be a feasible option.

### **Entry mode experience of company**

The company has limited experience in using entry modes. For some time the company has worked for two outsourcing partners abroad, developing websites and e-commerce solutions for these partners without getting into contact with the actual client. This experience however has, at this point, no influence on the entry mode decision.

### **Company size**

The small scale of the companies on these markets does not make it useful to use a 'Joint venture' as entry mode. Joint ventures are companies that are incorporated by an international company and a domestic partner. The purpose is usually to evade ownership restrictions or close cultural distance. Due to the little cultural distance and the effort involved to find a domestic partner it would make more sense to start a wholly owned subsidiary than form a joint venture. Joint ventures are therefore not a feasible entry mode

### **Extent of control**

Only the entry mode 'Export' remains in the set of feasible entry modes. While the two modes of export, direct and indirect, each have a different level of control by the exporting company this does not result in any of them being unfeasible.

### **6.3. Feasible entry modes**

The feasible entry modes remaining from the evaluation in the previous paragraphs are indirect and direct export. In the following two paragraphs the concrete realisation of these entry modes is considered.

#### **6.3.1. Direct export**

Direct export, meaning exporting without an intermediary, requires more knowledge about the target country of the company. The company at this moment has one dedicated salesperson for the Croatian market. Direct export might require hiring a new salesperson with knowledge about the local web development market. This salesperson could be operating from Croatia or from the target country, the latter being more effective due to personal contact which is in line with their customer-oriented approach.

Due to the intangible nature of the product it is also possible to use the internet as distribution channel for the product. This has also been suggested to the owners of the company but was excluded from the research for the reason that that will most probably only generate sales to clients who are looking for a specific solution and not to companies that need to be educated about the benefits of the product. The premise in this is that the pool of companies who have to be educated about the product is much bigger than those already looking for a solution.

To conduct business in the Netherlands no Dutch linguistic skills are necessary since English is widely spoken. Only for search-engine marketing language forms a barrier, since it is necessary to come up with keywords in Dutch.

#### **6.3.2. Indirect export**

Indirect export through an agent or outsourcing partner is possible for both target countries. The advantage of indirect export is that the company can use the experience, knowledge and network of the partner. The disadvantage is that the services of the agent or outsourcing partner also have to be paid. In recent years the company has already gathered experience as an outsourcing partner for a British and a Danish web development firm.

Indirect export through an agent would mean that the agent is the local representative of the company who would do lead generation for that market and make the initial contact. After this has been done the agent makes the connection between the company and the prospective buyer and the company picks up its primary process from there by sending the prospective buyer an offer. The big advantage of this way of working is that the company could work under its own name and can show the projects and clients in its portfolio.

While working through an outsourcing partner the company would not be able to show projects in its portfolio. Furthermore, all the communication with the client is done by the outsourcing partner, which might complicate communication. The positive side of working with an outsourcing partner is that the company gets projects to work on with minimal effort.

#### **6.3.3. Conclusion**

The feasible entry modes from the 'Entry mode review' are direct export and indirect export by either an agent or an outsourcing partner.

## 7. Market and entry mode selection

This chapter answers research question 4:

4. Which market and entry mode combination is the best?
  - a. What possible combinations of entry modes and markets are possible?
  - b. How do these combinations compare on the set criteria?

In this chapter combinations of potential markets and feasible entry modes are formed and evaluated. After this, the score on the criteria is compared, followed by the final decision.

### 7.1. Combination markets and entry modes

#### 7.1.1. Feasible entry modes

The feasible entry modes from the 'Entry mode review' are direct export and indirect export by either an agent or an outsourcing partner.

#### 7.1.2. Potential markets

For both the United Kingdom and the Netherlands, E-commerce web development and Online Marketing have potential, however due to the language barrier online marketing in the Netherlands is not a potential market for the company.

#### 7.1.3. Combinations

The possible combinations of potential markets and feasible entry modes are outlined in Table 22.

Entry Mode	United Kingdom		The Netherlands	
	E-Commerce	Online Marketing	E-Commerce	Online Marketing
Direct Export	X	X	X	
Indirect Export (Outsourcing Partner)	X	X	X	
Indirect Export (Agent)	X	X	X	

Table 22: Possible combinations of markets and entry modes

### 7.2. Comparison of combinations

Now that the different combinations of markets and entry modes are known they have to be compared to see which of the combinations is most attractive. This comparison is based on the criteria that were determined in paragraph 4.3. Decision criteria, p30:

- 2 - Effort involved
- 1 - Risk/Reversibility involved
- 1 - Revenue contribution
- 1 - Communication

The scores are: + for positive, 0 for neutral and - for negative (unfavourable). The combinations are compared by market and country, resulting in Table 23, Table 24 and Table 25.

The scoring in these tables was done by the researcher due to the fact that the owner of the company was unavailable for some time because of a high workload. Afterwards the results have been reviewed together with the owners in a feedback meeting and some minor changes were made. Therefore the robustness of these scores is found to be quite high.

United Kingdom E-Commerce	Direct Export		Indirect Export (Outsourcing Partner)		Indirect Export (Agent)	
Effort (score x2)	Big effort in finding and contacting potential clients	2x(-)	Finding and contacting potential clients done by partner, company needs to find good partner	2x(+)	Finding and contacting potential clients done by agent, company needs to find good agent	2x(+)
Risk/Reversibility	Need to hire new sales personnel or start advertising campaign, involves risk and money. Hard to reverse	-	Requires resources to find new partner, after that easy to reverse and low risk level.	+	Requires resources to find a good agent, after that easy to reverse and low risk level.	+
Revenue contribution	Potential revenue higher than indirect, however: UK market already maturing with a lot of competitors	0	Partner takes cut out of the revenue. Furthermore: UK market already maturing with a lot of competitors	0	Agent takes cut out of the revenue. Furthermore: UK market already maturing with a lot of competitors	0
Communication	Communication is undertaken by the company themselves, working directly with the customer.	+	Communication goes through the partner, the quality of this input therefore depends on the knowledge of the partner.	0	The agent establishes the contact with the client and the company, after this the company deals directly with the client.	+
Total		--		+++		++++

Table 23: Scores for the entry modes for 'United Kingdom, E-Commerce'

The Netherlands E-Commerce	Direct Export		Indirect Export (Outsourcing Partner)		Indirect Export (Agent)	
Effort (score x2)	Big effort in finding and contacting potential clients	2x(-)	Finding and contacting potential clients done by partner, company needs to find good partner	2x(+)	Finding and contacting potential clients done by agent, company needs to find good agent	2x(+)
Risk/Reversibility	Need to hire new sales personnel and/or start advertising campaign, involves taking risk and money. Hard to reverse	-	Requires resources to find new partner, after that easy to reverse and low risk level.	+	Requires resources to find a good agent, after that easy to reverse and low risk level.	+
Revenue contribution	Potential revenue higher than indirect, market is growing	+	Partner takes cut out of the revenue, market is growing	+	Agent takes cut out of the revenue, market is growing	+
Communication	Communication is undertaken by the company themselves, working directly with the customer.	+	Communication goes through the partner, the quality of this input therefore depends on the knowledge of the partner.	0	The agent establishes the contact with the client and the company, after this the company deals directly with the client.	+
Total		-		++++		+++++

Table 24: Scores for the entry modes for 'The Netherlands, E-Commerce'

United Kingdom Online Marketing	Direct Export		Indirect Export (Outsourcing Partner)		Indirect Export (Agent)	
Effort (score x2)	Big effort in finding and contacting potential clients	2x(-)	Finding and contacting potential clients done by partner, company needs to find good partner	2x(+)	Finding and contacting potential clients done by agent, company needs to find good agent	2x(+)
Risk/Reversibility	Need to hire new sales personnel and/or start advertising campaign, involves taking risk and money. Hard to reverse	-	Requires resources to find new partner, after that easy to reverse and low risk level.	+	Requires resources to find a good agent, after that easy to reverse and low risk level.	+
Revenue contribution	Potential revenue higher than indirect, however: UK market already maturing with a lot of competitors	0	Partner takes cut out of the revenue. Furthermore: UK market already maturing with a lot of competitors	0	Agent takes cut out of the revenue. Furthermore: UK market already maturing with a lot of competitors	0
Communication	Need for communication lower for online marketing, keywords can be generated by company on its own	+	The little communication goes through the partner but the company develops keywords themselves	+	The agent establishes the contact with the client and the company, after this the company deals directly with the client.	+
Total		--		++++		++++

Table 25: Scores for the entry modes for 'United Kingdom, Online Marketing'

### 7.3. Final decision

The combined scores of these tables are stated in Table 26, with in green the selected highest score and in yellow the shared second highest scores.

	United Kingdom		The Netherlands	
	E-Commerce	Online Marketing	E-Commerce	Online Marketing
Direct Export	--	--	-	
Indirect Export (Outsourcing Partner)	+++	++++	++++	
Indirect Export (Agent)	++++	++++	+++++	

**Table 26: Combined scores of the entry modes and markets**

As can be seen from Table 26, direct export is negative for all the possible markets, only a little better for the Netherlands due to the better market opportunities. Both for online marketing and E-commerce in the United Kingdom the score is one '+' lower due to the maturing market but it still would be possible to make a profit there through indirect export.

The best combination with the highest score however is indirect export through an agent in the Netherlands. The company can then develop and sell under its own name.

The sensitivity of this outcome to changes in the scores on the criteria is quite high. If for instance the market for E-commerce in the Netherlands is growing less than expected the final score for the combination of [indirect export (agent) - E-Commerce in the Netherlands] is also 4 +'s. That would mean that all the highlighted combinations from Table 26 would be equally attractive. In this case however indirect export through an agent still has an edge over the outsourcing partner due to the fact that the company is working under its own name.

## 8. Conclusions and recommendations

### 8.1. Conclusions

The conclusions from the company overview are that the most important strengths of the company are by far its flexibility, customer oriented approach and high quality products. The most important weaknesses are its weak financial situation, underdeveloped management skills and work capacity. This knowledge contributed to setting up the following decision criteria to make the selection for the target market and entry mode:

- Effort involved
- Risk/Reversibility involved
- Revenue contribution
- Ease of Communication

The market review found that there exist no major differences between the two target countries in the macro environment that influence the decision whether to expand the company's services to these countries.

On the micro level it can be concluded that the Dutch market is still in the growth phase of the product life cycle, while the United Kingdom is already beginning to mature. This leads to the conclusion that while both growth markets would have a demand for web shop development and thus form opportunities for the company, the demand from the Dutch market will be stronger. With regard to the market segment to target it can be concluded that firms in the categories 'Household goods' & 'Food/Groceries' and maybe 'Financial Services' & 'Computer Hardware' are potential clients in the Netherlands, online sales in these categories have grown considerably over the past years but in the United Kingdom the amount of sales is still higher.

The feasible entry modes that were identified in the entry mode review are direct export and indirect export by either an agent or an outsourcing partner.

From the comparison of combinations of potential markets and entry modes the best scoring alternative was selected, namely to export E-commerce tools to the Netherlands by means of indirect export. Sales of the service in the target country are to be handled by a local agent who represents the company.



## 8.2. Recommendations

Before the company can start exporting it will need to do some further research and planning in the form of a marketing plan. This research already highlights the mission, vision and objectives of the company, as well as its unique selling proposition, namely the high quality of its web solutions for a price lower than the competition.

A strategy that can be used by the company when entering the market is to focus on differentiation; selling custom designed complete E-commerce solutions that attract traffic to the website through Search Engine Marketing/Optimization.

What's needed further to complete the marketing plan is a clear planning of the activities to undertake and on the financial effort and expected return involved. Furthermore it is necessary to formulate a marketing mix using the 7P's (Price, Product, Promotion, Place, Procedures, Physical assets and Personnel) [Yudelson, 1999][Goldsmith, 1999]. And naturally the company should look for representation in the form of an agent in the target country.

Recommendations based on the findings but outside of the scope of the research problem are that the company could hire the two employees it still needs on a freelance basis first once the financial situation gets better.

Furthermore it might be beneficial to adopt one of the free Customer Relationship Management software solutions available online when working together with an agent or just between the people working on sales in the company. This could help in making the work of the sales force more transparent and manageable.

And finally, the company states that for the domestic market they have to educate their clients on the technology and benefit of what they are selling. It might be a good idea to record that explanation in the form of a downloadable brochure on the company's website. When written in a clear and non-technical way this document can show the actual benefit the client obtains from utilizing this particular technology. This could help in generating new sales.

## References

References used, in alphabetical order:

- 12Manage.com. (n.d.). *PEST Analysis*. Retrieved May 14, 2008, from [http://www.12manage.com/methods\\_PEST\\_analysis.html](http://www.12manage.com/methods_PEST_analysis.html)
- ABN Amro. *Online retail rapport 2007*.
- Actual Currency Rates. (n.d.). Retrieved May 28, 2008, from <http://www.xe.com>
- Albaum, G., Strandskov, J., Duerr, E., & Dowd, L. (1989). *International Marketing and Export Management*. Wokingham: Addison-Wesley.
- Belastingdienst. (n.d.). *Taxation information*. Retrieved May 20, 2008, from <http://www.belastingdienst.nl>
- Blacqui re, E. (2007). *Marktonderzoek Zoekmachinemarketing Nederland*.
- Centraal Bureau voor de Statistiek. *De Digitale Economie 2007*.
- Checkit. (2007). *Top 100 online vindbaarheid*. Amsterdam: Checkit.
- CIA. (n.d.). *CIA World Factbook*. Retrieved May 27, 2008, from <http://www.cia.gov/library/publication/the-world-factbook>
- European Bureau for Statistics. (n.d.). *Statistics database*. Retrieved June 20, 2008, from <http://epp.eurostat.ec.europa.eu>
- European Commission. (2007). *Annual Information Society Report*. Brussels: Office for official publications of the European Communities.
- EVD. (n.d.). *Land- en export informatie*. Retrieved June 05, 2008, from <http://www.evd.nl>
- Goldsmith, R. E. (1999). The personalised marketplace: beyond the 4Ps. *Marketing Intelligence & Planning* 17/4 , 178-185.
- Heritage Foundation. (n.d.). *United Kingdom*. Retrieved May 30, 2008, from The Economic Freedom Index: <http://www.heritage.org/research/features/index/country.cfm?ID=UnitedKingdom>
- IAB The Netherlands. (n.d.). *Persberichten IAB*. Retrieved June 15, 2008, from <http://www.iab.nl>
- Koch-1, A.J. (2001). Factors influencing market and entry mode selection: Developing the MEMS model. *Marketing Intelligence and Planning* (vol. 19, no. 5), 351-6.
- Koch-2, A.J. (2001). Selecting overseas markets and entry modes: Two decision processes or one? *Marketing Intelligence & Planning* (vol 19, no. 1), 65-75.
- Kotler, P. & Keller, K.L. (2003). *Marketing Management* (12th ed.). Upper Sadle River, New Jersey: Prentice-Hall, Inc.
- Kumar, V. & Subramaniam, V. (1997). A contingency framework for the mode of entry decision. *Journal of World Business*, vol. 31, no. 1 , pp 53-72.
- Kurtilla, M., Pesonen, M., Kanga, J. & Kajanus, M. (2000). Utilizing the analytic hierarchy process in SWOT analysis. *Forest Policy and Economics*, vol. 1, no.1 , 41-52.
- Levitt, T. (1965). Exploit the product life cycle. *Harvard Business Review*, volume 43 , 81-94.
- Pan, Y. & Tse, D.K. (2000). The hierachical model of market entry modes. *Journal of International Business Studies*, vol. 31, no. 4 , 535-554.
- Porter, M.E. (1980). *Competitive strategy* (1st ed.). New York: Free Press.
- Porter, M.E. (1990). *The competitive advantage of nations*. New York: Free Press.
- Root, F.R. (1994). *Entry strategies for international markets* (1st ed.). New York: Lexington Books.
- Royal Bank of England. *Inflation report, may 2008*. London.
- Saunders, M., Lewis, P. & Thornhill, A. (2006). *Research methods for business students* (4th ed.). London: Prentice Hall.
- Steehouder et. al. (1999). *Leren communiceren* (4 ed.). Groningen: Wolters-Nordhoff.
- United States Commercial Service. (n.d.). *Market Research Library*. Retrieved June 8, 2008, from <http://www.export.gov/mrktresearch/index.asp>
- Yudelson. (1999). Adapting McCarthy's 4P's for the Twenty-first Century. *Journal of Marketing Education* 21 No. 1 , 60-67.

## Appendix I - PEST Analysis - United Kingdom

### 1. Index of economic freedom

The United Kingdom (U.K.) is 79,5 percent free, according to the 'Index of Economic Freedom 2008' - published by The Heritage Foundation. This earns it the 10th place in the world, and the 3rd place out of 41 countries in the European region.

<b>Business Freedom</b>	The overall freedom to start, operate, and close a business is strongly protected by the U.K.'s regulatory environment.	90.80%
<b>Trade Freedom</b>	The U.K.'s trade policy is the same as those of other members of the European Union. The common EU weighted average tariff rate is 2 percent since 2005	86.00%
<b>Fiscal Freedom</b>	The U.K. has a high income tax rate and a moderate corporate tax rate. The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT), an environmental tax, and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 37.2 percent.	61.20%
<b>Monetary Freedom</b>	Inflation is low, averaging 2.1 percent between 2004 and 2006. Relatively stable prices explain most of the monetary freedom score.	80.70%
<b>Investment Freedom</b>	Foreign investors receive the same treatment as domestic businesses. Capital markets are deep and sophisticated, macroeconomic fundamentals are strong, and the labour market is relatively flexible.	90.00%
<b>Property Rights</b>	Property rights are respected and enforced. Contracts are secure. The legal system protects intellectual property rights.	90.00%
<b>Freedom from Corruption</b>	Corruption is perceived as minimal. The United Kingdom ranks 11th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Foreign investors generally do not view official corruption as a factor in doing business.	86.00%
<b>Labour Freedom</b>	Flexible employment regulations enhance overall productivity growth and employment opportunities. The non-salary cost of employing a worker is moderate, but dismissing a redundant employee is not burdensome. Regulations related to the number of work hours are quite flexible.	80.70%

Table 27: Economic Freedom Index scores for the United Kingdom  
(Source: 2008 Index of Economic Freedom - The Heritage Foundation)

## **2. Political/Legal**

### **2.1. International trade regulations and restrictions**

There are no restrictions or special regulations on the import and export of 'Electronically supplied services'.

### **2.2. Value added taxes**

Non-EU Companies supplying 'Electronically supplied services' to EU consumers or non-business clients can use a new scheme for VAT adopted in 2003. Under this scheme the company only has to register in one EU member state and can then do business and charge the corresponding VAT in every member state. The company can account all its business then only in the member state it is registered.

For non-EU companies supplying these services to EU business, the receiving party will be required to account for VAT using the reverse charge procedure.

### **2.3. Employment laws**

Minimum wages since the 1st of October 2006:

< 18 years old	3.30 Pound/hour
18 - 22 years old	4.45 Pound/hour
> 22	5.35 Pound/hour

There are exclusions from this, for instance self-employed entrepreneurs and interns.

An employee..

.. may work not more than 48 hours per week on average.

.. is entitled to 11 hours of rest per day.

.. has the right to have a paid break of 20 minutes if the working day is longer than 6 hours.

.. has the right to 4 weeks of paid leave per year, after being at least 13 weeks employed.

There are four main types of company structures in the United Kingdom:

- Private company limited by shares  
This is the most common type of company. The shares can never be made for sale to the general public.
- Private company limited by guarantee  
Owners of this type of company do not purchase shares, and their liability is therefore limited to the amount that they agree to contribute if the company goes bankrupt.
- Private unlimited company  
The owners of this type of company are entirely liable for its actions, therefore only little company information has to be disclosed publicly.
- Public limited company  
This type of company has a share capital and the liability of each owner of shares is limited to the value of its shares. The difference with a private limited company is that for a public limited the shares may be publicly sold and quoted on the stock exchange.

### 3. Economic

#### 3.1. Key economic facts

<i>Economic growth</i>	
<b>GDP (purchasing power parity)</b>	\$2.147 trillion (2007 est.)
<b>GDP (official exchange rate):</b>	\$2.756 trillion (2007 est.)
<b>GDP - real growth rate:</b>	2.9% (2007 est.)
<b>GDP - per capita (PPP):</b>	\$35,300 (2007 est.)
<b>Inflation (CPI)</b>	2,5% (march 2007)
<b>Interest rate</b>	5%
<i>Trade</i>	
<b>Total import</b>	\$595.6 billion f.o.b. (2007 est.)
<b>Total export</b>	\$415.6 billion f.o.b. (2007 est.)
<i>Government spending</i>	
<b>Revenues</b>	\$1.155 trillion
<b>Expenditures</b>	\$1.237 trillion
<b>Public debt</b>	43,3% of GDP
<i>Unemployment</i>	
<b>Unemployment Rate</b>	5,4 % (august 2007)
<i>Personal taxation rate</i>	
<b>&lt; 34 600 GBP</b>	20%
<b>&gt; 34 600 GBP</b>	40%
<i>Corporate taxation rate</i>	
<b>Profit &lt; 300 000 GBP</b>	21%
<b>&gt; 300 000 GBP</b>	28%

Table 28: Key economic facts  
(source: CIA World Factbook)

#### 3.2. Exchange rates

	EUR	GBP	KUN
<b>EUR</b>		0.798	7.247
<b>GBP</b>	1.253		9.086
<b>KUN</b>	0.138	0.11	

Table 29: Exchange rates  
(source: rates at 2008.05.27 - XE.com)

## 4. Social

### 4.1. Income distribution

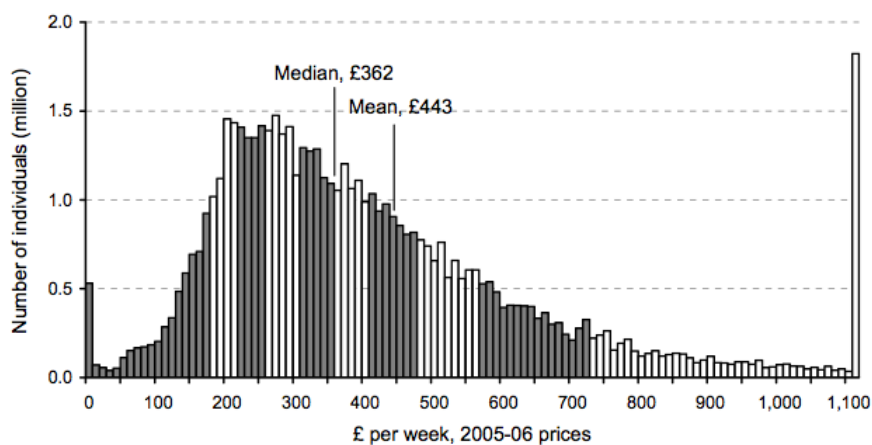


Figure 22: Income distribution in the United Kingdom  
(source: HM Revenue & Customs)

### 4.2. Demographics

Demographics	
Population	60,943,912 (July 2008 est.)
Age Structure:	
0-14 years	16.9%
15-64 years	67.1%
65+ years	16%
Population growth	0.276% (2008 est.)

Table 30: Key demographic figures

## 5. Technological

### 5.1. Internet statistics

Internet statistics - United Kingdom	2004	2005	2006	EU25	#
Broadband penetration (as % of population)	8.8	14.9	20.4	15.7	6
Households having broadband (as % of those having access to the internet at home)	28.3	52.4	70.1	62.1	11
% of enterprises with broadband access	50.2	65.4	77.4	74.5	10
<b>Internet Usage (% of population)</b>					
Regular internet users	48.6	53.9	56.8	46.7	10
Sending emails	53	56.6	52.8	43.8	10
Looking for information about goods and services	49.2	56.8	55.2	42.9	9
Internet telephoning or videoconferencing	4	4.8	6.7	7.1	19
Playing/downloading games and music	25.3	23.3	24.5	18.2	9
Listening to the web radio/watching web tv	9.6	14.9	15.2	11.8	11
Reading online newspapers/magazines	18.3	24	23.3	19	15
Internet banking	22.4	26.9	27.8	22	11
<b>Places of access</b>					
% at home	51	55.1	55.5	42.6	9
% at work	29.4	31	30.2	23.1	8
% at educational place	10.6	10.4	9.8	8	12
<b>eGovernment Indicators</b>					
% basic public services for citizens fully online	60		80	36.8	2
% basic public services for enterprises fully online	57.1		57.1	67.8	20
% of population using e-Government services	21.7	24.3		23.8	..
% of enterprises using e-Government services	34.5	38.8	52.5	63.7	22
<b>ICT in schools</b>					
Number of computers connected per 100 pupils			18.5	9.9	4
% of schools with broadband access			75	67	13
<b>e-Commerce</b>					
e-commerce as % of total turnover of enterprises	14.3	15.6	17.4	11.7	2
% enterprises receiving internet orders	13.1	14.7	18.8	13.9	8
% enterprises purchasing on the internet	45.3	53.9	62.4	37.9	3
<b>E-business. (% enterprises)</b>					
with integrated internal business processes	34.5	10	15.3	37.3	24
with integrated external business processes	9.6	8.9	10.9	13.5	13
<b>Employment and Skills</b>					
% employees using Internet at work	54.4	38.3	41.5	36.1	7
% of persons employed with ICT user skills.	24.1	24.6	24.7	18.5	1
% of persons employed with ICT specialist skills	3.2	3.2	3.2	3.1	10

**Table 31: Internet Statistics United Kingdom**  
(source: European Commission - i2010 report)

## Appendix II - PEST Analysis - The Netherlands

### 1. Index of economic freedom

The Netherlands is 76.8 percent free, according to the 'Index of Economic Freedom 2008' - published by The Heritage Foundation. This earns it the 13th place in the world, and the 6th place out of 41 countries in the European region.

<b>Business Freedom</b>	The overall freedom to start, operate, and close a business is protected by the Netherlands' regulatory environment.	88.00%
<b>Trade Freedom</b>	The Netherlands' trade policy is the same as those of other members of the European Union. The common EU weighted average tariff rate is 2 percent since 2005.	86.00%
<b>Fiscal Freedom</b>	The Netherlands has high income tax rates and moderate corporate tax rates. The top income tax rate is 52 percent, and the top corporate tax rate was reduced to 25.5 percent effective January 2007. Other taxes include a value-added tax (VAT), a tax on insurance contracts, and a real estate tax. In the most recent year, overall tax revenue as a percentage of GDP was 38.2 percent.	51.60%
<b>Monetary Freedom</b>	The Netherlands is a member of the euro zone. Inflation is low, averaging 1.6 percent between 2004 and 2006. Relatively stable prices explain most of the monetary freedom score.	86.90%
<b>Investment Freedom</b>	The Netherlands promotes foreign investment, except in railways, the national airport, and public broadcasting, with some of the world's most liberal policies, including fact-finding trips and consulting services. There is no screening, 100 percent foreign ownership is allowed in areas where foreign investment is permitted, and foreign investors receive national treatment. Commercial laws are straightforward. Environmental restrictions are tight, and restrictive changes in EU policy may dictate Dutch policies in the future. There are no restrictions on or barriers to current transfers, repatriation of profits, purchase of real estate, or access to foreign exchange. Capital transactions are not restricted but are subject to reporting requirements.	90.00%
<b>Property Rights</b>	Private property is secure, contracts are very secure, and the judiciary is sound. Citizens and foreigners purchasing real property receive equal treatment.	90.00%
<b>Freedom from Corruption</b>	Corruption is perceived as minimal. The Netherlands ranks 9th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Dutch law makes corruption by Dutch businessmen in landing foreign contracts a penal offence	87.00%
<b>Labour Freedom</b>	Restrictive employment regulations hinder employment opportunities and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee is relatively costly and difficult. Restrictions on the number of work hours are moderately flexible.	60.50%

Table 32: Economic Freedom Index scores for the United Kingdom  
(Source: 2008 Index of Economic Freedom - The Heritage Foundation)



## **2. Political/Legal**

### **2.1. International trade regulations and restrictions**

There are no restrictions or special regulations on the import and export of 'Electronically supplied services'.

### **2.2. Value added taxes**

Non-EU Companies supplying 'Electronically supplied services' to EU consumers or non-business clients can use a new scheme for VAT adopted in 2003. Under this scheme the company only has to register in one EU member state and can then do business and charge the corresponding VAT in every member state. The company can account all its business then only in the member state it is registered.

For non-EU companies supplying these services to EU businesses, the receiving party will be required to account for VAT using the reverse charge procedure.

### **2.3. Employment laws**

Minimum wages are adjusted twice a year to the average development of the loans under collective bargaining agreements.

The minimum wage for people of 23 years or older is

per month      € 1.335,00

per week        €    308, 10

per day         €     61, 62

Younger employees have a declining percentage of this as minimum-youth-wage:

22 years: 85%, 21 years: 72,5%..

There are exclusions from this, for instance self-employed entrepreneurs and interns.

An employee..

.. may work not more than 55 hours per week on average.

.. is entitled to 11 hours of rest per day.

.. has the right to have a paid break of 30 minutes if the working day is longer than 5,5 hours.

.. has the right to at least four times the amount of hours worked per week as paid leave per year.

There are five main types of companies in the Netherlands:

- Sole trader  
One owner, liable for obligations of the company.
- General partnership  
One business with two or more partners, each partner is liable for obligations.
- Limited partnership  
Two sorts of partners, active: active in the business, liable for obligations of the company,  
silent: only contribute funds, liable for only the amount of these funds
- Private limited liability company

The company is liable for its obligations, shares cannot be sold publicly.

- Public limited liability company

The company is liable for its obligations, share can be sold publicly and quoted on the stock exchange.

### 3. Economic

#### 3.1. Key economic facts

<i>Economic growth</i>	
<b>GDP (purchasing power parity)</b>	\$638.9 billion (2007 est.)
<b>GDP (official exchange rate):</b>	\$754.9 billion (2007 est.)
<b>GDP - real growth rate:</b>	3.5% (2007 est.)
<b>GDP - per capita (PPP):</b>	\$38,600 (2007 est.)
<b>Inflation (CPI)</b>	1.6% (2007 est.)
<b>Interest rate</b>	5%
<i>Trade</i>	
<b>Total import</b>	\$402.4 billion (2007 est.)
<b>Total export</b>	\$465.3 billion (2007 est.)
<i>Government spending</i>	
<b>Revenues</b>	\$302.8 billion
<b>Expenditures</b>	\$352.3 billion
<b>Public debt</b>	47.7% of GDP (2007 est.)
<i>Unemployment</i>	
<b>Unemployment Rate</b>	4.1% (2007 est.)
<i>Personal taxation rate</i>	
<b>&lt; 17 319 EUR</b>	33.65% (or 15,75% for 65+)
<b>17 230 - 31 122 EUR</b>	41.4% (or 23,50% for 65+)
<b>31 123 - 53 064 EUR</b>	42%
<b>&gt; 53 065 EUR</b>	52%
<i>Corporate taxation rate</i>	
<b>Profit &lt; 40 000 EUR</b>	20%
<b>40 000 - 200 000 EUR</b>	23%
<b>&gt; 200 000 EUR</b>	25.5%

Table 33: Key economic facts

(source: CIA World Fact book - The Netherlands & De Belastingdienst)

#### 3.2. Exchange rates

	<b>EUR</b>	<b>GBP</b>	<b>KUN</b>
<b>EUR</b>		0.798	7.247
<b>GBP</b>	1.253		9.086
<b>KUN</b>	0.138	0.11	

Table 34: Exchange rates

(source: rates at 2008.05.27 - XE.com)

## 4. Social

### 4.1. Income distribution

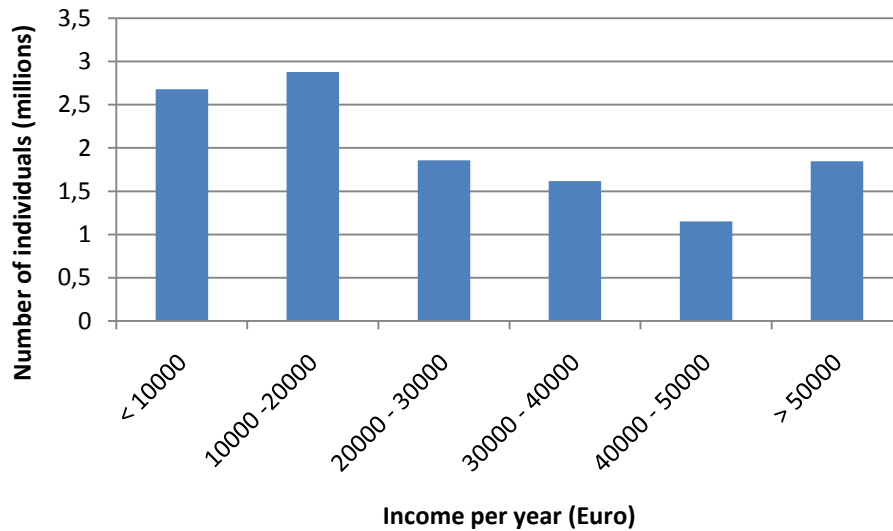


Figure 23: Income distribution in the Netherlands  
(source: CBS)

### 4.2. Demographics

Demographics	
Population	16,645,313 (July 2008 est.)
Age Structure:	
0-14 years	17.6%
15-64 years	67.8%
65+ years	14.6%
Population growth	0.436% (2008 est.)

Table 35: Key demographic figures  
(source: CIA World Fact book)

## 5. Technological

### 5.1. Internet statistics

Internet statistics - The Netherlands	2004	2005	2006	EU25	#
Broadband penetration (as % of population)	16.4	23.8	29.8	15.7	1
Households having broadband (as % of those having access to the internet at home)		68.8	82.4	62.1	4
% of enterprises with broadband access	53.7	71.3	81.7	74.5	9
<b>Internet Usage (% of population)</b>					
Regular internet users		73.5	76.4	46.7	5
Sending emails		73.1	75.9	43.8	2
Looking for information about goods and services		70	73	42.9	4
Internet telephoning or videoconferencing		5	10.1	7.1	10
Playing/downloading games and music		36.8	41.6	18.2	1
Listening to the web radio/watching web tv		19.8	27.9	11.8	4
Reading online newspapers/magazines		29.4	36.4	19	7
Internet banking		49.6	58.7	22	4
<b>Places of access</b>					
% at home		73.7	76.7	42.6	4
% at work		36.3	38.9	23.1	4
% at educational place		8.4	9.2	8	13
<b>eGovernment Indicators</b>					
% basic public services for citizens fully online	18.2		36.4	36.8	14
% basic public services for enterprises fully online	50		75	67.8	12
% of population using e-Government services		45.6	51.8	23.8	3
% of enterprises using e-Government services	46.7	56.9	69.7	63.7	15
<b>ICT in schools</b>					
Number of computers connected per 100 pupils			20	9.9	3
% of schools with broadband access			92	67	4
<b>e-Commerce</b>					
e-commerce as % of total turnover of enterprises				11.7	
% enterprises receiving internet orders	18.6	21.4	27.9	13.9	3
% enterprises purchasing on the internet	28.7	35.3	45.3	37.9	10
<b>E-business. (% enterprises)</b>					
with integrated internal business processes	58.9	60.9	61.7	37.3	2
with integrated external business processes	20.5	18.3	18	13.5	2
<b>Employment and Skills</b>					
% employees using Internet at work	36.8	42.2	44.8	36.1	6
% of persons employed with ICT user skills.	20.5	19.6	19.7	18.5	6
% of persons employed with ICT specialist skills	4.2	4.3	4.1	3.1	4

**Table 36: Internet Statistics The Netherlands**  
(source: European Commission - i2010 report)

## Appendix III - Interview transcript

The questions list for the interview:

1. The Company
  - a. Can you tell me the history of the company?
2. Products
  - a. Which products do you sell?
  - b. Why this offering?
  - c. How does the selling process take place?
3. Market
  - a. On which markets (countries/segments) is Escape currently active?
  - b. What are your experiences?
  - c. Do you have an insight in your market share and growth?
  - d. Are there any current trends you identify in the market?
4. Clients
  - a. Who are your clients?
  - b. How do you get new clients?
  - c. How is the relationship with your clients (retention, referrals)?
  - d. What are factors your clients look for in a supplier?
5. Competitors
  - a. How does Escape compare to its competitors, both domestic and foreign? In terms of:
  - b. Strategy / Objectives
  - c. Price
  - d. Strengths & Weaknesses
6. Finance
  - a. How do you set/negotiate your price
  - b. What's your financial situation?
7. Strategy
  - a. What are the current goals for Escape?
  - b. Do you have a strategy to reach these?
  - c. What's your vision for the future for Escape?
8. Marketing
  - a. What's your current marketing approach?
9. Employees
  - a. What's the organizational structure?
  - b. How does the company handle HRM?
10. What are the current problems the company is facing?

Transcript of the answers:

(1) The company ('Escape') was founded in 2003 by four friends from the university. They received help from the university in setting up their firm, the suggestion to formalize their way of working in the form of a company came from their professor.

The first three assignments they did were for the university.

Soon one of the four owners got a 'regular' job and left the firm.

The first three years they did everything with the three of them, sometimes with the help of a hired part-time employee. There was no clear vision of the future in terms of growth/goals/means to get there.

Then after three years they formulated their ambitions and goals in a business plan. The big choice that had to be made then was whether or not they would develop a product of their own and sell this or sell the implementation of open source web software.

The choice was made for the latter, selling implementations of CMS and Web shop open source software. There was simply no funding to be obtained to cover the expenses of developing their own product.

This decision turned out to be a good one, in the period after the decision was taken the amount of employees and profits increased.

The company was focusing on services, their core-business: 'Solving problems for customers'. Usually these problems are not even known to the customer due to a lack of understanding of the product (internet technology) they are buying.

In the local market the company is helping their clients to start selling nationwide through the use of e-commerce.

Internet marketing is in a development stage, and is not yet recognized as something useful in the region.

(2) how does the selling take place?

The company gets in touch with new clients through direct contact and through referrals by former and current clients.

The last two years they have also been looking for foreign markets, they have two sales partners abroad (UK and DK).

They have also done some work on their own in the UK market.

Process:

Referrals/contact through website,

Request price

they request details

send offer (with price + details of what the benefits and end results will be for the client (based on experience)

domestic market: two owners + one employee on sales

approaches tried:

direct mail

brochures (500~1000), not so successful

What works best: direct links to customers through networks

Market share is difficult to determine due to the fact that the government does not record the revenues made in precisely this sector of the software market.

Also for abroad they don't have actual data on market share and are not really interested: just as long as they grow and meet their financial goals.

Question: How should they approach potential clients directly

Question: How does this potential client perceive software development in this part of the world?

They are flexible in terms of the product they deliver, the most profitable one prevails.

Localization (in terms of language) might be difficult to bridge, also in terms of stereotypes, customer expectancy of user interface and colours/symbols

(5) how do you compare to your competitors?

> in Osijek: most expensive, best clients, largest

> Croatia: smaller than they should be, they started too low with their price, quality of their work is higher, and they lack physical presence in for instance Zagreb.

>> they plan to spend a month in Zagreb finding new leads.

foreign: above average, from how people react to the price/quality level

probably too low with their initial price (because it was immediately accepted).

The margin on products sold abroad is approximately two times higher at least.

(6) finance

They need more money, today...

And a good strategy for the next one to two years, retain current workers + grow a little in salary.

Make the whole thing sustainable.

The expectation is that this could be achieved by the growth of their price level.

They should have two extra people, but don't hire these so the financial situation is stable enough to pay salaries on time and don't be too depending on the timely arrival of pay checks for their work.

pricing & timing

web shop:

planning & design	5 days	5000-9000 kn
implementation	10-15 days	7500-15000 kn
data entry		50-100 items > 20 kn p/item

payment gateway	1 day	2000 kn
CMS:		
design	5 days	4000-7500 kn
implementation	10-15 days	6000-13000 kn

online marketing:

search engine optimization (tracking during one month)

planning	2 days	5000-10000 kn
----------	--------	---------------

implementation	5-10 days	
----------------	-----------	--

search engine marketing

research of industry for keywords (1 to 5 days), campaigns start at 1000 kn, usually further billed by the hour (125 kn)

usually campaigns are carried out and monitored for a percentage of the campaign budget (10-20%)

(7) strategy

In 2005 the first business plan was written, mostly because they needed to have it.

In 2007 it was revised and a real business plan was written.

goals:

generate steady monthly income based on current projects

from start of 2008 until mid 2009:

three new own products done

fixed income to a higher level (from long term contracts)

Two more employees

develop & standardize products

40% sales growth, is possible due to the new product internet marketing

maybe one to two new outsourcing partners in EU countries

The 3 own products are:

software for wineries to market and sell their products online. first in the Osijek region

news/community portal. Place for people to establish and grow ideas (business/art/music)

mygift.com like 'helping' software to help pick presents based on certain characteristics of the receiver of the present. Second idea of generating income from this site: sell the search statistics

other threats stated in the SWOT of that business plan:

bank systems (it costs money to make the international transfer)

competitors have low entry barriers

9) employees

In the business plan are outlined scenarios in terms of finance and how many employees that would fit. The error in this was that they didn't anticipate that sending a bill doesn't immediately generate money.



Two things apply to employees:

their own added-value is key (pro-active, thinking)

quality level is more important than deadlines (and communication of this to customers is important)

Current scheme working on a project:

One person on design + 1 on html/css

process of going through a project:

1) idea phase, not formal > this leaves room for ideas of escape (usually too little knowledge from client)

after: contract

2) 2 drafts

> graphical

> descriptional (explain how the interface will work, what is the content (navigation/any recommendations))

3) implementing (important in this phase: communication between design and dev

4) 2 to 3 test phases > contact with client

5) project goes live.

Hosting > some have a hosting provider, some don't, some don't have a clue

1 preferred supplier in Croatia: Avalon

--

Online marketing project flow:

Same as webpage, but with more input from the customer in terms of keywords

introduction letter containing:

costs

results

list set of words

small research of the market for their project

Due to the traffic and revenue they generate they get coupons from Google, used in the way to give a client a free campaign in the beginning, and after when they have seen the results up-sell the service.

Usually e-marketing is included in the offer to clients (one standard, one premium).

10) current problems:

> not enough revenue to retain money to invest in their own projects

> organization > work delegation/tracking, task management

due to the step up from 4 to 10 employees in the firm.

Damir: domestic

Zorin: foreign

Preferred end situation:

3 teams of people + 1 office manager (teams: design/develop/marketing)

and possibly to develop their own product.

Sales trouble? They could sell more if they would lower the price, but they have the impression they sell a good product for a good price.

Partner:

UK – outsourcing systems

DK – web fighter

Training

mainly on the job, from books or by a colleague.

workforce

1 owner > delegation + finance + work progress monitoring

1 salesperson

1 design

1 php develop

1 cms

1 css/html, templating

1 adwords

1 part-time

1 graphics + sales + planning

## Appendix IV - Analytical Hierarchy Process

This chapter shows the calculations of the ranking of the strengths and weaknesses with the use of the 'Analytical Hierarchy Process' [Kurttila, Pesonen & Kajanus, 2000].

The steps taken in the matrices are outlined as follows:

1. Each factor is weighted against every other factor on a scale of 1 to 9, 1 being 'equally important', 9 being 'extremely more important' for the factor on the left hand side. If this left factor however is less important by a factor 1 to 9 than the upper one this is recorded as a fraction, for instance: '1/5'.
2. Every column is summed up under which sum the separate scores of the column are calculated as weights, thus summed up to 1.
3. Every row of weighted columns is again summed up, and the weighted score of this, as shown in the 'score' box on the bottom-left is the final weight of each respective factor on the top-left hand side.

All the other calculations are used to calculate 'CR', the consistency ratio. If this ratio is below 10% (0.10) the weights in the matrix are consistent, and as can be seen from Table 37 and Table 38 this is the case for both matrices.

Weaknesses	Weak financial situation	Underdeveloped management skills	Price level set to low	Sales force effectiveness	Promotion effectiveness	Capacity	A*w	Wi/(A*w)*i
Weak financial situation	1.000	3.000	5.000	5.000	9.000	3.000	2.693	6.483
Underdeveloped management skills	0.333	1.000	3.000	3.000	7.000	3.000	1.548	6.519
Price level set to low	0.200	0.333	1.000	1.000	5.000	0.333	0.540	6.140
Sales force effectiveness	0.200	0.333	1.000	1.000	3.000	0.333	0.475	6.241
Promotion effectiveness	0.111	0.143	0.200	0.333	1.000	0.333	0.206	6.291
Capacity	0.333	0.333	3.000	3.000	3.000	1.000	0.958	6.371
total:	2.178	5.143	13.200	13.333	28.000	8.000		

Eigen value	0.459	0.583	0.379	0.375	0.321	0.375
6.341	0.153	0.194	0.227	0.225	0.250	0.375
CI	0.092	0.065	0.076	0.075	0.179	0.042
0.068	0.092	0.065	0.076	0.075	0.107	0.042
CR	0.051	0.028	0.015	0.025	0.036	0.042
0.076	0.153	0.065	0.227	0.225	0.107	0.125
						Total;

Total	Score
2.493	0.415
1.425	0.237
0.528	0.088
0.456	0.076
0.196	0.033
0.902	0.150
6.000	

Table 37: AHP matrix calculations for the ranking of the weaknesses

Explanation of the four parts of the matrix, from the top left clock-wise:

1. In the first matrix the weaknesses are compared pair wise as described in above, resulting in a score from 0 to 9
2. In the second matrix the product of the final score and the weights on that weakness are calculated and this results in the eigen value of that row.
3. In the third matrix the scores on the weaknesses are summed up and divided by this sum to find a score that is weighted (i.e. sums up to 1)

4. In the fourth matrix the first column calculates the average eigen value of the rows in the 1<sup>st</sup> matrix. This value is used to calculate the bottom 'CR' or 'Consistency Ratio'. If the matrix is filled with random scores this ratio is probably very high; if the matrix however is filled by reason this ratio quickly drops and if it's under 0,1 (or 10%) this indicates an acceptable outcome.

Strengths	Pro-active workforce	High quality products	Flexibility	Customer satisfaction	Customer orientated approach	Skills-level of personnel	Reaching deadlines	A*w	Wi/(A*w)*i
Pro-active workforce	1.000	0.333	0.333	3.000	0.333	1.000	5.000	0.873	7.877
High quality products	3.000	1.000	0.333	3.000	1.000	3.000	5.000	1.525	7.879
Flexibility	3.000	3.000	1.000	3.000	1.000	3.000	5.000	2.089	7.839
Customer satisfaction	0.333	0.333	0.333	1.000	0.200	3.000	3.000	0.665	7.534
Customer orientated approach	3.000	1.000	1.000	5.000	1.000	3.000	3.000	1.802	7.928
Skills-level of personnel	1.000	0.333	0.333	0.333	0.333	1.000	3.000	0.560	7.465
Reaching deadlines	0.200	0.200	0.200	0.333	0.333	0.333	1.000	0.283	7.333
Total:	11.533	6.200	3.533	15.667	4.200	14.333	25.000	Total	Score
Eigen value	0.087	0.054	0.094	0.191	0.079	0.070	0.200	0.775	0.111
7.693436824	0.260	0.161	0.094	0.191	0.238	0.209	0.200	1.355	0.194
CI	0.260	0.484	0.283	0.191	0.238	0.209	0.200	1.866	0.267
0.116	0.029	0.054	0.094	0.064	0.048	0.209	0.120	0.618	0.088
CR	0.260	0.161	0.283	0.319	0.238	0.209	0.120	1.591	0.227
0.128	0.087	0.054	0.094	0.021	0.079	0.070	0.120	0.525	0.075
	0.017	0.032	0.057	0.021	0.079	0.023	0.040	0.270	0.039
							Total:	7.000	

Table 38: AHP matrix calculations for the ranking of the strengths