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**INTERNATIONALIZATION STRATEGY:
SLOVENIAN COMPANY ENTERING BRAZILIAN MARKET**

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LIST OF ABBREVIATIONS

pt. – Portuguese

BRIC markets – Brazil, Russia, India and China

BRL – Brazilian real

CAGR – Compound Annual Growth Rate

COFINS – (pt. Contribuição para o Financiamento da Seguridade Social); Contribution for the Financing of Social Security in Brazil

CRM – Customer Relationship Management

EMC – Export Management Company

FDI – Foreign Direct Investment

GDP – Gross domestic product

HR – Human Resource

ICMS – (pt. Imposto sobre Circulação de Mercadorias e Serviços); Merchandise and service circulation tax

IMF – International Monetary Funds

IPI – (pt. Imposto sobre Produtos Industrializados); Tax on Manufactured Products in Brazil

IT – Information Technology

LLC – Limited Liability Company

OEC – Observatory of Economic Complexity

OECD – Organisation for Economic Co-operation and Development

PEST – Political, Economic, Social and Technological

PIS – (pt. Programa de Integração Social); Program of Social Integration

PIX – Electronic payment system in Brazil

PNLL – (pt. Plano Nacional do Livro e Leitura); Brazilian National Book and Reading Plan

RTS – Simplified Tax Regime

SMEs – Small and Medium Enterprises

SWOT – Strengths, Weaknesses, Opportunities, Threats

UK – United Kingdom

UN – United Nations

US – United States

USD – United States Dollar

WTO – World Trade Organization

INTRODUCTION

As world has become more globalised and interconnected, increasing number of companies attempt to expand their business to foreign markets. International expansion increases competitiveness of the companies by entering new and potentially more profitable markets, which not only provide opportunities to reach more customers and therefore increase the revenue, but also fosters innovation, enables generation of new product ideas, access to new technology and knowledge exchange (Kafourosa, Buckley & Sharp, 2008). However, for the company to gain the benefits of international expansion its internationalization process must be prepared in advance (Knight, 2000).

Literature regarding internationalization includes several theories that have emerged throughout the years, which explain different internationalization processes that take place when companies expand to foreign markets. The internationalization theories provide a framework to explain why, where, when and how companies go international. First theories have evolved from general marketing theories and decision between foreign direct investment (FDI) and exporting, while in the last decades the focus is on internationalization of networks (Hollensen, 2020, p.77-79). However, in recent years a new internationalization theory - born global or international new venture, has emerged. The theory of born global challenges the existing theories, as increasing number of companies since the inception pursue internationalization and globalize rapidly without any preceding long term domestic or internationalization period (Knight & Liesch, 2016; Wadson, 2020).

The focus of this thesis is Slovenian company Hooray Studios Ltd. or Mali junaki d.o.o. which was created in 2013 and whose primary business is selling personalized children's books. Each book they sell enables customer to personalize a child and/or his siblings, parents, grandparents. Not only can customer choose the name, gender, skin tone, hair and eye colour of the main characters, they can also choose which stories they want to include into the book. The product is also the basis for empirical part of the thesis. Since nowadays personalization is considered a global megatrend, the company has an enormous potential worldwide. Expansion to foreign markets enables company to grow and exploit competitive advantage of their product. However, to expand successfully, it is crucial for the company to understand the market and adjust their strategy accordingly to the entry market specifics.

The **purpose** of the master thesis is to outline the best internationalization strategy that would contribute to successful expansion of Hooray Studios to Brazilian book publishing market, through the appropriate research and analysis. The interest in the market was triggered by high number of webpage visitations and downloads in Brazil of the free personalized Hooray colouring book that was available on the company's United States (US) webpage. In the thesis, Brazilian market is analysed to gain more information and knowledge of the environment, thus researching the potential for internationalization of the business. Market entry strategy is developed and adapted according to the results of the analysis. The

recommendations to the company are based on theoretical knowledge, its application to the actual situation and appropriate analysis of the company's environment and targeted market.

According to the purpose of the thesis, the main objectives are the following:

- to research the internationalization process and theory,
- to conduct internal analysis of the company,
- to analyse book publishing industry and its competitive environment in Brazil
- to assess the possible benefits and risks of doing business in Brazil, and
- to develop and adapt market entry strategy for selected company entering Brazil according to the results of the analysis.

To reach the set objectives, master thesis includes theoretical and empirical perspective. Theoretical perspective is based on in-depth review of professional literature, scientific research and discussions, as well as scientific journals that include articles of experts in the field of international business. The basis for empirical perspective of the thesis was qualitative analysis. Analysis models, such as PEST, Porter's five forces and SWOT, were used to gain knowledge of the entry market, industry and company's competences. The combination of two types of data was used to conduct the analysis: secondary data from different sources and primary data from semi-structured in-depth interview. Secondary data was collected from different reliable sources, such as Euromonitor International, the World Bank, OECD reports, International Trade Administration etc.. The semi-structured in-depth interview with Performance Marketing Team Lead at Hooray Studios (see appendix 4) was used to gather information about the company, its business operations and internationalization experiences.

Qualitative research techniques provide a more comprehensive view of a research problem that gives a valuable information needed for better understanding of underlying motives and reasons (Hollensen, 2020, p. 177-179). Internal in-depth information gathered will contribute to development of the internationalization strategy for the company. Although, Saunders, Lewis and Thornhill (2019, p.215-218) argue that combining quantitative and qualitative data, process also known as triangulation, improves the validity and accuracy of research results, this is proven to be difficult to implement due to the financial constraints of smaller enterprises. Therefore, the selected type of research was considered the most appropriate for this thesis at the initial stage of research of Hooray Studios' internationalization potential in Brazilian market.

The thesis is structured in five chapters. The first chapter provides an overview of internationalization theory and process. Second chapter includes introduction of the selected company and analysis of the company's established internationalization process. It also reviews company's international experiences and lists motives for selecting Brazil as focus of market research. Third chapter includes PEST analysis and analysis of the book publishing industry in Brazil. Fourth chapter combines the findings from external and internal analysis to determine strengths, weaknesses, opportunities and threats for the

company on the Brazilian market. In the last chapter, the proposed market entry strategy is outlined followed by conclusion.

1 INTERNATIONALIZATION

The concept of internationalization started to evolve in 1970s, when studies, such as *American Challenge* by Servan Schreiber, raised awareness of increased foreign investments and thereby grow different concerns in the society. For example, governments needed to ensure that the process had an overall positive effect on the nation's economy. Trade unions concerned over the impact of increased foreign investments on wages, working conditions and ultimately their power. While for companies, increasingly competitive global environment required making their operations more efficient and effective. The growing concern has both been stimulated and stimulated the academic activity in the area, which was in the beginning focused mainly on accounting the already existing extensive international operations of multinational companies (Welch & Luostarinen, 1988).

In the early stages, much of the research was focused on recording and explaining the extent of multinational corporations and evaluating their effect. However, gradually the focus shifted from the scope of foreign investment as a starting point of research to the process, which preceded this stage and undeniably affected latter success of such endeavours. The shift started with Yair Aharoni, who in his book *Foreign investment decision process* (1966) presented the organizational behaviour and steps in foreign investment decision process and continued through the years with several Nordic business based studies. The studies came as an important step in the research of internationalization process by identifying internationalization patterns and presenting methods for examining them. As well as by attempting to outline key factors that influence the successfulness of the process (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Luostarinen, 1979).

Although the interest and use of the term internationalization has been steadily increasing at the time, few real attempts at providing a broadly used definition have been made. As one of the firsts, Welch and Luostarinen (1988) defined internationalization as a "process of increasing involvement in international operations". While Calof and Beamish (1995) determine internationalization as "the process of adapting company's operations, such as structure, resources and strategy to the international environments" and thereby broadening the concept of internationalization to include the possibility of de-internationalization i.e. divestment of international business operations and increasing inward growth of international trade. For example cheap raw materials imports, international subcontracting etc. (Lee & Carter, 2012, p. 8). However, while these are broader definitions of the term, the thesis focuses mainly on outward internationalization determined as the process of company expanding its business activities to markets, beyond their domestic borders.

1.1 Motives and barriers to international expansion

Outward internationalization occurs when a company expands its business activities to foreign markets. However, in order for a company to successfully enter foreign market, in the pre-internationalization stages information must be gathered and used to achieve adequate relevant knowledge (Khojastehpour & Johns, 2017). Company's internationalization – what it entails, how it is organized, implemented and managed – is linked to the motives underlying it. **Internationalization motives** are the fundamental reasons for company expanding to foreign markets (Benito, 2015). Hollensen (2020, p.52-58) differentiates between reactive and proactive motives.

Reactive motives indicate that companies react to external stimuli in domestic and/or foreign market and adapt passively to threats and pressures that they represent. Some examples of reactive motives for international expansion are small and saturated domestic market, excess capacity, competitive pressures, seasonality of the products, unsolicited foreign orders, proximity to international customers and perceived psychological distance (Hollensen, 2020, p. 53-57).

Company may be driven into international expansion due to small domestic market potential, which means that the company's home market is unable to maintain sufficient economies of scope and scale. An example of such company is Hooray Studios with its small domestic market - Slovenia. This type of companies, usually consider international expansion since the very beginning (Madsen & Servais, 1997). A saturated domestic market has a similar motivating effect. Companies are motivated to export products that sold domestically are in the final stage of their life cycle to foreign markets of developing nations and thereby prolonging the life cycle of their product. Saturation of home market also suggests existence of unused productive resources within the companies, which is closely tied with another reactive motive for international expansion – excess capacity (Cuervo-Cazurra, Narula, & Un, 2015). If sales in the domestic market are below the expectations causing inventory to be above desired levels, companies start to export inventory products with short-term price cuts. However, this type of strategy is not useful on the long run, due to possibility of parallel importing (Hollensen, 2020, p. 58-60). Another form of reactive motivation is company's response to competitive pressures. Companies fear losing domestic market share by competing in their domestic market with other foreign companies that benefit from their global business activities, as well as loosing foreign markets to domestic competitors that plan internationalization. This in turn pressures them to consider entering foreign markets as well (van Tulder, 2015). Fluctuating demand based on season is another reactive motive that forces companies to explore foreign entry market possibilities that may result in a more stable demand throughout the year (Hollensen, 2020, p. 58-60). Additionally, companies can become aware of the opportunities on foreign markets by the inquiries for their products from overseas, which encourages them to explore the possibilities of internationalization (Kubíčková, Votoupalová & Toulová, 2014). Lastly, the psychological and physical closeness to certain foreign markets can also motivate companies to expand internationally.

For example, Austrian companies exporting to German market might not even perceive activities in German market as internationalization, due to similar language and culture (Hollensen, 2020, p. 58-60). However, in some cases managers might experience shock effects when entering markets that they thought they know well, especially when having wrong perception of close psychic distance. Pedersen and Petersen (2004) argue that managers often overestimate the similarities between neighbouring countries and that shock effect usually befalls producers of customized goods. As it was in the case of Hooray Studios entering neighbouring market – Croatia, in the early stages of its international path, where they faced unexpected knowledge gaps during the post-entry stage, which resulted in de-internationalization (Melanšek, Cerovšek Beltram & Čuhalev, 2021).

The larger company becomes, more likely it is that it will be driven to internationalization by proactive motives (Kubíčková, Votoupalová & Toullová, 2014). **Proactive motives** for internationalization come from internal stimuli based on company's interests in exploiting their unique competences or market opportunities. These include growth and profit goals, tax benefits, managerial urge, foreign market opportunities, economies of scale and unique products (Hollensen, 2020, p. 53-57).

Growth and profit goals are usually the main motives for company to consider international expansion. Closely related to the profit motivation are also possible tax benefits, provided by some countries to their exporters, such as Extraterritorial Income Inclusion Act in United States. Such tax mechanisms enable companies to offer products at lower cost on foreign markets and thereby making the companies more competitive. However, the World Trade Organization (WTO) anti-dumping laws need to be considered (Hollensen, 2020, p. 53-57). Another proactive motive for internationalizations lies with the management. The attitudes of management towards internationalization play an important role in determining the exporting activities of the company. Managers or founders that have lived or travelled abroad are more likely to be open towards international expansion. If management consists of people that have enthusiasm, desire and drive for global activities, company's strategy and goals will reflect that. Especially in small born global companies, as in instance of Hooray Studios, the opportunity recognition and motivation of the founders has a vital role in the company's early internationalization (Capik, 2017). Additionally, access to important market information that would differentiate a company from other competitors, prompts the company to enter the market and exploit the opportunity. Unique products or technologies further motivate company's internationalization, because they present an advantage that largely contributes to global success and prevents competition (Hollensen, 2020, p. 54-56). Moreover, increased production for foreign market lowers the cost of the product and consequently contributes to the company's competitiveness in domestic market (Cuervo-Cazurra, Narula, & Un, 2015).

Throughout the process of pre-internationalization, the company might stop at any time due to the identified **barriers** or risks that would hinder the success of international expansion. Wide range of barriers to successful internationalization can be determined. Some barriers

can be determined before the actual expansion, others are encountered during the process (Khojastehpour & Johns, 2017).

The key barriers hindering the initiation of internationalization are inadequate information of foreign business practices, foreign customers and competitors. Other major concerns are also lack of adequate foreign distribution and sale channels, import tariffs and quotas, communication difficulties with foreign customers and business partners, lack of production capacity, ensuring payment, insufficient capital etc. (Uner, Kocak & Cavusgil, 2013). While in the process of internationalization, the barriers are divided in three groups: political, general market and commercial risks. Political risks are risks resulting from intervention of host and home country governments. For example, national export policy, high tariffs on imported products, confusing import procedures and regulations, possibility of wars disrupting the foreign markets etc. Risks such as language and culture differences, market distance, differences in the usage of a product, competition on foreign markets and difficulties of finding the right distributor fall under general market risks. Commercial risks include fluctuations in the exchange rates when contracts are made in foreign currency, difficulties in obtaining financing for export, delays in distribution process, damage of the shipment etc. (Hollensen, 2020, p. 61-65).

1.2 Overview of Internationalization theories

Throughout the years, various internationalization theories have developed, outlining and explaining the internationalization process that takes place when companies expand to foreign markets and providing a framework to explain different modes of internationalization. Internationalization theories have emerged from general marketing theories and have first considered internationalization as a pattern of investment in foreign markets (Hollensen, 2020, p. 77, 78). Theories, such as industrial organization theory, internalization theory, transaction cost theory and eclectic theory focused mainly on explaining the international production operations of multinational corporations. **Industrial organization theory** argues that to succeed, multinational corporation needs to create advantages based on imperfections in factor and product markets to offset the assumption that operating abroad is more costly than conducting business at home (Andersen, Ahmad & Chan, 2014). **Internalization theory** is based on perspective that multinational company would usually prefer to internationalize operations through foreign direct investment rather than through some form of collaboration due to imperfections on the market, such as buyer uncertainty or government intervention. This theory was the first to highlight firm-based (internalization) vs market-based (externalization) solutions when entering foreign markets. Internalization perspective shares some roots with **transaction cost theory**, which shifted attention to predicting when collaboration with external partner (externalization) is more efficient than entering foreign market through foreign direct investment (internalization). Trying to clarify why companies invest and produce abroad, Dunning's **eclectic theory** combined elements of the three previously mentioned theories, hence the term eclectic. According to this theory, the tendency of a company to engage in international production

increases, if the three conditions – ownership, locational and internalization advantages – are satisfied (Hollensen, 2020, p. 77-78).

While in preceding theories environment is taken as given, in the Scandinavian theories it is seen as an important factor of behaviour. The Scandinavian schools provided Stage model known also as **Uppsala internationalization model** and **network theory**. Both theories were based on observations of Scandinavian multinationals, but they were successfully and widely applied to explain also the behaviour of smaller enterprises in different regions (Axinn & Matthyssens, 2002). In addition, the research in recent years have shown the emergence of new theory of internationalization – born global or international new venture. The theory of born global challenges the existing theories, as increasing number of companies since the inception pursue internationalization and globalize rapidly without any preceding long term domestic or internationalization period (Knight & Liesch, 2016). In the next subchapters the transaction cost theory, Scandinavian theories as well as newest theory in internationalization – born global, are explained in more depth.

1.2.2 Transaction cost theory

The foundation for Transaction cost theory or Transaction cost analysis framework originates in the article The nature of the firm by Coase (1937, p.395). In the article, author argues that the companies tend to expand up to the point where the cost of an additional internal transaction becomes equal to the cost of implementing the same transaction externally through exchange on the open market (Coase, 1937, p.395). Transaction cost theory applies this principle to the internationalization process identifying two main alternatives for organization of international activity – internalization and externalization of transactions. Internalization as conducting business through company's own internal system and externalization as conducting business through external partner (Williamson, 1975). The theory predicts that if transaction costs through externalization i.e. export intermediary are higher than the control costs of implementing the activity through internal hierarchical system, then the company should pursue internationalization of activities through its own subsidiaries. (Hollensen, 2020, p.84, 85). As such, transaction cost theory provides the basis for the choice between different types of foreign market entry modes – contractual and investment (Qi, Chan, Hu & Li, 2020; Jell-Ojabor, Alon & Windsperger, 2022).

In theory, under the assumption of perfect competition on the markets, transaction costs would be zero. However, in the real world markets fail to operate under such conditions and consequently some sort of friction always occurs between seller and buyer, resulting in transaction cost (Hollensen, 2020, p. 84). Williamson (1975) argues that the cause of the friction lies with opportunistic behaviour, including methods of distortion, misleading and confusion. To protect against such behaviour parties might employ certain safeguards, i.e. legal contract. Transaction costs consist of ex ante and ex post costs. Ex ante costs or costs before internationalization include search costs of gathering information to identify and assess prospective export intermediary and contraction costs, which include costs of securing

an agreement between seller and buyer. On the other hand, ex post costs or costs after the internationalization comprise of monitoring costs associated with ensuring that both parties abide by the established agreement and enforcement costs associated with the costs of sanctioning the partner that does not follow the agreement. The transaction cost theory is based on the assumption that the company will try to minimize the combination of these costs when implementing transactions (Hollensen, 2020, p. 85).

However, several limitations of the transaction cost theory were pointed out throughout the years. Ghoshal and Moran (1996) criticized Williamson's original work. They deemed that the theory was limited by narrow assumptions of human nature. They point out that the theory overlooks important findings such as Ouchi's (1980) insight on social control. In his work *Markets, Bureaucracies, and Clans* (Ouchi, 1980), the author identifies basic mechanisms of control, such as clan, where the control is based on win-win situation as opposed to Williamson's zero-sum game point of view. Another limitation of the transaction cost theory is that it ignores the internal costs of transactions, assuming that there is no friction in a multinational company. The theory is also not applicable to the internationalization of smaller companies. There the need for externalization of activities is driven by the lack of knowledge and resources. However, the use of markets often raises contractual problems, which makes markets a less desirable and not a real alternative. Small and medium sized enterprises therefore often rely on contractual and clan-like relations based on mutual orientation of investments, trust building and skills, making them often highly dependent on the available cooperative environment (Ouchi, 1980). Lastly, Hollensen (2020, p. 86) argues that the theory does not take into consideration the importance of the production cost.

1.2.3 Stage model

In the 1970s, Johanson and Wiedersheim-Paul, researchers of Swedish universities, first introduced stage model of internationalization in their longitudinal study of four Swedish companies. The model, latter also known as Uppsala internationalization model, is based on Penrose's theory of the company's growth, behaviour theory of the company and Williamson's profit and growth maximization. The authors described it as a series of incremental decisions through which company gradually increases its international involvement (Johanson & Vahlne, 1990). While previous theories have researched why companies expand internationally, the stage model focuses on how the internationalization process occurs in terms of overall behaviour pattern of the companies as well as underlying forces of the process (Lee & Carter, 2012, p.223).

The Uppsala model was developed through study of Swedish manufacturing companies and their internationalization process, where two patterns of internationalization were observed. First, companies appeared to enter markets with increasingly greater psychic distance in terms of political, cultural, and socio-economic differences as well as in relation to their geographical proximity. Second, the company's involvement in a particular foreign market

progresses according to an establishment chain. The chain consists of four sequenced stages, where each stage represents higher degree of market commitment. At the start, the export is sporadic, then the export develops via independent agent, later through foreign sales subsidiary and eventually the production overseas might follow (Johanson & Wiedersheim-Paul, 1975).

Johanson and Vahlne (1977, 1990) confirmed and further developed the four-step model. In their research, they have placed the model in a basic mechanism through which all steps in the internationalization can be explained. They argued that the present state of internationalization is a crucial factor in explaining the direction of following internationalization. The distinction between **state and change variables** of internationalization process was made. State variables are knowledge about foreign markets and market commitment, seen as a resource allocation to foreign markets. Change variables, on the other hand, include commitment decisions and current business activities. Thus, the model assumes that the state of company's internationalization affects how opportunities and risks are perceived which in turn influences commitment decisions and current activities (Johanson & Vahlne, 1977). In other words, the better the knowledge about foreign market, more valuable are the resources, this increases company's commitment to that foreign market, which in turn boosts the activities performed there as well as raises the level of market knowledge which bring us to the beginning of the so called causal cycle. Through this incremental decision-making and learning about foreign markets the obstacles are reduced, the perceived risk of investments decreases and increased need to control the sales and exposure to the demands stimulates continued internationalization. The model suggests that additional market commitment will be made in small incremental steps. However, it also acknowledges three exceptions. First, large companies have bigger resources and therefore the consequences of commitments are small which is why they are expected to make larger steps in internationalization. Second, relevant market knowledge in stable market conditions can be obtained in other ways than just through experience. Third, for a company that has a considerable experience from previous internationalization it is possible to generalize the experience to another market with similar conditions (Johanson & Vahlne, 1990).

Several other researchers confirmed the findings and further expanded the model to innovation related perspective of internationalization process (Lee & Carter, 2012, p. 225). While Welch and Loustarien (1988), added four other internationalization dimensions - sales objectives, organizational structure, finance and personnel - to the operations methods and markets. Throughout the years, with new findings on companies' internationalization, the original Uppsala model was updated. In the updated versions, the authors place more emphasis on relationships and networks in the process of internationalization and highlight the importance of evolution in the development and access to knowledge (Vahlne, 2020). This has made the model more applicable in modern business environment (Rani, 2021).

Although the Uppsala internationalization model is widely supported, it has also received a considerable amount of criticism. It has been argued that the model is too deterministic, does

not account for interdependencies between different markets and is not valid for service industry (Hollensen, 2020, p. 82). Moreover, it is not applicable in situations of highly internationalized industries where companies skip certain stages of the model and early on enter markets that are considered distant, in terms of psychic distance (Santangelo & Meyer, 2017).

1.2.4 Network model

The network model portrays some of the more recent research on internationalization process as a response to a more accelerated international involvement of organizations. It widens the traditional concept of internationalization and provides an alternative view to the stage model (Lee & Carter, 2012, p. 229). While both models emphasize the cumulative nature of the company's activities, the stage model focuses on the development of company's internal resources and knowledge. The network model, on the other hand, provides a model of the market and the company's relations to that market. From a network perspective, internationalization is defined as a process of establishing relationships in new foreign markets by building on existing relationships in domestic and/or foreign market (Johanson & Mattsson, 1988, p. 310).

The purpose of the network model is to explain how companies utilize business networks to internationalize their activities. It proposes that companies in the industrial markets form, develop and preserve lasting business relationships with other companies on the market, which provide access to resources important for sale of their products or services. As a consequence of interaction among companies, these relationships create a business network. A particular company in the network is connected to a number of different parties, for example distributors, suppliers, customers, competitors etc. (Johanson & Mattsson, 1988, p. 291-295).

As the companies comprising the network are linked to each other, they are also interdependent, because each controls a particular resource important for other. An individual company gets access to these resources through its positions in the network. Positions are developed through accumulative activities in the network and define what kind of possibilities as well as constrains will company have in their future and present activities within the network. Overtime, the company's position changes as relationships are formed, developed, maintained and broken in order to ensure long-term survival, growth and profits (Johanson & Mattsson, 1988, p.292, 293).

According to the network model, majority of organizations are initially part of a business network that is primarily domestic. Internationalization then occurs through domestic network, when organizations eventually establish and develop business relationships in networks of other countries. Companies can achieve this through three different dimensions. First, by establishing new positions in new national nets, i.e. *international extension*. Second, through *penetration* or increased development of positions in the national nets in which they

are already present and third, through *international integration* or increased collaboration between existing positions in different national nets (Johanson & Mattsson, 1988, p. 296). While the early literature on network model theory emphasized mainly the role of business networks in internationalization, the influence of social and institutional networks has been researched in recent years. The studies show that business relationships come after the social relationships have been built among the individuals and can be useful in exploring internationalization opportunities (Vasilchenko & Morrish, 2011; Bai, Johanson, Oliveira & Ratajczak-Mrozek, 2021). Additionally, institutional relationships play an important role in eliminating uncertainties and are more common among companies entering or from emerging economies (Johanson & Kao, 2010). However, the business relationship approach remains dominant in network internationalization research.

Johanson and Mattsson (1988, p. 297-305) argue that the characteristics of both market and company influence the internationalization process. They have categorized companies into four groups based on the degree of market internationalization and degree of company internationalization – early starter, lonely international, late starter and international among others. **Early starter** is where company as well as any other organization in its production net does not have any significant relationships in domestic or foreign markets. In this situation, the internationalization process follows the steps of Uppsala model. The term **lonely international** represents companies in situation where they have a high degree of internationalization while the market and the rest of its production net has low degree of internationalization. In this case, the lonely international promotes internationalization of its production net. **Late starter**, on the other hand, is a company whose network is already internationalized, while by itself is still purely domestic. Its relationships in domestic market might drive it to internationalization. However, due to difficulties in establishing new positions in closest markets, because of a tightly structured network and knowledgeable competitors, company might start its internationalization by entering distant markets first. Lastly, the **international among others** illustrates situation where both the company and its network are highly internationalized. Further internationalization of the company only means minor changes in penetration and extension. In both dimensions, the company can use one network to bridge over to other networks (Johanson & Mattsson, 1988, p. 297-305).

In general, the international business literature has increasingly recognized the role of networks in internationalization. The network theory has challenged and influenced also the development of other well-known internationalization theories such as Uppsala stage model and Born global.

1.2.5 Born global

Increased globalization in recent decades has created a better environment and even more stimuli for organizations to internationalize faster. Accordingly, more and more companies are established with global mind-set and aim at international markets soon after their inception. The theory defines such companies as born global or international new venture

(Gabrielsson & Kirpalani, 2012). In their article, Toward a theory of international new ventures, Oviatt and McDougall (1994) were the first to conceptualize and develop theoretical foundation for understanding the phenomenon of born globals, which do not conform to the traditional incremental internationalization theory.

The term **born global** defines companies that since their inception globalize rapidly without any prior long-term domestic or internationalization stage. This type of companies exists not only in software and high-tech industry, but also in areas such as high quality service, high sophisticated systems and high innovative design as well as in other low-tech industries (Gabrielsson & Kirpalani, 2012). Born global are typically smaller companies that start to export and gain a great proportion of its revenues from international sales within 2 to 3 years of inception. It is assumed, that its founder, whose background influences his outlook on the internationalization, drives international path of the company. Factors such as education, having internationally oriented job and experience of living abroad, influences founder's decision making and decreases perceived psychic distances to specific product markets (Madsen & Servais, 1997; Knight & Liesch, 2016). Due to dependence on a single product, operating in niche markets and relatively high initial R&D costs, born globals have to enter lead markets first, no matter where these markets are located geographically. Entering lead markets is the key for rapid and broad market access, which enables rapid growth and ensures company's survival (Wadeson, 2020). An example of born global is also the research subject of this master thesis – Hooray Studios.

Foreign customer knowledge is just as important in born global, as it is in other theories of internationalization. However, since born globals do not have the time to develop their skills internally over time, they possess the knowledge beforehand or obtain it through partnership and cooperation with other companies that already have the relevant knowledge (Melén & Nordman, 2009). Extensive relationship networks with customers and competitors make the internationalization process less gradual and support the rapid internationalization of born globals (San Emeterio, Juaneda-Ayensa & Fernández-Ortiz, 2020).

Based on number of entered countries and number of value chain activities, Oviatt and McDougall (1994) divided born globals in four categories:

1. Export/import start up, which operates in few international markets and coordinate small number of activities, mainly logistic abroad.
2. Multinational trader, that is serves many foreign markets, but has a small number of activities preformed abroad.
3. Geographically focused start up that is geographically concentrated in few international markets, but preforms high number of activities abroad.
4. Global start up, that serves high number of countries and coordinate high number of operations abroad.

As an extension to the born global phenomenon, a new concept of **born-again born global** was introduced, which refers to companies that have been present in domestic market for a long time before sudden and rapid internationalization (Bell, McNaughton, & Young, 2001).

The increasing presence of born globals in last decades can be explained by several trends. First, the globalization of market conditions has increased the role of niche markets. Customer needs have homogenized across world markets and demand for specialized or customized products increased. To compete against large multinationals, many smaller firms need to specialize in products that present a relatively narrow global niche. Second, technological advances in communication and production process enable cost and scale advantages that allow smaller companies to compete globally (Gabrielsson & Kirpalani, 2012). For instance, internet with boom of e-commerce offers opportunity to smaller companies to establish global sales platform and contributes to the rapid internationalization and company's survival on foreign markets (Gabrielsson & Gabrielsson, 2011; Deng, Zhu, Johanson, & Hilmersson, 2022). Moreover, technology is facilitating the production of diverse products on an ever-smaller scale, which is increasing specialization in many industries. Third, higher push and pull factors of small and open economies encourage emergence of born globals. Finally, international endeavours of born globals are facilitated by the advantages of small companies, such as bigger flexibility and adaptability to foreign markets compared to larger companies (Knight, Madsen, & Servais, 2004; Gabrielsson & Kirpalani, 2012).

1.3 Market selection process

As companies consider opportunities in foreign markets, their choice of entry market is influenced by several determinants. These can be divided in two groups - environmental and company characteristics.

Environment characteristics are those that are external to the company. The analysis of external environment can look at international market as a single country, group of countries or group of homogenous customers (Lee & Carter, 2012, p. 180). The international market characteristics will determine its attractiveness to the company as possible market of entry. Market attractiveness is determined by two factors – *market attributes*, that will make the country or region in general more desirable to compete in, and a specific *industry attractiveness* within the country or region (Collis, 2014, p. 221-230).

Market attributes include future economic performance of the country and its risk as well as the distance from the domestic market. Many determinants of country's future economic performance also indicate the potential country risk. They are usually grouped into four broad categories. The first category is economic performance that is measured by variables such as GDP per capita, GDP growth and percentage of the middle class. Since many developing countries go through surge of growth and economic crises, the standard deviation of growth can be included as a measure of volatility and risk. Second category includes

political environment of the country and the risk presented by any perceived variability or instability in the enforcement of regulation. This category covers the legitimacy and stability of the political process and government, the extent of application of the rule of law and inclusion of all types of minorities into political processes. Third, social factors such as language, religion, traditions, education, demographics and so forth, should not be overlooked as they play an important role in successfulness of internationalization process as well as in some way influence the long-term performance of the nation's economy. The fourth category includes technology and logistics infrastructure. In this category is important to consider the impact of the level of infrastructure and technological development on the value chain structure, product offering and costs (Collis, 2014, p. 223-226). While the described factors analyse country of entry as an independent entity, Ghemawat (2001) argues that the attractiveness of the entry market also depends on its distance to the company's domestic market. The "bilateral fit" between entry and domestic market influences the successfulness of the international extension. In his study, author identified four dimensions of distance – administrative, cultural, economic and geographic distance, and presented the effect that differences in those dimensions have on different types of industries (Ghemawat, 2001).

The second set of factors that determine market attractiveness are the *industry structural attractiveness and size* in a particular country. Industrial structural attractiveness is usually analysed through Porter's Five Forces model. The analysis is based on extended view of competition in the industry. Meaning that it does not only include direct competition, but also includes other set of players – customers, suppliers, complements, substitutes and entry barriers – that fight for or limit the share of the value created by the industry. For a company is also important to accurately estimate the size and growth of the potential entry market, as large variations in demand for particular segment that company serves might be concealed by country differences. It should also be taken into the account that profitability is not always correlated with market size (Collis, 2014, p. 227-230).

Company characteristics, on other hand, represent internal environment of the company that needs to be analysed as well to determine the successfulness of internationalization to a certain market. These internal factors include available resources, existing international networks, competitive advantage, degree of international experience and company's objectives for the internationalization (Lee & Carter, 2012, p. 180).

1.4 Market entry modes

Once the external and internal environment of the company have been analysed and the entry market selected, the next step is to decide on the best way to enter that market. Market entry mode is a necessary organizational arrangement for entry of company's services and/or products to a new foreign market (Hollensen, 2020, p. 312). There are several different modes of entry to foreign market. In the literature, they are often divided into two main categories – equity and non-equity entry modes. Equity entry modes include direct

investments into host country in form of foreign branch, joint venture, acquisition or greenfield investment. Non-equity entry modes include export modes, encompassing direct, indirect and cooperative exporting and contractual modes, such as contract manufacturing, licensing, franchising etc.. Each entry mode category has certain advantages and disadvantages. Equity entry modes demand higher initial resource commitment, but facilitates the acquisition of market knowledge and consequent closeness to host market customers. In contrast, non-equity modes provide less control resulting in lower level of market knowledge acquisition and consequently impede better monitoring of host market developments, but are less resource intense and provide greater flexibility (Collinson, Narula & Rugman, 2017, p. 62-65). Table 1 below summarizes the entry modes, which are described in more detail in the following subsections.

Table 1: Entry modes and their characteristics

Non-equity entry modes		Equity entry modes	
<i>Export</i>	<i>Contractual</i>	<i>Investment</i>	
Indirect exporting	Contract manufacturing	Foreign branch	
Direct exporting	Management contracting	Joint venture subsidiary	
Cooperative exporting	Licensing	Acquisition	
	Franchising	Greenfield Investment	
	Strategic alliance		
Low	Level of resource commitment		High
Low	Level of risk and control		High
High	Level of flexibility		Low

Adapted from Lee & Carter (2012); Collinson, Narula & Rugman (2017).

The choice of an entry mode is a core strategic decision of international companies and it determines the level of company's resource commitment to host market, the degree of

company's control in its foreign operations and the amount of risk that the company will need to assume in foreign market. By choosing a suitable entry mode to foreign market, the company's strategic performance can be enhanced, while changing the entry mode can be time-consuming and expensive. The choice of entry modes differentiates between larger multinationals and smaller companies. Due to limited personnel and financial resources, small and medium enterprises (SMEs) are more likely to base their decision of foreign market entry mode on the resources available (Lin & Ho, 2019). From resource based view, product adaptation to host market represents an alternative resource commitment, beneficial for resource constrained SMEs (Hollender, Zapkau & Schwens, 2017). According to Hollender, Zapkau & Schwens (2017) product adaptation and high level of international experience improve foreign venture performance especially of non-equity entry modes. Moreover, the results of a study by Ulrich, Hollensen, & Boyd (2014) show that Danish SMEs prefer low commitment modes (export, contractual) when entering Brazil, Russia, India and China (BRIC) markets. The study also indicates that for SMEs, among internal factors influencing the entry mode choice to BRIC markets, financial and personnel resources were more important than traditional factors such as control, flexibility and risk.

1.4.1 Export modes

Companies most commonly start their internationalization with exporting. When choosing any export mode, the company produces products in home or third country market and then transports them either indirectly or directly to a foreign, host market (Hollensen, 2020, p. 333). This type of entry mode enables companies to expand their business activities abroad with higher flexibility and less risk, but often also with lower control over the business operations in foreign markets compared to other entry modes. As such, it is often used by the companies in their initial international expansion and then gradually evolves to foreign-based operations (Kotabe & Helsen, 2017, p. 280). Additionally, Internet and e-commerce boom have helped to reduce export barriers and enable rapid internationalization particularly for SMEs that are more resource constrained in comparison to larger companies. Multinational SMEs or Born globals, often adopt internet for exporting as an alternative to having physical presence in the market (Sinkovics, N., Sinkovics, R., & Jean, 2013). Exporting is commonly organized based on three broad options: indirect, direct, and cooperative exporting.

Indirect exporting is when the manufacturing company does not perform exporting activities directly by itself. Instead it employs the use of an independent intermediary based in their home market to handle the exporting activities for them. Often without the involvement of manufacturing firm in the sale of their products. Companies implement this type of entry mode, because of the lower required investment, commitment and international experience in addition to lower exposure to market and political risk. However, on the other hand, there are several disadvantages such as lack of control over marketing mix elements besides the product, smaller profit for the manufacturer due to intermediary and lack of contact with the market (Hollensen, 2020, p. 335-338). Kotabe and Helsen (2017, p. 281)

list three types of independent intermediaries – export agent, export merchant and export management company (EMC). *Export agent* is a trading company whose main function is to bring seller and buyer together. Therefore, the export agent is a specialist performing contractual function that does not handle the actual sale or purchase of products and receives a commission for its services. It might act as an agent for either seller or buyer and it usually concentrates on a particular product or classes of products. Unlike the export agent, *export merchant* becomes the owner of the goods and assumes the risk of not being able to sell profitably abroad. Essentially export merchant becomes a domestic buyer for the manufacturing company. However, this strategy has major drawbacks for the manufacturing company, as it has no control over the global marketing of the products and it becomes unaware of changes in competitor activity and consumer behaviour (Kotabe & Helsen, 2017, p. 281; Hollensen, 2020, p. 335-337). *Export management company (EMC)* is independent company that acts as an export department for various non-competing companies (Rosenbloom & Andras, 2008). The EMC conducts business in the name of manufacturer it represents, and all quotations and orders are subjected to the manufacturer's approval (Hollensen, 2020, p. 336).

Direct exporting occurs when a company establishes its own exporting department and sells the products directly to the buyer or importer located in foreign target market (Hollensen, 2020, p. 341). Compared to the indirect exporting, direct exporting requires more resources, financial as well as human. The company has to design and implement different exporting tasks, such as market research, choosing target markets, developing and implementing marketing mix, identifying and choosing partners or representatives in foreign markets, different logistical functions etc. (Kotabe & Helsen, 2017, p. 282). However, implementing direct exporting also brings a number of advantages. Direct exporting provides much more control over company's international operations compared to indirect exporting. This enables company to build its network in foreign markets, acquire market knowledge, find opportunities, be more flexible and receive better market feedback. Hence, the profit potential is often much more significant (Gilligan & Hird, 2012, p. 104,105).

Another option in export entry modes is **cooperative exporting**. Hollensen (2020, p. 347) defines it as cooperation between export marketing group and several manufacturers. Although each manufacturer has separate upstream function, they cooperate on the downstream functions through a shared, foreign-based agent. This is especially common in industries where product lines can be very fragmented and do not achieve sufficient scale economies, such as furniture industry. The export-marketing group combines the complementary product lines and sells them abroad under the same concept. Through cooperation companies can be more effective in research of foreign markets, obtaining better representations in entry markets, reduce selling and transportation costs due to consolidation, create stronger brand name etc.. However, the benefits of such cooperation can be outweighed by the inability of export group to balance the interests of different stakeholders (Hollensen, 2020, p. 347).

1.4.2 Contractual entry modes

While with export modes, the focus is on the supplying foreign markets from home-based or third country manufacturing plants, the contractual entry modes represent various entry modes to foreign markets where the manufacturing of the goods is based in the market of entry. However, with difference to the investment modes, there is no ownership of the manufacturing plants by the parent company. Contractual entry modes are cooperative relations with foreign partners through contracts (Horská et al., 2014, p. 140). Although this type of entry requires higher investment than exporting modes, there are several factors that justify it. Companies decide for contractual entry modes when high transportation costs and/or different entry barriers make the price of their product or service uncompetitive on the entry market. In addition, compared to the export modes, contractual modes enable company to gather better market feedback, improve service and delivery levels, build brand image etc. (Gilligan & Hird, 2012, p.108, 109). In literature, the following contractual modes are listed: contract manufacturing, management contracting, licensing, franchising and strategic alliance (Collinson, Narula & Rugman, 2017, p. 62-65; Kotabe & Helsen, 2017, p. 282-287, Kotler & Armstrong, 2021, p. 564).

Contract manufacturing is outsourcing production to an external partner in a foreign market that is specialized in manufacture of particular goods. This type of entry to foreign markets enables companies to have foreign production without the risks of high investment, while simultaneously keeping control over R&D, marketing, distribution, sales and customer service (Kotabe & Helsen, 2017, p. 297). Payment to the contracted party is usually on per unit basis and the company can sell produced goods in the country of production, domestic market, or some other foreign market (Hollensen, 2020, p. 355). Competition among contract manufacturers is positively correlated with the focal industry's use of contract manufacturing. Meaning that in contract manufacturer industry such as printing where competition is high, contract manufacturing tends to be used by focal industry – publishing. This is even more probable, if focal industry is in itself more competitive and invests more into information technology (IT) infrastructure (Han, Porterfield & Li, 2012). Drawbacks to the contract manufacturing are loss of control over quality, loss of innovation capacity and possible complications with the manufacturer such as its inability to deliver the quantity, cost inefficiency, creating potential competitor or manufacturer trying to exploit the agreement. Thus, proper care must be exercised when negotiating the contract (Arruñada & Vazquez, 2006; Kotler & Armstrong, 2021, p. 565). On the other hand, contract manufacturing offers many benefits, especially to a company whose strength lies in marketing or design, because it allows the company to focus on core competences while leave the manufacturing side to the external partners. In addition, subcontracting provides substantial flexibility, lower product cost, less demand for company resources – human or financial, and access to external expertise (Kotabe & Helsen, 2017, p. 297).

Management contracting, on the other hand, emphasizes importance of the management know how in a service sector. Kotler and Armstrong (2021, p. 565) define it as a form of

contractual relationship where typically the company seeking to internationalize supplies the management know how to the company in foreign market that supplies the capital. Essentially, the company trying to internationalize is exporting management services instead of products. The contractor gains fees for provision of management services in countries where entry and foreign direct investment is hindered by government restrictions (Onkvisit & Shaw, 2004, p. 252). Management contracting has been used in various parts of the service sector including hotel, airline, retailing and health industries. It has gained popularity in 1970s due to being a low risk method of entering foreign developing markets that quickly yields an income (Welch & Pacifico, 1990). In addition, if the contractor is at the beginning of its internationalization path, the knowledge gained on foreign markets can support and aid company on its future international ventures. Nevertheless, this type of entry mode presents various disadvantages for the contractor. For example, the contractor nurtures possible future competitor, potential for conflict with the partner, lack of synergy and limited control all of which inhibits the ability of the contractor to develop venture's capacity (Hollensen, 2020, p. 376).

Another mode of establishing local production in the market of entry without large investment and often seen as development or extension of contract manufacturing is **licensing** (Gilligan & Hird, 2012, p. 111, 112). Kotabe and Helsen (2017, p. 282) define it as a longer contractual relationship where the company – the licensor – in exchange for royalty fees, offers certain proprietary assets to foreign firm – the licensee. The assets that can be offered as a part of the agreement include patent, manufacturing process, trade secret, trademark or any other item of value. The licensee can thus gain a well-known brand name and/or product or service know-how without having to invest into R&D, while the licensor enters a foreign market without much risk. Moreover, licensing is preferred in a number of situations. For example, when the foreign government regulations limit or prohibit foreign direct investments, when the licensor is small and lacks resources to invest into foreign facilities or when quick expansion is needed in order to lower the cost of R&D. However, without proper research of the potential licensee and good contract, the benefits can be outweighed by the lower sales due to lack of enthusiasm on the part of licensee, damage to trademark, and the risk of nurturing possible future competitor (Kotabe & Helsen, 2017, p. 282, 283).

As a form of licensing, but typically used in service industries, international **franchising** is an additional mode for companies to penetrate foreign markets. It is defined as a form of an arrangement where the franchisor gives the franchisee a right to use a complete business model, from trademark and product know-how to operating standards, manuals, training, marketing plan and quality management, in a given time period and territory in exchange for agreed royalty. In other words, franchising is a way for company or franchiser to sell business service in shape of winning business formula to investors in foreign markets, who have little or no business experience (Kotabe & Helsen, 2017, p. 284). It is most often used in industries such as fast food, retailing, hotel and car hire (Lee & Carter, 2012, p. 243). Just

like with licensing, benefits of franchising are overseas expansion with minimal investment and lower risk. However, franchising as an entry mode permits a greater degree of control over the foreign company compared to licensing. Furthermore, franchising facilitates capitalization of local market knowledge and experience, quicker expansion to distant foreign markets, exploitation of economies of scale in marketing and it is often predecessor to future direct investment (Hollensen, 2020, p. 359, 360). Companies entering foreign markets with franchising also carry similar risks as with licensing. The control over franchisee's operations is still lacking with this mode of entry (Kotabe & Helsen, 2017, p. 284, 285). Moreover, there are costs of protecting the brand name, risk of ruining company's reputation, providing internal business knowledge to potential competitor, etc. (Hollensen, 2020, p. 360).

Lastly, some companies, to penetrate foreign markets, might also implement **strategic alliance** in addition to other modes of entry. Strategic alliance is a cooperation agreement between companies or sometimes even competitors across borders, to share or exchange certain value activities. The alliance could include any part of the value chain, but the focus is usually limited to distribution, R&D or manufacturing (Johansson, 2009, p. 132). This type of cooperation tends to create interdependency among the companies involved. However, they are usually short term and objective focused, meaning that after achieving desired strategic goal agreement might be terminated. As mentioned, this type of mode is often used as complement rather as a substitute for other entry modes, due to high failure rate. This is brought by lack of trust, incompatibility of companies' cultures, unclear division of responsibilities, unfulfilled expectations, asymmetry of learning, as well as government regulations and policies (Collinson, Narula & Rugman, 2017, p. 67, 68). While the terms strategic alliance and joint venture are often used interchangeably, Hollensen (2020, p.365) differentiates between the two terms, defining strategic alliance as a cooperative or non-equity joint venture, where the parties involved do not make any equity investments and there is no new company created. Whereas equity joint venture, described in more detail in the following chapter, is the creation of new company where partners raise capital based on the previously agreed equity stakes (Hollensen, 2020, p. 365).

1.4.3 Investment modes

When companies become more familiar with foreign markets and acquire sufficient knowledge and experience, perceived risk connected with the internationalization process will decrease. As a result, companies might consider foreign direct investment. Several factors in relation to host and home countries influence the decision to invest in equity-based or investment modes of entry. For instance, foreign direct investment will be preferred, when the host country's risk factors, such as stability of political systems, price control, risk of intervention and currency convertibility as well as risk of opportunistic behaviour of local companies, are considered as low. How the risks are perceived varies from country to country, often due to the manager's experience and cultural distance between the home and

host market. However, when knowledge of foreign market increases, the perception of risk tends to decrease (Collinson, Narula & Rugman, 2017, p. 63).

Investment modes are considered equity-based entry modes, where the company wishing to expand internationally establishes a place of business or presence in a foreign market. This can be done by setting up a foreign branch, entering joint venture or by establishing wholly owned subsidiary. **Foreign branch** is integral part or an extension of the parent company and does not have a separate legal status. Therefore, taxation of its profits takes place in the home country. Often, if the foreign branch is successful, parent company will transform it into a subsidiary (Shenoy, 1999). In contrast to foreign branch, a subsidiary is subject of host country laws and taxation. It is a local company in host country that is partially or fully owned by its parent company (Hollensen, 2020, p. 388).

Partial or shared ownership of a subsidiary is defined as **joint venture**. The term joint venture stands for partnership between two or more parties creating local business in foreign market in which they share control and possession. Usually, it is a cooperation between company, which wishes to enter foreign market and partners already present in foreign markets, such as local companies, local government or foreign companies (Kotabe & Helsen, 2017, p. 286-288). Joint venture might be necessary for political or economic reasons. The company might lack technology, management skills or financial resources to undertake the venture on its own. For example, SMEs prefer joint venture to wholly owned subsidiary as they often rely more on cooperative entry modes in comparison to larger companies, due to their resource constraints (D'Angelo, Sestu & Majocchi, 2020). On the other hand, the local government restrictions on foreign ownership may force companies to partake in joint venture as a condition of entry to the market. Nevertheless, joint venture has certain drawbacks, among which the most prominent would be disagreements between the partners, different priorities, lower flexibility and loss of confidentiality (Kotler & Armstrong, 2021, p. 566).

Wholly owned subsidiary, in contrast, is fully owned entity in foreign country by the expanding parent company. The companies can establish such subsidiaries through acquisition or greenfield investment. When choosing between acquisition and greenfield investment, it is important to consider company specific advantages, country level factors and industry specific factors (Lee & Jang, 2016).

Acquisition is when the expanding company purchases an existing enterprise and its assets in a foreign market (Collinson, Narula, & Rugman, 2017, p. 64). It is considered less risky than greenfield investment because revenue and profit stream is known. In addition to the tangible assets, customer service and logistic systems, the acquiring company also gains valuable intangible assets. Intangible assets acquired, including local brand name and manager's knowledge of the local market, provide invaluable advantage that considerably reduce the risk of entry failure. Acquisition also enables companies to quickly establish presence in foreign markets and pre-empt their competitors. However, in haste companies

often do not implement a thorough pre-acquisition screening of the benefits and costs which is the reason for failure of many acquisitions. Furthermore, acquisitions often fail due to acquiring assets over the real market value, overestimating the possible synergies created with the acquisition and incompatibility of the organizational culture between the acquirer and acquired company. Moreover, due to legal restrictions or government barriers acquisitions are not always permitted (Hill, 2011, p. 434-436).

Greenfield investment involves establishing a completely new subsidiary from ground up in a foreign market. This type of entry is preferred when integration of acquired enterprise is too costly and the desired assets can be accessed without acquisition of foreign enterprise. For example, when a company wishes to access an experienced and skilled labour force available in foreign market. The advantages of greenfield investment are full control that the company has over foreign operations, the possibility of creating the type of subsidiary that it needs, without the integration problems accompanying acquisitions. The drawbacks of greenfield investment are the high cost as well as low speed of entry because company needs to establish everything from scratch. Slow entry to foreign market lowers the market potential for greenfield investment as competitors entering via acquisitions are quicker to establish market presence. Moreover, this type of investment in order to be successful requires company to have previous experience in foreign markets and high market knowledge (Collinson, Narula & Rugman, 2017, p. 64; Hill, 2011, p. 437).

1.4.5 Determinants of market entry mode

The decision of the entry mode type used in international expansion is influenced by several factors. These factors can be divided into three groups:

- External factors

External factors include country risk, market growth and size, psychic distance, direct and indirect trade barriers, intensity of competition and small number of available intermediaries. Bigger perceived sociocultural distance between the domestic market and host market, higher country risk and higher competition are all external factors, that, when other things being equal, drive companies to prefer entry modes that require relatively low resource commitments (Del Giudice, Arslan, Scuotto, & Caputo, 2017; Obadia & Bello, 2019; Wong, 2013). In contrast, companies, when entering markets with larger size and higher growth rate, as well as fewer relevant intermediaries and fewer present high trade barriers to import, will implement contractual or investment entry modes that will allow for more control and require to commit more resources (Obadia & Bello, 2019).

- Internal factors

Internal factors influencing the choice of entry mode are size of the company, product or service offered and company's international experience. The size is an indicator of the company's resource availability. At first, smaller companies usually enter with export

modes, which require lower resource commitments and as the company grows, it will increasingly implement investment modes (Lin & Ho, 2019). The nature of the product or service offered by the company can also influence the choice of entry mode. For specific products, such as expensive watches, management might want to retain the control over production and opt for export modes. While for products, such as soft drinks, companies usually employ contractual or/and investment modes, because of the shipment costs or import barriers (Hollensen, 2020, p. 320). With regards to services, Bloomsterno et.al. (2006) divide them into soft services where production and consumption occur simultaneously and hard services where the two processes can be separated. Companies offering soft services are more likely to use high control entry mode such as equity modes of entry compared with companies offering hard services (Bloomsterno et.al., 2006). In addition, international experience obtained and relationships created reduce the uncertainty of the market entry and consequently increase the probability of committing company resources, which results in companies favouring investment modes of entry (Lin & Ho, 2019; Sadaghiani et.al., 2011).

- Desired characteristics of entry mode

The management perspective and outlook on internationalization also has an influence on the chosen entry mode. If the management is **risk averse**, they would prefer modes that do not require large resource investment, such as export or certain contractual modes. However, companies must consider that low market commitment can result in lost opportunities and low international development (Andreu, Quer & Rienda, 2020). Level of resource commitment is closely related to the **level of control** desired when choosing the entry mode. Degree of control over international operations that management requires also determines the preferred mode of entry. Modes of entry that require low resource commitment, such as indirect exporting, will also provide no or very little control over operations abroad. In case of contract manufacturing and licensing, management needs to ensure that the production meets their quality standards. On the other hand, high resource commitment with investment modes provides the highest level of control for the management (Levi, 2007, p. 56; Blackburne & Buckley, 2019). Lastly, **flexibility** that entry mode provides also needs to be considered. Lower flexibility of investment entry modes where higher investment is needed, hinders the company's ability to quickly adapt to changing market landscape and maximize organizational performance (García & Vargas-Sánchez, 2015).

2 INTERNAL ANALYSIS

The focus of this chapter is on the company, Hooray Studios, and its internal characteristics that contribute to the successfulness of their international expansion. In first subchapters, the company, its organization structure and products are introduced. Followed by analysis of its internationalization process so far and challenges that the company has faced in global marketplace. In addition, the motives for researching Brazil, as a new potential market entry, are defined.

2.1 Hooray Studios ltd.

Hooray Studios ltd. or Mali Junaki d.o.o. is a Slovenian company that produces personalized books. At first, the company's focus was on personalized children books to which the selection of personalized books for couples was added. Today, the privately held company consists of approximately 200 employees. It was founded in 2013 by two friends – Rado Daradan, General Director, and Mic Melanšek, Marketing and Creative Director (see appendix 4). Both, at the time as new uncles, wished to give the best and unforgettable gifts to their nieces. From there the idea for Hooray books, where children are the main characters of the story, was born. In the beginning, the focus was mainly on finding the author, illustrators and printing houses that would turn the idea into reality. First books were created in collaboration with local authors, such as Desa Muck and Ferij Lainšček, and have soon gathered a significant interest in the domestic market. The company has become market leader in Slovenia. In 2014, they had tried to expand foreign markets – Austria and Croatia - and failed due to lack of adaptation of the product to the new markets, unfriendly purchase process for the buyer and unsuitable advertising (Faljic, 2018; see appendix 4). The failure on the international markets prompted the two founders to review and create a proper business plan, which was the basis for the company's success in the coming years (Golob, 2020; Faljić, 2018). In 2016, the company has again started its international expansion and a year later, in exchange for minority stake in the company, they have received an angel investment from a Swiss company (Fortuna, 2017). In the same year, company has also achieved their first million in profit (Faljic, 2018).

The company has since been growing rapidly. In 2019, the sales more than doubled to 27 million euros compared to year before (STA, 2020 & Kokošinek, 2020). Today, the personalized children and couple books are successfully sold in several foreign markets including Germany, Austria, France, Spain, Italy, Belgium, Canada, United Kingdom, Australia, US and more recently also in Finland and Sweden (see appendix 4).

2.2 Product portfolio

Hooray Studios is a global niche player that targets the same customer profile with the same product worldwide. Their core product are personalized books. In addition, they offer complementary products such as plush toys as well as personalized puzzles, pictures and gift cards. Their product range is quite narrow. The product offering is adapted to each market in which the company is present based on the demand, customer feedback, profitability, cultural aspect and development of the market. For example, as the company views their products as a perfect gift, the assortment also depends on the occasions celebrated in the countries, such as Father's Day, Christmas, Baptism, Weddings etc. (Hooray Heroes, 2021). As such, the demand for the products is very much seasonal. Hooray Studio's peak seasons are first second and fourth quarter of the year, while summers are usually slow (Loncar, 2021). The company's market is segmented based on simple family life stage, targeting

young families and couples. Their strongest customer segment are women between ages 24 and 45 (see appendix 4).

The company is competing on quality and value created through innovative product design, content and technology. Hooray Studios' competitive advantage is not only the personalization aspect of their products, but also the quality of the story and illustrations, which together bring out the emotions from the readers. The company is able to bring products close to their customers by quickly adapting to their needs and wants, as it places a lot of emphasis on customer feedback. They even incorporate videos sent by their happy customers into their marketing.

The first product was personalized book titled *Kje si bo "Iza" umila roke?*, which included personalization of the child as the main character, in terms of gender, name and appearance – style and colour of the hair (see appendix 4). Since then the level of personalization in the books has increased exponentially. Now customers can personalize their whole families up to five characters in the book as well as decide which stories to include. In addition, there are many different types of books available. Today their product portfolio encompasses 24 books (see appendix 2) and while the focus was and still is on children's books, in the last years the company has begun to publish also personalized books aimed at older audience, couples (Hooray Heroes, 2021). Their bestseller is daddy edition of Grows Up collection - titled *When "Jakob" Grows Up*. This book has made the company famous and increased their brand recognition. However, lately, daddy edition of the You Will Always Be collection titled *"Jakob" You'll Always Be My Little Boy*, is gaining on popularity (see appendix 4).

2.3 Organizational structure

Hooray studios is a publishing platform for personalized books with focus on children and families. As such, the company is part of a niche in publishing industry. Due to the uniqueness of their products – books with personalized appearance and names of the protagonists – the company does not follow the guidelines of traditional publishing. For example, the company has zero inventory and no warehouses. They print based on the actual demand and after the order is placed. In addition, the whole supply chain and the customer journey for the product is internalized. They have consolidated various steps in usual distribution process and created so called vertically integrated business model (Faljic, 2018). Such businesses are considered as a microcosm of the publishing industry – being a manufacturer, publisher, marketer and ecommerce retailer all in one (Baverstock, Bradford & Gonzalez, 2020, p. 187-200).

The company consists of several departments that have been established to support the process from product creation to the delivery to final customers. The strongest departments are Marketing and Art department. *Marketing department* has important role in all stages of the business, from product development and market research to promotion, product

distribution and customer support. *Art and Design department* is where the book's narrative and illustrations are outlined and designed in parallel with *Editing department*, where the text, in cooperation with author, is formed and revised. In addition, the company places great emphasis on building good customer relationships. As a result, they have a strong *Customer Care department* to cover all markets where the company offers their products. *Business Development department* encompasses technical part of the supply chain, which includes everything from communication with suppliers and manufacturers to the distribution of the goods to the final consumer. In *IT department* web pages are formed and maintained, book creation programs, which generate personalized books based on the customer's input from the web page, are developed and where connection with print houses is established and maintained for uninterrupted print. The books are always created first for US market. Afterwards, they are translated and adapted to other markets. The translation and adaptation of the products as well as adaptation of marketing content for different markets is done in *Localization department*. Other departments in the company are *Financial*, *Legal* and *Human Resource (HR) department* (see appendix 4).

The creation process of the book starts with initial concept or idea. The idea is very much reworked from the beginning and comes from different ends, whether it is something that one of the company owners imagined or as a result of a customer feedback. Before the actual development of the book, the analysis on the established markets is done. The company analyses whether the idea for a new book appeals to their customer base. They discuss what message the book should express, what emotions the book should draw from the readers etc.. Afterwards, the creative team, including the author and illustrator, outline the basic concept with examples of concrete stories and give suggestions for the first illustrations. From there the stories and illustrations develop together. The aim is for stories to be elevated with illustrations, to complement and be relevant to each other. In some instances, the story or content changes based on the illustration and vice versa. After the first draft of the book content and accompanying illustrations, they evaluate whether the goals set at the beginning of the creative process were achieved and if necessary, change or add certain parts. In the next step, the book is edited and marketing content is prepared. Once the book is approved, it is, as mentioned, first launched in the US market, sometimes also in the German market, since these are both strong markets for the company. Customers can order their books only through the Hooray Heroes website, which allows them to personalize and choose stories. Before the launch, the whole process of ordering and production of the book is tested. The first examples of the product are sent to headquarters to review the quality. Lastly, after everything is tested and corrected if needed, the actual launch of the product to the market is implemented (see appendix 4).

After the launch, the usual ordering process starts with the webpage where the customer personalizes the book and places the order. After payment, the information is processed through the illustration program and saved in CRM system. Quality check is performed and the PDF files are then sent to the print house. In the print house, the books are printed, packed

with any other ordered items and sent to the final customer through established delivery services partners in the market (Faljic, 2018; see appendix 4).

2.4 Internationalization process

Hooray Studios started its internationalization in 2014, within a year of their formation. In the same year, they have experienced what Pedersen & Petersen (2004) describe as shock effect when entering adjacent countries - Croatia and Austria. Although they have had the initial seatback, since 2016, the majority of their revenues come from foreign markets (see appendix 4). Since the company operates in relatively small niche of publishing industry – personalized books, they needed to internationalize quickly to gain markets and lower fixed costs per product. Such companies, that rapidly enter foreign markets, have smaller domestic market and have highly innovative design, are in business literature known as *born globals* (Gabrielsson & Kirpalani, 2012). Key factor for international success of *born global* such as Hooray Studios is their marketing competence that includes skilful marketing planning process, product adaptation and differentiation, control of marketing activities and efficiency in pricing, distribution and advertising (Knight, Madsen, & Servais, 2004). Reasons for the company's international expansion are active and proactive and stem from unique product, small domestic market, seasonal demand and managerial urge as well as profit and growth.

The company is entering foreign markets mainly through *contracting manufacturing*. Meaning that they outsource the production of the goods to an external partner. When deciding between using existing partner and searching for new one when entering new foreign market, several variables come to play. Including geographical position of the new entry market, country's international trade agreements as well as quality, reliability and availability of partners. Third partners always manage Hooray Studios' production of physical goods. The company's main external partner are *printing houses*, which are often located in the market of entry to avoid import fees as well as to lower delivery time and cost. For example, when expanding to Australia, the company selected partners in the host market, as otherwise import and delivery fees would make the price of their products too high. On the other hand, they also import from printing houses in nearby countries. This is especially true for markets inside European Union. For instance, importing to northern Italy from Slovenian printing house and Belgium from French printing house. Additionally, they export from United Kingdom to Canada because it is cost-wise cheaper and easier to implement than importing from United States, like they did at first. In addition to printing houses, Hooray Heroes has partners also for the production of non-personalized items. These items are delivered to printing houses that have them on stock (see appendix 4).

Contract manufacturing allows the company to focus their resources on their core competences – product idea, design and marketing. It also enables the company to be more flexible and adaptable to foreign markets, which is crucial in personalized gifting industry and pivotal for company's international success (Kotabe & Helsen, 2017, p. 297) On the other hand, contract manufacturing requires more quality control, which the company

performs through regular quality check-ups (see appendix 4). Likewise, it is also important to have reliable partners and exercise proper care when negotiating the contracts. Furthermore, contract manufacturing as mode of entry works for the Hooray Studios' business model, because their core competences - product idea, design, creativity and marketing – are very difficult to duplicate. Moreover, the books are made in the systems internal to the company and only the final reviewed PDF versions are sent to the printing houses, which mitigates the risk of intellectual property leak or partner becoming potential competitor.

Each department in the company contributes to decision-making in the whole process of market selection and market research. Everything is centralized in Slovenia, where they establish project groups for the launch into particular new market. These project groups consist from individuals from different departments. Once the new entry market is selected, Hooray Studio's proceeds with market research. First, the research is focused on partners and it provides information on which delivery and manufacturing services are appropriate in terms of quality, time of production, price etc.. Business development department explores technical issues, such as where whether the company already has a printing house available in the area of new market entry that could be used or they go looking for a new partner. When outsourcing the delivery service, the company chooses partners that are the most popular in a particular market, are reliable, affordable and fast – for instance, GLS, UPS, DHL, etc.. The company also offers several delivery options to their customers - from the cheaper and slower to the more expensive and faster. The finance and legal department determines, if it is necessary to open new tax numbers or establish a new company. IT sets up a separate website for each market. Art and Localization department make sure that the books are adapted, even in cases where markets have "the same language", e.g. Latin American and European Spanish, English - UK, US, Canada, Australia - each has certain differences. Marketing incorporates good practices and strategies on how best to advertise in a particular market. As for the markets where there is already a lot of interest and the company plans to launch in foreseeable future, they prepare a landing web page where customers can sign up to be informed when the company will come to the market (see appendix 4).

Concerning the product offer in new entry markets, the first launch are personalized children books, the core product of Hooray Studios. When product adaptation is needed in larger scale, the company usually starts with best sellers and with books that cover different customer segments. However, in case of Belgium, where the company decided on no product adaptation as the differences in comparison to products for French market would be few, they have launched all products available also on the French market. Certain product lines, particularly complementary products, such as plush toys, are not available on every market. Regarding product adaptation, each market has its own specifics in terms of both language and illustrations. In the books, usually illustrations of country specific sights, animals, flag,

police cars etc. need to be adapted. The stories need to be translated and onomatopoeia sounds are adapted as well (see appendix 4).

The company does not focus only on one region or bigger cities, they usually enter the whole market at once. However, if there is greater demand in certain part of the market, then the focus is more on that part. As mentioned, in Belgium they only offer books only in French. Consequently, they are targeting a French-speaking part of Belgium. However, the delivery is available to every part of the country (see appendix 4).

2.5 International challenges

Hooray Studios faced the biggest international challenges when entering the first overseas markets, especially the United States (US). There are two main reasons why entry to US market was challenging. Firstly, because they entered new continent and the company had to set up everything anew and secondly, because the customers in the US are quite different and stand out compared to Europe. At the time, the company was not well prepared concerning the values of the US market. They have come to learn that customers in the US market tend to be very loud and willing to express their opinion without any reservation. For example, the company faced the problem with the availability of personalization traits – not enough skin colour and hairstyle options, which labelled them as racists. At the time, the whole company was working on expanding personalization options as quick as possible (Faljic, 2018). Other challenges that the company faced when entering the US market were also the size of the market itself, which requires higher number of printing houses in order to cover the whole market. Currently the company has partnership with three printing houses to cover the US. In addition, the market has a very complex tax system and completely different requirements for doing business in comparison to Europe, company's home market (see appendix 4).

Another demanding market the company has entered and has proved to be quite challenging was the United Kingdom (UK), because the company has a very strong competitor there – Wonderbly, for whom this is the domestic market. In comparison, the price of Hooray Studios products was very high, as in the UK books in general are more accessible due to being tax exempt. To this day, the UK market is one of the most difficult markets marketing wise. Comparing the two most demanding markets, US market was the most challenging from a technical standpoint and the UK from a marketing standpoint (see appendix 4).

2.6 Motives for market research

The thesis focuses on Brazil as a new potential market entry for Hooray Studios. The market – Brazil, was chosen for research due to high number of webpage visitations and downloads in Brazil of the free personalized Hooray colouring book that was available on the company's US webpage (see appendix 4). This is an indicator of existing demand on that particular market, which has inspired company's interest into the Brazilian marketplace and its potential for the company. Hooray Studios is already present in several European markets.

One of the potential entry markets in the future is also Portugal. Entering new country requires a substantial product adaptation and translation therefore sequent entry to the same-speaking country – Portugal, will bring economies of scale. In addition to the economies of scale as well as present interest and demand on the market, other factors, such as seasonality of the demand, have also contributed to choice of the market with aim to keep the cash flow as steady as possible (Loncar, 2021).

3 EXTERNAL ANALYSIS

In this chapter, environment characteristics external to the company – Hooray Studios Ltd., are analysed. The focus of the external analysis is a single country – Brazil, and how attractive Brazil is as a potential new entry market for the chosen company. The two factors determining market attractiveness are *market attributes and industry attractiveness*. In the following subchapters, market attributes are assessed through PEST analysis, while attractiveness of book publishing industry is determined through market size, its growth, in-depth competitor analysis and Porters’ Five Forces Model.

3.1 PEST Analysis: Brazil

PEST analysis presents a framework of political economic, social and technological factors assessed as a strategic tool for understanding risks and opportunities on the market for a particular product or a business. PEST analysis of Brazil provides better understanding of the company’s potential macro-environment and its potential impact on the company’s overall performance, which contributes to better decision making and higher competitiveness of the company (Euromonitor International, 2021f).

The objective of this subchapter is to provide relevant insights for the international expansion of the chosen company - Hooray Studios, to Brazilian market. The PEST analysis has shown that the business landscape in Brazil is challenging. However, even though there are certain concerning points that the company would need to address such as high taxes, bureaucracy and political instability, Brazil’s market attributes would overall have a positive impact on company’s performance. Brazil has a big potential for growth and represents a good cultural fit for the company. Additionally, technological environment in Brazil would support Hooray Studio’s online purchasing business, as the country continues to foster innovation. Table 2 on the following page summarises the main factors shaping political, economic, social and technological environment in Brazil.

Table 2: PEST analysis

<p>Political Factors</p> <ul style="list-style-type: none"> - high political instability - high level of corruption, but improving - complicated regulatory system - poorly developed infrastructure - complicated tax system, high corporate taxes and high import tariffs - new bill proposing lower corporate tax rate for 2023 - books are tax-exempt - publishing industry is very much reliant on government purchases 	<p>Economic Factors</p> <ul style="list-style-type: none"> - world's ninth largest economy - severe economic contraction, but recovering fast - high inflation and unemployment rates on short run - publishing sector is fragmented, competitive and quick to recover after pandemic crisis - subdued Doing Business rank - mostly unfree economic status - "custo Brasil" or Brazilian cost
<p>Social Factors</p> <ul style="list-style-type: none"> - one of the largest consumer markets and growing - declining birth rate, but households with children to remain dominant segment among household type - growing middle class - high literacy, but poor reading habits resulting in low book sales in comparison to developed nations - income inequality to remain one of largest globally - discretionary spending to be constrained on short term - Brazilian consumers prefer higher quality products - collectivistic society 	<p>Technological Factors</p> <ul style="list-style-type: none"> - 1.3% of Brazil's GDP in 2020 for R&D - Higher investment in telecommunications - Significant forecasted growth in internet users - Most Brazilians use solely their smartphones to access the internet - Brazilian book publishing sector disrupted by digital shift and slow to adapt

Source: Own work

3.1.1 Political Factors

Brazil is one of the largest democracies overall and the most powerful country in South America. Consequently, it is considered to have a moderate influence in international affairs. In addition, Brazil is part of various world's leading institutions like World Trade Organization (WTO), Mercosur, International Monetary Funds (IMF), United Nations (UN), World Bank etc. and a key member of the OECD. Brazil also has strong economic and political relations with United States (Brazil - Market Overview, 2021; U.S. Relations With Brazil, 2021).

Brazil's government type is federal presidential republic. The country comprises of one federal district and twenty-six states. In 2016, the country faced impeachment and conviction of former president Dilma Rousseff that, in addition to multiple corruption scandals involving government officials and private companies, had a large negative effect on the country's economy. At the same time, Brazil also experienced the worst recession in the country's history (Central Intelligence Agency, 2021). Current Brazilian president is far right conservative Jair Bolsonaro, who, since his inauguration, has been dealing with polarized country where the effect of 2015/16 recession is still noticeable. However, next elections in October 2022 are said to bring a change in political landscape, with former president Lula da Silva leading by significant margin in voter references according to the Datafolha poll results in 2021 (Reuters, 2021).

Due to the current political turmoil in the country, Brazil is considered a country with high political risk within the global community (BWC Brazil, 2021; Andrade, Carvalho, & Viotti Beck, 2021). According to the indicator of political stability, in 2020 Brazil occupied a low 32nd rank in the political stability index among all the countries in the world. Overall, during the last decade, political stability in Brazil has decreased substantially from 45.97 percentile rank in 2010 to 23.08 percentile rank in 2020 and is much lower compared to regional average of 57.56 percentile rank in 2020 (World Bank, 2021). The decrease is mainly result of poor economic performance and weak governance. In addition to the political stability, other worldwide governance indicators, including government effectiveness, rule of law, voice and accountability, regulatory quality and control of corruption, all indicate a downward trend in Brazil in the last decade as well (World Bank, 2021). This presents a challenge for Hooray Studios conducting business in the country as it effects economy, hinders business operations and buying power of their customers. Furthermore, Brazil is facing high corruption in the country, which hinders its economic development. Based on Corruption Perceptions Index of Transparency International (2020), Brazil is ranked 94th out of 180 countries, making it one of the more corrupt countries of the world. The government has been taking steps to decrease the level of corruption in the country with open data initiatives, ongoing transparency and Anticorruption Action Plan (IMF, 2021, p. 26). As a result, the level of corruption has decreased and position improved, but the country has still not achieved 2010 results (Transparency International, 2020).

Brazilian government has committed to increase readership base in Brazil, since 2006, when the Brazilian National Book and Reading Plan (PNLL) was introduced by Ministry of Culture and Education. Publishing industry in Brazil is still very much reliant on government purchases, as government in order to increase readership in Brazil has employed many governmental book-buying programs, which make up to 37% of all book sales in Brazil (Loman, 2015). This is further supported by the fact that the biggest publishers in Brazil, such as Somos Educao S.A. known also as Abril Educao S.A. and Editora FTD, are manly education-based and depend heavily on the sales to the government (Wischenbart, 2020).

Among top challenges for businesses entering Brazilian market related to political factors are complicated tax system, high corporate taxes, high import tariffs in addition to a variety of non-tariff barriers, complicated regulatory system, time-consuming enforcement of contracts and high logistics cost (International Trade Administration, 2021 & CSM, 2018). The complexity of Brazilian tax system steams from application of federal as well as state taxes, tax disputes among various states and multiple cascading taxes (International Trade Administration, 2021). Legal entities selling goods in Brazil in addition to combined corporate income tax of 34% (Healy Consultants, 2022a), are also liable to PIS and COFINS taxes that are levied monthly on gross revenue at 1.65% and 7.6% respectively (KPMG, 2022). Concerning the combined corporate tax rate, the government proposed a new bill in July 2021 that would reduce the rate from 34% to 29% by 2023. However, the bill has yet to be accepted by senate and the president (EY, 2021).

Moreover, there are two types of value added tax in Brazil applicable in case of a company selling goods (KPMG, 2022):

- Tax on manufactured Products (IPI), which is a federal excise tax and is levied according to the classification of the goods, with ad valorem rates ranging from 0 to 330%, with average of 10%.
- Merchandise and service circulation tax (ICMS), which is a state sales tax and varies between the states, usually between the rate from 17% to 20%. However, lower and higher rates could be applied for certain products.

In case of imports, Brazil often decreases and increases tariffs, within the southern common market agreement, to manage prices and protect domestic industry (International Trade Administration, 2021). Applying federal, state and import taxes can effectively double the cost of the product imported to Brazil. When selling the goods with value below USD 3,000 directly from foreign company to Brazilian customer, a customs clearance procedure known as simplified tax regime (RTS) is applied. When value of the products is under USD 50, there is no tax applied. For purchases valued between USD 50 and USD 3,000 and delivered via postal services, a flat import tax rate of 60% is levied to the customer, in addition to BRL 15 for customs clearance fee. However, when importing via carrier, which are usually more reliable and faster than standard postal services, the rate can increase, as their fees are part of the customs clearance process (J.P.Morgan, 2020).

As Hooray Studios is operating in publishing industry, it is important to note that books are tax-exempt in Brazil (International Publishers Association, 2020a; KPMG, 2022). Books that are not for re-sale and are sold directly from foreign business to Brazilian customer are exempt from import duty tax and value added taxes (UPS, 2021). Although, in 2020 Brazilian government intended to impose a value added tax on books, due to high public opposition, the motion was abandoned and the country maintained the zero value added tax rate on all book formats: e-book, print and audio (International Alliance of Independent Publishers, 2020).

Furthermore, inefficient customs procedures and poorly developed infrastructure result in high logistics costs and delays in delivering the goods into the country. The World Bank's Doing Business 2020 report ranks Brazil 108 out of 190 countries for trading across borders (World Bank Group, 2020). Thus, it is recommended to find a customs broker in Brazil to assist navigating the complicated processes (International Trade Administration, 2021). The company should also account for longer delivery times of the goods to their customers.

3.1.2 Economic Factors

Brazil has the ninth largest economy in the world and represents large customer market with great growth potential. The country has been experiencing slow but steady recovery from the 2015/16 recession, until the start of Covid-19 pandemic in 2020 when the real GDP declined by -4.1% (Santander, 2021). However, in comparison, the decline was lower than in most emerging as well as advanced economies. Brazil's economy, sustained by strong policy response, withstood well the global health crisis and recovered to pre-pandemic levels by first quarter of 2021 (IMF, 2021, pp. 4,5).

Nevertheless, the pace of recovery is slowing. The country is facing a significant rise in headline inflation since the beginning of 2020, reaching 9% in July 2021 (IMF, 2021, p. 7). Accelerating inflation is hindering the recovery of retail sales, services and wholesale trade. Higher interest rates and lower purchasing power have interrupted the improvement in business and consumer confidence. This in turn has slowed the recovery of domestic demand (OECD, 2021, pp. 82-84). In addition, although the unemployment rate is decreasing since end of 2020, with recorded 12.6% in third quarter of 2021, it has yet to achieve pre-pandemic levels (OECD, 2021, p. 82; Rosati, 2021). As the labour market continues to improve, the pace of recovery is expected to regain momentum in 2022. Gradual decrease in inflation and employment growth will improve households' disposable income and bolster growth of private consumption. Furthermore, at the end of 2022, private investment is anticipated to rebound, as business sentiment improves and global supply-chain bottlenecks vanish (OECD, 2021, p. 84; IMF, 2021, pp. 22,35).

As the main products of the studied company are books, it is important to analyse the overall state of book publishing sector. Book publishing sector in Brazil is fragmented and very competitive. The sector was slowly recovering from 2015 crisis, when the pandemic further

negatively affected the sector. However, the latest data shows promising future. In the period between January 4th and December 5th 2021 the number of books sold was 49.6 million units in value of approximately USD 3.53 billion. This represents an optimistic 32,7% increase in volume and 31.3% in value in comparison with 2020 results for the same time period (Agência Brasil, 2021). However, in relation to sales in Germany, where the population is at roughly 83.2 million, the number of books sold in the same year was 273 million (Spiegel Culture, 2022). When calculating the number of books sold per inhabitant, the result is very disappointing – 3.2 books sold per inhabitant in Germany versus 0.23 in Brazil. This one hand indicates lower reading habits in Brazil and on other hand a substantial potential for improvement of sales.

In the World Bank’s Doing business 2020 report, Brazil ranks as 124 out of 190 economies in the ease of doing business. The rank deteriorated significantly compared to 2018 data, when the country occupied 109th place globally (World Bank Group, 2018). Overall, poor ranking is mainly due to Brazil’s historical practice of protecting local businesses. Among Doing Business indicators for 2020, Brazil ranked the worst in paying taxes, dealing with construction permits and starting a business, where the ranks were 184th , 170th and 138th respectively (World Bank Group, 2020). For example, there are 38 weeks on average required to complete necessary processes for company registration in Brazil (Healy Consultants, 2022b). Moreover, according to the Index of Economic Freedom Brazil’s economy is 143rd freest among 178 countries. As such, Brazil falls under mostly unfree economic status. Its overall score places the country under world and regional averages. Additionally, Brazil substantially differs from other markets where Hooray Studios operates with the lowest overall score of economic freedom in comparison (Heritage Foundation, 2021).

Furthermore, many extra costs come with doing business in Brazil, steaming form under-developed infrastructure, bureaucracy, high labour costs or inefficiency. Such extra costs even have a name - “custo Brasil” which translates to Brazil cost. The very fact that such phrase exists is important to consider when establishing company in the country, taking into account all the key issues and thus minimizing the effect of Brazil cost on business (CSM, 2018).

3.1.3 Social Factors

Current population of Brazil is more than 212 million people according to the World Bank data (2020) and is forecasted to increase by 7% until 2040. Brazil is already among the biggest consumer markets globally, but with population growth, it is expected to be ninth largest by 2040 (Euromonitor International, 2020a, pp. 3-5). Therefore, Brazil’s consumer market will remain highly attractive for consumer-facing businesses for the foreseeable future.

On the other hand, as the longevity rises and relatively low birth rates continue to decline, Brazil is expected to remain as one of the older regional countries by median age. The trend of aging population will transform consumer trends, as spending habits and lifestyles alter. Although Brazil's households are historically large, changing social norms will delay some couples from having children and thereby decrease the household size. Spending on child related segments would be limited due to lower birth rates, as the age cohort 0-14 is estimated to decrease by 17.7% during the forecasted period 2021-2040. However, with less children per household and higher disposable income, some consumers might be prepared to pay more for child related products. Additionally, couples with children are projected to remain as the dominant segment among household types in Brazil (Euromonitor International, 2020a; 2021d). Furthermore, number of households with one or more children in 2021 was at substantial 32.87 million (Euromonitor International, 2021i).

Income inequality in Brazil is very high, with Gini coefficient at 54.5 in 2021. According to 2021 data, median disposable income per household is USD 10,358. Due to rapid inflation, high unemployment level and low personal savings, growth of long-term household purchasing power will be limited and is projected to lag behind regional peers. Over the forecasted period from 2021 to 2040, population aged 35-39 is expected to remain as the highest income earner per capita in the country. On the long run, discretionary purchasing power in Brazil is projected to expand. Forecast for 2040 estimates that on average expenditure on discretionary goods and services will account for 64.4% of total consumer spending (Euromonitor International, 2021e, 2021i). Which makes the market very attractive for Hooray Studios also on the long-run.

According to the Euromonitor International Lifestyle Country Report (2021b), consumers in Brazil are particularly interested in new products and services on the market. All generations in Brazil, from generation Z to Baby Boomers, implement extensive research into products they consume. Moreover, all generations are also very much interested in personalized and uniquely tailored products and services and are prepared to pay more for such products (Deloitte, 2015). All generations would rather purchase less to afford higher quality products, which is a good indicator for higher quality, but also pricier Hooray Studios product portfolio. Brazilian consumers rely heavily on their friends and family recommendations for their purchases (Euromonitor International, 2021b).

Adult literacy rate in 2020 was at 93.5%, which is higher than world and BRIC adult literacy rate, but slightly lower than regional (Euromonitor International, 2021i). The official language in the country is Portuguese. Portuguese spoken in Brazil and Portugal are mutually intelligible, but there are some colloquial differences between the two (Pariona, 2019). Although the literacy is high, reading habits of Brazilian population are much lower in comparison to developed nations as well as in comparison with several regional countries. According to the latest available data, 48% of Brazilian population does not have a reading habit. On average, a Brazilian reads only five books in a year, of these only 2.5 books were read in its entirety. However, the study reveals that large percentage of Brazilians intend to

read more. Preferred reading format in large majority are still print books (Instituto Pró-Livro, 2020, p.41,58). Moreover, studies show that, rather than e-books replacing print books, there is a complementarity and coexistence between the two formats (Sehn & Fragoso, 2015; Zhang & Kudva, 2014).

Brazil has the third and fourth largest Instagram and Facebook user bases globally (Statista, 2021a; 2021b). Thus having strong social media presence is important for companies operating in Brazilian remote e-commerce. Companies should be aware of Brazilian consumers being far more vocal on social media than global average. This is great, if the product is well received, but the consumers will also gladly point out what they do not like. Therefore, companies should prepare accordingly. On the other hand, the consumers are less engaged in writing reviews of services or products (Euromonitor International, 2021b). Important consumer shopping dates in Brazil to consider are Christmas, Mothers' Day in May, Children's Day in October and Father's Day in August (Ebanx, 2021), which balances the demand on other markets for Hooray Studios.

According Hofstede Cultural dimensions in Brazil is an indulgent society where it is important to show respect to the elderly. It is also a highly collectivistic society where people are from birth onwards integrated into strong groups, especially depicted in the importance of the extended family. When doing business, companies should invest into building long lasting and trustworthy relationships. The preferred communication style is context rich, so people often write in elaborate fashion. Intermediate score in masculinity dimension shows that the roles between genders are almost equal (Hofstede Insights, 2021). Based on the above data, the Hooray Studios product, with elaborate text, high quality product focused on loved ones, is likely to be well accepted.

3.1.4 Technological factors

In 2020, Brazil devoted 1.3% of the GDP to research and development (R&D), which is relatively low level in global context, but has resulted in the highest R&D industry turnover recorded among the major regional economies in the same year. Brazil has also substantially exceeded other main Latin American countries in telecommunication investments, which will lead to augmented digitalization of the country and raise Brazil's competitive advantage at regional level (Euromonitor International, 2021a). Likewise, Brazil ranked high among regional countries in the Network Readiness Ranking 2021, falling only behind Chile and Uruguay (Portulans Institute, 2021).

Consequently, population's access to the internet in Brazil in the recent years has improved, with 71.9% of households connected in 2021, compared to 50.9% in 2015. Moreover, percentage of couples with children households, with access to the internet in 2021 was at 79.6 % (Euromonitor International, 2020b; 2021i). Additionally, the percentage of population using internet is forecasted to grow from 76% in 2020 to 98% in 2040 (Euromonitor International, 2021f). Such strong increase in internet usage and continued fall

in average fixed broadband internet prices in Brazil will continue to support growth in e-commerce. According to the Euromonitor's Voice of the Consumer: Lifestyles Survey 2021, most Brazilians use solely their smartphones to access the internet. In the survey, 96% of respondents affirm to own a smartphone and 97% respond that they browse internet on their phones at least weekly (Euromonitor International, 2021b). Therefore, it is imperative for remote e-commerce business to consider mobile-friendly solutions for online purchases, such as responsive e-commerce websites. Based on the provided data, the company Hooray Studios, which is an e-commerce based business model, has the necessary basis for success on the Brazilian market.

The developments in technology have also largely influenced publishing business around the world. Brazil's publishing sector was no different, as it has faced disruptions due to digital shift. New technologies are changing the way the books are produced, consumed and distributed. The digital production changes the environment of book publishing business and its cost structure, where economies of scale are not as crucial as before. Digital printing enables print on demand to be more economical and profitable. Additionally, new book formats have been established, such as e-book and audio books, which do not require physical distribution or printing and thus reduce publishing costs. Books are distributed through online sales channels, not only through physical stores. However, publishing sector in Brazil was very slow in embracing technological changes (Rodrigues, Nogueira, Hupsel & Repsold, 2014). Brazil, despite its economic size, is not relevant in e-book market. The factors for small e-book market in Brazil include limited number of e-books available, no price difference from print books and smaller publishing houses limiting the spread of e-books, due to high integration and implementation costs (Ferreira, Miranda & Moras, 2018). This slowly started to change, once the global pandemic in 2020 forced publishers to transfer the business online, due to the closure of bookstores in the country (Wischenbart, 2021; p. 24-28).

3.2 Industry attractiveness: Book publishing

The global book publishing is one of the industries most disrupted by digital shift. As such has undergone several major changes including new digital product development, disruption in the value chain, disintermediation, self-publishing and changing customer behaviour. Publishing businesses have reacted in variety of ways from expanding product development to reorganizing distribution. However, in order to face these challenges effectively, a more fundamental structural change was needed and new business models were created (Hall, 2016; Magadán-Díaz & Rivas-García, 2020). With introduction of digital printing that enabled print on demand in addition to other technological advancements, personalized book publishing businesses, such as Hooray Studios, based on made-to-order business model, was possible. Although in general, the book publishing is considered one of the less attractive industries (Euromonitor International, 2021h), smaller publishers tend to have competitive advantage as they operate in niches such as book personalization (Nawotka, 2011).

Brazilian book publishing industry has faced an unprecedented crisis since 2015. In the next three years, the market declined for 20% and 55 million fewer books were sold. In 2018, two main bookstore chains Saraiva and Cultura, which jointly represented approximately 40% of trade book sales in Brazil, have filed for bankruptcy (da Veiga Pereira, 2019). Since then Amazon has become the market leader in saturated Brazilian book publishing industry. Once the market has begun to show signs of recovery, the Covid-19 pandemic caused a very expressive drop in sales and closure of bookstores (Scalzaretto, 2020). However, the Brazilian book publishing industry began to see recovery in 2021, when it experienced a significant growth, even compared with 2019 pre-pandemic levels. The growth was mainly driven by increase in sales of e-book and e-commerce boom in addition to innovative business models that targeted niches in saturated market, such book club e-commerce models (Ferraz, 2021). Moreover, the success of biennial book events in São Paulo and Rio de Janeiro in addition to social inclusion fostering reading rates, highlight the public interest in books, particularly in young people. Therefore, there is a great potential for readers in Brazil (da Veiga Pereira, 2019). Overall, experts expect growth to continue, albeit at slower rate, with e-commerce remaining strong and bookstores reopening for the public (Ferraz, 2021).

In the following subchapters, the attractiveness of the book publishing industry in Brazil is determined. First, the size and growth of the potential market is estimated, followed by a more detailed analysis of direct competitors present in Brazilian market and Porter's five forces analysis of the industry.

3.2.1 Market size and growth

The market size of global book publishing industry, measured by revenue, in 2021 is USD 109.3 billion (IBIS World, 2021). In the last five years the global book publishing industry has declined on average of 0.2% per year (IBIS World, 2021), but it is expected to grow at compound annual growth rate (CAGR) of 3% in 2025. However, the growth will be mainly the result of businesses recovering from Covid-19 impact and rearranging their operations in order to adapt to the disruptions in the industry (Global Industry Analysts, Inc., 2021). Based on the latest data by Euromonitor International (2021h), the market size of Brazilian book publishing industry in 2020 was at USD 1.6 billion, ranking as first in regional comparison. The future growth rate for the book publishing industry in Brazil is above the global average at CAGR of approximately 4% in 2025 (Euromonitor International, 2021h). The data is promising for the future of book publishing in Brazil.

Additionally, it is important to emphasize, that while the primary industry of Hooray Studios is publishing, their aim is to create a perfect personalized gift. Therefore, personalization gift industry is relevant as well. Global personalized gifting market is a large and fast growing sector, that was worth USD 25.8 bn in 2020 and is projected to grow at a CAGR of 7.7% over the period 2020-2027 (Global Industry Analysts, Inc., 2021).

3.2.2 Competitor Analysis

Based on chain ratio method, a reduction technique to derive realistic demand (Hollensen, 2020, p. 175), the lowest total market potential for Hooray Studios on Brazilian market is approximately 22.5 million units (see appendix 3). To estimate total market potential for personalized books in Brazil the following metrics, according to 2021 data, were multiplied, based on restrained assumption of one book per household: Brazil has 67.5 million of households, 71.9% of these households have access to internet and 46.37% have disposable income above median (Euromonitor International, 2021i). Based on January 2022 data, Brazil is a net importer of printed books with importing value accounting up to USD 6.54 million, while exports accounted for USD 2.2 million. When looking particularly at children's picture books, imports to Brazil increased by 506% between December 2020 and January 2022. Brazil imports books primarily from United States, United Kingdom, Hong Kong, China and Spain (OEC, 2022). The data further indicates that there is a demand for foreign imported books in the country.

The focus of the competitor analysis is on Hooray Studios family product line, as personalized children's books are their main product. Based on detailed analysis there are only a few direct competitors for Hooray Studios on Brazilian market. These mainly include foreign competitors Wonderbly, My Magic story, Cukibo and Librio in addition to one strong local competitor Dentro de História. Table 3 on the following page presents comparison of companies currently selling personalized books on Brazilian market. The comparison is based on six chosen factors – the number of books available in Portuguese, webpage adaptation in terms of currency and language, price of the personalized books, delivery time and cost options offered, level of personalization and quality of illustrations.

According to the analysis results, we can conclude that the strongest competitor for Hooray Studios selling personalized children's books on the Brazilian market would be Dentro da História. Hooray Studios' price of personalized books ranges from USD 43.00 to 59.00, which in comparison to the listed direct competitors is much higher.

The advantages of the main direct competitor **Dentro da História** over Hooray Studios are the following:

1. **Location of production capabilities.** For the company Brazil is domestic market and its production facilities in Brazil lead to lower price and quicker delivery times in comparison to other direct competitors on the market.
2. **Incorporating well-known characters into personalized books.** The company's personalized books include personalized stories with Superman, Barbie, Little Prince and several other popular Disney characters.
3. **More education focused.** Books have language adapted to the age of the reader and thus enables children to read on their own, while Hooray Studios' book have a more complicated vocabulary intended for parents reading the books to their children.

Table 3: Analysis of direct competitors on Brazilian market

Direct competitors	Available books in Portuguese	Webpage adaptation	Price of personalized books	Delivery time and cost options offered	Personalization level	Quality of illustrations
Wonderbly	1 book, only for children	Language: NO Currency: NO	Softcover: 34.99 USD Hardcover: 42.99 USD	Standard (35 days): 16,99 USD Priority (10-13 days): 43.99 USD	Low level of personalization (only person as a whole)	Medium
<i>My Magic Story</i>	1 book, only for children	Language: YES Currency: YES	Softcover: 34.90 USD Hardcover: 40.89 USD Personalized cover: 42.89 USD	Standard (6-10 days): 5.99 USD Priority (5-8 days): 7.99 USD	Low level of personalization (only person as a whole)	Medium
<i>Dentro da História</i>	30 books and more, only for children	Language: YES Currency: YES	Hardcover: 14.99 USD	Standard (11-19 days): 5.99 USD	High level of personalization (options for choosing hairstyle, skin and eye color, clothes and accessories separately),	High, includes well known characters (Barbie, Superman, Elza)
Cukibo	1 book, only for children	Language: NO Currency: NO	Hardcover A5: 27.99 USD Hardcover A4: 36.99 USD	Standard (15-19 days): 11.26 USD Priority (7-8 days): 19.71 USD	Low level of personalization (only person as a whole)	Low
Librio	3 books, only for children	Language: NO Currency: NO	Softcover: 27.99 USD Hardcover: 39.99 USD	Priority (5-10 days): 17.99 USD	High level of personalization (options for choosing hairstyle, skin and eye color, clothes and accessories separately),	Medium

Source: Own work

At the same time, the main competitor in Brazilian market has few, but substantial disadvantages:

1. **Lower level of personalization.** Dentro da História's personalized books include only name personalization, lower visual personalization options, lower story personalization and lower number of person personalization per book. Hooray Studios' books include wider family personalization, up to five people per book. Moreover, with Hooray Studios books customer can choose which stories to include and personalize how the child calls his parents.
2. **Lower product quality.** More specifically, their books have lower quality of illustrations and shorter stories in comparison to Hooray Studios books.

Overall, analysed direct competitors have a very limited offer for Portuguese speaking customers and their websites and products are minimally localized. Hooray Studios would have a big advantage, as it is usual for them to adapt website as well as products to the entry market. Personalized book market is very underdeveloped in Brazil. Furthermore, no competitors could be found on Brazilian market that would offer couple oriented personalized books. Therefore, the company with its portfolio would have a space to grow and expand. However, as mentioned, it is important to note that there is a strong local competitor for personalized children's books - Dentro da História. Hooray Studios would be able to rival competitor's offer with higher and more sophisticated level of personalization, higher quality illustrations and more developed and emotional stories.

3.2.3 Porter's five forces of competition

To better understand the attractiveness of the book publishing industry the Porter's five forces model was used. Porter's analysis of competitive forces assists companies in understanding the structure of its industry and serves as a guide to strategic choices. It helps companies to build defences against the competitive forces or to find position in the industry that is less vulnerable for attack and more profitable (Porter, 2008). Book publishing industry has become more competitive in the recent years. However, due to the characteristics of its product and business plan, Hooray Studios has the positioning within the industry where the competitive forces are weaker. Positioning where it can avoid price-based rivalry and buyer power.

1. Rivalry among existing companies is at medium level

Book publishing industry in Brazil can be defined as fragmented, considering that five largest companies accounted only for 48.6% of production value in 2020 (Euromonitor International, 2021h). This leads to increase in the rivalry among existing companies in the industry. Although the growth in book publishing markets is small which precipitates the fight for the market share, personalized books are highly differentiated products and are thus associated with less rivalry. Moreover, there are only a few direct competitors for personalized books for Hooray Studio in Brazilian market with option of Brazilian

Portuguese language. These include Wonderbly (www.wonderbly.com/), My Magic Story (www.mymagicstory.com/br), Dentro da História (<https://www.dentrodahistoria.com.br/>), Cukibo (<https://cukibo.com/>) and Libro (<https://librio.com>). Additionally, relatively low exit barriers also lead towards decreased rivalry among existing companies.

2. Threat of new entrants is at high level

Technological advancements in recent years have brought down substantially the technical and financial barriers of entry to the book publishing industry (Magadán-Díaz & Rivas-García, 2020). First, with induction of internet, emergence of new distribution channel - online retail - has made much easier to distribute the books directly to the consumer compared to the traditional brick and mortar retailers in publishing industry. In addition, online retail improves margins, reduces capital expenditures and expands the market reach (Deloitte, 2021; International Publishers Association, 2020b). Second, the developments in digital printing technology have enabled book print on demand to be profitable, as the digital printing has become affordable and faster while also providing high quality results. The print on demand allows publishers to operate with zero inventory, to meet up the spikes in demand and to distribute books much faster (Van Gaever, 2021; Globe Newswire, 2021). Working with zero inventory consequently means lower initial capital investments. Furthermore, print on demand enables publishers to implement decentralized printing model, where the manufacturing of the books is outsourced, done by printing partner located where demand occurs (Shanley, 2020). Taking in the account all of the mentioned factors in addition to the profitability of personalization niche in saturated book publishing industry, there is a high threat of new entrants, which could compromise company's positioning on the market.

However, as the book publishing market is quite saturated market, especially in developed economies (IBIS World, 2021), growing the size and reputation of the new entrant company in order to take on market leaders would take a long time and effort, which lowers the threat of new entrants. Although looking strictly at the niche where Hooray Heroes operates, this force does not have a big effect.

3. Bargaining Power of suppliers is at low level

Primary suppliers in the book publishing industry are printing houses, illustrators and authors. Overall, their bargaining power is low. First, the printing industry in Brazil is very fragmented, there are many available suppliers for immediate purchase, and therefore switching cost of print house is low for book publishers (Euromonitor International, 2021g). Same stands for author and illustrators. While there is a substantial threat of digital printing houses and authors bypassing the publishers, as the technology enables authors to self-publish easily (Anderson, 2013), this is difficult to do due to the technical aspect of personalization in the niche market of personalized book publishing where Hooray Studios operates. Thus, the bargaining power of suppliers is determined at low level.

4. Bargaining power of buyers is at low level

Book publishing business traditionally has intermediate buyers in few wholesalers and other retailers. Nowadays, for majority of publishers their main customer is Amazon in addition to several brick and mortar retailers, which makes for concentrated market of intermediate buyers (Mosendz, 2014; Anderson, 2020). As few intermediary buyers purchase large volumes of books, they have a high bargaining power. Nevertheless, looking at the niche of personalized book publishing, where books are sold online directly to individual end consumers, the bargaining power of such fragmented buyers is low. As a rule, this category of buyers has no significant impact as individuals can only influence small part of the industry, which is their own purchasing choice. In addition, personalized books are unique and differentiated while there is also a small number of direct competitors on the Brazilian market, which further confirms low bargaining power of buyers.

5. Threat of substitute products is at medium level

Traditional book publishing industry substitute products are other types of entertainment, from television, streaming services, games, audio books and podcasts to different hobbies (Zeng, 2021). As technology nowadays enables to find substitute products much easier, for book publishing business overall threat of substitutes is high. However, as Hooray Heroes personalized books are often bought as a gift, more threatening substitutes would be other personalized gifts that could be found on sites such as Elo7 (Brazilian Etsy), where consumers could find everything from personalized socks, wallets and aprons to personalized neon signs (Stankiewicz, 2020; Clifford, 2021). Despite many cheaper and easily available substitutes, personalized books can be differentiated very easily as in comparison, other personalized gifts do not offer time with family quite in the same way. Therefore, the threat of substitutes is at medium level.

4 SWOT ANALYSIS

SWOT analysis has been implemented with aim to assess Hooray Studios' limitations and possibilities on Brazilian market. First, company's internal strengths and weaknesses have been identified based on previous internal analysis, followed by opportunities and threats for the company on the potential new entry market - Brazil. The strengths, weaknesses, opportunities and threats are summarized in table 4 on the following page.

Table 4: SWOT analysis

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> - Product quality: higher level of personalization, better illustrations, emotional impact of the stories - Marketing: based on emotions and social media engagement - Flexibility and adaptability 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> - Business Volatility (seasonal demand) - Impact of negative customer feedback due to large social media presence - Outsourcing - dependency on 3rd parties for manufacturing and delivery - Lack of product diversification - Low financial backing compared to competitors
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> - Significant forecasted growth of internet users and continued fall in average fixed broadband internet prices - Government investment and legalization supporting e-commerce - Growth of Brazilian publishing industry - Commercial holidays that contrast existing seasonal demand - Entering new product categories - Books are tax exempt - US as one of the highest importers of books to Brazil 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> - Increasing competition - Bigger publishers entering personalization market - Ageing population - Complicated tax and regulatory system - High taxes - High inflation - Logistical delays and costs

Source: Own work

Strengths. Hooray Studios’ personalized books are a perfect gift for loved ones. The company’s main strength is the quality of their products, not only in the level of character and story personalisation in comparison to their competitors, but also the quality of illustrations that together with compelling storyline evoke emotions in readers. Another strength for the company is their marketing and social media engagement. From the idea creation to the final product and marketing, everything is combined in a coherent package. The products are family focused and created with aim to stir up emotions, which the

company then expertly incorporates into their marketing, showing emotional homemade videos of their customers reading the book with family (Hooray Heroes, 2019) and thus achieving their goal of creating a perfect gift. The company is very good at listening to customers and valuing their negative or positive feedback. For example, the company has in the past incorporated customer feedback and created new products such as books with more children or including pet personalization. The company is also very flexible and adaptable, as they have also shown through their success in the times of pandemic and by adapting to the market needs for particular products. Furthermore, Hooray Studios adapts the products as well as the purchase process to every entry market, whereas majority of their competitors do not. For example, they adapt the illustrations in the book and language of the webpage based on the market of entry.

Weaknesses. While Hooray Studios positioning on the market as best gift for loved ones differentiates their products from competitors and justifies higher price, it is also a weakness as it brings more or less a seasonal demand. In addition to books being bought as a gift for birthdays or special occasions, the majority of the company's sales come at times of holidays, such as Christmas, Valentine's, Father's and Mother's Day. For Hooray Studios, in addition to Christmas, Father's Day is the time of the highest sales for the company. Thus, in the countries where they are present the majority of demand comes in spring and end of the year. In order to mitigate the business volatility, the company is seeking new markets to enter, where demand would be in different part of the year. Which is also one of the reasons they have recently entered Sweden and Finland, which have Father's Days in November. On the other hand, the competitors do not have such weakness, as their products are positioned mainly with educational purpose and thereby the demand is not so distinctly seasonal. Furthermore, due to large social media presence and although the company manages customer relationships successfully, their brand reputation is much more vulnerable. Negative customer feedback, if not properly and timely addressed, could cause an irreparable damage. Something that Hooray Studios is well aware of and has dealt with in the past. For example, when they were branded as racist on US market due to lack of skin colour and hairstyle options in personalization, the company resolved the problem in matter of days. Another weakness would also be their dependency on third parties for manufacturing in delivery. They must be careful when selecting their partners. In addition, the lack of product diversification and their competitors being acquired by powerful companies with higher financial backing, also present a weakness (Graphite Capital, 2021).

Opportunities. Brazil is one of the largest consumer markets globally with significant forecasted growth of internet users and continued fall in average fixed broadband internet prices. This, in addition to the sizable government investment into digital services and legalization decreasing payment transaction costs, will continue to support growth in e-commerce and thus create perfect opportunity on Brazilian market for Hooray Studios, as their only sale channel is their own direct-to-consumer online store. Moreover, the recovery and growth of Brazilian publishing industry will support demand for Hooray Studios

products. Furthermore, there is a good cultural fit between Brazil and the company. Number of gift-giving holidays in Brazil are celebrated in third quarter of the year, which is the time where the sales are slow for Hooray Studios on other markets and thus present opportunity to mitigate business volatility of seasonal demand. For instance, Father's Day is on August 14th, Children's Day on October 12th and Valentine's Day is celebrated on June 12th instead in February like in majority of the countries. Due to collectivistic society and importance of extended families in Brazil new market segments could be explored with introduction of new products encompassing extended family members such as aunts, uncles, godmothers and godfathers. Additionally, company could enter new product categories that are not necessarily new for the company but are new for the market, such as personalization books for couples.

Threats. Although in general book publishing is not attractive industry, niche of personalized books is gaining on the popularity. There is a threat of more competitors entering Brazilian market, as the lucrative personalized book industry is relatively easy to enter. Additionally, existing competitors have a potential to become stronger and bigger publishers are entering personalization market. For example, Barnes & Noble launched in store personalized children's books program in collaboration with Sourcebooks Inc. (Trachtenberg, 2016). Moreover, Hooray Studios would also have to face the threat of ageing population in Brazil, as the declining birth rate will result in limited spending on children. Although, it is worth noting that with larger incomes and less children per household consumers might be prepared to pay more for child-related products. Despite decreasing birth rate, couples with children are projected to remain as the dominant segment among household types in Brazil. Other threats that Hooray Studios would have to face on Brazilian market are high import tariffs although books are excluded, complex tax system, weak local currency would affect company's profits and distribution wise high costs and long delivery times.

5 PROPOSED MARKET ENTRY STRATEGY

In this chapter, the main outtakes of the internal and external analysis are first introduced followed by proposed market entry strategy for the Hooray Studios entering Brazil. The recommendations to the company are be based on theoretical knowledge, its application to the actual situation and appropriate analysis of the company's environment and targeted market.

5.1 Evaluation of Brazil as new entry market

Main findings of external analysis, important when defining and formulating a strategy, in relation to specifics of Hooray Studios when entering a new market are consolidated in the following paragraphs:

1. Hooray Studios is a personalized book publishing business with focus on providing the best possible gift choice. Consequently, the books are often bought as a gift for

special occasions as well as commercial holidays celebrated in a country such as Christmas, Father's and Mother's Day, Children's Day and Valentine's Day. Due to seasonal demand of the products, the company started to search for new entry markets that would stabilize the demand throughout the year. As it in in the company's plans to expand in the future also to Portugal, entry to another Portuguese speaking country would bring economies of scale.

2. Book publishing industry is very saturated and highly competitive business sector, however implementation of new technology, new niche-targeting business models and e-commerce boom drive growth. Hooray Studios, with its personalized books, has found the perfect positioning within the book publishing industry where the competitive forces are weaker. A positioning where price-based rivalry and buyer power can be avoided.
3. Brazil is an attractive market to enter for Hooray Studios, because of the following characteristics: the size of the market is significant, there is forecasted growth in publishing industry, growth of e-commerce and a very extraverted and affectionate society with a lot of emphasis on family. Based on chain ratio method, the total market potential for Hooray Studios on Brazilian market is approximately 22.5 million households. Moreover, Brazil also has commercial holidays that contrast existing seasonal demand of the company – Father's Day in August, Children's Day in October and Valentine's Day in June. While there is competition present on the market, they can easily differentiate with proper value proposition and right choice of entry mode.
4. Main problems of doing business in Brazil are high taxes and complicated tax system, bureaucracy, corruption, complex customs system, enforcements of contracts is time consuming, high inflation and fragmented distribution channels.

Overall, Brazil is an attractive market for Hooray Studios and the company would benefit by entering. However, it should prepare properly due to mentioned barriers to entry. Furthermore, the timing of entry is important as the country has high political instability, also due to presidential election at the end of 2022. Thus, the suggested time of entry should be at earliest in 2023.

5.2 Market Entry Mode

When entering foreign markets, due to its resource limitations and specifics of their business plan, the most suitable modes of entry for Hooray Studios are direct exporting and contract manufacturing. Contract manufacturing would be preferred mode of entry to Brazilian market, as it would enable quick and low priced delivery over the country. However, because the company has no experience on South American markets and Brazil is one of the most closed economies globally, the suggestion would be to enter the market in two stages, where the second stage would be optional based on the market developments in the first years of entry. First stage would include market entry through direct exporting from US to Brazil between the years 2023 and 2025, followed by contract manufacturing in 2025.

5.2.1 Stage 1: Direct exporting from US

At first Hooray Studios would export from US, where the company has already established business entity and has contractual arrangements with local printing houses. This would bring considerable advantages, as it would give company the opportunity to acquire market knowledge, build its network on Brazilian market, be flexible and receive market feedback. Moreover, it would require less investment since there would be no need to establish company and thus avoid related costs. In addition, books that are not for resale are free of duty or taxes when imported to Brazil.

The following **marketing mix** would be adopted:

- Distribution

The specific of Hooray Studios' business model is print on the demand, which means that the company does not have any inventory or warehouses. The books are sent from printing houses directly to the customer's doorstep. The exporting would be implemented at first from already established partners in the US - printing houses, through one or more of well-known carriers, such as DHL, USPS, UPS or FedEx, that are known to be reliable and to deliver packages to Brazil in a matter of days. The delivery would be available throughout all Brazil. Among the listed companies, USPS is the best option price and delivery time wise. Furthermore, at least two options of delivery would be offered (Ebanx, 2020):

1. Standard: USPS delivery in 11-20 business days, priced at 15.00 USD
2. Express: USPS delivery in 3-5 business days, priced at 47.00 USD

The packages will need to be sent accompanied with waybill and invoice where it must be stated that the package includes books only that are not for resale and have no commercial value for customs purposes (UPS, 2021).

- Product

First products introduced to the market would only be personalized books, without additional merchandise offered on other markets. Decision is based on the fact, that importing other merchandize would not be profitable as the import duty would be applied, which is known to be high in closed economy such as Brazil. The product portfolio for Brazilian market would include personalized books for two target markets – family and couples, in order to cover wider spectrum of customers. Personalized books chosen for each target market are the company's bestsellers in each category:

1. Family, five types of books: Grows Up – mother and father editions (When “José” Grows Up, When “Maria” Grows Up), You Will Always Be – mother and father editions with one or more children (“José” You’ll Always Be My Little Boy/Our Little Boy; “José and Maria”, Mommy Will Always Love You, “José, Maria and Lucas” Daddy Will Always Love You), Family edition (The “Silva” Family), The

Adventures editions (The Adventures of “José and Maria”, The Adventures of “José, Maria and Lucas”) and I Love You, Mom.

2. Couples, two types of books: Reasons I love you edition (“Paulo” 10 Reasons I Love You) and Reasons your love is forever edition (“Ana and Paulo” 15 Reasons Your Love Is Forever)

Personalized books would be adapted to Brazilian market in language – Portuguese, and illustrations – known Brazilian landmarks, colour and shape of police cars, adjusted onomatopoeias etc.. Book title templates would include common names in Brazil. The webpage, the only sales channel, would be available in Portuguese language.

- Price

As Brazilian currency is quite volatile and there is a still a substantial inflation, it would be best to sell in US dollars. The prices would be slightly lower than on US market at 40 USD for softcover and 46USD for hardcover. Reasoning behind higher price point of the Hooray Studios’ personalized books in comparison to the existing competitors in Brazilian market is in the high quality, multiple personalization options and emotional storyline, which will be the basis of successful product differentiation. Brazilians are prepared to pay higher price for personalized and high quality products. Moreover, although the birth rate in Brazil is in decline, it will result in larger disposable incomes per household and consumers would be prepared to pay more for child-related products.

In order to facilitate customer decision journey, the company should provide different payment methods on their website. As well as incorporating options that are specific to Brazil, such as PIX, which allows customers with poor credit access to make any form of digital transaction (Euromonitor International, 2021c).

- Promotion

Hooray Studios has in general a standardized promotion, as their competitive advantages are highly transferable from market to market. When entering Brazil, visual material, such as videos of customers receiving the gifts and their reactions, would be the same as on other markets, but the text and slogans would be adapted to the Brazilian culture and language. The main message relayed through promotion to the customers would be Hooray Heroes personalized books are the perfect gift for loved ones. The focus of promotion would be relaying the message and differentiating the product from their competitors. Properly executed differentiation will create a “buffer” against competitive companies and justify higher price level. The differentiation points of the Hooray Studios personalized books would be the high quality, elaborative personalization and the cohesion between personalization, story and illustrations that together make a perfect gift for loved ones. Promotion would be implemented mainly through social media channels with online customer feedback, which has been crucial since the beginning for the success of Hooray Studios. As Brazilians are extremely engaged on social media platforms such as Instagram

and Facebook, it is even more important that the company establishes strong social media presence, not only for marketing processes but also to shorten customer purchase path by re-directing them to their website where they can buy the personalized book. The product differentiation would be communicated through popular social media platforms in Brazil, such as Instagram, Facebook and TikTok.

With regards to the **financial assessment** of market entry, in rough estimation, direct exporting from US, would cost approximately EUR 300,000 in the first year and EUR 370,000 in the second year (see table 5 below). Considering that the largest part of cost is contributed to the promotion, the actual cost would vary according to the success on the market, the demand and production capability of the company to meet the demand.

Table 5: Financial Assessment - Stage 1

Stage 1: Direct exporting from US	2023	<u>Product:</u> Translation of the 6 books, 150 word per page, 24 full pages, various versions for all personalized options. Average price for book translations from English to Portuguese is 0.09EUR/word. As the translation of the Hooray books would be more demanding in addition to various versions the price would be 0.2EUR/word. This would amount to 720 EUR/book	4,320 EUR
		<u>Promotion (social media):</u> Monthly campaign in SI (2 mil pop.) 1500 EUR/month for FB and Instagram, targeting ¼ of Brazilian population would amount up to 22,500 EUR/month	270,000 EUR
		<u>Employment:</u> 1 employee, knowledge of Portuguese to translate marketing material and customer service - 2.000EUR/month.	24,000 EUR
	Total cost, Year 1:		298,320 EUR
	2024	Promotion	300,000 EUR
		Employment: 3 people	72,000 EUR
	Total cost, Year 2:		372,000 EUR
Total cost, Stage 1	2 years		670,320 EUR

Source: Own work

5.2.2 Stage 2: Contract manufacturing in Brazil

Direct exporting has a big disadvantage, which is longer and much less cost-effective delivery of packages to the end customers in Brazil. This will make their products much less competitive on the market. Although the higher price of Hooray Studios' products in comparison to their competitors on Brazilian market will be justified by value proposition in the product quality, the high cost of the delivery will deter many customers from purchasing. Additionally, company could experience a potential backlash on social media. Which is also something that the company has already dealt with on Canadian market where customers complained about shipping cost being more than half of the product price. After two to three years of presence on the market through direct exporting, the company would acquire necessary experience, knowledge and network that would enable them to properly re-evaluate their market entry mode and consider next stage of their internationalization in Brazilian market – contract manufacturing.

Contract manufacturing would require to establish company in Brazil. When the company enters into contract manufacturing with local entity and creates local revenue in the same foreign country, permanent establishment is applied. Permanent establishment indicates having a taxable presence outside of the company's state of residence. Through permanent establishment, the host country can impose local corporate tax rate when foreign company does business that creates local revenue (Velocity Global, 2021). Meaning that, if Hooray Studios would enter into contract arrangement with manufacturing partner in Brazil and with intention of selling in Brazilian marketplace without establishing business entity in the country, they would still be subjected to corporate tax. Therefore, establishment of the business entity in Brazil is advisable in order to better manage tax liability and avoid the impact on profit of other subsidiaries (Safeguard Global, 2020).

The suggested business entity would be limited liability company (LLC) or sociedade limitada in São Paulo, as it requires minimal capital and is simple to establish (Healy Consultants, 2022a). Through the established business entity the contracts would be made with local printing houses – the number would depend on the demand. The partners should be chosen very carefully with a lot of consideration, as enforcement of contracts and resolving disputes through Brazilian court can be extremely time consuming. With the change of the entry mode, the company would be liable to 34% of the corporate tax payable in Brazil or potentially less, if new proposed bill lowering the combined corporate income tax rate to 29%, will be already accepted at the time. Moreover, it should be considered that in Brazil it takes quite a lot of time to set up business, up to 20 weeks. Preparations should start at the end of 2024 with potential entry timeline in the middle of the 2025, in time for Father's Day in August. Contract manufacturing would enable quicker and cheaper distribution, lower product price and expansion of the product offering.

According to the rough **financial assessment**, the cost of the step 2, contract manufacturing in Brazil, would be approximately EUR 460.000 in the first year (see table 6 below). Again, the promotion, as the largest variable part, needs to be considered. Thus, the actual cost is expected to vary.

Table 6: Financial Assessment - Stage 2

Stage 2: Contract manufacturing in Brazil	2025	Promotion	350,000 EUR
		Employment: 3 people	72,000 EUR
		Company formation fees (Healy Consultants, 2022a)	39,040 EUR
	Total cost, Year 3:		461.040 EUR
Total cost, stage 2			461.040 EUR
Total cost, Stage 1 & 2			1,131,360 EUR

Source: Own work

CONCLUSION

The aim of the master thesis was to develop a proposal for market entry strategy to the Brazilian publishing market for Slovenian company – Hooray Studios. Since the company operates in relatively small niche of publishing industry – personalized books, they needed to internationalize quickly to gain markets and lower fixed costs per product. Such companies, that rapidly enter foreign markets, have smaller domestic market and have highly innovative design, are in business literature known as born globals.

In-depth interview with Performance Marketing Team Lead at Hooray Studios in addition to PEST, Porter’s five forces and SWOT analysis were conducted. The results are the basis for the proposed market entry strategy. The PEST analysis of Brazilian market has shown that the business landscape is challenging. There is higher political risk due to controversial presidency. Pandemic severely affected Brazil’s economy in 2020 resulting in GDP decrease. However, the market is recovering faster than anticipated. Although, the inequality is widening, large consumer market will remain attractive for new business. Technological environment in Brazil would support Hooray Studio’s online purchasing business, as the country continues to foster innovation. Regarding the book publishing in Brazil, although the industry has in recent years encountered unprecedented crisis, the forecasts are optimistic. The industry began to see recovery in 2021, when it experienced a significant growth, even compared with pre-pandemic levels. Overall, experts expect growth to continue, albeit at slower rate, with e-commerce remaining strong. To understand the attractiveness of the book publishing industry in Brazil the Porter’s five forces model was used. Book publishing industry has become more competitive in the recent years, however Hooray Studios found the positioning within the industry where the competitive forces are

weaker. Positioning where it can avoid price-based rivalry and buyer power. SWOT analysis combined the results of the external and internal analysis.

The qualitative method chosen provided in depth knowledge of the company, its business operations and the situation on the market. However, although the in-depth interview with company representative and analysis of secondary market data is useful for preliminary market analysis, the research could be augmented by primary data collected in form of a survey or focus group representing potential Brazilian customers. This type of research would enable better understanding of Brazilian consumer and contribute to fine-tuning of the marketing mix. Furthermore, internal secondary data such as total sales, sales by product, sales by country etc. together with external data sources could be used for better estimation of market potential in Brazil.

Based on the results of the research the proposal for entry to Brazilian market for Hooray Studios is divided in two stages. In the first stage, the company would export directly from existing US printing houses to Brazilian market through reliable logistic companies. This mode would be preferred at first as there is no tax on book imports, it would enable company to gain market knowledge and avoid paying high corporate taxes in Brazil. The timing of the first stage should not be before 2023, due to political tensions in the country. After two years, in the second stage of internationalization, Hooray Studios would create limited liability company in Brazil through which the company would enter into contractual arrangements with printing houses in the market. This decision would lower the product price and enable quicker and cheaper delivery. By implementing proposed strategy, the company would successfully enter and built its business on Brazilian market.

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APPENDICES

Appendix 1: Povzetek (Summary in Slovene language)

Z globalizacijo in razvojem tehnologije, vse več podjetji poskuša svoje poslovanje širiti na tuje trge. Mednarodna širitev povečuje konkurenčnost podjetij z vstopom na nove in potencialno bolj donosne trge, ki ne zagotavljajo le priložnosti za povečanje dobička, temveč tudi spodbujajo inovativnost, omogočajo generiranje novih produktivnih idej, dostop do nove tehnologije in izmenjavo znanja. Pri novih mednarodnih podvigih je raziskava trga in razvoj strategije ključnega pomena za uspeh.

Namen magistrskega dela je priprava predloga strategije vstopa na trg brazilskega založništva za slovensko podjetje Mali junaki d.o.o. oz. Hooray Studios Ltd.. Ker podjetje deluje v relativno majhni niši založniške industrije – personalizirane knjige, je bila hitra internacionalizacija ključnega pomena, saj vstop na tuje trge omogoča znižanje fiksnih stroškov na izdelek. Takšna podjetja, ki hitro po vzpostavitvi vstopajo na tuje trge, imajo manjši domači trg in visoko inovativen dizajn, so v poslovni literaturi znana kot "born global".

Magistrsko delo vključuje teoretično in empirično perspektivo. Teoretična perspektiva temelji na poglobljenem pregledu strokovne literature, znanstvenih raziskav in razprav ter znanstvenih revij, ki vključujejo članke strokovnjakov s področja mednarodnega poslovanja. Osnova za empirično perspektivo magistrskega dela je bila kvalitativna analiza. Za pridobivanje znanja o vstopnem trgu, industriji in kompetencah podjetja so bili uporabljeni modeli analize kot so PEST analiza, Porterjev model petih silnic in SWOT analiza. Za izvedbo analize je bila uporabljena kombinacija dveh vrst podatkov: sekundarnih in primarnih podatkov. Sekundarni podatki so bili zbrani iz različnih zanesljivih virov, kot so Euromonitor International, Svetovna banka, OECD poročila, International Trade Administration itd.. Poglobljeni intervju z vodjo ekipe za marketinško uspešnost v Hooray Studios je bil uporabljen za zbiranje internih informacij o podjetju, njihovih poslovnih operacijah in izkušnjah na tujih trgih.

Rezultati notranje in zunanje analize okolja podjetja Hooray Studios so pokazali sledeče:

1. Hooray Studios je založniško podjetje s poudarkom na zagotavljanju najboljšega darila za partnerje, družino in prijatelje. Posledično se njihovi produkti - personalizirane knjige, pogosto kupujejo kot darilo za posebne priložnosti in komercialne praznike kot so božič, očetov in materinski dan, dan otrok in valentinovo. Zaradi sezonskega povpraševanja po izdelkih je podjetje začelo iskati nove vstopne trge, ki bi stabilizirali povpraševanje skozi vse leto. Ker je v načrtih podjetja tudi širitev na Portugalsko, da bi znižali fiksne stroške prilagoditve izdelkov, se podjetje zanima tudi za Brazilijo, kot drugo portugalsko govorečo državo.
2. Založniška industrija je zelo nasičen in visoko konkurenčen poslovni sektor, vendar implementacija nove tehnologije, novi poslovni modeli osredotočeni na tržne niše in razcvet e-trgovine spodbujajo rast. Značilnosti produkta in poslovnega načrta

podjetju Hooray Studios omogočajo pozicioniranje na trgu, kjer so konkurenčne sile šibkejše. Izbrani položaj na trgu dopušča podjetju, da se izogne cenovnemu rivalstvu in pogajalski moči kupca.

3. Brazilija je privlačen trg za Hooray Studios zaradi velikost trga, optimističnih napovedi za brazilsko založniško industrijo, rasti e-trgovine in zelo ekstravertirane družbe z velikim poudarkom na povezani širši družini. Na podlagi metode verižnega razmerja je skupni tržni potencial za Hooray Studios na brazilskem trgu približno 22,5 milijona gospodinjstev. Poleg tega v Braziliji praznujejo komercialne praznike - očetovski dan v avgustu, dan otrok v oktobru in valentinovo v juniju, ki bi zmanjšali volatilitnost povpraševanja za podjetje. Čeprav je na brazilskem trgu prisotna konkurenca, se lahko zlahka ločijo s pravilno ponudbo vrednosti in pravilno izbiro načina vstopa.
4. Glavni problemi poslovanja v Braziliji so visoki davki in zapleten davčni sistem, birokracija, korupcija, zapleten carinski sistem, dolgotrajno izvrševanje pogodb, visoka inflacija in razdrobljeni distribucijski kanali.

Rezultati raziskave so bili osnova za predlagano strategijo vstopa na trg. Predlagana strategija za vstop podjetja Hooray Studios na brazilski trg je razdeljena na dve stopnji. V prvi fazi, ki bi potekala med letoma 2023 in 2025, bi podjetje izvažalo direktno iz obstoječih ameriških tiskarn na brazilski trg prek zanesljivih logističnih podjetij. Ta način bi bil sprva bolj zaželen, saj ni davka na uvoz knjig, podjetjem bi omogočilo pridobivanje tržnega znanja in se izognilo plačilu visokih davkov pravnih oseb v Braziliji. Prva faza internacionalizacije bi v prvem letu na trgu cenovno znesla približno 300.000 EUR, drugo leto pa 370.000 EUR. Največji del stroškov predstavlja oglaševanje, ki bi se spreminjali glede na uspešnost na trgu, povpraševanje in proizvodne zmožnosti podjetja.

V drugi fazi internacionalizacije, po dveh letih prisotnosti na trgu, bi podjetje Hooray Studios v Braziliji ustanovilo družbo z omejeno odgovornostjo (Sociedade Limitada), preko katere bi sklepalo pogodbene dogovore s tiskarnami na trgu. Ta odločitev bi znižala ceno izdelka in omogočila hitrejšo in cenejšo dostavo, kar bi eksponentno povečalo njihovo kompetitivnost na trgu. Okvirna finančna ocena druge faze internacionalizacije - pogodbeni proizvodnja v Braziliji, bi v prvem letu znesla približno 460.000 EUR. Ponovno je potrebno upoštevati oglaševanje kot največji spremenljivi del. Z upoštevanjem predlogov opisanih v magistrski nalogi bi podjetje lahko uspešno vstopilo na brazilski trg in tam tudi uspešno poslovalo.

Appendix 2: Product portfolio

MALI JUNAKI	
Personalized Books	Extras – additions to the book
_ 15 Reasons Why I love You More Than Christmas – 53 USD	Plush Toys
_ 10 Reasons Why I love You More Than Christmas – 43 USD	Personalized puzzles
*_*_* 15 Reasons Why Your Love Is Forever – Wedding Gift /Proposal / Anniversary Edition - 59.00 USD	Personalized greeting cards
The Pawsome Adventures of *_*_* - 43 USD	
_ 10 Christmas Wishes For Papa/ Mommy - 43 USD	
_ 15 Christmas Wishes For Papa/ Mommy - 53 USD	
_ You'll Always Be My Little Girl / Boy – 43 USD	
_ You'll Always Be Our Little Girl – 43 USD	
*_*_* / *_*_*_* Daddy / Mommy Will Always Love You – 43 USD	
When *_* Grows Up – Daddy / Mommy Edition - 43.00 USD	
_'s Guide for Mommy and Daddy – 49 USD	
_ 10 Reasons I Love You – 59 USD	
_ 15 Reasons I Love You - Premium edition – 59 USD	
_ 15 Reasons I Will Always Love You - Anniversary Edition - 59.00 USD	
The *_* Family – including one, two or three kids - 43.00 USD	
_ I'll Always Be Your Little *_* -grandpa/grandma & one kid – 43USD	
*_*_* , I'll Always Be Your Little *_* - grandparents & one kid – 43USD	
*_*_* , We Will Always Love You - grandparents & two/three kids - 43USD	
The Adventures of *_*_* / *_*_*_* - 49 USD	
Happy Birthday *_* – 43 USD	
Merry Christmas *_* and *_* - 54USD	
Hooray *_*! You did it! – 49 USD	
Happy Mommy Day – 43 USD	
I Love You, Mom – 43 USD	

Source: Own work

Appendix 3: Total market potential

Total market potential of Brazil for Hooray Studios calculated based on chain ratio method and 2021 Euromonitor International data: $67,542,900 \times 0.719 \times 0.4637 = 22,515,823.1$



Economies and Consumers Annual Data | Historical

Geography	Category	Data Type	Unit	Current Constant	2016	2017	2018	2019	2020	2021
Brazil	Number of Households	Socio-economic indicators	000	-	63,876.4	64,759.8	65,373.1	66,207.1	66,996.1	67,542.9

Research Sources:

Number of Households: Euromonitor International from national statistics/UN

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Economies and Consumers Annual Data | Historical

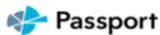
Geography	Category	Data Type	Unit	Current Constant	2016	2017	2018	2019	2020	2021
Brazil	Percentage of Households with Access to Internet	Socio-economic indicators	% of households	-	53.9	60.6	66.7	68.5	70.2	71.9

Research Sources:

Percentage of Households with Access to Internet: Euromonitor International from national statistics/International Telecommunications Union (ITU)

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Economies and Consumers Annual Data | Historical

Geography	Category	Data Type	Unit	Currency Conversion	Current Constant	2016	2017	2018	2019	2020	2021
Brazil	Median Disposable Income per Household	Socio-economic indicators	USD	y-o-y ex rates	Current Prices	12,983.3	15,008.0	13,602.8	13,211.6	9,740.9	10,356.5

Research Sources:

Median Disposable Income per Household: Euromonitor International from national statistics

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Economies and Consumers Annual Data | Historical

Geography	Category	Data Type	Unit	Current Constant	2016	2017	2018	2019	2020	2021
Brazil	Households with a Disposable Income Over US\$10,000 (Constant)	Socio-economic indicators	000	-	30,904.0	31,841.3	31,726.3	32,143.7	30,405.4	31,323.5

Research Sources:

Households with a Disposable Income Over US\$10,000 (Constant): Euromonitor International from national statistics

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Appendix 4: Semi-structured in-depth interview with Performance Marketing Team Lead at Hooray Studios

Semi-structured in-depth interview with Performance Marketing Team Lead at Hooray Studios, Ms Karin Čubej on May 10th 2021.

Organizational structure

1. *Who is your target market? Which customer segment is the strongest?*

Our target market in general are young families, but it of course depends on the book. In the last years we have published books that only aim adults, couples. For instance »David« 10 reasons I love you and »Ela and Lucas« 15 reasons your love is forever. Our strongest customer segment are women between ages 24 and 45.

2. *Which product/book was the first on the market?*

In home market first published book was Kje si bo »Iza« umila roke?

3. *Which is the best-selling product overall?*

Our bestseller is the book titled When »Jakob« Grows Up – Daddy edition. This is the book which made us famous. However, lately, book titled “Jakob” You’ll Always Be My Little Boy – Daddy Edition, is gaining on popularity.

4. *Which are your main departments and how they relate to each other?*

Our strongest departments are Art and Marketing. I would say that our company is essentially marketing based. It is important for us to create the books that portray a certain message or idea that would resonate with our audience. Art department is where the book’s narrative and illustrations are outlined and created in parallel with Editing department, where the text is created and revised. In addition, as we are aware of the importance of a good relationship with our customers, we also have a strong Customer care department for each market where we offer our personalized books. Business development is the department where all the technical part of the supply chain is taken care of, from communication with our suppliers to distribution. IT department is where, among other things, web pages for every market are created, book creation programs and connection with other warehouses are established and maintained so that the books in pdf format can be sent to print. Our books are always created first for US market and then translated and adapted to our other markets. The books are translated in our Localization department, where all the translations and adaptations of books and marketing content is done. Other departments in our company are Financial, Legal and HR department.

5. *What is your whole process from a book idea to customer purchase?*

First, the initial concept or idea for a Hooray book is very reworked from the beginning and comes from different ends, whether it is something that one of the company owners imagined or as a result of a customer feedback. For instance, customers expressed interest for a version of the book “Amelia” You'll Always Be My Little Girl where there are more children involved. This is where we developed versions for up to three children – “Amelia, Mila, Aiden,” Daddy Will Always Love You. So as mentioned, we value customer feedback and listen to their wishes when possible. Before we go into development of the book, we explore the situation in the established markets, what is the interest there for a particular product. We research whether this is an interesting concept for the market, discuss and focus on what message the book will or should have, what emotions the book should draw from the readers etc. Afterwards, creative team outlines the basic concept with examples of concrete stories and give suggestions for the first illustrations. From there the stories and illustrations develop together. Once the book is created, it is first launched in the US market or sometimes also in the German market, since these are both strong markets for us. This is where then IT comes into play and takes care of the technical aspect on the web site that allows customers to personalize and choose stories. In addition, the whole process of ordering and producing the book is tested. Personalized book files are sent to print house and then the test personalized books are sent to headquarters to check the quality of the product. Lastly, after everything is checked and corrected if needed, the actual launch of the product to the market is done.

6. *What would you say is competitive advantage of Hooray personalized books?*

I would say that the main advantage of Hooray books is the emotional response it creates in readers, our customers. Because it is not only a book. The personalization, the story and the illustrations work together and contain what we all hold dear – our family. The response we get on social media is unbelievable, people are crying when reading our books. Often they are bought as a gift to a partner, children or grandparents. In addition, another advantage of our books is also the quality. Our illustrations and personalization are very elaborate, more than those of our competitors.

7. *What kind of positioning do you aim for on your markets?*

In the personalized books segment, we are a little more expensive than our competitors. We are definitely aiming for a more premium positioning, but this year we also released a more affordable book version with soft covers.

Market Selection Process

1. *Concerning the process of selecting new entry markets, I assume that you have several potential markets in mind first? Which indicators are currently crucial for you in the initial choice of markets (e.g. proximity to the country, similarity to other expansion markets, language, competition, potential revenue, etc.)?*

Which indicators we look for and how we select new markets varies from market to market. In the very beginning, there was a search for markets where purchasing power is high and growing, where there was already some interest for personalized books. In this way, we then opened larger markets, such as Germany, Great Britain, America, France.

Subsequent expansions occurred due to high interest from the markets, for example Canada. There was interest from Canadian customers, as result of advertising in US. There was a lot of demand on that market, people were inquiring when we will launch there. Given that it did not require a lot of customization on the product side (language, illustrations etc.) as well as already existing partnership with printing houses in US from where we started to supply Canadian market, entering this market was a bit easier compared to the mentioned initial markets. In the case of Spain (2020), expansion occurred again because of interest on the market. We already had the US Hispanic market open (Spanish-speaking part of America), where we offered free personalized colouring pages on our website during Covid quarantine. We advertised these colouring books in order to offer something to parents to distract their children a bit during quarantine and work from home. These colouring books for the US Hispanic market became a big hit and came to Spain where there was a lot of interest and demand. We also gained a lot of contacts in the market as they had to provide an e-mail address to access the free personalized colouring pages. Because of this, we then launched into the Spanish market very quickly, within a month. Again, as a result of market interest and books that did not need major adaptations. We also had printing houses from which we could ship the books to final customers. This further enabled quick launch to the Spanish market. Again, similar story with Belgium this year (2021). There was not much interest in the market, but we already had books in French and printing houses that could deliver to Belgium. Here, of course, our product is only for the French-speaking part of the population. It was decided because the launch in the market itself was not so demanding, it did not require a lot of additional resources.

With Australian market (2020), we decided to enter mainly to balance the seasonal sales of our product. The biggest demand for our product happens for Father's Day holiday. As the holiday on markets where we were present at the time was at the end

of first or beginning of second quarter, we had low sales in second quarter. In Australia, however, they have Father's Day in September, and by covering this market, we have improved sales in summer months. In addition, we decision was even easier, because we were already in other English-speaking countries and while there were some small adjustments to be made, the products were already adequate for Australian market. However, we had to acquire third partners (manufacturers, delivery services etc.) anew which was the hardest part of the expansion.

We also collaborate a lot with Google and external consultants, from whom we obtain information about what is the interest in a particular market, what is the strength of competition, where are the opportunities, etc. Based on their information and based on what market opening would mean for us, how demanding the launch would be, how many resources we would need, and so on we decide whether to enter a particular market or not.

2. *In which markets/countries is the company present?*

Hooray Studios supplies Slovenia, Germany, Austria, France, Spain, Italy, Belgium, Canada, United Kingdom, Australia, US, US Hispanic and soon also Sweden and Finland.

Internationalization Process

1. *What is your main entry strategy to foreign, new markets? How is the whole process of entering new market implemented?*

We enter the markets mainly by finding or cooperating with partners - printing houses and delivery services - in a potential market. Usually, we search for printing houses in the market of entry to avoid import fees. However, we also import for certain markets, especially for markets inside of European Union and for example, from UK to Canada because it was easier to implement than from America, like we did at first. When we were expanding to Australian market, it was definitely not worth importing, so we were looking for partners there. However, the printing house does not have to be in a country of entry, we are mainly looking for a quality partners which will enable quick and normally priced delivery to our customers. As for accessories, such as plush toys, special boxes, and personalized puzzles, the printers already have them in stock and they add them to the books ordered, pack and submit to the delivery service - GLS, UPS, DHL, etc. As for non-personalized accessories, they are produced by third parties, who then deliver them to printing houses that store it for supplied markets.

Partners in foreign markets are sought by a person within our company that does the market research, determines which delivery and manufacturing services are available,

send proposition and make arrangements. When it comes to new printing houses, they are sometimes visited as well. For all new products, printing houses are required to send test products to Slovenia for assessment.

Business development explores technical issues, such as where the books will be printed, whether we already have a printing house available and can use it for a new market or go looking for a new partner. When looking for new partners there is a huge amount of testing to ensure that they produce the product the way we expect it. They must reach a certain level of quality that we require. We are also looking for delivery services that are the most popular in a particular market, which partners are reliable, affordable and fast – for instance, GLS, UPS, DHL, etc. We also offer several delivery options to our customers - from the cheaper and slower to the more expensive and faster. IT sets up a separate website for each market. Art and Localization department make sure that the books are adapted, even in cases where markets have "the same language", e.g. Latin American and European Spanish, English - UK, US, Canada, Australia - each has certain differences. Marketing is looking for good practices, strategies on how best to advertise in a particular market, and so on. In markets where there is already a lot of interest and we plan to launch in foreseeable future, we also prepare a landing web page so that customers can sign up and inform them when we are in the market.

2. *Do you apply this entry strategy to all the markets you enter, or did you also use any other strategies when entering foreign markets? In that case, what kind of strategy and why?*

We are currently applying a similar strategy – contracting manufacturing and delivery partners on foreign markets. How this is done depends largely on the market. Sometimes we utilize what we already have, and sometimes it is necessary to find new partners. For example, for Belgium launch, we knew we would be sending from an existing printing house and we decided not to adapt the books at all compared to French market, because there were not that many differences, just a few details. We have decided to try and make this launch as easy as possible. We didn't do any big research as will other markets for either the delivery services or the printing houses. On the other hand, entering Australia required much more research and involved resources for launch. From finding new reliable partners, from legal point of view, etc.. In addition, in certain markets we do not offer particular accessories, such as plush toys, that we offer in others, because we saw it would not be profitable. Also, certain printing houses are able to offer certain things that others do not. In that case then things are imported from elsewhere. For instance, from Germany we send particular products to France, we import books to Italy from Slovenian printing house etc.

3. *Is the production outsourced immediately from the beginning of market entry or is it imported first and after demand picks up, new partners are established?*

The production of our products is always taken care of by a third partner, in some places this partner also supplies / imports to other markets, mainly depending on what suits us better in terms of price, quality, time etc.. For example, we import to Canada from the UK. However, in the beginning, we imported from America. As mentioned from Germany, certain things are sent to France. It is determined from the beginning which partner will supply a particular market, but if the demand increases, this is adjusted accordingly.

4. *When entering the market, what organizational structure do you have? Is the decision-making process for a new market highly centralized or does the manager have a lot of freedom for a particular country? Do you send people from your parent company abroad?*

Each department in our company is very much involved in the whole process of research and contribute to decision-making, if we should enter a new market or not. We do not have any employees or branches in foreign countries that would take care of the implementation of the entry process. Everything is centralized in Slovenia, where we have certain project groups for the launch of the market, where individuals from different departments are involved. As for the division of markets, we have people who usually come from the country in which we sell the products. Native speakers are then mainly in charge of customer care.

5. *Do you first test the product only in a specific region / bigger cities or do you go to the whole market at once?*

No, we always start with delivery across the whole market. However, if we see that there is a greater demand in a certain part of the country, then we focus more on that part. Specifically in Belgium, the last market we entered, we only have a book in French, which also means we are targeting a more French-speaking part of Belgium.

6. *With which product or product range do you enter new market first, how do you decide which will be available? Is it always the same product, the one that sells best? Do you select more, or just a certain number, and then expand?*

Looking at our main products – personalized books, I would again say that it depends a lot on the market. In the case of Belgium, we went to the market with all the products that are also sold in France. Elsewhere, when we have to re-translate and adapt the books, we usually start with the best sellers and try to cover different customer segment groups. In such markets, we first launch those books that sell best overall.

7. *You are definitely at least linguistically adapting the product / books to the entry market, but do you also adapt other perspectives of the product, such as illustrations, the content of the book? Can you give an example?*

Each market has its own specifics both in terms of language and illustrations. In the case of language, it often happens that a story needs to be changed a bit because certain things cannot be translated well enough. It is similar with illustrations. For example, we have a book that consist of several stories what the child might be when he or she grows up. There is also a story where a child is in a national skiing team and it is necessary to adjust the flag according to the market we are going to. Then there are police cars in certain stories, these differ from country to country in terms of appearance, so we also adapt that. In addition, we also researched what kind of sound a particular police car makes in different countries (wuu, wuu, wuu or diddu, didu, didu) and we adjust this in the story or illustration. Then there are the animals in certain stories. Animals in European books differ from those in stories from Australia. There are also sights that differ from country to country. For example in some stories there is the Eiffel Tower, in others the Colosseum, etc., depending on which market the product is being sold. Of course, the most important adjustment according to the markets is the colour of the skin and the styles of hairstyles that we are reintroducing depending on which market we are going to, as we always try to ensure the maximum variety of choices for customers.

International Challenges

1. *Entering which market would you say was the biggest challenge and why? How was it implemented?*

I would say that the most demanding were the first overseas markets, such as America - because these were the first, where everything was set up anew. America was definitely the biggest challenge mainly from a technical point of view, as it has a very complex tax system, completely different requirements for doing business there, as it is necessary to set up a company, and of course the size of the country itself which requires higher number of printing houses we have there (currently 3). In addition to entering new continent and a big country, customers are also different, they stand out quite a bit compared to Europe. Also from the point of logistics, organization of on time deliveries is what makes it very challenging. In principle, each country we open outside the EU is a unique challenge because the specifics are very different from the EU and it takes a lot more resources and bureaucracy to set up the market, which means the whole process before the launch takes longer.

Otherwise, each has its own specific trick that makes them challenging. Another demanding market to enter that we would like to point out was United Kingdom, because we have a very strong competitor there, for whom this is the domestic market. In comparison, the price of our products was very high. Not compared to other countries, but in the UK books in general are more accessible as they don't have tax on books. As a result the price of our books compared to the competitor are much higher. This is the market in which we work the most and try the hardest and we have not yet reached a point with which we would be really satisfied. I would say America was the most demanding from a technical standpoint and the UK from a marketing standpoint.

2. *The biggest challenge in entering a new market in general, what is the “most difficult part”?*

IT setup to make processes run smoothly and finding reliable any quality partners. I cannot say, however, that there is one single thing that is always and everywhere. However, there are usually several little things that delay the whole process.

3. *Is there any competitor you encounter in most of the markets you enter?*

Wonderbly from the UK it is our strongest competitor in most of the markets in which we are present.