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International Business Strategy Of Toys“R”Us For The Norwegian Market

Ljubljana, May 2002 Tatjana MEDIC

Conformation

Tatjana Medic, a student of the University of Economics in Ljubljana, hereby confirms to be the author of this specialisation thesis written under the guidence of Professor Tone Hrastelj. Pursuant to 1st paragraph of the 21st article of the Law of the author and legal rights I give the University of Economics in Ljubljana the right to use and publish this thesis.

Ljubljana, 23 May 2002 Tatjana Medic

Izjava

Studentka Tatjana Medic izjavljam, da sem avtorica tega specialisticnega dela, ki sem ga napisala pod mentorstvom profesorja Toneta Hrastelja in skladno s 1. odstavkom 21. clen Zakona o avtorskih in sodnih pravicah dovolim objavo specialisticnega dela na fakultetnih spletnih straneh.

V Ljubljani, 23 May 2002 Tatjana Medic

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Introduction to Thesis

International business has been conducted ever since national borders were formed. However, as recently as the 1970s, some governments and firms saw international marketing as an “optional extra” of minor importance. International business was typically considered a field reserved for a few trading companies and specialists. Other firms were content to focus on their domestic markets and disregarded international dimensions.

Conditions have changed. Global trade has rapidly increased in both volume and value, reaching nowadays more than $4 trillion in 1997 (Daniels J.D., Radebaugh, 1998, pg. 529). Competition is fierce from all corners of the world. Failure at the global level can backfire and may consume existing brands and business relationships. At the same time, global opportunities have emerged that offer possibilities for growth, profit, and an improvement in worldwide standards of living.

Today, firms have to deal with a global marketplace; marketers have no other choice. Participation in global marketing has begun to shift from a mere “option” to an imperative. The world is becoming more homogeneous. Distinctions between national markets are fading. These factors mean that marketing is now a world-encompassing discipline. To survive, marketers and business people need to understand these global markets which are open to companies and competitors.

The Toy market. A lot of time is spent on toys which indicates that we think of it is a funny and friendly product. It creates an environment that promotes free exchanges of ideas and encourages leadership and initiative. Toys are products that need improvement because of technological change. Children as well as adults start requiring more sophisticated or technologically developed games. It is one product that creates relationships between children, between adults and between children and adults. Hence global trade of the same toys and games would create a global relationship between people!

Culture. It consists of specific learned norms based on attitudes, values, and beliefs, all of which exist in every society. Some countries are relatively similar to one another, usually because they share many attributes that help mold their cultures, such as language, religion, geographical location, ethnicity, and level of economic development. When cultural differences exist, business people must decide whether and to what extent they should adapt home-country practices to the foreign environment. But before making that decision, managers must be aware of what the differences are. Not all companies need to have the same degree of cultural awareness (eg. Toy industry). Nor must a particular company have a consistent degree of awareness during the course of its operations. Thus building cultural awareness is not an easy task, and no foolproof method exists for doing so.

The toy industry is risky. If companies do right, they make a lot of money. If not, they lose a lot of money. Toys are also big business as well as a challenge.

The manufacturer’s world is extremely concentrated: the top 10 players enjoy a 50% market share in Europe and the top five a 40% market share worldwide. The Toy Manufacturers Association estimates that the European toy market produces sales of Ecu22 billion. US manufacturers invent, engineer and market about two-thirds of all the toys in the world (Johnson M.E., 2001, pg107).

Analysts attribute toy industry growth to three factors. First, although birth rates in developed countries are declining, parents tend to buy more toys and more expensive toys for their children. Second, the increased number of divorced or separated parents often means the children have many adult relatives to buy them toys. Also, many women are waiting longer to have children, meaning they and their families may have higher disposable incomes.

Nowadays, the competition in the toy industry is getting even tougher. Smaller players tend to disappear or convert their business into cash & carry outlets or big warehouses selling directly to the public.
The function of the wholesaler is disappearing, especially as smaller players at both ends of a distribution chain tent to disappear.

The Purpose of the Project is to find out the best potential market for Toys“R”Us that can expand its business in the future. Parallel with finding the best market for the company, the project shows the selection of 10 markets, which can help us to understand and select the best market. With the pre/analysis I choose the Norwegian market.

Among ten selected countries, the hypothecs of the project is that Norway offers the best opportunity for the company.

The Project will show how the company can explore its business in a foreign market, which criteria needs to be fulfilled and considered.

The search for a convincing explanation of both national and corporate prosperity must begin by asking the right question. It should abandon the whole notion of a “competitive nation” as a term having much meaning for economic prosperity . The principal economic goal to a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends not on the amorphous notion of “competitiveness” but on the productivity with which a nation’s resources (labour and capital) are employed. Seeking to explain “competitiveness” at the national level then is to answer the wrong question. What we must understand instead is the determinants of productivity and the rate of productivity growth. To find answers, we must focus not on the economy as a whole but on specific industries and industry segments.

The project is based on collecting and explaining the selection criteria which should provide the right strategic business decision of the company. The specialization project consists of three parts:

First, it is a theoretical part where I will describe the international business and the characteristics of the toy market, based on domestic as well as on foreign literature. This section also includes introduction of the company Toys“R”Us and its marketing mix.

The second part consists of several kinds of information about Norwegian market as well as strategic approach to this market. This includes possible techniques to enter the market, trade regulations and country advantages with the Porter’s “diamond” model.

The last part presents several kinds of analysis about the attractiveness of the Norwegian market based on the cost structure and the budget. The budget presents a base for the company decision-making process about the strategic movement in the selected market.

1. INTRODUCTION TO THE INTERNATIONAL BUSINESS

1.1. The Field of International Business

International business is all business transactions-private and governmental- that involve two or more countries.

Why we should talk about international business?

First, International business comprises a large and growing portion of the world’s total business. Today, almost all companies-large or small- are affected by global events and competition because most sell output to and/or secure supplies from foreign countries and/or compete against products and services that come from abroad.

Second, the international business field probably will engage in modes of business, such as exporting and importing, that differ from those it is accustomed to on a domestic level. To operate effectively, managers must understand these different modes.

In addition, international business usually takes place within a more diverse external environment (the environment outside the company as opposed to its internal one) than is found domestically. The conditions within this external environment-physical, societal, and competitive- affect the way business functions such as marketing are carried out (J.D. Daniels, 1998, pg. 8).

1.2. Operations and Influences in International Business

In operating internationally, a company should consider its *mission* (what the company will seek to do and become over the long term), its *objectives* (specific performance targets to fulfill its mission), and *strategy* (the means to fulfill its objectives). There are four major operating objectives that may influence companies to engage in international business. They are:

1. Expand sales
2. Acquire sources
3. Diversify sources of sales and supplies
4. Minimize competitive risk (spread risks)

Ad1) Expand sales

Companies’ sales are dependent on two factors: consumers’ interest in their products or services and the consumers’ willingness and ability to buy them. The number of people and the amount of their purchasing power are higher for the world as a whole than for a single country, so companies may increase their sales by defining certain markets in international terms.

Increased sales are thus a major motive for a company’s expansion into international business. Many of the world’s largest companies derive over half of their sales from outside their home country.

Ad.2) Acquire resources

Manufacturers and distributors seek out products, services and components produced in foreign countries. They also look for foreign capital, technologies, and information they can use at home. Sometimes they do this to reduce their costs and sometimes a company buys abroad in order to acquire a service not readily available within the company’s home country. Such a strategy may enable a company to improve its product quality and/or to differentiate itself from its competitors-in either case potentially increasing its market share and profits. Whereas a company may initially use domestic resources to expand abroad, once the foreign operations are in place, the foreign earnings may then serve as a source of resources for domestic operation.

Ad.3) Diversify sources of sales and supplies

To help avoid wild swings in sales and profits, companies may seek out foreign markets and sources of supplies. Many companies take advantage of the fact that the timing of business cycles-recessions and expansions- differs among countries; that is, sales decrease in a country that is in a recession and increase in one that is expanding economically. In addition, by obtaining supplies of the same product or component from different countries, companies may be able to avoid the full impact of price swings or shortages in any one country.

Ad.4) Minimize competitive risk

Many companies move internationally for defensive reasons, In other words, they seek to counter advantages that competitors or potential competitors might gain from foreign operations that in turn could be used against them domestically. For example, a company may fear that another firm might generate large profits from a given foreign market if it is left alone to serve that market. Those profits may then be used in various ways to improve its competitive position. The company harboring such a fear may thus enter foreign markets primarily to prevent a competitor from gaining such advantages.

The conduct of international operations depends on companies’ objectives and the means with which they choose to carry them out. The operations affect, and are affected by, the physical and societal factors and competitive environment encountered. The sizes of the arrows reflect that companies usually affect the external environment less than they are affected by it.

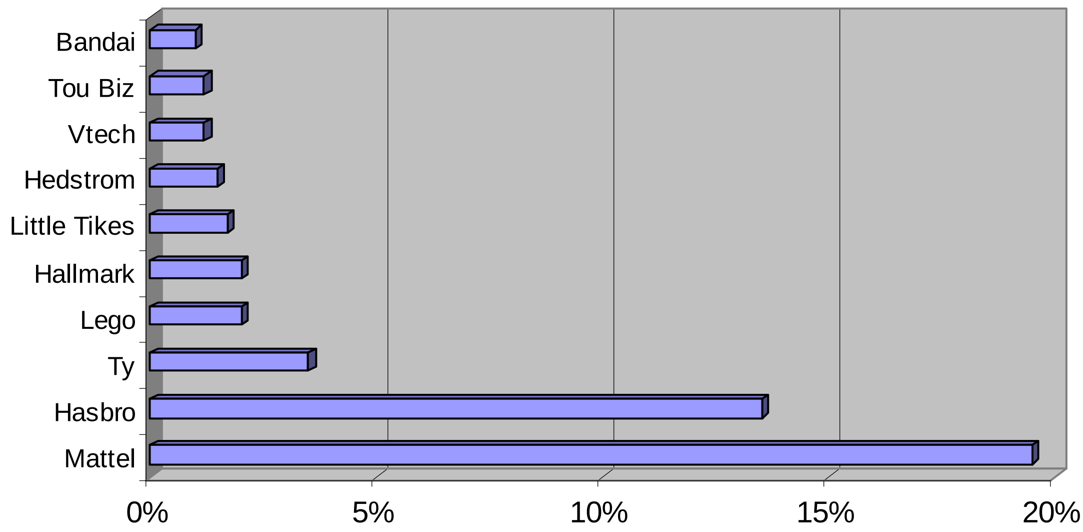
2. THE TOY MARKET

2.1. Characteristics of the Market

The toy industry faces many of the elements found in any maturing industry. Only 2% of the world’s children reside in the U.S., yet those kids consume nearly half of the world’s toys. While adults make the bulk of toy purchases, fickle and changing children are the toy industry’s primary consumer. Throughout western world, demographic changes over the 1990s have not been encouraging for toy manufacturers. In the U.S., the Census Bureau forecast show that the size of the industry’s core group-children 14 years old or younger-will only grow by 3.5% from 1995 to 2010. In much of Northern Europe, the number of children is shrinking. Fortunately, kids’ purchasing power is growing. Recent estimates indicate that kids’ personal income will grow to $67 billion by 2002, and they will influence further $144 billion in spending (ME. Johnson, 2001, pg.106).

While slow demand growth is one sign of a maturing industry, concentration of manufacturers is another clear sign. In 1984, the two industry leaders accounted for 21% of U.S. retail toy sales. Fifteen years later, Mattel and Hasbro own over 33% of the market with the next largest player controlling only 3%. As the toy industry has matured, relentless market dynamics have slowly created a polarized industry. At the end of the market, two large firms manage a collection of familiar brands that dominate the industry. At the other end of the spectrum, a host of small toy companies, whose success is typically tied to a single unique toy idea or theme, drive product innovation and diversification (see Graf 1). Those small companies that have been successful are steadily gobbled up by the market leaders. In the last five years alone Hasbro completed deals with Tiger Electronics (maker of Furby), Galoob (of Star Wars fame), Oddzon and Cap Toys (makers of Koosh balls and interactive toy candy) and game makers Atari and Microprose, while Mattel moved disastrously) into software with the acquisition of The Learning Company and Purple Moon, along with long-time doll marker the Pleasant Company and Tyco (maker of Matchbox cars).

Graph 1: Top Ten Manufacturers by market share world-wide in 2000

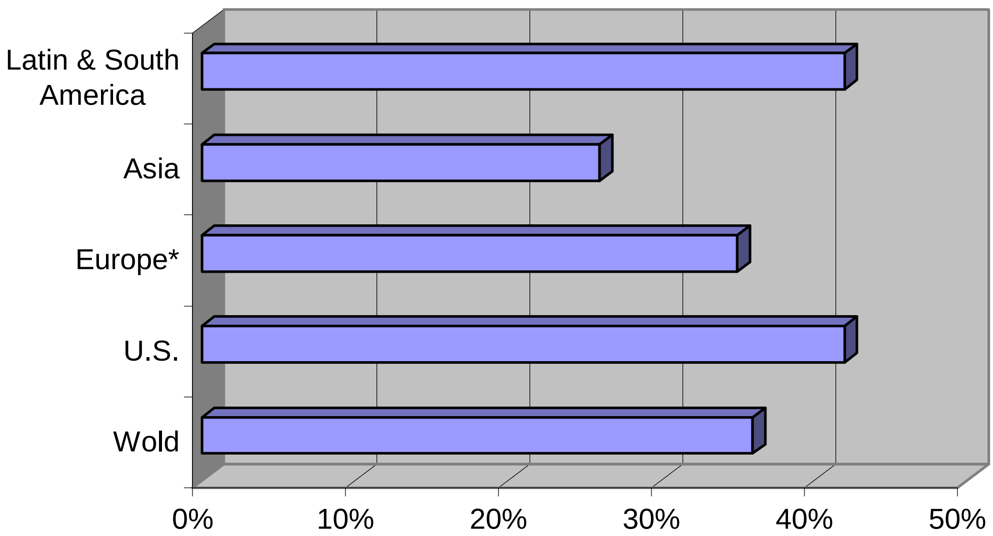


Source: E. Roth, The NPD Group, 2000 TMA Summer Conference

Many of the trends in the industry favor the big players. They benefit from economies of scale, brand recognition, and the resources necessary to secure licensing agreements. The minor players must compete on new product development, hoping to stumble upon a hit. Smaller companies typically have higher manufacturing cost and struggle to bring their ideas to market. They lack the clout to secure shelf space and to market their products effectively through mainstream channels. Often they are forced to sell through independent retail stores rather than large, highly visible chains. Without the marketing leverage of a resource rich company, the smaller firms have only a slim chance of making it big. However, in an industry with rapid change and fickle customer preferences, small companies often have speed advantages that can make the difference between bankruptcy and a hit product. Brand share has seldom determined consumer preference in the toy industry, especially when consumer is a 5-year old child. Small companies can make a big splash with a single hot product and that lure keeps entrepreneurs coming back.

During the same fifteen-year period of steady consolidation for manufacturers, change was also occurring in distribution. Like many industries, changes in the retail channel have redefined the toy supply chain. In the past fifteen years, department stores have lost 16 market share points largely to discounters and national toy chains. In 2000, over 40% of all toys sold in U.S. and 35% Europe were sold through discount stores (see Graph 2).

Graph 2: Regional toy sales in Discount stores world-wide in 2000

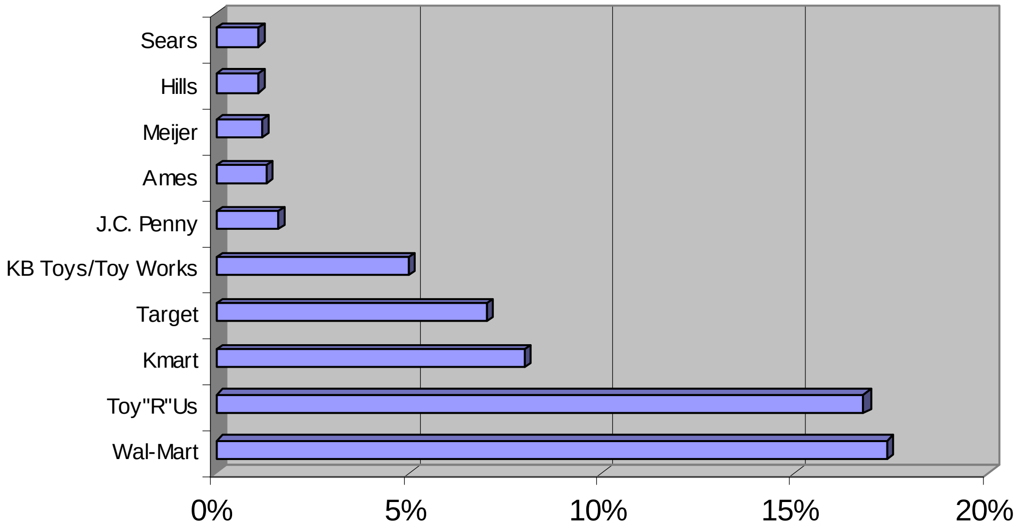


Europe*: includes Eastern countries

Source: Toy Associations – The NPD Group Worldwide

Wal-Mart alone sold over 17%, surpassing national toy chain Toys“R”Us to become the market leader (see Graph 3). The shifting channels structure and associated market power also favors the industry leaders. Gaining shelf space at Wal-Mart requires more than a good toy concept. Likewise, independent toy retailers have dwindled. In their place, national specialty toy chains have blossomed throughout the United States. Retailers like Zany Braqiny, Noodle Kidoodle, and Learning Express offer educational and specialty toys not shelved by the mass retailers. They also offer space to risky new products.

Graph 3: Top Ten Retailers by market share in the U.S. in 2000 (Toys“R”Us and Wal-Mart specialized in toys)



Source: E. Roth, The NPD Group, 2000 TMA Summer Conference

Finally, e-tailing is showing great promise for toys-both in reducing the hassle of traditional shopping and offering the possibility of finding specialty toys. The web has also opened direct access to customers for companies too small to gain shelf space for their products. Yet selling toys on the web has proved to be more difficult than many e-marketers had hoped. Upstarts, like now defunct eToys, frightened giant Toys“R”Us into embarrassing defensive actions after e-fulfillment flops in the 1998 and 1999 holiday seasons. Now with many of dot.coms gone, even the biggest players, Toys“R”Us and Amazon, have been forced together to find success in the e-channel.

2.2. The Consumer Behavior

The consumer’s choice results form the complex interplay of cultural, social, personal and psychological factors. Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant differences among brands, or when the product is expensive, risky, purchased infrequently and exclusive.

Many researchers have analyzed on consumer behavior. But the classic approach of consumer behavior departs form the idea that it is opportune to analyze the consumer’s decision-making process. It should be more important to know how the decision is made than why. This viewpoint is fair enough and has certainly contributed to a more efficient commercial policy. In this restricted sense, marketing is intended to bring the product’s life cycle (from producer to consumer) runs as efficiently and intensely as possible. Consumer behavior changes with its personality through years. Therefore, each person goes through different behavior stages in life. Life begins with the stage of development in childhood. Toys“R”Us is focused on first stages of kids and teenagers life. Therefore, Toys“R”Us analyses the system of selecting, decision taking and buying.

In generally, it is wrong to treat children as:

- a miniature adults or
- underdeveloped beings on their way to adulthood, or
- immature, unfinished adults who have no uniqueness, or
- kids think and feel like adults, only a little more superficial.

But children are:

- beings “apart” and
- beings with their own culture, with their own desires and especially with their own way of expressing their culture.

Those childhood characteristics create a system, which have to be treated different than a system of adults. Therefore, marketing for kids, teenagers and youth needs other marketing techniques. Main characteristics of kids and teenagers are:

- they are always part of “a system”
- they need the “system” to function
- they define their identity in interaction with systems, they are part of these systems.

A system is defined as a:

- people living together
- people needing each other to define themselves
- the need of an individual “member” of a system to function well in his/her system(s) (family or peer group) is enormous
- the different systems need to function in a complementary manner
- communication is a key to the system functioning.

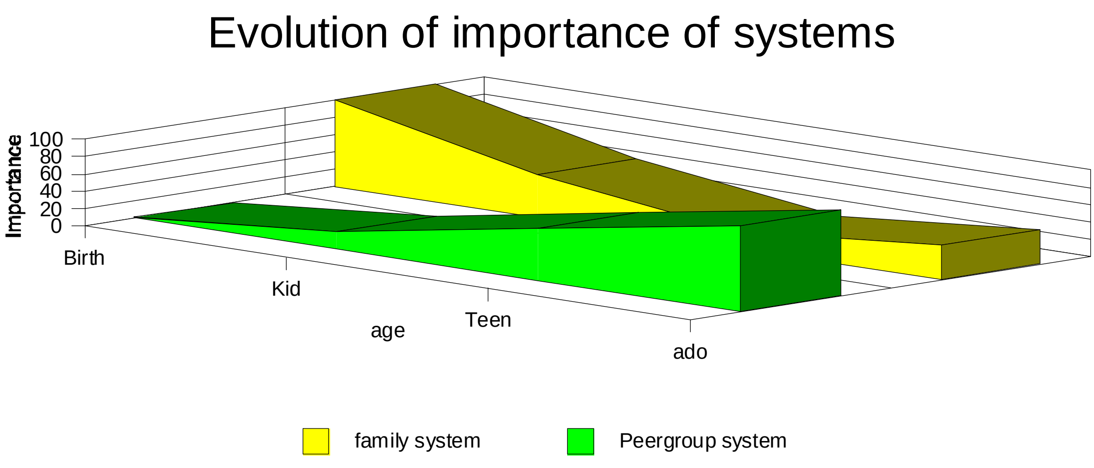
Within marketing three systems are important:

- Family systems: parents and children, in and out of home
- Peer group system: outside of the home, friends, schoolyard street, club, etc.
- School system: time spent in the school with friends and teachers.

Family system is very important for a child till its teen ageing period (see Graph 4). Parents are taking all decisions on their own. This means, in this stage, marketing activities need to be focused on the Toys“R”Us strategy, the Babies“R”Us division is focused on communication with parents in order to deliver them all information that the company can offer to their baby.

Kids and teenagers are already more independent (see Graph 4). Preferences and decision making is already more in hands of kids and teenagers. They are communicating with their parents what are their preferences and needs. They have high influence on final buying decision. Therefore, Toys“R”Us has two divisions which are dealing with those segments: Kids“R”Us and Imaginarium. Those two divisions have marketing communication which is broad and aiming to reach, in first line, young “wishers”, decision takers and in the second line, the real buyers (parents). More and more parents push theirs children towards independence that lead to earlier break-off effect. This means, teenagers are independent in earlier stage, which means he/she will be earlier in the stage of buying decision process as well (see Graph 5).

Graph 4: Evolution of family and peer group system



Source: Consumer Behaviour, 2001, Censydiam research

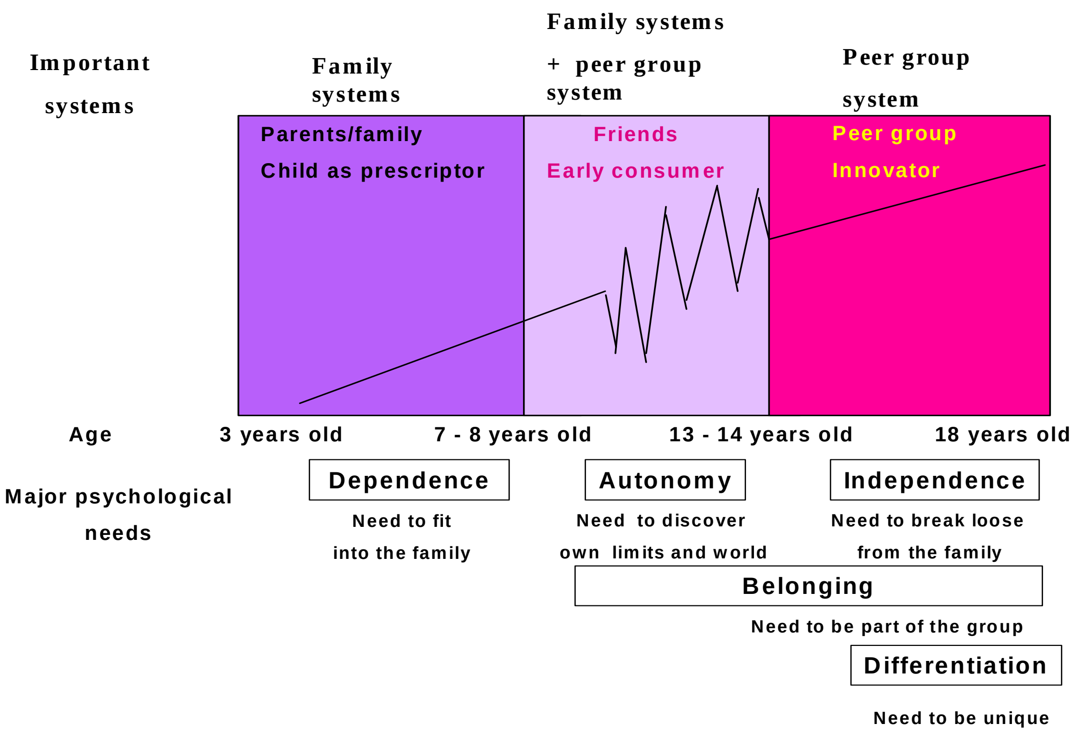
In youth stage two kind of kids are classified:

- Progressive: - growing up as soon as possible
  - active, dynamic, independent
  - explore, learn new things, search for stimulation, to dare, pulse raising

- Regressive: - feeling safe and secure
  - sweet, honest, soft, dependent
  - warm, protected, cocoon, to accent, passive, pulse lowering

Both components are present in every child. It depends only which component prevail other. Therefore, different type of products should be present in order to satisfy both types of children.

Graph 5: Marketing systems for youngsters



Source: Consumer Behaviour,2001, Censydiam research

Different products become part of the experience world at different moments in the evolution. First, there is the experience world for toys and sweets, food is the next; then clothes, transport, etc. From the moment that the different systems the child belongs to surround a product with an own “experience world” it becomes interesting to talk with them. It is also the moment when children become an important factor in the buying decision process.

The company Toys“R”Us has product assortments for the children different ages. All children behave different according to their age and personality. As well, children are different involved in wanting and buying process at different age. Therefore, each division inside Toys“R”Us has different communication platforms towards consumers and decision takers and buyers. Furthermore, Toys“R”Us is delivering 80% of products that are in global product assortment. Some products are desirable more in one country than another. Cultural differences are not so strong between children as they are between adults. Therefore, Toys“R”Us believe on globalization in the toy market. Nevertheless, weakness of the company is delivering products as a global assortment tested and succeeded in the U.S. market.

Where cultural differences exist, business people must decide whether and to what extent they should adapt home-country practices to the foreign environment. But before making that decision, managers must be aware of what the differences are. Some countries are relatively similar to one another, usually because they share many attributes that help mold their cultures, such as language, religion, geographical location, ethnicity, and level of economic development. Not all companies need to have the same degree of cultural awareness. Nor must a particular company have a consistent degree of awareness during the course of its operations. As the company decides to enter internationally they may expand their knowledge of cultural factors in tandem with their expansion of foreign operations. In other worlds, they may increase their cultural knowledge as they move from limited to multiple foreign functions, from one to many foreign locations, from similar to dissimilar foreign environments, and from external to internal handling of their international operations.

When foreign functions are limited (eg. exporting from the home country) a company must be aware of cultural factors that may influence the marketing program. Consider advertising, which may be affected by the real and ideal physical norms of the target market, the roles of group membership in terms of status and buying decisions, and the perception of different words and images. A company undertaking a purely resource seeking foreign activity can ignore the effects of cultural variable on advertising but must consider factors that may influence supply, such as producing and selling a product in a foreign country, a company must be concentrated with a wider array of cultural relationships.

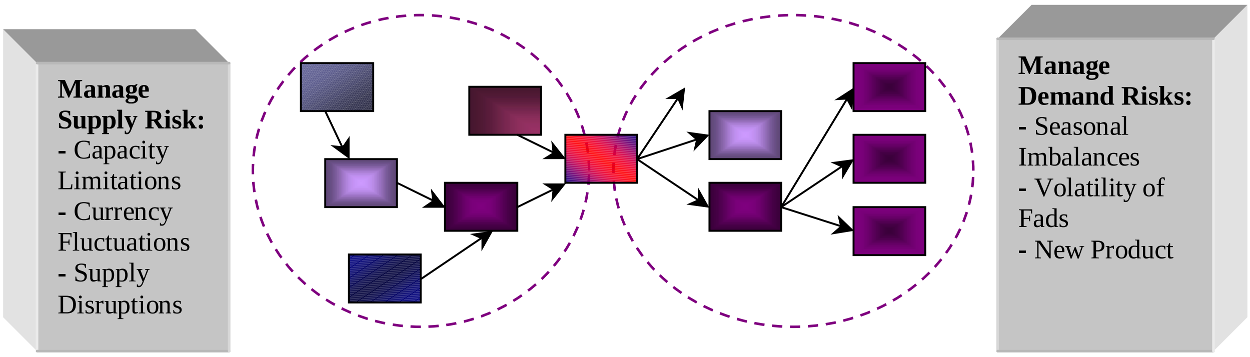
The more countries in which a company is doing business, in this case Toys“R”Us, the more cultural nuances it must consider. This means, the adjustments of a manager from corporate headquarters who visits the company’s foreign distributors would undergo. The more countries visited, the more cultural differences would be encountered on the trip and the more pre-departure training time would be needed. There is a relationship in the similarity between countries and the relative need for cultural awareness.

The company may handle foreign operations on its own or in agreement with another company to handle them (mostly franchising). The risk of making operating mistakes because of misunderstanding may effectively be reduced in foreign operations are turned over to another company at home or abroad that is experienced in the foreign country.

2.3. Managing Risk in the Toy Industry

While few of the risks faced by toy makers are unique to the industry, the combination of risks is daunting. When viewed as a whole, the risks fall into two major categories. There are risks associated with product demand including seasonality, volatility of fads, new product adoptions, and short product life. The public’s perception of safety and toy company’s ethics such as the use of child labor’ are also elements of demand risk (not to mention the risk of litigation). Then there are the risks of product supply such as manufacturing and logistics capacity during main periods. With supply chains that extend into Asia, there are also substantial currency and political risks that can change product cost or disrupt supply. Moreover, the long lead times between demand and supply exacerbate all of the risks (see Figure 1).

Figure 1: Managing Supply Chain Risks

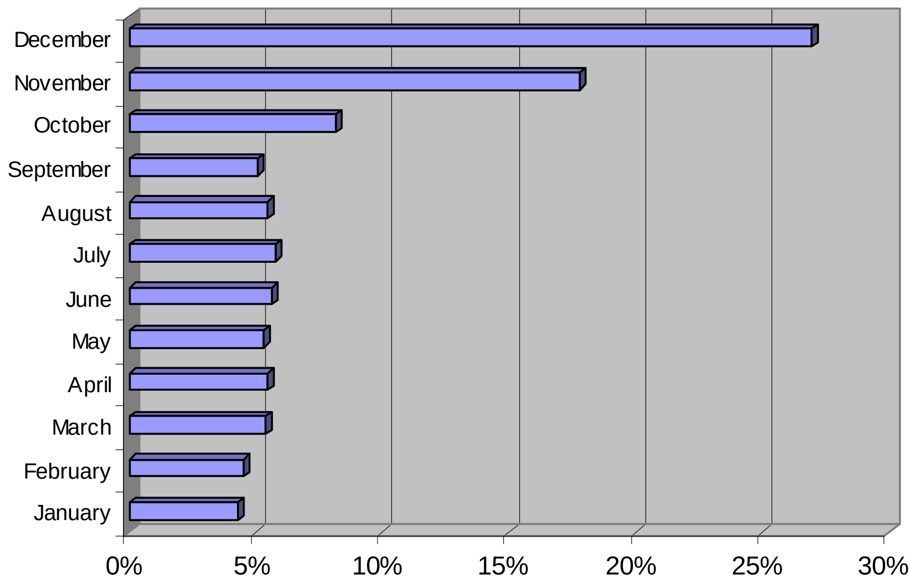


Source: M.E. Johnson, 2001, California Management Review

2.3.1. Managing Demand

Two key features that define many of the challenges in the toy industry are the seasonal demand and short product life. Toy sales and volumes grow exponentially the last few days before Christmas. Industry wide, November and December alone represent nearly 45% of toy sales (see Graph 6) with the last week before Christmas driving nearly half of those sales.

Graph 6: Dollar Sales for Traditional Toys in the U.S.



Source: E. Roth, The NPD Group, 1999 TMA Summer Conference

For many companies, these two months can represent more than 70% annual sales. Shipments from manufacturers to retailers follow the same lop-sided activity. As retailers have reduced inventories in their own supply chains, fourth quarter shipments show steady growth over the past ten years. The end result for toy makers is exacerbated service level requirements at a point in time when all available distribution resources are overloaded. Strong seasonal demand is only one component of the toy makers´ challenge. While thousands of toys are brought to the market every year, only a small fraction of them succeed. Even fewer have what it takes to last longer than one or two years. Classics, such as Hasbro´s Mr. Potato Head or Mattel´s Barbie are examples of products that have stood the test of time.

There are several ways in which players in the toy industry choose to manage demand uncertainty and risks:

- Reducing Seasonality and New Product Adoption Risk through Licensing

Licensing entertainment-related properties successfully creates demand for many consumer products from electronics to apparel and groceries. As with toys, licensing reduces new product introduction risk and can alleviate seasonal slumps. However, in every case, timing is critical-being license late is disastrous.

- Reduce Seasonality by Increasing Number of Channels

Another strategy for building off-season demand and reducing new product adoption risk is to develop alternative channels. With growing collector interest for many different toys (e.g. learning tools), even nontraditional toy companies are tempted to join in the business.

- Smoothing Demand and Building Longer Life Products

Novelty and toys have always been linked in the mind of the consumer, yet some industry watcher would argue that there are few truly new toys. In fact, many new toys are simply new versions of tried and true themes. Many more are merely extensions of current products. Toy makers have learned that introducing a new product based on a successful toy platform is one of the most reliable techniques to reduce risk. Product extensions reduce many risks from customer acceptance of a new product to supply chain planning. With established channels and product awareness, gaining shelf space typically requires less effort than selling a completely new idea. The most interesting and successful variety strategy is the rolling mix. The basic idea of the rolling mix is to increase product variety by continually introducing slightly different versions of the same product. Toys“R”Us is one of many companies to see the value of the rolling mix. By rolling the mix, Toys“R”Us is able to market a much broader range of products without creating additional shelf space. The strategy created urgency among consumers to buy the products, while they were available. Next step for Toys“R”Us was introduction of the product line extension on clothes and learning tools, which will reduce seasonal risk inside the company.

2.3.2. Managing Supply

Since Second World War, toys have been the first step on the manufacturing ladder for many developing economies. Being easy to produce and with relative low quality requirements, toys were ideal products to chase cheap labor. First in Japan and then into Hong Kong, Malaysia, Thailand, and China, toys closely followed manufacturing development in low wage rate countries. As manufacturing moved to Asia, toy companies quickly lost flexibility in managing supply. Production quantities had to be specified months before key holiday seasons. Long transit times, customs delays, quota restrictions, and communication barriers, have long made managing the supply of product flowing from Asia a challenge. With the demand risk exhibited by most products and the challenges of building operations in Asia, few makers could afford the gamble of dedicated plants. Thus outsourcing became another key to success.

In order to reduce supply risk three area should be considered:

- Reducing capacity risks by outsourcing and building a flexible web of partners
- Using information, air freight and warehouse consolidation to improve supply/demand matching
- Reducing currency and political risk through operational hedging.

3. THE COMPANY TOYS“R”US

3.1. Toys“R”Us as a Global Toy Producer and Retailer

Today, Toys“R”Us is one of the biggest global retailer seated in the U.S, specialised for toys. The company’s product portfolio includes the total product assortment for children from 0 till 18 years. The company was founded in 1948 by Charles Lazarus just before the post-war baby era. He had no idea that his baby furniture store in Washington D.C., would evolve into an $11 billion dollar business generated in more than 1450 stores worldwide in 2001. So he began to sell baby toys and then when the customers asked for toys for older kids he began to sell these as well. Everything his customers wanted, Lazarus tried to give them, until Toys“R”Us became a full-scale store extravaganza.

In 1957, Lazarus opened the first toy supermarket. Speciality retailing and off-price positioning were revolutionary concepts in those pre-mail, pre-discount days. With the success of these stores, Toys“R”Us became a public company in the late 1970’s. Today’s goal is to be the “Worldwide Authority on Kids, Families and Fun” with six divisions Toys“R”Us USA, Toys“R”Us International, Kids“R”Us, Babies“R”Us, Imaginarium – newest division and Toysrus.com. The company offers to the consumers products under own brand name as well as other brands (eg. Lego). Many small and medium suppliers have a licence from Toy“R”Us to produce under the brand name Toy“R”Us.

The company wants to be close to the customers wherever they are. Nowadays, more and more customers shop in the Internet. In order to accommodate customer’s needs was formed Toysrus.com in 1998. With Toysrys.com is brought a fun and convenient way to shop on-line. Even more exiting was at the end of the 2001 when Toy“R”Us teamed up with Amazon.com.

In 2000, the company’s total sales increased 6% to $11.9 billion from $11.3 billion. The financial statements excludes the impact on the initial public offering of Toys“R”Us – Japan, Ltd. (Toys – Japan), as well as non-recurring charges resulting from the Toysrus.com alliance with Amazon.com. Total gross margin, as a percentage of sales, improved to 31.1 from 29.2%. This increase was primarily attributable to shifts in the merchandise mix and growth in higher margin categories, primarily exclusive product offerings, as well as the implementation of a new strategic pricing system. The International toy store division reported gross margin of 31.7% versus 30.8% in 1999.

International operating earnings were unfavourably impacted by the translation of local currency into U.S. dollars by approximately $14 million in 2000. The effect of inflation had no material effect on the company’s operating results for 2000.

Excluding the impact of the company’s share of Toysrus.com, 2000 earnings before income taxes, net earnings and diluted earnings per share were $534 million and $1.58 per share, respectively.

The company is exposed to market risk from potential changes in interest rates and foreign exchange rates. The company regularly evaluates these risks and has taken the following measures to mitigate these risks: the countries in which the company owns assets and operates stores are politically stable; the company’s foreign exchange risk management objectives are to stabilize cash flow from the effects of foreign currency fluctuations. The company will, whenever practical, offset local investments in foreign currencies with borrowings denominated in the same currencies. The company also enters into foreign exchange contracts or purchases options to eliminate specific transaction risk.

The toy market is very trend oriented and mainly influenced by the economical power of the countries. Therefore it is very important to consider the right parameters for searching potential markets. Toy“R”Us is a global company and its vision and strategy are about covering all-important markets on the total globe.

3.2. Vision and Mission of Toys“R”Us

In operating internationally, a company should consider its mission (what the company will seek to do and become over the long term), its objectives (specific performance targets to fulfill its mission), and strategy (the means to fulfill its objectives).

An organization’s vision statement describes what the organization would like to become and a mission explains the purpose or reason for the organization’s existence. It tells what the company is providing to society. The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company’s task environment. A vision and mission together tell who we are and what we do as well as what we’d like to become (T. L. Wheelen, J.D. Hunger, 1998, pg.11).

Toys“R”Us Vision

“Put joy in kids’ hearts and a smile on parent’s face.”

Mission of Toys“R”Us

“We believe our business is built on one customer at a time, and we are committed to making each and every customer happy. Our goal is to be the Worldwide Authority on Kids, Families and Fun.”

The company’s mission needs to be turned into strategic objectives to guide management (P. Kotler, 1999, pg.90).

3.3. Company’s Strategy and Objectives

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation’s mission (Wheelen T.L., Hunger J.D.,1998, pg.11).

A *Strategy* of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage (Wheelen T.L., Hunger J.D.,1998, pg.12).

Major objectives of Toys“R”Us are:

- Reforming stores and re-engineer supply chain, reposition its world-wide business, including customer focused reformatting of its toy stores, restructuring its international operations and accelerating its supply chain management program
- Focus on more promising opportunities, especially in market expansion (international expansions)
- Increase sales by expansions, alliances, acquisitions, etc.
- Eliminate under-performing stores and streamline the company’s operations
- Decrease inventories
- Development of a new management team
- Improvement of operational efficiencies
- Expansion plan of new stores, assortment, departments, etc.
- Focus on increasing free cash flow by operating with lower levels of inventory
- Provide the best selection of brand name merchandise stocked in depth, at everyday low price plus to ensure first class customer service
- Focus on what customers want in order to leverage competitive edge.

Strategy of Toys“R”Us is to continue to move aggressively into markets abroad. The company Toys“R”Us is going the franchise route to ensure success in its attempt to establish a sizeable presence in all parts of the world. It takes a real interest in young people’s lives from health and safety to learning and literacy.

Company is focusing on improving safety and health of the children. Toy Guide assortment has products designed for different-abed children.

3.4. Marketing Mix Toys“R”Us

The toy industry is changing not only in the type of product sold, but also where products are sold. The changing face to toy retailing is evidenced by the multitude of discount stores, warehouses, specialty merchandisers and e-commerce toy traders all grabbing for their piece of the pie. Toys“R”Us has stumbled slightly in the past few years, dealing with cluttered, disorganized stores and a reputation for mediocre sales help and dismal customer service. In 1999, the company cleaned up its act with the introduction of redesigned all 1460 stores worldwide, a new advertising campaign and a new training program for employees. Toys“R”Us wants to diversify itself from other competitions by placing importance on customer service – highlighted by personalized attention, knowledgeable salespeople, gift-wrap and a substantial number of promotions and special events.

The reorganization and redesigning of the stores is planed to be implemented in all Toys“R”Us divisional stores through the year 2001 and 2002. The company has six divisions among those two were joint recently, Toysrus.com and Imaginarium. Because of the limited information on the product assortment dimensions, I cannot deliver more descriptive information on the product size of the assortments as they are described below:

The divisions – products:

- *Toys“R”Us, USA*

  The USA division has 700 toy stores. Their strategy is to focus on what customer want in order to leverage their competitive edge, keep them up-to-date and creating a new attitude that the customers will notice.

- *Toys“R”Us, International*

The International division opened its first stores in 1984, in Singapore and Canada. Today, the division owns and controls over 450 international stores in 27 countries, including franchise operations. Today, Toys“R”Us International is a global leader in retailing for kids and families. The powerhouse brand is recognized by children everywhere, and no matter what language is spoken, Toys“R”Us translates universally into the best store for fun, excitement, and learning for the whole family.

The extraordinary success in Japan is a prime example of the strength of the International Brand and the ability to leverage its global resources.

The world-wide presence has enabled Toys“R”Us to identify trends, and provide customers with unique products and proprietary brands that are available in Toys“R”Us. The international presence gives the company great opportunities to learn and share the best practices from around the world with the introduction of new and unique product lines, enhanced merchandise presentations and innovative marketing campaigns. The goal of the company is to make Toys“R”Us shopping experience even better, store-by-store and country-by-country.

- *Kids“R”Us*

The caring feel of a family business is what Kids“R”Us is all about. Kids“R”Us opened its first door in 1983, offering the widest selection of quality branded children’s wear at very competitive prices. Today, Kids“R”Us is one of the largest clothing store chains for kids, with over 200 stores. The division will continue to grow by adding over 70 more Kids“R”Us combo stores within Toys“R”Us stores (shop-in-shop concept) by the end of the year (2002).

- *Babies“R”Us*

Babies“R”Us was born in 1996 and already has over 110 stores. These expensive stores offer one-stop shopping for everything new parents need - apparel, furniture, car seats, bedding, strollers and more. To make sure that the best service is provided, programs that focus on product training and product knowledge are in place for all associates. Customer communication goes through strategic marketing and advertising, with messages that build the strength of the brand and communicate the benefits and services in the store. The goal of the division is to nurture customer trust and continues loyalty delivering exceptional customer satisfaction.

- *Toysrus.com*

  The company experienced massive growth in the fourth quarter of 1999, during the key holiday selling season. The growth and acceptance of shopping for goods and services on the worldwide web present a major sales opportunity. Over the next five years, the number of online users around the world is projected to increase more than three-fold to 400 million. The goal is to build a world-class e-commerce infrastructure, taking toysrus.com forward into an exiting future.

While all retailers competed fiercely in market share as well in finding new product and service formulas to reach the customer, the Internet provided yet another outlet for a quickly growing generation of technologically tuned-in consumers. Boosted by the introduction of more affordable PC’s and a higher comfort level of consumers using their credit cards over the Net, Toys“R”Us saw the Internet online shopping as a part of its future business. Toys“R”Us created in October 1999 additional division in their organizational structure, so called:

- *Imaginarium*

  Imaginarium stores immerse children and adults in a fun environment that stimulates all the senses – where play and exploration are encouraged to the fullest. Children and their parents quickly become part of a memorable in-store experience. In the future, Imaginarium will focus on three key initiatives. The first is the expansion of the Imaginarium “words” within the Toys“R”Us stores. The second is the addition of new neighborhood stores; and the third is the expansion of Imaginarium.com site (integrated with the toysrus.com site). Imaginarium is committed to merchandise the finest playthings to promote learning and fun, while providing outstanding customer service.

A child’s education tops the growing concerns of today’s time-starved parents, many of whom are going to great lengths to provide their little ones with fun-filled products that encourage learning and discovery. The manufacturers and retailers keenly aware of this dilemma have responded by transforming their educational toy line. In July 1999, Toys“R”Us announced the acquisition of Imaginarium, a chain of mall-based specialty shops focused on creativity and learning products for your children. The acquisition is expected to give Toys“R”Us access to upscale products, as well as help in the creation of specialty shops within Toys“R”Us. The products sold in Toys“R”Us are from internal

(Toys“R”Us) and external suppliers (eg. Lego, Playmobil). The company is introducing more and more products under original brand names mainly because of the shorter and shorter product life cycle. Most of the products sold in Toys“R”Us stores have a seasonal life cycle, which means from 3 to 12 months. But many of the products are extensions of the previous design.

Distribution

In the toy sector the physical distribution patterns are strongly influenced by the heavy seasonality of the sales to the end-consumer: around 45% of the yearly turnover is realized during the months of November and December. This implies that stocking is necessary. Highly automated distribution centers, a devotion to technology and a private truck fleet have enabled Toys“R”Us to serve its customers by getting the right products on the shelves when they need to be there. That dedication continues today as Toys“R”Us embarks on its most aggressive expansion of distribution capabilities by adding additional distribution centers and stores.

The company offers the product portfolio of toys for children between 0 and 18 years. Most of introduced toys have a seasonal effect. In order to avoid the seasonal risk, Toys“R”Us introduced two new lines clothes and learning tools. In this way, Toys“R”Us spread the seasonal risk through the all year.

Pricing

Ideally, Toys“R”Us estimate that, form a consumer’s point of view, the prices of its products should be adjusted to suit the local market condition. Especially outside U.S. market, the internationalization of the product rages in Toys“R”Us stores is still quite limited because of remaining cultural differences among countries. However, with the emergence of the Single Market, Toys“R”Us has felt the need to streamline the way it is doing business in the various European countries. To ensure that this is happening, Toys“R”Us is following a policy geared to reducing price discrepancies at buying invoice product price plus mark up between different European countries (EU members or not). As a result, price differences between countries at consumer level are aimed not to exceed 10%. The aim of the company is to have equal prices all over the wolrd. The Toys“R”Us product portfolio has wide-spread price range. This means, the customer can buy low priced toys (every day low price) as well as luxury high priced toys.

Communication

Few years ago, Toys“R”Us lost its image of being a company with great service, big assortments and friendly to children. The problem, however, is that in the face of increasing high-street competition and retailing innovations in the 1990s, the stores no longer came across as “exciting” to consumers, mainly due to look of stores being too much as a discount or warehouse like. Management of Toys“R”Us put the problem this way: not enough children in any age, get up in the morning and thing “I must or would like to go to Toys“R”Us. This motto was as a base for development of the communication mix concept. Toys“R”Us created a total marketing communication mix and consists of the specific blend of advertising, personal selling, sales promotion and public relations tools that the company uses to pursue its advertising and marketing objectives. One of biggest investments was made in October 2001 when was the grand opening of a flagship store in Manhattan (US), along with the debut of a new ad campaign that revives company mascot Jeffrey the Giraffe as a corporate spokes animal. The combination of the add campaign and the flagship store opening in advance of the holiday season created a buzz, people were asking: “what is going on with Toys“R”Us?” The purpose of the campaign succeeded. Sales in three months increased for 7%. This was a successful promotional concept for Toys“R”Us. They want to explore it, especially the basic promotion mix, throughout the countries. The basic concept is in:

- *Advertising*: the Toys“R”Us advertising strategy is to communicate with consumers all company’s news (innovations, launching new shops, product categories, etc.) through different magazines and newspapers. The purpose of this communication is to inform consumers about the company’s intentions and product category ranges; consumer needs to see a total assortment from a birth till its age of 16.
- *Personal selling:* all sellers in Toys“R”Us are trained how to approach and offer a product to a customer. Toys“R”Us is strongly focused on customer service (eg. friendliness, consulting, product unwrapping) and wants to be a unique in this area. Therefore, all employees need to follow this strategy: friendliness, good advice and best product for the consumer!
- *Sales promotion:* Sales promotions are one of the basics in the Toys“R”Us strategy, especially between the holiday season. Promotions take place special locations in the store where most of the time new products are promoted. As well, special discounts are placed for the products which does not reach a frequent turnaround cycle.

- *Public relation:* the Toys"R"Us strategy in public relation is building good relations with the company's various publics by obtaining favorable publicity, building up a good ´corporate image` and handing or heading off unfavorable rumors, stories and events.

3.5. SWOT Analysis

Table 1: SWOT Analysis

Strengths:	***Weaknesses:***
• Image • Global company • Years of experiences • Market knowledge • Product assortments for all children's ages • Business Development • Product Assortment • High Service level	• Many shops still look to much as a warehouse • Too expensive (in some countries) • Dependant on the suppliers • Weak presence in Central and East Europe • Focus on one Business Plan (US and Export) • Seasonal business (majority)

Opportunities:	***Threats:***
• Internet • Entering in a category for young adults (between 16 and 19 years) • Re-designing shops • Increase service level • Market expansion • Trendy business • Product Assortment Exploration	• Strong competition • M&A • Children are growing up earlier • E business • Changing the lifestyle segment of toys • Cultural differences • Seasonal business • Market saturation • Increased price sensitivity

Source: Personal estimate

Today, Toys“R”Us is a global leading toy retailer with a strong image and many years of experience in the toy industry. The company gained its market knowledge through different economic periods, which gave competences in predicting consumer behavior in different situations. Based on consumer behavior, the company developed a product assortment offering everything needed for a child aged between 0 and 18 (see Table 1).

The company has 1460 outlets world wide, most of them redesigned to avoid a cold warehouse look. Still, some of them need to be renovated in order to offer the consumer: friendliness, space and a feeling of well being while shopping. In many countries (eg. Indonesia) products are rather expensive. The company made this move in order to invest in future potential markets, which will deliver a return on investment in the next 3 years.

The company has a very weak presence in the Central and East European markets. The company does not invest in opening new shops. This weakness can be in the future one of the biggest black spots for Toys“R”Us because Central and East Europe are predicted to be one of the biggest markets (beside Asia and the US) between 5 and 10 years in the future.

A company strategy is based on one business plan made for all product divisions and markets. A business plan of Toys“R”Us does not consider cultural differences between different markets which are very important in delivering the right product to the right place for the right consumers. In the future, Toys“R”Us needs to develop the knowledge of the cultural differences and local values of particular markets.

The company took an opportunity to present itself on its own Internet web site. Furthermore, the company created a distribution company, called Toysrus.com through which the consumer can buy selected products from the Toys “R” Us product portfolio. Internet sales have many advantages and disadvantages. One of the biggest considerations that Toys“R”Us has to consider is that sales through Internet causes the company and consumer lose personal contact as well as losing the ability to offer advice to the consumer.

4. OBJECTIVES OF INTERNATIONAL BUSINESS

4.1. Country Evaluation and Selection

Examining international geographic strategies is important because companies seldom have enough resources to take advantage of all opportunities. Committing human, technical, and financial resources to one locale may mean forgoing projects in other areas. Consequently, geographic alternatives are an integral part of a company’s decision on allocating resources (J.D. Daniels, 1998, pg. 524).

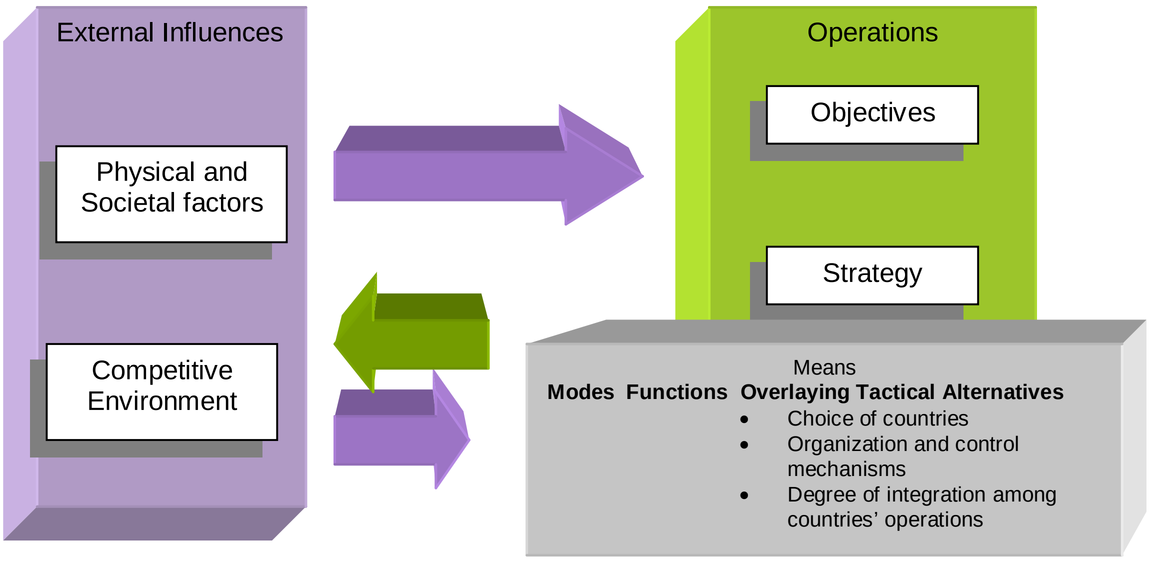
Each company that wants to explore its business internationally first has to select basic criteria in order to choose among the most preferable markets. In order to rank and downsize the 10 best countries for Toys“R”Us, I have selected 8 basic criteria that are important for the company. Those criteria are:

- Population
- Population between 0-18 years
- Birth rate
- GDP
- GDP per capita-PPP
- Annual growth
- Taxation
- FDI conditions

The selected countries have satisfied at least one of the criteria among the 30 best countries in the world according to the Statistic Outlook 2001 and World Bank. Countries that Toys“R”Us have already had stores in are not included. Among the 10 selected countries that Toys“R”Us is interested in starting its business are: Argentina, Brazil, Finland, Ireland, Kuwait, Mexico, Norway, New Zealand, South Korea and Thailand.

With a decision to undertake international operations, the location strategies should be compatible with its competencies and motives as well in this case for Toys“R”Us. The Figure 2 shows that the choice of where to operate is an overlaying tactical alternative to carry out a strategy. The figure also shows that the choice of country is affected by external influences.

Figure 2: Place of Location Decisions in International Business Operations



Source:J.D. Daniels, 1998, International Business, pg. 525

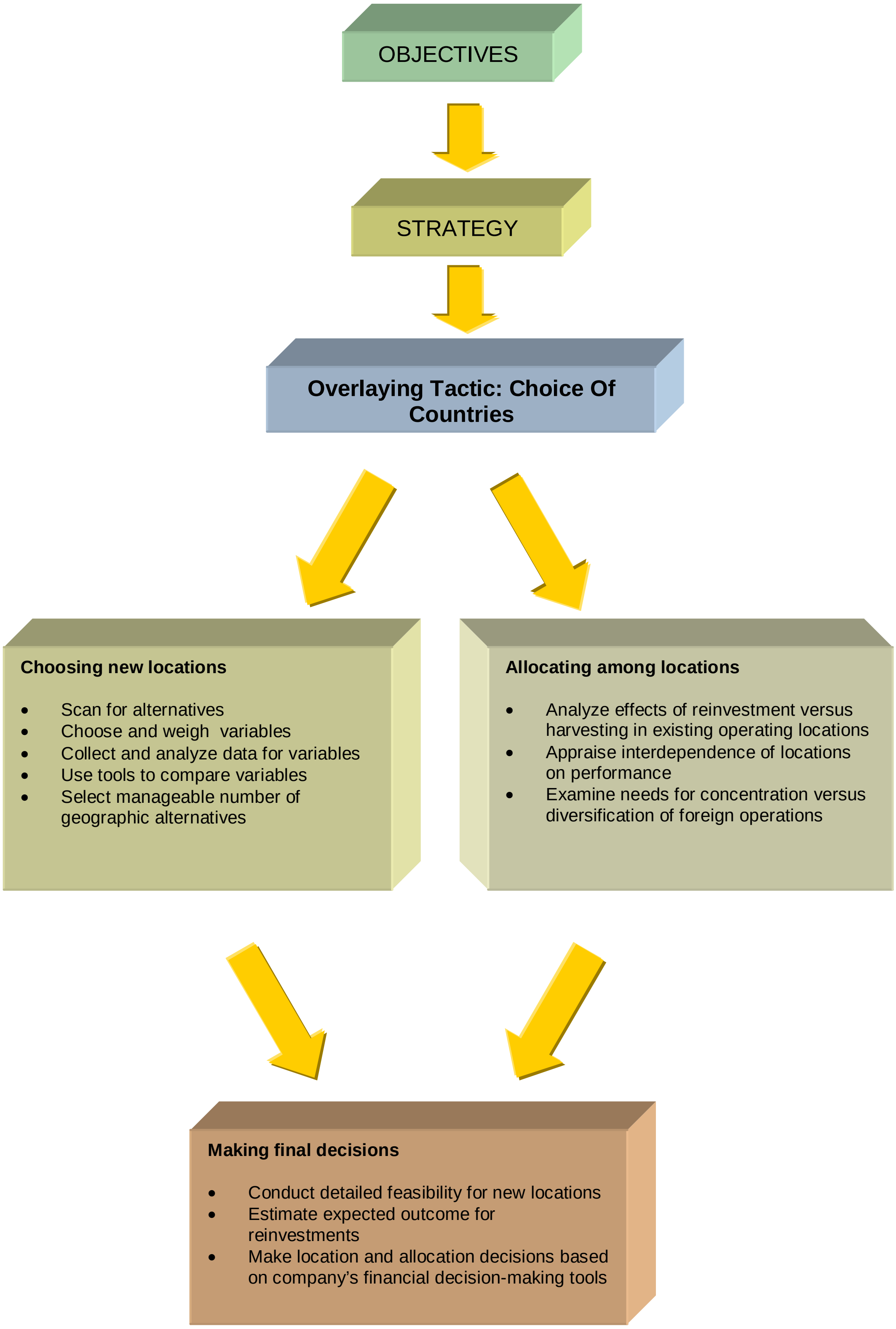
For example, a company should be better off by going to those countries with economic, political, cultural and geographic conditions that permit it to utilize its competencies. Because companies’ motives and competencies may differ substantially, what may be a very attractive country for one company may, at the same time, be unattractive for another.

Nevertheless, the choice of foreign location should be based on the questions: “Where can we best leverage our already developed competencies?” and “Where can we go to best sustain, improve, or extend our competencies?

A company’s choice of countries for its operations should be determined by the interaction of its objectives, competencies, and comparative environmental fit with conditions within different countries.

As a company tries to optimize its sales or minimize its costs, it can easily overlook or disregards some promising options. Some locations may not be rejected; instead they may be skipped simply because managers either never think of them or decide to go where “everyone else has gone”. Further, certain locales sometimes are lumped together and rejected before being sufficiently examined for expansion possibilities.

Figure 3: Flow Chart for Choosing Where to Operate



Source:J.D. Daniels, 1998, International Business, pg. 527

A detailed analysis of every alternative might result in maximized sales or the pinpointing of a least-cost production location; however, the cost of so many studies would erode profits. Any conditions that would greatly enhance the probability of making an investment should be examined before a more detailed feasibility study is completed.

This analysis is used to downsize the ten countries selected previously to three countries (Argentina, Brazil, Finland, Ireland, Kuwait, Mexico, Norway, New Zealand, South Korea and Thailand). Additional criteria were used for narrowing selected countries in 3 the most attractive ones. To apply the PEST analysis I have based the evaluation on the information researched, covering the main factors. These factors considered point out the *risks* that the countries may present in *political*, economical, *socio-cultural* and *technological environment*.

Every country has the same weight or importance of all the factors used for evaluation. This weight indicates which factor is more significant to Toys“R”Us. The weights given vary in a range from 0 to 1, where the higher numbers indicate more significance of the factor. The rating given to each country varies from 5 to 1, where 5 means outstanding, 4 mean above average, 3 means average, 2 means below average and 1 means poor. The weighted score is the final grading of the factor for each country and results from:

Weighted score = Weight x Rating

Within the factors it is understood as negative factors the following:

- Monopolies legislation, because the governments limits the development of a company to become a monopoly.
- Taxation policies, because the higher taxes implies higher expenses for the company.
- Inflation, because creates an unstable economy making forecasts difficult.
- Unemployment, because is a result of the management of the economy.
- Rate of obsolescence, because will increase the company’s expenses to up-date the technology.
- The interpretation given to the factor social mobility is that the population transfers from a lower social status to a higher social status. The lifestyle changes factor is that considered as the high speed of the population has to change the way they live. The

business cycle factor is considered as short with continuous improvement and fast launching of new products.

The technological factor weight is very low because the company’s objective is to expand the stores without having the need to produce there. The company mainly is using franchising as a way to expand their operations; the supply to this franchising is given directly from the parent company.
As a final result of the analysis, Norway showed to be the most attractive market for the company among three narrow selected countries Ireland and Finland.

Opportunities and Threats selected countries
Ireland, Finland and Norway are the resulted countries from the PEST analysis. In these countries had been identified significant factors for the company that are considered opportunities and threats for expanding the business (See Table 2).

The significant factors are considered on the following areas.

- Population
- Government policies
- Economic situation
- Foreign trade
- Income Level
- Taxation

The selecting criteria to determine an opportunity or threat had been obtained from the World Bank ranking and comparative indicators (Statistical Outlook 2001). All the factors considered cannot be measured; in this case the information has been deduced from the related researched information.

The country selected to locate a franchised store is *Norway*. Almost all the factors are considered as opportunities, except the taxation policies that is 38% of the revenues to pay for goods and services taxes. This tax affect primarily to the customers’ income.

Table 2: Opportunities and Threats of the chosen Countries

Factors	Ireland Opportunities	Ireland Threats	Finland Opportunities	Finland Threats	Norway Opportunities	Norway Threats
Taxation policy	X		X		X	
Government stability	X		X		X	
Private consumption	X		X		X	
GNP per capita trends	X		X		X	
Inflation	X		X		X	
Import volume growth	X			X	X	
Gross domestic savings		X		X	X	
Income distribution (Gini index)		X	X		X	
Unemployment		X		X	X	
Working women	X		X		X	
Acceptance of foreign products	X		X		X	
Repatriation of profits	X		X		X	
Tariff barriers	X		X		X	
Transportation availability	X		X		X	
Patent and trademarks law protection	X		X		X	
Religious conservatism	X		X		X	
Trend in exchange movement	X		X		X	
Language skills	X		X		X	
Urban population		X		X	X	
Average annual population growth rate		X		X	X	
Taxes on income, profits and capital gain		X	X		X	
Taxes on goods and services		X		X		X
Taxes on international trade	X		X		X	
Total:	16	7	17	6	22	1

Source: Personal estimation

One of the most determinant factors to expand the company business in Norway has been the purchasing power of its citizens and the trend to increase their consumption. The GNP per capita growth is considered as the third highest in the world. The purchasing power parity is $27,700 in 2000 and Norway has the lowest unemployment in mainland Europe and it is 3%. The family income mostly comes from two sources because 89% of the women work.

Their purchasing power is only affected by 3% of inflation as a consequence of the stable economy conditions. Norway is a country that has plenty of natural resources, specially their oil supply that gives them economic independence. A high level of taxes that reaches levels of 57% affects the disposable income. These taxes cover the welfare system, through which the government gives public services, but now the public sector is becoming smaller and the overall tax burden appreciably is less heavy.

The total market for Toys“R”Us product is people from all ages, but the company specializes in offering products for children and teenagers. In Oslo, Capital City, the company is suggested to locate the retail store where the population in Oslo region is approx. 1.0 million. Approximately 70 percent of the share capital of foreign majority owned companies in Norway is located in the Oslo region. Norway’s expertise within advanced technology and research and development is clustered around the Oslo region. Accordingly more than 2007 companies with foreign majority ownership are situated in the Oslo region.

For determining the demand in Oslo, it is considered as a target group people below the age 18 years. This segment represents 220,000 children and US$13.2 million net sales for a franchisee and $0.4 million profit for Toys“R”Us in the first year.

To determine the sales level it is considered a scenario where the yearly average purchase is US$200.00 and Toys“R”Us will reach 30% of market share in the first year. In this calculation it is considered the advertising impact and the Christmas season sales.

Norwegian competition in toy industry

There are no direct competitors in the retailing of toys in Norway. The stores are small and sell either solely toys or toys in combination with other products sold in retail stores not specialised in toys. This is an advantage for the company because is unique in its variety as a big retail store specialized in toys.

Some of the most competitive brand names and products of the companies that sell in Oslo are Wing Kai Trading Company, Ricoman International Ltd., Galoob Toys Inc, Tyco Toys, Buki, Play by Play Toys & NVLTS Inc., DS Toys Inc., Attic Toys and BOK. These companies offer different kinds of toys; some of the brand names are well known by the customers. In Toys“R”Us the brand names that are commercialized lies on their own prestige in the worldwide market.

It is important to notice that the Norwegian government leaves their industry to compete with the foreign product without any protection, such as importing quotas.

4.2. Norway – A Profile

4.2.1. Geography and Climate

Norway occupies the western and northern part of the Scandinavian Peninsula, of which it covers about 40 per cent. In area, the country is the fifth largest in Europe. From the southernmost point, the surface of the country is about 324,000 square kilometers, of which 72 percent is mountains and wasteland, 24 percent forests and only 4 percent tilled land. The coastal districts have a temperate marine climate with mild winters and relatively cool summers. Because of the Gulf Stream, the coast and harbors on the west coast are usually free from ice during the winter. The interior of the country, including the Oslo area, has cold winters and warmer summers.

Oslo, the capital, has about 488,000 inhabitants (approximately 1 million in the Oslo area). Other principal towns are Bergen (approximately 223,000), Trondheim (approximately 143,000), and Stavanger (approximately 104,000). Situated on the west coast, Stavanger is the center of the Norwegian oil industry, although some production and refining facilities are situated further north along the coast.

Norway’s overseas territories include the island group of Svalbard (Spitsbergen) in the Atlantic Ocean, the island of Jan Mayen in the North Atlantic Ocean and a few others in the Antarctic.

The total population of Norway is about 4.4 million, with some 28 percent living in rural districts and 72 percent in densely populated areas (see Table 3).

The Norwegian language is closely related to the other Scandinavian languages and, to a lesser degree, to English, Dutch and German. Most Norwegians have a good command of English.

Table 3: Population information

Population:	4,503,440 (July 2001 est.)
Age structure:	*0-14 years:* 19.99% (male 462,673; female 437,514) *15-64 years:* 64.91% (male 1,482,346; female 1,440,832) *65 years and over:* 15.1% (male 282,307; female 397,768) (2001)
Population growth rate:	0.49% (2001)
Birth rate:	12.6 births/1,000 population (2001)
Life expectancy at birth:	*total population:* 78.79 years *male:* 75.87 years *female:* 81.92 years (2001)

Source: CIA, 2002

A universal system of free education exists up to university level. About 44 percent of the total population has completed secondary education and 18.7 percent university education. Norway boasts one of the highest living standards in the world. The distribution of wealth within the population has, through many years of social democratic leadership, resulted in a very ‘flat’ social structure, with few very rich people and few very poor people. The total number of persons employed in 2000 was approximately 2.4 million. The unemployment rate registered at the Employment Offices in December 2000 was 3 percent. The purchasing power parity per capita in 2000 was $27,700.

4.2.2. History

Norway is a very old kingdom. It was brought together under by the king Viking King Harald Haarfagre in 876. The country was converted to Christianity by King Olav the Saint, who was killed at the battle at Stiklestad in 1030. From the beginning of the 15th century to 1814, Norway was in a union with Denmark. In 1814, after the end of Napoleonic Wars, Norway formed a union with Sweden in accordance with the Treaty of Kiel. At the same time, the Norwegian constitution was drawn up, to a large extent following the ideas and principles of the constitution of the United States. The union with

Sweden lasted until 1905 when Norway, after 500 years, regained its independence and elected Haakon VII, who at the time was a Danish prince, as king. Norway was occupied by Germany during World War II; the legal government and the king were in exile in London.

Governments led by the Norwegian Labor Party were in office in Norway from the end of World War II to 1981, except for short periods in 1963 and 1972 when a coalition government of nonsocialist parties was in power. A conservative coalition government, which was supported by the Conservative Party, the Christian Democrats and the Center Party, then took office in 1981. This coalition government collapsed in 1986 when Labor renewed its mandate. A coalition government of the Conservative party, the Christian Democrats and the Center Party took office in 1989 after the election, but it lasted only about on year before the Labor Party again took office. As of 1995 Norway had a labor ministry government. At the election held in September 1993, the labor Party renewed its mandate.

4.2.3. The Norwegian Economy

Norway is long, narrow and mountainous, with a severe climate and a scattered population. Communication, transportation and marketing are more expensive per capita than in most other countries in Europe. Business enterprises are small in number and size.

Norway is experiencing a pronounced investment-led slowdown caused by a profit squeeze due to excessive wage rises, tight fiscal and monetary policies and the completion of major public infrastructure projects. The manufacturing and construction industries have been most affected by the slowdown, while the impact on the service sector is cushioned by the still considerable growth in consumption. In the second quarter (in 1999), mainland output was ½ percent lower than a year earlier after increasing by 3 ½ percent on average in the previous six years. The slowdown has had only a limited impact on the labor market until now and the unemployment rate only became in August 2001 marginally higher than a year earlier. As a result, bottlenecks persist in some sectors.

A first step towards wage moderation was set by the agreement on a ‘zero’ wage round in early 1999. However, due to strong carry-over, wage inflation in 2000 has remained

markedly stronger than in the euro area. Nonetheless, in combination with the economic slowdown, the appreciation of the Norwegian Krone, driven by the oil price recovery and tight monetary policy, has led to some decline in price inflation in recent months. The inflation differential with the euro area still persists, however. House prices have also continued to grow rapidly.
Soft output developments and receding inflation, together with the stronger exchange rate, have induced cuts in key interest rates by 2.5 percentage points form the peak of early 2000. However, with the deposit rate at 5.5 percent, monetary policy remains fairly tight and the fiscal stance in 2000 continues to be restrictive despite some fiscal slippage. In its draft budget sent to Parliament in early October, the government aimed at a broadly neutral fiscal stance for 2000. The government surplus will increase sharply due to the oil price recovery, leading to substantially higher transfers to the Government Petroleum Found.

The sharp drop in orders indicates weak production developments for the manufacturing sector in the coming quarters. Oil investment is projected to decline dramatically, reflecting the completion of a number of large investment projects on the Norwegian shelf. A further drop in other business investment is likely due to low profitability, while manufactured export may suffer additional market share losses. This, despite continuing consumption growth, resulted in flat mainland GDP in 2000 and somewhat lower inflation. In 2000, GDP per capita was $27,700 and GDP purchasing power parity was $124.1 billion. Total GDP should pick up, however, boosted by a strong rise in oil production as new fields come on stream and the end to the oil production cap agreed with other producers. In 2002, in response to further monetary easing, mainland GDP is projected to regain momentum but should remain below potential output growth. The current account surplus is projected to increase steeply due to the higher oil prices and the sharp drop in imports of investment goods.

The main domestic risk to the projection is that inflation does not converge to the lower levels in the main trading partners, as the labor market may still be too tight to lead to moderate wage rises. This would result in further export market losses and prolong the period of tight monetary policy.

Table 4: Norwegian Economical Indicators

	Current prices billion NOK	Percentage changes, volume (1990 prices) 1996	1997	1998	1999	2000
Privat consumption	490.4	3.7	3.1	1.7	1.7	1.9
Governemt consumption	206.8	2.8	3.7	2.1	2.0	2.0
Gross fixed capital formation	216.2	15.1	8.1	-9.4	-10.9	0.6
Final domestic demand	913.3	6.2	4.5	-1.2	-1.3	1.6
Stockbuilding*	15.8	0.3	0.9	-0.1	0.0	0.0
Total domestic demand	929.2	6.4	5.4	-1.2	-1.3	1.6
Exports of goods and services	414.5	5.7	0.5	1.9	7.5	3.5
Imports of goods and services	327.1	12.0	9.1	-2.2	-2.4	3.5
Net exports*	87.4	-1.5	-3.1	1.7	4.4	0.4
GDP at market prices	1016.6	4.3	2.1	0.6	3.3	1.8
GDP deflator	-	2.7	-0.4	6.0	5.0	1.7

* Contributions to changes in real GDP (pecantage of real GDP in previous year), actual amount in the first column

Memorandum items						
Mainland GDP at market prices[1]	-	4.4	3.3	0.0	0.1	1.6
Mainland GDP deflator[1]	-	2.7	4.2	2.5	2.1	2.0
Exports of non-manufacturers (excl.energy)	-	2.7	-2.8	3.8	15.0	3.0
Private consumption deflator	-	2.5	2.6	2.3	2.1	2.0
Unemployment rate	-	4.1	3.2	3.2	3.8	3.9
Household saving ratio[2]	-	5.1	6.5	6.6	6.6	6.6
General government financial balance[3]	-	7.9	3.9	4.9	6.5	7.0
Current account balance[3]	-	5.2	-1.5	4.2	10.4	10.2

[1]GDP excluding oil and shipping
[2]As a percentage of disposable income
[3]As a percantage of GDP
Source: World Statistics, 2001

4.3. Foreign Trade Regulations and Norway

4.3.1. Norway – GATT member

Since 1959 Norway has been a member of the European Free Trade Association (EFTA). In 1967 and again in 1970 Norway applied for membership in the European Union (EU). However, an advisory referendum in September 1972 showed that a majority of Norwegians were against membership. Norway thereafter concluded a trade agreement with the EU in June 1973. Norway is still not a member of the EU. However, Norway has signed a general agreement with the EU, the Agreement on the European Economic Area

(EEA) and several special agreements, such as that on fishers. The Agreement came into effect as of January 1, 1994. The EEA Agreement ensures that EU principles of free movement of capital, persons, goods, and services also apply in Norway. Apart from some parts of the agricultural and fishery sectors. Business to and from Norway into the EU meets the same conditions as business transactions between EU countries. Norwegian companies (both foreign and domestically owned) have free access to EU markets within all sectors other than agriculture and fisheries. For the same reasons, foreign EEA companies have free access to the same Norwegian markets.

Because of the economic structure of Norway, a relatively high standards of living has been maintained through substantial foreign trade. The trade balance has been positive as of January 1, 1992 and has been increasing since the passive years of 1986-1988. Foreign trade has been liberalized, and only certain agricultural commodities are subject to import restrictions.

A market difference exists between Norway’s trade policies in the fields of agriculture and industry. While trade measures on industrial products are generally low and transparent, a complex network of border measures and domestic supports has encouraged a high level of self-sufficiency in agriculture. The objectives underlying such measures include national security, social, regional and ecological aims, and a restrictive import system is seen as a decisive condition for the attainment of these objectives. The costs to the Government in budgetary terms, and to Norwegian consumers in terms of high prices are recognized as being considerable.

For almost 50 years, the General Agreement of Tariffs and Trade (GATT) served as the principal multilateral instrument governing international trade. Established in 1948 with 23 member governments (both U.S. and Norway signed), the GATT grew quickly to become a global trade body with 128 members at the end of 1995, which accounted for nearly 90 percent of world trade. Since the successful conclusion of the Uruguay Round of multilateral trade negotiations in December 1993 and the entry into force of the World Trade Organization (WTO) on 1 January 1995, a majority of GATT’s members became members of the new WTO (among others U.S. and Norway).

GATT has achieved a degree of success in instituting mechanisms that promote liberalized trade. The mechanisms were set up under the agreements reached in six conferences on

Multilateral Trade Negotiations (MTN) held under the auspices of GATT. The seventh conference, known as the Tokyo round, reached a series of agreements on a wide range of subjects. The prime objective of GATT is the liberalization of international agreements that made up mechanisms to regulate tariffs and trade (see Table 5).

Table 5: Tariff Reduction

	All GATT Nations (%)			United States (%)		
	Before	After	Reduction	Before	After	Reduction
United States	6.1	4.2	32	-	-	-
EC	6.3	4.6	27	7.2	4.7	34
Canada	12.0	7.4	38	11.0	6.4	42
Japan	5.0	2.5	50	6.2	2.3	62

Source: GATT Activities 1994-1995

4.3.2. Type and Incidence of Trade Policy Instruments in Norway

Norway is a low-tariff country for most imports. Tariffs on manufactures are mostly ad valorem while the rates on agricultural goods are predominantly specific. Tariffs on industrial goods are generally low – the simple average m.n.f. rate for industrial goods is 5.7 percent. Most imports enter duty free under preferential arrangements. These arrangements cause a certain level of discrimination in cases where m.n.f. tariffs are high, for example on textiles and clothing, motorcycles, radio and television receivers, organic surface-active agent and plastics.

Norway has bound more than 92 percent of the tariff lines in its customs tariff. The incidence of bindings is lower for agricultural products (69 percent) than for industrial goods (97 percent). Little scope exists for raising tariffs, as most tariffs are bound at currently applied rates. However, the use of specific tariffs, particularly in agriculture, offers increasing protection as import prices fall, even where these specific tariffs are bound.

Norway uses a number of product-specific excise taxes to implement environmental, social and other policies. The measures are an important source of government revenue. Taxes do not discriminate between imported and domestically produced goods; however, lack of domestic production of some products – such as motor vehicles, wine, sugar and tobacco – leads to the duties being levied exclusively or predominantly on imported goods.
Import licensing, administered by the Ministry of Foreign Affairs, covers ships, textiles and clothing, whalemeat and extracts thereof and oil of marine mammals. Country-specific licensing applies to cleaning cloths and dusters form some countries and to some products (mainly footwear) from Taiwan.

Norwegian technical regulations, standards and testing procedures are generally based on internationally accepted norms and recommendations. However, because of the small size of the market, the level of import penetration tends to be low in cases where Norwegian requirements deviate from those applied in other countries.
Norway’s anti-dumping regulations are based on GATT rules. Investigations and recommendations on action are made to the Ministry of Finance by an Anti-dumping Committee, established in 1957.

4.4. National Competitive Advantage

Norway has a stable economy and thus offers great business opportunities. People are very sophisticated, well educated and open to changes. In order to get an overview of Norwegian competitive advantages that the company Toys“R”Us can use for starting business in Norway, I have selected a Porter ´diamond` model.

4.4.1. National Competitiveness

4.4.1.1. Introduction to the Concept

The search for a convincing explanation of both national and firm prosperity must begin by asking the right question. It should abandon the whole notion of a “competitive nation” as a term having much meaning for economic prosperity. The principal economic goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends not on the amorphous notion of “competitiveness” but on the productivity with which a nation’s resources (labour and capital) are employed.

Productivity is the prime determinant in the long run of a nation’s standard of living, for it is the root cause of national per capita income. The only meaningful concept of competitiveness at the national level is national productivity. A rising standard depends on the capacity of a nation’s firms to achieve high levels of productivity and to increase productivity over time. Higher productivity can be reached with expanding market inside the EU. Because of big market the national productivity can increase a lot, what will lead to economy of scale and removing customs.

Seeking to explain “competitiveness” at the national level then is to answer the wrong question. What we must understand instead is the determinants of productivity and the rate of productivity growth. To find answers, we must focus not on the economy as a whole but on specific industries and industry segments! In this case on the toy industry.

4.4.1.2. Porter’s “Diamond” model

The ways that firms create and sustain competitive advantage in global industries provide the necessary foundation for understanding the role of the home nation in the process. To understand the role of national advantage, first should be considered a number of premises (M. Porter, 1990, pg. 69):

1.) The nature of competition and the sources of competitive advantage differ widely among industries and even industry segments. We must isolate the influence of the nation on the firm’s ability to compete in specific industries and industry segments, and with particular strategies, rather than in broad sectors. We must allow for different sources of competitive advantage in different industries rather than rely on any single, overarching one such as labour costs or economies of scale. Since products are differentiated in many industries, we must explain why some nation’s firms are better able to differentiate than others and not focus only on cost differences.

Toys“R”Us is strongly focused on its own core advantages and weaknesses when comparing with competitors. In order to be different from other competitors, Toys“R”Us is developing different approaches toward consumers and toy industry as well. The company wants to offer; a unique service, friendliness, consulting to consumer, and high quality of products and very attractive shops, to consumer. In order to compete inside the industry, Toys“R”Us is looking for the most attractive locations in potential and existing markets to place stores at affordable cost.

2.) Global competitors often perform some activities in the value chain outside their home country. The globalisation of competition does not negate the role of the home nation in competitive advantage but does change its character. This explains why a firm operating exclusively in the nation is a more or less desirable home base for competing in an industry. The home base is where strategy is set, core product and process development takes place, and the essential and proprietary skills reside.
The headquarter of Toys“R”Us is seated in the U.S. There are placed all basic strategies and developments. Furthermore, adaptations along the value chain are made if it is required; eg. adaptations to a particular country legislation or consumer culture or even competition.

3.) Firms gain and sustain competitive advantage in international competition through improvement, innovation, and upgrading. Firms gain advantage initially through altering the basis of competition. They sustain it through improving fast enough to stay ahead. Innovation and upgrading demand sustained investment both to perceive the appropriate directions of change and to carry them out.
Often this involves more sophisticated, innovative products in the toy industry in order to be ahead of competitors, which requires a lot of investments. Especially new trendy products have to be developed in order to create a competitive advantage for a toy company. The company Toys“R”Us has a sophisticate research and development department. Main purpose of it is to see new trends, develop the product and launch it before the competition. Harry Potter case – before the film was presented in the cinema, Toys“R”Us already prepared many kind of products based on today’s famous story.

4.) Firms that gain competitive advantage in an industry are often those that do not only perceive a new market need or the potential of a new technology but also move early and most aggressively to exploit it. This means how fast Toy“R”Us can predict new trends, how fast can develop and react on changes according to other competitors. In other words, this criteria tell how flexible the company is to adapt itself (eg. Toy“R”Us) on market changes!

4.4.1.3. Determinants of National Advantage

Why does a nation achieve international success in a particular industry? The answer lies in four broad attributes of a nation that shape the environment in which local firms compete that promote or impede the creation of competitive advantage (M. Porter, 1990, pg. 82):

1. *Factor conditions.* The nation’s position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry.
2. *Demand conditions.* The nature of home demand for the industry’s product or service.
3. *Related and supporting industries.* The presence or absence in the nation of supplier industries and related industries that are internationally competitive.
4. *Firm strategy, structure, rivalry.* The conditions in the nation governing how companies are created, organised, and managed, and the nature of domestic rivalry.

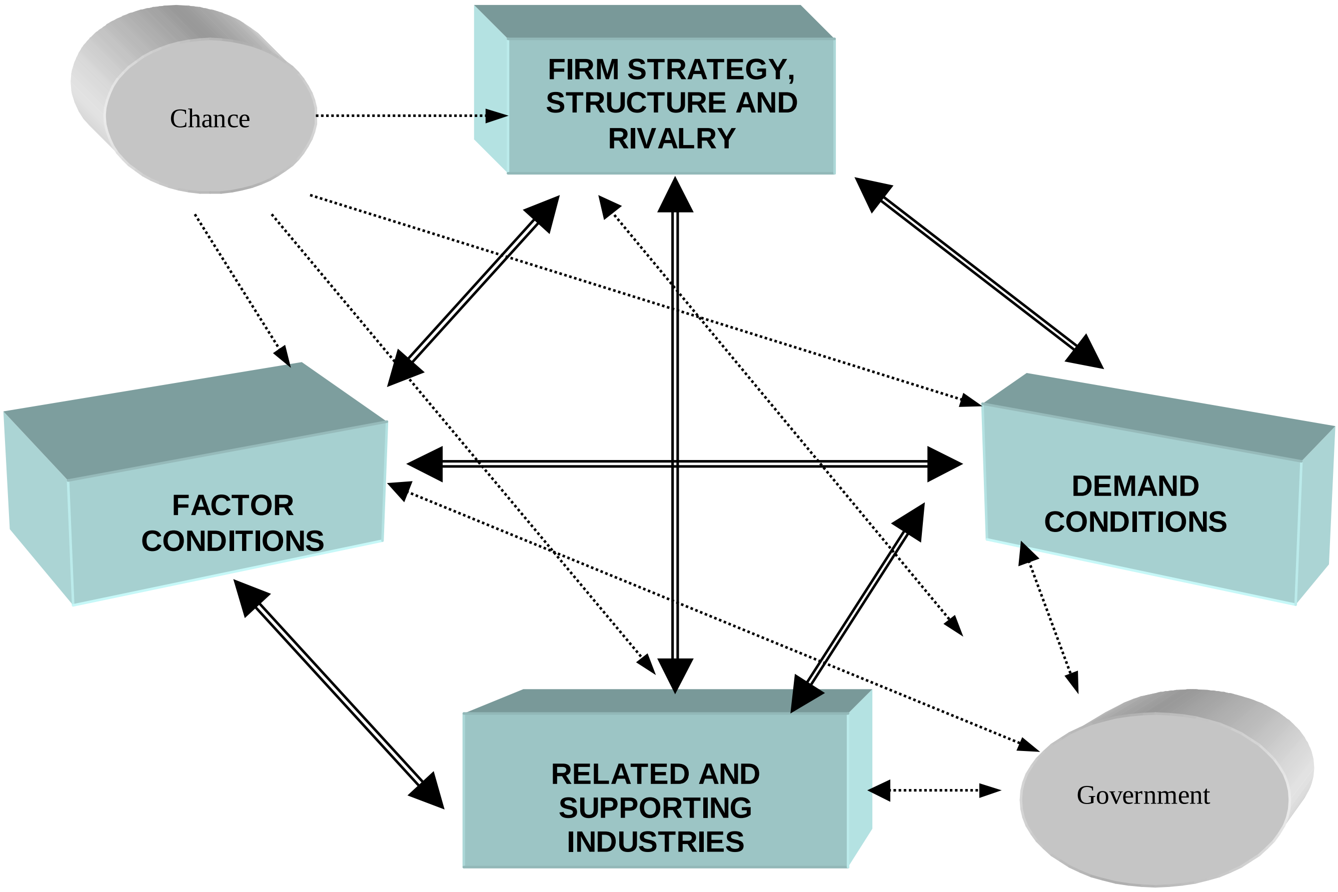
The determinants, individually and as a system, create the context in which a nation’s firms are born and compete. Firms gain competitive advantage where their home base allows and supports the most rapid accumulation of specialised assets and skills. Ultimately, nations succeed in particular industries because their home environment is the most dynamic and the most challenging, and stimulates and prods firms to upgrade and widen their advantages over time.

The “diamond” is a mutually reinforcing system. The effect of one determinant is contingent on the state of others. Two additional variables can influence the national system in important ways, and are necessary to complete the theory. These are *chance* and *government.*

Chance events are developments outside the control of firms (and usually the nation’s government) such as pure inventions, breakthroughs in basic technologies, wars, external political developments, and major shifts in foreign market demand. They create discontinuities that can unfreeze or reshape industry structure and provide the opportunity for one nation’s firms to supplant another’s. They have played an important role in shifting competitive advantage in many industries. Like in United States, domestic toy industry plays important role for whole country and has big impact on economy especially in seasonal periods.

The final element necessary to complete the picture of the "Diamond" model is *government*. Government, at all levels, can improve or detract from the national advantage. This role is seen most clearly by examining how policies influence each of the determinants. Antitrust policy affect domestic rivalry. Regulation can alter home demand conditions. Government purchases can stimulate related and supporting industries. Policies implemented without consideration of how they influence the entire system of determinants are as likely to undermine national advantage as enhance it.

Figure 4.: The Complete System of the "Diamond" model



Source: The Competitive Advantage of Nation, M. Porter, 1990, pg. 127

Nations succeed not in isolated industries, however, but in clusters of industries connected through vertical and horizontal relationships. A nation's economy contains a mix of clusters. Whose makeup and sources of competitive advantage (or disadvantage) reflect the state of the economy's development.

Research is focused on Norwegian government regulations, benefits and obstacles that might appear.

1.) <u>FACTOR CONDITIONS</u>

Factor conditions are termed as factors of production. Factor of production are the inputs necessary to compete in any industry, such as labour, arable land, natural resources, capital, and infrastructure.

Factors can be grouped into a number of broad categories:

<u>- Human resources</u>: the quantity, skills, and cost of personnel (including management), taking into account standard working hours and work ethic.

Cost of human resources in Norway comparing with US is not so much different. Norway has very skilled people. About 44 percent of the total population has completed secondary education and 18.7 percent university education. Availability of employees is very high, 89% of the women work. It is very common in Norway that both partners in family works even they have a child(ren).

<u>- Physical resources:</u> the abundance, quality, accessibility, and cost of the nation’s land, water, mineral, or timber deposits, hydroelectric power sources, fishing grounds, and other physical traits. Climate conditions can be viewed as part of a nation’s physical resources, as can a nation’s location and geographic size. Location, relative to other nations that are suppliers or markets, affects transportation costs and the ease of cultural and business interchange.

Norway is long, narrow and mountainous, with a sever climate and a scattered population. Communication, transportation and marketing are more expensive per capita than most other countries in Europe. The glacial valleys are suitable for the development of hydroelectric power installations. Numerous valleys, rivers and lakes provide Norway with cheap and convenient hydroelectric power. This has resulted in a large electrochemical and ore-smelting industry (aluminium, steel, etc.). There are no typical industrial districts of any size in Norway (except smaller areas of industry located in the Oslo area and in Hordaland and Rogaland on the west coast), many factories being located near the hydroelectric power plants. With the exception of coal deposits on Svalbard, Norway is without land deposits of coal or oil. The discovery of oil and gas on the Norwegian continental shelf has provided the country with great economic potential, and the local economy is increasing tied to the economic development of Western Europe. Over the last decades, employment in agriculture, forestry and fisheries has declined rapidly.

- Knowledge resources: the nation’s stock of scientific, technical, and market knowledge bearing on goods and services. Knowledge resources reside in universities, government research institutes, business and scientific literature, market research reports and databases, trade associations, and other resources.

Norway is one of the most developed European/World countries with high knowledge and availability of resources, which is used by companies continuously.

- Capital resources: the amount of cost of capital available to finance industry. Capital is not homogeneous, but comes in various forms such as unsecured debt, secured debt, “junk” (high-risk, high-yield) bonds, equity, and venture capital. There are varying terms and conditions attached to each form. The total stock of capital resources in a country, and the forms in which is deployed, are affected by the national rate of savings and by the structure of national capital markets, both of which vary widely among nations. The globalisation of capital markets, and the large capital flows among nations, is slowly making national conditions more similar.

Norwegian capital market is well developed as well as stock market. Economy of Norway is on very high level which means that domestic capital is very high because it is mostly invested in own/domestic companies.

- Infrastructure: the type, quality, and user cost of infrastructure available that affects competition, including the transportation system, the communication system, mail and parcel delivery, payments or funds transfer, health care, etc. Infrastructure also includes such things as the housing stock and cultural institutions, which affect the quality of life and the attractiveness of a nation as place to live and work.

Norway’s topography of mountains and valleys combined with its severe climate has made road building a difficult and expensive task. Consequently, roads are often narrow and in poor condition. However, over the past years substantial improvements have been made. Railroads are well developed on the south whereas most of the northern region can be reached only be ship, car or air. Most of the country is accessible by air, and a number of small airfields have been opened to take care of local needs. Mail service is efficient, and telephone, fax and telex are available throughout the country.

Nation’s firms gain competitive advantage if they possess low-cost or uniquely high-quality factors of the particular types that are significant to competition in a particular industry.

<u>Factors of Disadvantages</u>

Competitive advantage can grow out of disadvantage in some factors. In a narrow conception of international competition, competitive advantage results from factor abundance and disadvantages in factors cannot be overcome because technology is taken as a given.

Factor disadvantages that stimulate innovation in toy industry must be selective to motivate and not discourage involving some but not all factors. A lack of pressure means there is rarely progress, but too much adversity leads to paralysis. This happened in Norway some years ago, when government tried to protect too much the own industry. With the protection of its own industry the pressure on domestic industry was lower which discouraged the own domestic innovations.

Selective disadvantages best contribute to competitive advantage when they send the proper signals about circumstances that will ultimately confront firms elsewhere. If a company is not competitive enough, it should focus on the other lower developed markets. In the mean time improve the quality and the products.

The company Toys“R”Us has high quality products what is required by the Norwegian market. The company can benefit from the Norwegian disadvantages in the toy market (retailing of toy products) because it is not high-Tec developed yet and create a clear advantage. Norway should have a high-Tec developed toy store, which will also stimulate smaller retailers to invest in such stores, and Toys“R”Us will have a chance to position itself as an innovator in the Norwegian market.

2.) <u>DEMAND CONDITIONS</u>

The second broad determinant of national competitive advantage in an industry is home demand conditions for the industry’s product or service. The composition of home demand shapes how firms perceive, interpret and respond to buyer needs. There are three characteristics of the composition of home demand particularly significant to achieving national competitive advantage:

<u>a.) Segmented Structure of Demand</u>. Nations in which a segment is largest in absolute terms may gain advantages in reaping economies of scale. However, the absolute size of segments within a nation plays a complicated role in competitive national advantage, because firms compete globally and can achieve a large scale even if their home market is

small. Particularly valuable in a nation is the presence of large segments that require more sophisticated forms of competitive advantage.
The toy industry segment is rather big. If we take as an example the Norwegian market for the toy demand, it is big and predicted to grow. Norway has approximately 1 million youth inhabitants in the range of age between 0 and 16 years. Even that birth growth rate is very low 0.5 percent, parents spend more and more for their children. Because people decide to have children later in life, their income situation is stable, which allows them to spend more for their children.

b.) Sophisticated and Demanding Buyers. A nation’s firms gain competitive advantage if domestic buyers are, or among, the world’s most sophisticated and demanding buyers for the product or service. Sophisticated and demanding buyers pressure local firms to meet high standards in terms of product quality, features, and services. The role of sophisticated and demanding buyers can be played by distribution channels as well as by end users.
In the toy market mostly buyers are very sophisticated and sensitive. Most of buyers are parents of the children, which require high quality and safe products. This kind of market is very sophisticated and requires a lot of information to buyers. In Norway the toy industry consists of many competitors who are small and medium sized, sophisticated and innovative multinational and local companies. In Norway, there are no direct competitors in retailing of toys. Toys“R”Us can use its unique advantage of being a retailer of complete children assortments. Toys“R”Us can compete with the small and medium retailers in Norway with the right products, good quality, for the right price at the right place at the right time.

c.) Anticipatory Buyer Needs. A nation’s firms gain advantages if needs of home buyers anticipate those of other nations. This means that home demand provides an early warning indicator of buyer needs that will become widespread.
Mostly needs in the toy market are known. How to reach this and which formula to use to get the right product is hidden. For example; toy manufacturers are developing new type of toys in order to develop mental and physical capabilities of the child. So, the needs and expectations from toy manufacturers are known but very often it is not easy to have the right formula to develop it. In the toy industry strong R&D is needed for development of new toys. Those steps can in generally only be taken by big multinational companies. The rest of the companies are mostly followers that try to participate in the market amongst

other the followers with good quality and relative low price of the products. Nevertheless, it is important than a company, like Toys“R”Us, sees more than just offering right priced products. The company needs to see the future needs (trends) of the consumers. Needs of consumers are following the trend which is the most of the time short termed (eg. famous hero, computer games, etc.).

3.) <u>RELATED AND SUPPORTING INDUSTRIES</u>

The third broad determinant of national advantage in an industry is the presence in the nation of supplier industries or related industries that are internationally competitive.

The presence of internationally competitive supplier industries in a nation creates advantages in several ways. The first is via efficient, early, rapid, and sometimes preferential access to the most cost-effective inputs. Perhaps the most important benefit of home-based suppliers, however, is in the process of innovation and upgrading. Competitive advantage emerges from close working relationships between world-class suppliers and the industry. Suppliers help firms perceive new methods and opportunities to apply new technology. Firms gain quick access to information, to new ideas and insights, and to supplier innovations. The exchange of R&D and joint problem solving lead to faster and more efficient solutions. Through this process, the pace of innovation within the entire national industry is accelerated.

In case of the toy industry, the supporting industry is e.g. packaging industry. The suppliers have to be compatible with the process of the company. Because of the importance of packages they have to co-operate very closely. The toy industry requires a lot of strict rules that have to be known to all suppliers when they are developing required products or service.

The presence of an internationally successful related industry in a nation provides opportunities for information flow and technical interchange, much like the case with home-based suppliers. This means that the presence of the innovative multinational toy company Toy“R”Us can be an opportunity for Norwegian companies. So, the co-operation with innovative multinational companies can be an advantage for the Norwegian small and medium sized toy companies and related industries (like packaging companies).

4. FIRM STRATEGY, STRUCTURE AND RIVALRY

The fourth broad determinant of national competitive advantage in an industry is the context in which firms are created, organized and managed as well as the nature of domestic rivalry. The goals, strategies, and ways of organizing firms in industries vary widely among nations. National advantage can be created from a good match between these choices and the sources of competitive advantage in a particular industry.

Company goals are the most strongly determined by the ownership structure, the motivation of owners and holders of debt, the nature of the corporate governance, and the incentive processes that shape the motivation of senior managers. The goals of publicly held corporations reflect the characteristics of the nation’s public capital markets. Capital markets vary a great deal across nations, along such dimensions as the identity of shareholders, the local tax regime, and the prevailing standards for rate of return.

Goals for individuals. The motivations of the individuals who manage and work in firms can enhance or detract from success in particular industries. One important determinant of individual behaviour and effort is the reward systems under which employees operate. Another important dimension is the relationship between the manager or employee and the company. The attitude towards risk taking is a final important aspect of personal goals that influences the ability to achieve success in particular industries.

International companies are in the position that they have to take the high risk to be in the market. Therefore they have to motivate their employees to manage their work extremely well. This type of industry requires highly-educated people representing different type of motivation. Money is not the most important motivation factor but other values as additional education, trip, public recognition for success, etc.

THE ROLE OF CHANCE

Chance events are occurrences that have little to do with circumstances in a nation and are often largely outside the power of firms (and often the national government) to influence. Some examples which can influence competitive advantage:

- Act of pure invention
- Major technological discontinuities (biotechnology, microelectronics, etc.)
- Discontinuities in input costs such as the oil shocks

- Surges of world or regional demand
- Political decisions by foreign governments
- Wars
- Etc.

Chance events are important because they create discontinuities that allow shifts in competitive position. They can nullify the advantages of previously established competitors and create the potential that a new nation’s firms can supplant them to achieve competitive advantage in response to new and different conditions.

THE ROLE OF GOVERNMENT

Government’s role in competitive advantage is influencing the four determinants. Government can influence (and be influenced by) each of the four determinants either positively or negatively. Government’s role in shaping local demand conditions is often more subtle. Government bodies establish local product standards or regulations that mandate or influence buyer needs. Government is also often a major buyer of many products in a nation, among them defence goods. The way this role as a buyer is played can either help or hurt the nation’s industry.

Porter’s theory emphasize: “ Market pressures and resulting innovations can overcome factor costs, however, so that under valuation can slow the upgrading of competitive advantage and direct firms to less sustainable, price-sensitive market segments. The result is a long-term loss of competitive advantage.”.

Government has an important influence of national competitive advantage, through its role is inevitable partial. Government policy will fail if it remains the only source of national competitive advantage. Successful policies work in those industries where underlying determinants of national advantage are present and where government reinforces them.

Government at the local state, or national level can influence competitive advantage in an industry if its policies influence one or more of the four determinants. At the broadest level, a number of premises must guide government policy if it is to enhance national competitive advantage rather than detract from it. These premises which evaluate any government initiative toward the economy and industry are (M. Porter, 1990, 163):

1. *Firms compete in industries, not nations.* A nation’s firms, themselves must ultimately create and sustain competitive advantage compared to rivals form other nations. Governments have been notably unsuccessful in managing firms and in responding to the fluid market changes that characterise international competition. Government cannot create competitive industries firms must do so. Government’s role in competition is inherently partial, because many other characteristics of a nation beat on it. Government can shape or influence the context and institutional structure surrounding firms, however, as well as the inputs they draw upon. Government policies that succeed are those that create an environment in which firms can gain competitive advantage rather than involve government directly in the process, except in nations at early stages of competitive development. Government’s most powerful roles are indirect rather than direct ones. Government’s proper role is to unleash and even amplify the forces within the “diamond”. This creates opportunities, and pressures, for continued innovation. Government should also involve industry in determining what factors are created, and encourage firms to play a prominent role in factor creation themselves. And also the government should play a direct rule only in those areas where firms are unable to act or where externalities cause firms to under invest.

2. *A nation’s competitive advantage in industry is relative.* Many discussions of national advantage are intensely inward-looking. Yet standards for competitive advantage are set not within a nation but by firms in other nations. The skill and motivation of workers elsewhere define what is required at home. Absolute levels of growth in productivity are much less important that relative productivity compared to firms in other nations. For example, the company Toys“R”Us has to look for the EU standards if the company wants to be compatible in targeted European markets.

3. *Dynamism leads to competitive advantage, not short-term cost advantages.* National competitive advantage grows out of the capacity of a nation’s firms to improve and innovate relentlessly. Old advantages are eventually duplicated or obsolete by firms from some other nation. Policies that convey static, short-term cost advantages but that unconsciously undermines innovation and dynamism represents the most common and most profound error in government policy toward industry. In desire to help, it is all too easy to adopt policies such as sanctioning joint projects that avoid “wasteful” R&D,

or approving mergers that allow efficiencies in corporate overhead but eliminate domestic competition.

4. *National economic prosperity demands that industries upgrade.* Some bases for competitive advantage lead to higher national productivity than others do. Competitive advantage based on such sources as abundant natural resources, low cost labour, a devalued currency, or even a single new product idea, is often associated with lower productivity and is notoriously unstable. Basic competitive advantage on such sources leads firms to price-oriented strategies and price-sensitive market segments. The highest-order advantages, associated with high levels of productivity, are those that accrue for a steadily rising level of technology, a stream of new models, investments in building close customer relationships and economies of scale growing out of a global market presence. The most sustainable strategies are those that widen and upgrade the market rather than simply take business away form foreign firms. Government policy must be concentrated with laying the foundation for upgrading competitive advantage in a nation’s industry and prodding firms to do so.

5. *A nation’s competitive advantage in industries in often geographically concentrated.* Geographic concentration is important to the genesis of competitive advantage, and it amplifies the forces that upgrade and sustain advantage. While the national government has a role in upgrading industry, the role of state and local governments is potentially as great or greater.

6. *Competitive advantage in a nation’s industries is created over a decade or more, not over three- or four-year business cycles.* Competitive advantage is created through a long process of upgrading human skills, investing in products and processes, building clusters, and penetrating foreign markets. Yet a decade is an eternity in politics. Much of economic policy in virtually every nation is preoccupied with short-term economic fluctuations. Many of the most beneficial policies within the purview of government, such as factor creation, competition policy and upgrading demand quality are slow and patient ones. Many desirable policies also carry short-term negatives.

7. *Nations gain advantage because of differences, not similarities.* Each nation has a unique array of competitive industries, and no nation is, or can be, competitive in

everything. Competitive success results form the match between a nation’s unique environment and the sources of competitive advantage in particular industries.

8. *Many categorizations used to distinguish or prioritise industries have little relevance.* In an effort to foster economic development, there is a temptation to classify a nation’s industrial base into categories such as high tech and low tech, sunrise and sunset, growing and mature, manufacturing and service, and labour (or capital) intensive and knowledge intensive. The implication drawn form such distinctions are that some categories are better than others. Government policy must provide an environment in which any industry can prosper if firms are innovative and achieve high productivity. A diversified economy has room for a range of industries that can provide employment to human resources with different skills and aspirations. The most important distinction among industries is productivity, because of its link to the standard of living.

9. *The process of sustaining advantage may be intensely uncomfortable for firms and those who work in them.* Sustaining advantage involves constant pressure and challenges, requires constant improvement, and demands sustained investment. Many firms would prefer more stability and an environment in which prosperity is guaranteed rather that continually having to be re-earned.

Each of these tendencies, and others like them, dooms a national industry in the long run. Many firms, employees, and labour leaders succumb to human nature and lose sight of what really gives them competitive advantage. They propose and support policies that are not really in long-term interest. Postponing change will only work if the domestic market continues to be protected. This puts off change even longer, and harms the nation’s consumers as well as other industries that rely on the protected industry.

The main aims of the Norwegian government are general economic growth, less economic dependency on the oil and gas industry, promotion of foreign investment into Norway, and an in crease in export-oriented industries. Because of huge losses in state-owned enterprises, other than in the oil and gas industry, the trend is toward less state participation in industry. Most regions actively promote new investments, developing local industrial areas and granting investors free sites for factories and office buildings. Free-trade zones do not exist in Norway.

The Norwegian government welcomes foreign investors. There are, however, no incentives directed specifically at foreign investors. The tax system is neutral toward foreign/local investments. An industrial production facility placed in an underdeveloped area would be favored by local and central governmental bodies. The government supports free trade and noninterference. However, there are some limitations to this support, especially regarding protected areas, like fisheries and agriculture, and there are some limitations based on environmental considerations. In a free-enterprise system, competition is always officially welcomed. However, because foreign investors will often have greater resources to back them than smaller Norwegian enterprises, the competition will often be lost by the local entity. Thus, the attitude toward foreign competition must be said to be basically negative. On the other hand, Norway is among the largest oil and gas exporters in the world and the leading gas exporter in Europe. Beside that, agriculture, fisheries and forestry are very important part of their culture. Industry in Norway enjoys a benefit of the country’s cheap hydroelectric power and oil and gas production. Overall, the development in Norway has been influenced also by a general improvement in private purchasing power on the domestic market.

5. STRATEGIC APPROACH TO NORWAY MARKET

Toys“R”Us enters in different markets with different collaborative arrangements, which depends on country conditions and the company’s vision in the future. This chapter explains motives and types of collaborative arrangements that are common approach in expanding business internationally. Franchising, one of approaches, is recommended to Toys“R”Us entering with it in the Norwegian market.

5.1. International Distribution

One of the most important forces of change shaping retailing in the 1990s will be the continuing internationalization of what has been historically only a domestic activity. The prevailing view that retail companies should confine their activities to only their local, home market is increasingly difficult to reconcile in a period when both political and perceptual barriers are being lowered, if not removed completely.

Although internationalization has happened for the most part within the three trading blocs of Europe, North America, and the Far East, a trading pressure in one bloc does not preclude the possibility of exploiting opportunities elsewhere. Consumers in these areas are familiar with department store formats, limited-line convenience stores, and shopping mall developments. Many of those stores are trading everywhere under the same name, such as Benetton, Toys“R”Us and 7-Eleven.These and other retailers trading in developed markets are facing similar sets of problems and employing common solutions to these problems, including such approaches as the effective application of information technology to enhance business efficiency and to increase sophistication in market segmentation and consumer targeting. Indeed, the transfer between retailers in different countries of trading formats, ideas, and practices is at least as significant in the internationalization of retailing as the physical presence of the same retailer in a number of countries.

Growing by developing activities outside of the home market seems to be many retailers’ preferred strategy to seeking diversification in the home market, with the notable exception of U.S. retailers, some of which have actually divested some of their international interests (e.g. Sears and J.C. Penny).

Toys“R”Us, with worldwide sales of $12.7 billion, is one of the world’s largest toy retailer. Anticipation the day when it would saturate its domestic market, the company went international in 1984, first in Canada, then Europe, Hong Kong, and Singapore and Japan. In order to expand its business internationally Toys“R”Us often is using franchising as one of the strategic alliances to other companies. Many of the companies that supply products to Toys“R”Us are not directly involved in exporting toys to other countries. However, when Toys“R”Us began establishing outlets overseas, it offered many of the same products as in its U.S. outlets. Thus some suppliers became exporters through their continued relationship with Toys“R” Us overseas. First exception that happened was in Japan where Toys“R”Us recently opened outlet (franchising) and initially provided a mixture of roughly two-thirds Japanese toys and one-third imports because of very special characteristics of the market.

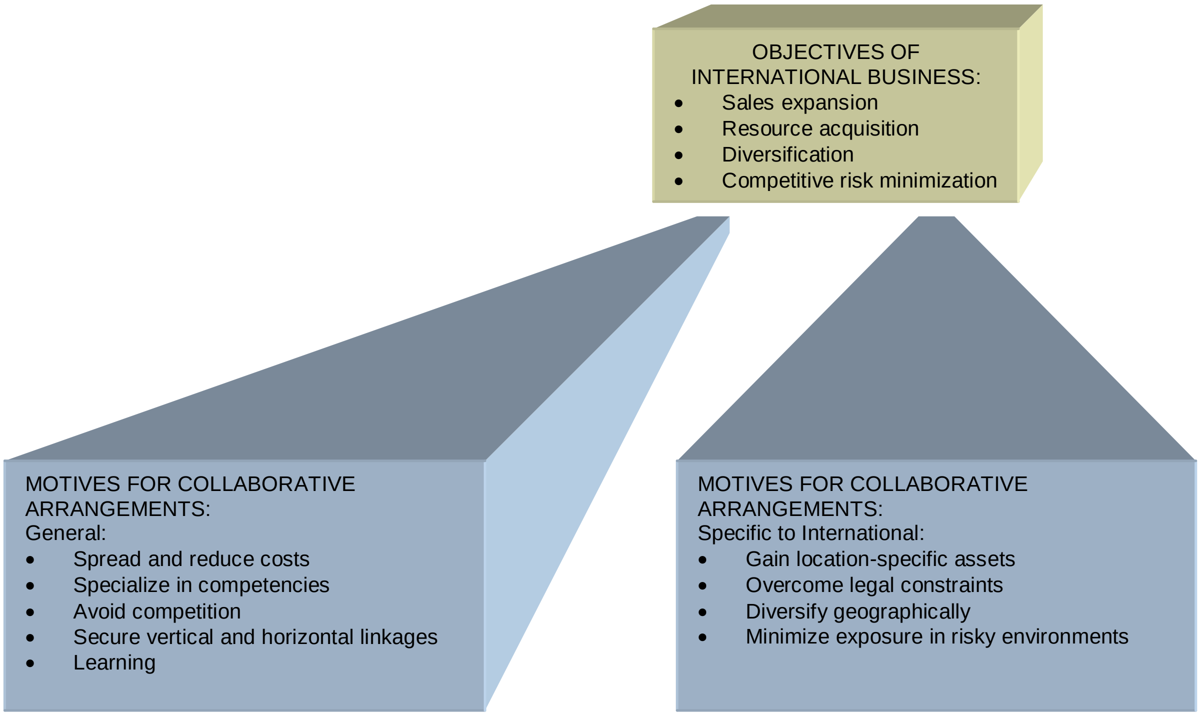
5.2. Motives for Collaborative Arrangements

Companies establish collaborative arrangements for domestic operations, and their motives carry over to their international operations as well. For example, a company Toys"R"Us franchises and licenses most of its operations in the United States, also franchises and licenses most of its operations in foreign countries. In addition, companies establish collaborative arrangements abroad for other reasons (e.g. law restrictions, tax advantages).

Each organization that participating in a collaborative arrangement has its own primary objective for operating internationally and its own motive for collaborating rather than handling the operations independently.

Collaborative arrangements may serve companies' goals, regardless of whether they operate internationally. In addition, there are gains from collaborative arrangements that are specific to companies' international operations.

Figure 5: Relationship of Strategic Alliances to Companies' International Objectives



Source: International business, Daniels J.D., Radebaugh L.H., pg. 574

Motives for Collaborative Arrangements: General

- *Spread and reduce costs;*

To produce or sell abroad, a company must incur certain fixed costs. At a small volume of business, it may be cheaper for it to contract the work to someone else than to handle it internally. A specialist can spread the fixed costs over services to more than one company. If business increases enough, the contracting company then may be able to handle the activities more cheaply itself. This means, the company Toy”R”Us should periodically reappraise the question of internal versus external handling of their varied operations.

External contracting of operations also may be lower in cost because another company may have excess production or sales capacity that can be easily utilized. Utilizing this capacity also may reduce start-up time and thus result in an earlier cash flow. Further, the contracted company may have environment-specific knowledge, such as how to deal with Norwegian regulations and labor conditions that would be expensive for the contracting company to gain on its own.

Joint ventures may, however, increase operating costs. There are additional expenses involved in negotiating with another company or in transferring technology to it. Also, there usually are added headquarters costs involved in maintaining ongoing relationships with another company.

- *Specialize in competencies*

The resource-based view of the firm holds that each company has a unique combination of competencies. A company may seek to improve its performance by concentrating on those activities that best fit its competencies, thus depending on other firms to supply it with products, services, or support activities for which it has lesser competency. For example, Toys”R”Us is constantly reevaluating and altering its product lines to put the effort where the major strengths lie. This may leave Toy”R”Us with products, assets, or technologies that they do not wish to exploit themselves but may be profitably transferred to other companies.

However, a licensing or other collaborative arrangement has a limited time frame, which may allow a company to exploit a particular product, asset, or technology itself if at a later date its core competencies change.

- *Avoid competition*

Sometimes markets are not large enough to justify the entry of as many companies as one would like to tap in that market. Companies also may combine certain resources to combat larger and more powerful competitors.

- *Secure vertical and horizontal linkages*

There are potential cost savings and supply assurances from vertical integration; however, companies may lack the competence or resources necessary to own and manage the full value-chain of activities. Horizontal linkage may involve finished products or components. For finished products, there may be economies of scope in distribution, such as by having a full line of products to sell, which reduce the cost of sales per visit to potential customers. There may also be a better smoothing of earnings through diversification into more products.

One of the fastest growth areas for collaborative arrangements has been with projects that are too large for any single company to handle, for example, new aircraft and communications systems. From such s project’s inception, different companies (sometimes from different countries) agree to take on high cost and high risk of developmental work for different components needed in the final product; then a lead company buys the components from the companies that did parts of the developmental work.

- *Gain knowledge*

The motive for many companies’ entries into collaborative arrangements is to learn so that their own competencies will broaden or deepen, thus making them more competitive in the future.

<u>*Motives for Collaborative Arrangements; Specific to International*</u>

- *Gain location-specific assets*

Cultural, political, competitive, and economic differences among countries create barriers for companies that want to operate abroad. When they feel ill-equipped to handle these differences, they may seek collaboration with local companies who will help manage the local operation.

- *Overcome legal constraints*

A company may be constrained in its choice of operation from regardless of its preferences. In addition to the outright prohibition of a wholly owned operation or import, other legal factors may influence the company’s choice. These include differences in tax rates and in the maximum funds that can be remitted.

Collaboration can also be a means of protecting an asset. This may occur for two reasons. First, many countries provide very little de facto protection for foreign property rights such as trademarks, patents, and copyrights unless authorities are prodded consistently. To prevent pirating of these proprietary assets, companies sometimes have made collaborative agreements with local companies, which then monitor to ensure that no one else uses the asset locally. Second, some countries provide protection only if the internationally registered asset is exploited locally within a specific period. If a company does not use the asset within the country during that specified period, then whatever entity first does so gains the right to it.

- *Diversify geographically*

Not only product diversification but also geographic diversification among countries can aid a company in smoothing its sales and profits. Collaborative arrangements offer a faster initial means of entering multiple markets. In addition, if product conditions favor a diversification rather than a concentration strategy, there are more compelling reasons to establish foreign collaborative arrangements. However, these arrangements will be less appealing for companies whose activities are already widely extended or those that have ample resources for such extension.

- *Minimize exposure in risky environments*

There are many types of risk. However, the possibility that political or economic changes will affect the safety of assets and their earnings is often at the forefront of management’s concern about foreign operations. One way to minimize loss from foreign political occurrences is to minimize the base of assets located abroad. Doing this may dictate external arrangements so that the asset base is shared by others. This move also might reduce political risk because the government may be less willing to move against a shared operation for fear of encountering opposition from more than one company.

Another way to spread risk is to place operations in a number of different countries. This strategy reduces the chance that all foreign assets will be simultaneously subject to such adversity as political unrest or exchange control. As in the case of geographic diversification, the minimization in use of one’s own assets permits a more rapid dispersion of operations among countries.

5.3. Types of Collaborative Arrangements

The forms of foreign operations differ in terms of both the amount of resources a company commits to foreign operations and the proportion of the resources located at home rather than abroad.

Before the company decides to expand business abroad some factors should be considered:

- Control: the more a company deals externally, the more likely it is to lose control over decisions that may affect its global optimization, including those regarding quality, new product directions, and where output will be expanded. External arrangements also imply the sharing of revenues, a serious consideration for undertakings with high potential profits. Such arrangements also risk allowing information to pass more rapidly to potential competitors.
- Prior expansion of the company: when a company already has operations in place within a foreign country, some of the advantages of contracting with another company to handle production or sales are no longer as prevalent. The company knows how to operate within the foreign country and may have excess capacity that can be used for new production or sales.

5.3.1. Licensing

Under a licensing agreement, a company (the licensor) grants rights to intangible property to another company (the licensee) for a specified period, and, in exchange, the licensee ordinarily pays a royalty to the licensor. The rights may be exclusive (monopoly within a given territory) or nonexclusive.

The U.S. Internal Revenue Service classifies intangible property into five categories:

1. Patents, inventions, formulas, processes, designs, patterns’
2. Copyrights for literary, musical, or artistic compositions
3. Trademarks, trade names, brand names
4. Methods, programs, procedures, systems, and so forth

Usually, the licensor is obliged to furnish technical information and assistance, and the licensee is obliged to exploit the rights effectively and to pay compensation to the licensor.

Major motives

Frequently, a new product or process may affect only part of a company’s total output and then only for a limited time. The sales volume may not be large enough to warrant establishing overseas manufacturing and sales facilities. Further, during the period of commencing operation on its own, the company faces the risk that competitors will develop improvements that will negate its advantages. A company that is already operating abroad may be able to produce and sell at a lower cost and with a shorter start-up time. For the licensor, the risk of operating facilities and holding inventories is reduced. The licensee may find that the cost of the arrangement is less than if the development was accomplished internally.

For industries in which technological changes are frequent and affect many different products, such as chemicals and electronic goods, companies in various countries often exchange technology rather than compete with each other on every product in every market. Such an arrangement is known as *cross-licensing*.

Another consideration concerns the resources a company has at its disposal, of particular concern for small companies. But large ones also may be constrained.

Payment

The amount and type of payment under licensing arrangements vary widely. Each contract tends to be negotiated on its own merits. For example, the value will be greater if potential sales are high, such as with long-term exclusive worldwide rights, before the asset becomes obsolete. And opposite, the licensee might pay a low amount if its government sets upper limits on payment or if other companies are vying to sell similar technology. Because neither the licensor nor the licensee can be sure of the price the other is willing to accept.

Taxes may be assessed differently depending on how payments are arranged under a licensing agreement – fro example, as income or as a capital gain - thus affecting after tax receipts. Payment also may be deferred in order to delay tax liability. Fees for using an asset may be paid in a lump sum, based either on a percentage of sales value or on a specific rate applied to usage, or on some combination of these methods.

It is common to negotiate a ‘front-end’ payment to cover transfer costs and then follow with another set of fees based on actual or projected usage. This is done because few technologies may be moved abroad simply by transferring publications and reports. The negotiation process is itself expensive and must be followed by engineering, consultation and adaptation. The substantial costs of the transfer process increasingly are charged to the licensee so that the licensor is motivated to assure a smooth adaptation.

Technology may be old or new, obsolete or still in use at home, when it is transferred to a foreign company. Many other companies transfer technology at an early or even a developmental stage so that products are introduced almost simultaneously in different markets. On the other hand, new technology may be worth more to a licensee because it may have a longer useful life. And opposite, newer technology, particularly in the development phase, may be worth less because of its more uncertain market value.

Sales to controlled entities

Although the licensing agreements as being collaborative arrangements among unassociated companies, many licenses are given to companies owned in whole or part by the licensor. Nearly 80 percent of licensing fees received in the United States are from affiliated companies. A license may be needed to transfer technology abroad because operations in a foreign country, even if 100 percent owned by the parent, usually are separate companies form a legal standpoint (Daniels J.D., Radebaugh L.H., pg. 582). When there is present or potential shared ownership, a separate licensing arrangement may be a means of compensating for contribution beyond the mere investment in capital and managerial resources.

5.3.2. Franchising

Franchising is a specialized form of international business in which the franchiser not only sells an independent franchisee the use of a trademark that is an essential asset for the franchisee’s business, but also more than nominally assists on a continuing basis in the operation of the business. In many cases, the franchiser also provides supplies. In a sense, a franchiser and a franchisee act almost like a vertically integrated company because the parties are interdependent and each produces part of the product or service that ultimately reaches the consumer.

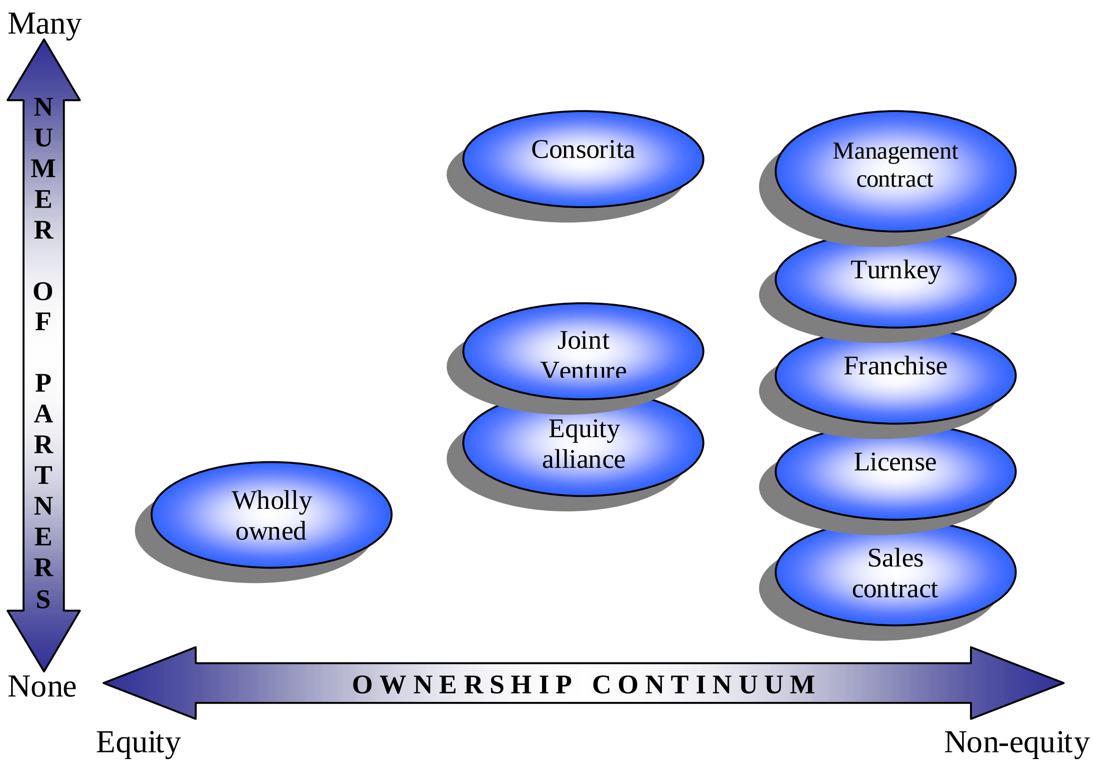
Franchising is said to have originated when King John of England granted franchises to tax collectors. In the eighteen-century, Germans brewers franchised beer halls as distributors. Today, franchising is most associated with the United States and accounts close to one third of U.S. retail sales. A 1992 survey showed that about half of U.S. franchisers without foreign units planned to growth internationally within the next five years (J.D. Daniels,1998, pg.582).

Organization

A franchiser most often penetrates a foreign country by setting up a master franchisee and giving that organization (usually a local one) the rights for the country or region. The master franchisee then may open outlets on its own or develop sub-franchisees. Royalty payments by the sub-franchisees are made to the master franchisee, which then remits some, predetermined percentage to the franchiser. For example, McDonald’s very successful Japanese operations are handled in this way. As well Toys’R’Us handles the retailing in some countries in this way. Even in our case, it is a preference to have one master franchisee that is responsible for handling all sub-franchisees. This type of collaborative agreement enables Toys’R’Us to have a good control over its own retail chain. And this type of control guarantees to have a consistent quality, build a recognition and image.

In about 20 percent of cases, franchisers enter foreign markets by dealing directly with individual franchisees (Daniels J.D., Radebaugh L.H., 1998, pg. 590). Doing this is sometimes difficult because the franchiser may be insufficiently known to convince many local people to make investments. People are willing to make investment because the name is a guarantee of quality that can attract customer and justify joint advertising among all the franchisees using the common brand name. Therefore is common for a franchiser to enter with some company-owned outlets that serve as a showcase to attract franchisees.

Figure 6: Control Complexity Related to Collaborative Strategy



Source: Strategic Management of International Joint Venture, S. Zahara, G. Elhagrasey; European Management Journal, Vol.12, No.I, March 1994, pg.83-93.

Operational modifications

Securing good location can be a major problem. Finding suppliers can be the source of added difficulties and expense. Another concern for foreign franchise expansion has been governmental or legal restrictions that make it difficult to gain satisfactory operating permission.

Many franchise failures abroad result from the franchiser’s not developing enough domestic penetration first; thus franchisers may lack sufficient cash and management depth. However, even a franchiser that is well established domestically may have difficulty in attaining foreign penetration. It is simply difficult to persuade people in a host country to invest in a venture that is not yet well known there. A dilemma for franchisers is that their success has been largely due to three factors: product and service standardization, high identification through promotion, and effective cost controls. When entering many foreign countries, these companies may encounter various restrains that may make it difficult to conform to home-country methods. Yet the more adjustments that are made to the host-country’s different condition, the less a franchiser has to offer a potential franchisee. Even in countries in which franchises have been successful, some operation adjustments usually have been necessary.

5.3.3. Other Types of Collaborative Agreements

Management Contracts

One of the most important assets a company may have at its disposal is management talent. The transmition of management skills internationally has depended largely on foreign investments that deploy expatriate managers and specialists to foreign countries. Management contracts are a mans by which a company may use part of its management personnel to assist a foreign company for a specified period for a fee. Thus the company may gain income with little capital outlay. Contracts usually are drawn to cover three to five years, and fixed fees or fees based on volume rather than profits are most common.

Turnkey Operations

Turnkey projects involve a contract for construction of operating facilities that are transferred for a fee to the owner when they are ready to commence operations. Companies performing turnkey operations are frequently industrial-equipment manufacturers that supply some of their own equipment for the project. Most commonly, they are construction companies. They also may be consulting firms or manufacturers that decide that an investment on their own behalf in the country is infeasible.

The customer for a turnkey operation is very often a governmental agency. Many companies have chosen to perform design and construction duties, particularly where there are restrictions on foreign ownership.

Joint Ventures

A type of ownership sharing very popular among international companies is the joint venture, in which a company is owned by more than one organization. Although a joint venture usually is formed for the achievement of a limited objective, it may continue to operate indefinitely as the objective is redefined. Joint ventures are sometimes thought of as 50/50 companies, but often more than two organizations participate in the ownership. Further, on organization frequently controls more than 50 percent of the venture. The type of legal organization may be a partnership corporation, or some other form permitted in the country of operation.

Companies that tend to favor joint ventures include those that are new at foreign operations and those with decentralized domestic decision making, very often multi-product companies. Because these companies are accustomed to extending control downward in their organizations, it is easier for them to do the same thing internationally. There is also evidence that the incidence of entering into collaborative arrangements varies by host country. Companies are more prone to have collaborative arrangements in countries where the cultural characteristic of trust is high, apparently because host-country companies erect fewer barriers and have an open, rather than a guarded, arrangement with other companies.

Equity Alliances

Equity alliances involve a cooperating companies’ taking an equity position (almost always minority) in the company with which it has a collaborative arrangement. In some cases each party takes an ownership in the other. The purpose of the equity ownership is to solidify a collaborating contract so that it is more difficult to break, particularly, if the ownership is large enough to secure a board membership for the investing company.

5.4. Franchise Concept of Toys“R”Us in Norway

“Franchising is as being similar to a finely-tuned engine. It takes the engine and it takes the fuel to make it run, with the franchiser providing the engine, and the fuel coming from the franchisees, they both need to work together. The better the relationship, the better the business.” (S. Siegel, 2001, pg. 10)

5.4.1. Franchising Strategy of Toys“R”Us

Norway is one of the most developed countries in the world. Natural resources (especially oil and water) give the country an economical wealth and stability already for many years. In order to protect own well-developed businesses (eg. fishing) from foreign investors, the government provided protection procedures. As each country, Norway wants to protect its own culture heritage. In order to avoid cultural, political, competitive and economic differences, Toys“R”Us as first will start cooperating through a local distributor. After learning market specifications of Norway the company will analyze the situation and define its future steps (M&A). Furthermore, high living standard means very high costs (eg. human resources). Franchising provides a powerful alternative to ownership of own outlets for Toys“R”Us:

- The growth is achieved by using the manpower and capital resources of others (eg. local knowledge) and can thus be more rapid.
- Commitment and interest of the franchisee, together with the risks he runs, tend to ensure that standards are maintains and that performance is better.
- The customer gets a better service by dealing with an owner instead of a less interested manager and staff (especially to foreign owner).
- Low risk.

Toys“R”Us will select a master franchisee that will be responsible for handling all sub-franchisees in the country. The company has made a selection of some successful middle-sized distributors. Some of them are very interested in dealing business with the company. Based on the conversation and negotiation activities, the company will select one of them to be a future partner of Toys“R”Us as a master franchiser. Basic requirements that franchisee needs to fulfill:

- experiences in the distribution business.
- adequate financial resources.
- commitment
- ability to accept the responsibilities and stress of self-employment
- ability to run the business in accordance with the established format.

The franchisee’s responsibility is to execute the business-format plan provided by the franchiser, and also to provide ideas for the improvement of the business, and to communicate on a regular basis with the franchiser about the business.

5.4.2. Franchising Manual of Toys“R”Us

Toys“R”Us is using a basic franchising manual for all franchising business. It consists of basic commitments between the franchiser and the franchisee. In some cases, some adaptations and contract appendixes are required.

A basic *franchising manual* contains followed conditions:

- The development by the franchiser of a successful business format which is operated under a trademark, trade name or other form of branding.
- The grant by the franchiser of the right to the franchisee, permitting the franchisee to trade using that business format under the trade mark, trade name or other form of branding.
- The franchiser provides to the franchisee a range of services which are calculated to ensure so far as is practicably possible that the franchisee will enjoy the same or a greater degree of success as the franchiser has achieved. These services will include:
  - the application of developed criteria for the selection and identification of trading sites
  - guidance to the franchisee to assist in obtaining occupation rights to the site, complying with zoning laws, preparation of plans for layouts, shop fitting and refurbishment and general assistance in the evaluation of the correct level and mix of stock and in the opening launch of the business.
  - the training of the franchisee in the operation of the business format and the provision of a manual with detailed operational instructions
  - the training of the franchisee in any methods of preparation which may be appropriate
  - the training of the franchisee in methods of accounting, business controls, marketing and merchandising.
- The franchiser offers continuing services for which a fee (or royalty fee) is payable:
  - operational back-up
  - updating of the operational manual
  - marketing and promotional support
  - advertising on a national or regional basis with funds contributed by franchisee
  - standards and performance monitoring
  - research and development
  - in appropriate cases the benefits of the bulk purchasing power which the network commands.
- the franchiser explains to franchisee why his concept system and branding merit an investment.
- the franchisee is required to make a substantial capital investment from his own resources so as to provide both commitment and motivation.
- the franchisee's ownership and day-to-day involvement in the operation of his

business strengthens his commitment and motivation and tends to ensure that the business is exploited to the maximum advantage.

- The consumer benefits from dealing with what appears to be a multiple network, but as it is in multiple ownership he is in reality dealing with an owner.

Below a contract proposal is described, based on franchising manual of Toys“R”Us, between Toys“R”Us (franchiser) and master franchisee:

- *The rights to be granted*; use of the franchiser’s trade marks, service marks, trade names, goodwill, know-how, confidential information, copyright material and all the usual elements which one finds in franchise transactions.

  A franchisee uses the same company’s concept regarding trade names, trade marks; Toys“R”Us or Babies“R”Us, Kids“R”Us, Imaginarium and whereas Toys“R”Us is the main trademark, etc. The franchisee is responsible to transfer the company’s concept to sub-franchisees.
- *Territory and exclusivity*; a franchisee has responsibility and exclusivity of using Toys “R”Us concept in total Norwegian market. Franchisee(s) need to buy
- *Performance schedule*; the agreement of a performance schedule which sets out the projected annual and cumulative rates of growth of the network in the target territory.
- *Franchisee fee;* how much the franchiser receive for the grant of the rights, the transfer of know how and seeing up the sub-franchisee in the territory.
  - The franchisee has to submit a quarterly report (including income statement, cash flow analysis and balance sheet) to his/her franchiser. If there will be found some information misleading or missing, the franchisee will be charged for a penalty, which is fixed in the franchise contract or in extreme cases legal actions
  - The franchiser expects a franchise fee ($90,000) and will expect to participate in the day-to-day profits of the business itself by means of a royalty fee of 8% on the gross sales revenue (also from sub-franchisees)
  - The franchisee will have benefits from common general advertising campaigns to promote the entire conceptual entity and corporate identity (product, logos, signage etc.).

  In fact, the purchaser of the franchisee package owns his/her own business, but in practice the franchisee contract removes any creative freedom from the operation of that business.

- Cartoon Network, a TV Channel that can be viewed by satellite all over the world.
- Toys“R”Us catalogues and brochures
- Internet side of Toys“R”Us - Toysrus.com (375.000 households have already an internet connection)

- *Withholding taxes*; in dealing with the payment provisions in the contract, the way in which the payments will be treated and characterized in both the franchiser’s country and the target territory should be considered in order to avoid any double-taxation agreement.
- *Training;* the degree of training support will be defined; how and how many of, the sub-franchisee’s team will be trained and are to be identified by their job title.
- *Law-venue selection:*
  - Toys“R”Us is not allowed to terminate the franchise contract without any reason. Toys“R’Us has to give reasons why they want to cancel the contract. This could happen when the franchisee breaks the franchiser’s guidelines e.g. quality and price of products.
  - If the franchisee wants to terminate the franchise contract, he/she has to submit the cancellation 6 months before. If the franchisee cancelled he/she is not allowed to compete against Toys“R”Us (competition law).
  - If the franchisee wants to renew the contract a renewal fee will be charged depending on how the business was going. Further details for the renewal fee (e.g. the amount, and payment conditions) will be negotiated with the franchisee.

Advantages that are based for the franchisee:

- Toys“R”Us has been in toy industry since 1957.
- Toys“R”Us provides a well-known and registered trademark-worldwide known company image
- Toys“R”Us has an unrestricted right to use and license its trademark. Toys“R”Us will not open an equal store close by the franchisee area.
- The franchisee is allowed to purchase other products additionally (to sub-franchisee) , when:
- they do not harm the company’s reputation in terms of product quality, brand names, product safety and price. This will be controlled by Toys“R”Us.
- It is an international company, which already exists in 26 countries (13 European countries).

- Toys“R”Us will create credit worthiness for the franchisee in case of securing loans.
- The company is already operating as a franchise store in many countries (e.g. 9 in the Netherlands)
- The franchisee will have the solely location within one area guaranteed by Toys“R”Us except other competitors which might come in.
- The franchisee is fully informed about the financial situation of the franchiser because it is a public company.
- The franchisee will get management support and appropriate training programs how to lead the franchise store especially in the beginning of the business. This will take place in Norway/Oslo. The franchisee is obliged to attend all training programs.

5.4.3. Legal Issues

Registration of Franchise/Distribution Agreements

The Act on Control of Prices, Profits and Restraints of Competition (Price Law) regulates the supervision of restrictive business associations, groups of enterprises and dominant enterprises. The supervision of the Price Directorate is based on an obligation to notify such associations and enterprises as mentioned to a public register, According to Article 33 in the Price Act, provisions in restraint of competition typically regulates, or intends to regulated, prices, earnings, costs, business terms, production or sales in Norway. Typical provisions in this respect will be exclusivity clauses, provisions limiting the activities of one or more of the parties to certain geographical areas, or to certain customers, or certain activities, and the like.

Furthermore, enterprises, which may be assumed, producing or distributing at least one quarter of the total production or distribution in the realm of one or more commodities produced or distributed by the enterprise, or of services provided by it, must submit a report to the Price Directorate.

The same is applicable to a foreign firm which may be assumed having substantial influence on the price in one or more countries of one or more commodities or services, or which is a participant in an association of firms which, together, may be assumed to have such influence. General exemptions from the obligation to notify the Price Directorate have been made according to Royal Decree of June 3rd, 1966, exempting all exclusivity clauses between suppliers and distributors of goods. Exclusivity clauses in pure license agreements in terms of patents, trademarks and other intellectual property rights are deemed to fall outside the obligation to register altogether, due to the fact that such agreements do not create any additional restraint in competition that what is already flowing from rights in the patent, trademark, etc. Finally, it shall be mentioned that the Price Directorate may also, upon the merits in each particular case, exempt agreements of minor importance.

Franchise Payments/Fee to a Foreign Franchiser in Norway

- ✓ There are no taxes or withholding payment due to the government when a local independent franchisee pays the franchise fee to a foreign franchiser.
- ✓ Tax deduction of franchise fees payments to a franchiser is fully deductible according to Norwegian tax law. Whether a portion of the payments should be capitalized will depend on the franchise agreement.

If a certain amount is paid at the start of the franchise period without regard to the sales figures, this amount should be capitalized. If it can be regarded as purchased goodwill, the tax legislation allows deduction through 30% depreciation on a declining balance basis. Otherwise, it should be depreciated/amortized over the franchise period. The individual agreement will have to be evaluated.

6. COST STRUCTURE AND BUDGET

As a franchiser, the company should provide the package to the franchisee in order to support franchisee and sub-franchisee business. The franchisee expects that the franchiser will provide him as much support as needed, and then some, to make the business a success. It is very important that franchiser provides the right support (all kind of) to franchisee; field support, training, marketing, etc.

Based on the franchising manual of Toys“R”Us some support shall be given to the franchisee in Norway:

6.1. Communication

These expenses are based on global/overall communication (eg. include advertising in the national TV programs and newspapers, other promotional activities, public relation activities). The purpose of this type of communication is to spread out the same message to the consumer and in the same time building the company image in market. It amounts to 6% of the gross sales for the first year following the company’s conduction of investing more than 20 per cent of its sales in selling, advertising and administrative expenses. After the first year, the percentage of the advertisement expenses shall reduce like 5% of the sales in second year, and the third year 3%. The major advertisement expenses are responsibility of Toys“R”Us.

6.2. Training Expenses

The franchisee is obliged to follow all trainings organized by the franchiser. Purpose of the trainings is sharing ideas, update information, future strategy (steps) of the company, predicted changes, etc. Strategic training is planned ones per year. Costs for this training are covered by franchisee except cost of the trainer (lecturer) which should be covered by the franchiser. Beside management trainings, other trainings are planned (customer service) in order to deliver all over the world the same high-standardized service. Sales people need to attend to this type of trainings. The training costs for Toys“R”Us are estimated to be $30,000 per year (5-6 trainings).

6.3. Procedure Expenses

These include registration fee for the shop, insurance coverage, legislation fee for helping franchising negotiation and proceeding registration procedures, trademark registrations, fee which include consultancy fee paid to the agency, etc. The expenses are estimated based on the market research.

6.4. Administration and General Expenses

Comprising fees of travel and transportation, site selection, construction inspection, designs, fixtures or other, getting set-up items which is 1% of the contracted sales.

6.5. Contingency

Contingency costs, which are estimated 0.5% of the contracted sales for expenses that arise unexpectedly.

6.6. Budget

Estimated profit of the plan for Toys“R”Us:

The franchiser will receive its revenue from the following activities of the franchisee:

1. Franchise fee: the franchisee will pay 8% of the gross sales from the franchisee each year for operating the company’s product under the trademarks. The loyalty shall not bond to the minimum contracted sales but the actually sales of the franchisee.
2. Royalty fee: Toy“R”Us will receive the amount $90,000 at the beginning of the starting up the operation.

Forecast of the Revenue for Franchisee:

First year, the aim of the company is to reach 30% of market share in Oslo area. Oslo area has close to 1.0 million inhabitants, 22% of this population are between age of 0 and 18 years. This means, the size of the target group is 220,000 young people. Because in Norway is no special shops/retailers for toys is considered as a very low level of competition. Therefore is considered to reach in the first year 30% of the market share where the average yearly spending with seasonal affects per person will be $200. Second and third year 10% increase of market share is planned. First year, $13.2 million net sale is forecasted, based on one franchisee (the exploration of the sub-franchisers depends on the master franchisee).

As shown in the budget planning (see Table 6), the revenue from the franchisee cannot cover the total investment, which is normal for any new established business. As in the budget plan of first year, most of the costs are only for the first year. From the second year on ward, the franchisee anticipate more sales, hence more revenue coming in, and much less expenses (economy of scale).

In addition, the franchisee is bond to purchase from Toys“R”Us, which is a big part of the future revenue for the parent company. Toys“R”Us gives 50% mark-up on the invoice price for all delivered products to the franchisee. Toys“R”Us makes 5% of the net sales in sales of its products to all outlets (own and contracted-franchisees).

Financing sources

Toys“R”Us has very strong financial positions both in home country and international markets. It normally gives financial resources to own outlets or sub-contractors from long-term, medium-term and short-term borrowings from both home country and other countries, as well as from its own earnings - rentals and leasing.

As the total cost of the franchiser is less than $1.1 million, there is no problem for the company to financing from its earnings. The Statements of Earnings of recent years show that the company has sufficient cash surplus, in year 2001, the earnings were $404 million, to be able invest in the Norwegian market in the first year. Anyhow, in the first year approximately €0.4 million profit is forecasted in total and $0.1 million purely on franchising sales.

For future business expansion in Norway, the source of finance can be medium and short term borrowing from local country, like the company did in other countries a start capital support for its foreign subsidiaries or sub-franchisers.

Table 6: Toys“R”Us Profit/Loss Analysis

Toys"R"Us Budget	**2002**	**2003**	**2004**	**2005**
Franchisee Revenue		US $		
Sales Forecast	13,200,000	17,600,000	22,000,000	26,400,000
Franchiser P/L				
Cost				
Communication	792,000	880,000	660,000	792,000
Training expenses	30,000	30,000	30,000	30,000
Procedure expenses				
Registration & Insurance	20,000	1,000	1,000	1,000
Legislation				
Trademark Registration	2,000	0	0	0
Administration &General expenses	132,000	176,000	220,000	264,000
Contingency	66,000	88,000	0	0
Total Costs Toys“R”Us	**1,042,000**	**1,175,000**	**911,000**	**1,087,000**
Franchiser Revenue				
Royalty Fee	90,000	0	0	0
Fee (8%)	1,056,000	1,408,000	1,760,000	2,112,000
Sales (50% of the franchisee net sales)	6,600,000	8,800,000	11,000,000	13,200,000
Total Franchiser Revenue	**7,746,000**	**10,208,000**	**12,760,000**	**15,312,000**
Franchising Profit/Loss	**104,000**	**233,000**	**849,000**	**1,025,000**
Profit Net Sales (5%)	**330,000**	**440,000**	**550,000**	**660,000**
Total Profit/Loss for Toys“R”Us	***434,000***	***673,000***	***1,399,000***	***1,685,000***

Source: Personal estimation

7. CONCLUSIONS AND RECOMMENDATIONS

7.1. Conclusions

Markets are changing fast. New markets are emerging, trading blocks are extending and communication channels about products and selling them are changing at a revolutionary pace. Marketing is changing to meet the changing world. Marketing remains the business activity that identifies an organization’s consumer needs and wants, determines which target markets it can serve best and designs appropriate products, services and programs to serve these markets.

Many marketing managers have to face the same increasing globalization of markets and competition. The rules of survival have changed since the beginning of the 1980s when Theodore Levitt first coined the phrase global marketing. Even the biggest companies in the biggest home markets cannot survive on their domestic markets if they are in global industries such as cars, banking, or toys. They have to be in all major markets to survive the shakeouts expected to leave three to five actors per industry.

Globalization is a business initiative based on the belief that the world is becoming more homogeneous and that distinctions between national markets are fading. As a result, companies need to globalize their international strategy by formulating it across markets to take advantage of underlying market, cost, environmental, and competitive factors.

Globalization can be seen as a result of a process that culminates a process of international market entry and expansion. International business is all business transactions- private and governmental- that involve two or more countries. Company’s motivations to operate internationally are expand sales, acquire sources, diversify sources of sales and supplies and minimize competitive risk (spread risks). The conduct of international operations depends on companies’ objectives and means with which they choose to carry them out. The operations are affected by the physical and societal factors and competitive environment encountered.

Many companies started to expand their business in international markets. Through years of market expansions, companies start to create market synergies. Companies start to behave more and more globally. They start to homogenize their product assortments and strategies for all markets as one. This trend is present in toy industry as well.

The toy industry is changing, not only in the type of product sold, but also where products are sold. The changing face of toy retailing is evidenced by the multitude of discount stores, warehouses, specialty merchandisers and e-commerce toy traders, all grabbing for their piece of the pie. According to the Toy Manufacturers of America, Wal-Mart topped the list of toy retailers in 2000, with the discount chain accounting for 17 percent of the toy market share. This knocked Toys“R”Us (16,8 percent) down to the number two position, followed by Kmart and Target.

Toys“R”Us has stumbled slightly in the past few years, dealing with cluttered, disorganized stores and a reputation for mediocre sales help and dismal customer service. In 1999, the company cleaned up its act with the introduction of redesigned stores, a new advertising campaign and a new training program for employees. So far, the changes seem to be working. In mid-November 2001, after almost 2 years of declining profits, Toys“R”Us reported its largest sales increase in 10 years, with third quarter earnings rising 55 percent.

The mistakes of the powerhouse toy retailer served as a lesson to many mass marketers, now making a concrete effort to maintain the ideals that have traditionally been important to retail success quality, selection, convenience and customer service. The brick-and-mortar crowd is also taking note of the marketing strategies of the rapidly expanding specialty toy store market, admiring the success of such outlets as Imaginarium, new division of Toys“R”Us.

Specialty retailing is characterized by the importance placed on customer service – highlighted by personalized attention, knowledgeable salespeople, gift-wrap and a substantial number of promotions and special events. With a competition so intense, insightful store-owners are hoping to gain market share by beefing up their customer service and coupling that with the existing advantages of mass retail. In a nutshell, retailers need to return to the old ways of putting the customer first.

Toys“R”Us gives all attention to their customer. But in order to expand their sales and to become closer to more young consumers, Toys“R”Us follow their market expansion strategy. Among ten selected potential markets, Norway was selected as the best market opportunity.

Norway has more to offer than fjords, mountains and Viking history. Few countries in Europe can equal Norway as a location for high technology enterprises. Expertise in Norway is based on a century of solving problems posed by mountainous topography, a sub-artic climate, long distances and a small, scattered population – factors which have made Norway a pioneer in new communication techniques and advanced technologies. Norway’s expertise within advanced technology and research and development is clustered around the Oslo region; a center of knowledge with a high concentration of expanding communities. There are many business sectors flourishing in Oslo region.

Foreign capital has traditionally played an important role for the Norwegian business community. Norwegian industry would not have expanded as rapidly and in quite the same way without the involvement of foreign investors. Approximately 70 percent of the share capital of foreign majority owned companies in Norway are located in the Oslo region. Accordingly more than 2007 companies with foreign majority ownership are situated in the Oslo region. The Norwegian government welcomes foreign investment in an expanding business community.

Norway has a lot of national competitive advantages, which attract a lot of foreign investors. Major Norwegian national advantages are:

Economy:

- Strong, stable economy
- Stable political climate
- Government financial incentives

Business:

- Access to North Sea oil and petroleum technology
- Leading maritime industry
- Technological and raw materials industry
- Low cost power
- Member of the EEA, GATT, WTO

Infrastructure:

- Excellent transport networks
- Low cost and highly advanced telecommunications
- Advanced satellite monitoring and technology

People:

- Skilled workforce
- High quality educational structures
- Good proficiency in foreign languages
- High standard of living.

7.2. Recommendations

According to the analysis, Norway is recommended to be the best potential market to enter for Toys“R”Us. All selecting criteria factors are considered as opportunities (comparing with other selected countries), except the taxation policies that is 38 percent of the revenues to pay for goods and services taxes. The country has 4.5 million inhabitants and approximately 1 million lives in the Oslo area where the company shall locate the retail store.

There are no specialized competitors in the retailing of toys in Norway. There are only small stores for toys and the products are also sold as part of retail stores that are not specialized in toys. This is an advantage for the company because it is unique in its variety as a big retail store specialized in toys. The company has an opportunity to position itself in first years.

The company Toys“R”Us should invest in Norwegian market through franchising. A franchising contract should be signed between Toys“R”Us (the franchiser) and the buyer (the franchisee). The company shall use the base-franchising contract with some exceptions.

Toys“R”Us will select a master franchisee that will be responsible for handling all sub-franchisees in the country. The company has made a selection of some successful middle-sized distributors. Some of them are very interested in dealing business with the company.

Based on the conversation and negotiation activities, the company will select one of them to be a future partner of Toys“R”Us as a master franchiser.

In the relationship between franchiser and franchisee it is very important that both parties are aware of the responsibilities, which are obliged to respect and fulfill. The franchisee’s responsibility is to execute the business-format plan provided by the franchiser, and also to provide ideas for the improvement of the business, and to communicate on a regular basis with the franchiser about the business.
The franchisee tight him self to the sales forecast (five years), which should be updated ones per year. The franchiser needs to support franchisee in all areas that are agreed in the franchising contract. The key of success in franchising is to fulfill committed actions.

First year, the franchisee should sell $13.2 million, next year should increase net sales for 30 percent, and third and fourth year sales shall be increased approx. 20-25 percent. Even that the first year comes very high investments for the franchiser, the P/L Analysis shows a positive result $0.4 million for the first year. The cumulated P&L analysis shows profit each year increases (between 20-50%). Fist year, Toys“R”Us can give financial support to its franchisee from the central budget. The Statement of Earnings of recent years show that the company has sufficient cash surplus, in year 2001, the earnings were as high as $404 million.

With opening additional stores in Norway, Toys“R”Us may further increase the profit. Franchising business in Norway can represent, after the fifth year of running the business, between 2-3 percent of the total cash surplus in Toys“R”Us.

Toys“R”Us is a global retail company. In order to follow the strategy of global marketing, they need to explore sales in more international markets. One of those markets can be Norway. Next step is entering in the next international market, selected with the criteria important for the toy industry.

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NOTES

APPENDICES

Appendix 1

Sort by 1.PPP per capita, 2. Population under 18, 3. Birth rate						
Countries	*Population*	*Population under 18*	*No. Children/ household*	*birth rate*	*GNP per capita*	*PPP per capita*
Trinidad&Tobago	1,130,337	467,000	2.13	15.37	3,770	$13,500
Macau	502,325		1.53	13.78		$13,600
Korea South	45,948,811	12,646,000	1.78	16.17	9,700	$14,200
Faroe Islands	39,873		2.37	11.46		$16,300
Kuwait	1,834,269	756,000	3.54	21.54	17,390	$16,700
Ireland	3,606,952	1,039,000	1.83	13.43	14,710	$16,800
New Zealand	3,587,275	988,000	1.96	15.35	14,340	$18,500
The Bahamas	275,941	96,000	2.36	21.47	$11,940	$18,700
Finland	5,137,269	1,170,000	1.78	11.75	$20,580	$19,000
Guam	160,595		2.16	23.35		$19,000
Iceland	269,697	78,000	2.05	15.35	24,950	$19,800
Aruba	68,031	-	1.81	14.2	-	$21,000
Liechtenstein	31,389	7,000	1.62	13.03		$23,000
Cayman Islands	36,153		1.37	14.24		$23,800
Monaco	31,892	7,000	1.7	10.66		$25,000
Norway	4,399,993	1,000,000	1.83	13.25	31,250	$26,200
Bahrain	603,318	207,000	3.04	23.01	$7,840	$13,000
Qatar	610,214	175,000	17.26	3.51	$11,600	$21,300

Source : CIA

Appendices 2

FINLAND

Population: 5,137,269 (July 1997 est.)
Age structure:

0-14 years: 19% (male 493,427; female 473,166)

15-64 years: 67% (male 1,729,996; female 1,694,111)

65 years and over: 14% (male 280,231; female 466,338) (July 1997 est.)

Economy overview:

Finland has a highly industrialized, largely free-market economy; with per capita output equally that of the UK, France and Italy. Its key economic sector is manufacturing - principally the wood, metals, and engineering industries. Trade is important, with the export of goods representing about 30% of GDP. Except for timber and several minerals, Finland depends on imports of raw materials, energy, and some components for manufactured goods. Because of the climate, agricultural development is limited to maintaining self-sufficiency in basic products. Forestry, an important export earner, provides a secondary occupation for the rural population. The economy has come back from the recession of 1990-92, which had been caused by economic overheating, depressed foreign markets, and the dismantling of the barter system between Finland and the former Soviet Union under which Soviet oil and gas had been exchanged for Finnish manufactured goods. The Finns voted in an October 1994 referendum to enter the EU, and Finland officially joined the Union on 1 January 1995. Attempts to cut the unacceptably high rate of unemployment and increasing integration with Western Europe will dominate the economic picture over the next few years.

GDP: purchasing power parity - $97.1 billion (1996 est.)

GDP - real growth rate: 2.5% (1996 est.)

GDP - per capita: purchasing power parity - $19,000 (1996 est.)

Inflation rate - consumer price index**:** 0.7% (1996)

Labor force:

total: 2.533 million

Unemployment rate: 16.6% (1996)

Electricity - capacity: 14.14 million kW (1994)

Electricity - production: 60.5 billion kWh (1995)

Electricity - consumption per capita: 12,373 kWh (1995 est.)

Imports:

total value: $23.2 billion (c.i.f., 1994)

commodities: foodstuffs, petroleum and petroleum products, chemicals, transport equipment, iron and steel, machinery, textile yarn and fabrics, fodder grains

partners: EU 44% (Germany 15%, UK 8.3%), Sweden 10.4%, US 7.6%, Japan 6.5%, FSU 10.3 (1994)

Currency: 1 marka (FMk) or Finmark = 100 pennia

Exchange rates: marka (FMk) per US$1 - 4.7765 (January 1997), 4.5936 (1996), 4.3667 (1995), 5.2235 (1994), 5.7123 (1993), 4.4794 (1992)

Economics:

Information expressed as % of change in :	previous period	previous year
Gross domestic product Q2 98	2.1	4.9
Consumer price index Oct. 1998	0.0	1.1
	Current period	Same period last year
Unemployment rate Oct. 1998	11.0	12.3
Interest rate Nov. 1998	3.61	3.65

Political-legal:

The Finnish Ministry of the Environment was set up in 1983, and regional and municipal environmental institutions followed. Progressively they have taken on greater environmental responsibilities, encouraging improvements at the local level. Environmental legislation and regulations also have grown considerably. Regulatory instruments are generally applied case by case, without binding ambient standards or emission limits.

Finland now spends 1.1 per cent of GDP to control pollution. Economic instruments, including the world’s first carbon tax, supplement the regulatory instruments and help finance public measures to protect the environment.

The growth of industrial production in Finland just now derives entirely from telecom group Nokia and the rest of the electro technological sector. Figures published by Statistics Finland on 15/01/99 show that industrial production in November was lower than in the same month a year earlier in most industrial sectors and that 4.3. percent growth was largely through Nokia. If the electro technological share were set aside, the gross domestic product (GDP) would show a decline of as much as three percent.

The Finnish economy recovered, with the help of a big devaluation in 1991, from the beginning of 1992 the strategy of an export-driven growths has worked well so far. Exports pulled the GDP into a rise in the latter half of 1993. Exports have since been constantly growing with the exception of the minor dip in the first quarter of 1996 (-0.5 percent). So if the growth now slackens, it is no minor affair. The responsibility for the growth would then be left to the home markets. At the same time, the risk would grow that the ratio of exports and imports would once again turn unfavorable.

The goal of the Government’s foreign policy is to safeguard the future of the Finnish people in a world of peace, cooperation and deepening integration. Finland promotes extensive international relations. As a member of the European Union we work to increase unity within our part of the world. The most important goal for Finland’s foreign policy is to increase cooperation and maintain a stable situation in Northern Europe and the Baltic are.

The population is 5 million, either a labor force of 2.5 million, of which 53% are men and 47% women. Population growth is low, as is the number of foreigners. A typical Finnish family has 1-2 children. The average household size is 2.4 people. Life expectancy is 75 years and the proportion of old people is increasing. Half of all Finns live in single-family houses, 34% in apartment blocks and 13% in row houses. Half of the population has completed at least secondary education and 4% have a university degree or equivalent.

Appendices 3

IRELAND

Capital: Dublin

Currency: Irish Pound

Parliament and Government: Parliamentary Democracy

Disputes - international: Northern Ireland question with the UK; Rockall continental shelf dispute involving Denmark, Iceland, and the UK (Ireland and the UK have signed a boundary agreement in the Rockall area)

Infrastructure: Highways: *total:* 92,430 km

Waterways: limited for commercial traffic

Pipelines: natural gas 225 km

Ports and harbors: Arklow, Cork, Drogheda, Dublin, Foynes, Galway, Limerick, New Ross, Waterford

Merchant marine: *total :* 39 ships (1,000 GRT or over) totaling 130,029 GRT/148,516 DWT

ships by type: bulk 1, cargo 27, chemical tanker 2, container 5, oil tanker 1, short-sea passenger 3 (1996 est.)

Airports: 40 (1996 est.)

Airports - with paved runways: *total:* 37

Population: 3.700.000 (a 1.5% growth annually is projected for the next 10 to 15 years)

Social economic: *Age structure:*

0-14 years: 23% (male 415,747; female 393,181)

*15-64years :*66%(male 1,203,792; female 1,185,935)

65 years and over: 11% (male 173,566; female 234,731) (July 1997 est.)

Sex ratio:

at birth: 1.07 male(s)/female

under 15 years: 1.06 male(s)/female

15-64 years: 1.02 male(s)/female

65 years and over: 0.74 male(s)/female

Total population: 0.99 male(s)/female (1997 est.)

Adult economic activity rate (%): male 67.8%, female 41.1%

Median household income in urban areas: $ 71,996

Ethnic groups: Celtic, English

Religions: Roman Catholic 93%, Anglican 3%, none 1%, unknown 2%, other 1% (1981)

Languages: Irish (Gaelic), spoken mainly in areas located along the western Seaboard, English is the language generally used

Profile of the “average” Dubliner

36 to 45 years of age, married with minor children living at home, owns single family home, employed fully-time in a variety of professions, trades and service positions, with 30% employed in healthcare and education fields.

Economic Analysis:

Ireland is Europe’s high growth economy. This is the result of a dynamic and youthful population, pursuit of pragmatic and innovative government policies, openness to trade, new ideas and emphasis on education and technological innovation.

According to the OECD, Ireland’s economy has grown at an average annual rate of 8.9% in real terms from 1994 – 1997, compared to an EU average of 2.4%.

Ireland has to deal only with limited inflationary side effects.

A real economic growth at rates of 6% annually at least until the year 2006 is projected. Ireland’s profile resembles more the projected US demographic outlook over the same period. Ireland’s flexible labour supply prospects should boost overall productivity levels and standards of living, with parallels to the “baby boomer” impact on the US economy in the 70’s.

World Economic Forum ranked Ireland as the 11th most competitive economy in the world in 1997 and it also scores highly in internationalization. Ireland is now ranked No.1 in the world in terms of its attractiveness to foreign investors.

Ireland’s educational system is ranked as the best in the world.

A consensual partnership for managing the economy, involving government and social partners has contributed to industrial peace, moderate wage increases and progressive tax reductions, and sustained job creation.

- Substantial inflows of high technology inward investment
- A stable pro-business government environment
- Strategic investments in social and physical infrastructure

Economic Indicators

	1994	*1995*	*1996*	*1997*	*1998*
Real GDP	6.7	10.4	7.1	9.5	8.3
Real GNP	7.4	8.8	6	7.7	7.5
Domestic Demand	6.2	6.7	6.3	6.9	5.7
CPI	2.4	2.5	1.6	1.5	2.8
Unemployment rate (%)	14.1	12.2	11.5	10.2	8.9
Interest rates	5.9	6.2	5.4	6.1	6.1

Source: CIA

Doing Business in Ireland:

<u>Tax Highlights:</u>

- No change in any of the tax rates, which remain at 24% and 46%
- Introduction of a "tax credit" system
- Significant increase in allowances to compensate for the fact that they are only allowable at the standard rate (24%)
- Similarly, tax bands have been widened significantly

<u>Corporation Tax</u>

Standard Rate – to 31.12.98 32%

The government is committed to reducing the standard rate of CT to 12.5% from the 1.1.2003.

Therefore the intention is to reduce CT by 4% each year until the 12.5% rate is achieved.

Advance Corporation Tax

From the 6.4.1999 Advance CT will be abolished. Dividend and other distributions will now be subject to withholding tax at 24%, payable by the company one month after the dividend date.

Registration of Patents, Trademarks, and Designs:

Ireland has legislation for the protection of patents, trademarks, and industrial designs. Applications for patents, registration of trademarks, and for design protection should be filed with the Irish Patent Office, Ministry for Industry and Commerce, 45 Merrion Square, Dublin 2. Inventions may be patented for a 16-year period. Trademark registrations are valid for 7 years and are renewable for 14-year periods.

Import Licensing:

Only a small number of goods of U.S. origin require import licenses (maybe important for toy import – various textiles and textile products).

Licenses are generally rapidly granted for goods of U.S. origin. Licenses are not transferable. Ireland uses the Harmonised System classification.

Conclusion:

Despite Ireland seems to be the paradise of foreign investors, some factors lead to decide not to invest there. Especially the demand factors, which is the most critical item in setting up a big retail store, which depends on selling a big amount of products to keep it at a low price, was not given. For this purpose the population was too less.

The employment rate is still high too (compared to European standards), so there might be a fluctuation in income in reference to stability of consumption.

POVZETEK NALOGE

Mednarodno poslovanje se odvija že odkar so se pojavile državne meje. Nekatere vlade pa so mednarodno trgovanje do sedemdesetih let dvajsetega stoletja vseeno obravnavale kot manj pomembno in ga sprejemale kot področje trgovanja s katerim se srečujejo le redka podjetja in strokovnjaki. Večina podjetij se je osredotočila in zadovoljila s prodajo na domačem trgu in povsem zanemarila mednarodno dimenzijo poslovanja.

Tržne razmere pa so se tekom let močno spremenile. Svetovni trg je napredoval, tako količinsko kot kakovostno in je leta 1997 presegel štiri milijarde dolarjev. (Daniels J.D., Radebaugh, 1998, str. 529). Povsod po svetu je konkurenca vse ostrejša. Neuspeh na svetovni ravni lahko uniči obstoječe tržne znamke in poslovne odnose. Hkrati pa so se pojavile priložnosti, ki ponujajo vrsto možnosti za rast, dobiček in izboljšanje življenjskih razmer po vsem svetu.

Dandanes se morajo podjetja soočati z obsežnim tržnim prostorom. Včasih je bilo sodelovanje na mednarodnih trgih samo možnost, danes pa je že nuja. Svet postaja vse bolj homogen in celovit. Razlike med trgi posameznih držav vztrajno bledijo. To pomeni, da je trženje postalo pokazatelj discipliniranosti. Če želijo preživeti, morajo prodajalci dobro razumeti zakonitosti svetovnega trga, ki jim sledijo podjetja in njihovi tekmeci.

Trg z igračami. Ljudje preživijo veliko časa z igračami, kar pomeni, da jih sprejemajo kot zabavne in človeku prijazne proizvode. Ustvarjajo sproščeno vzdušje in okolje, v katerem poteka svobodna izmenjava idej, vzpodbujajo vodenje in iniciativnost. Igrače so proizvodi, ki so vedno predmet izboljšav zaradi nenehnega tehnološkega napredka in sprememb. Tako otroci kot odrasli povprašujejo po tehnološko bolj razvitih igrah. Te so postale osnovni oblikovalec odnosov med otroki, odraslimi in med otroki ter odraslimi. Tako bi svetovni trg z enakimi igrami in igračami prispeval k oblikovanju globalnih odnosov med ljudmi.

Kultura. Sestavljena je iz specifičnih naučenih vzorcev, ki temeljijo na oblikah obnašanja, vrednotah in prepričanjih obstoječih v vsaki družbi. Nekatere države so si pri tem zelo podobne, predvsem zato, ker jih povezujejo jezik, religija, geografska lega, narodna pripadnost in stopnja gospodarske razvitosti. V primerih, ko so kulturne razlike očitne, se morajo podjetniki odločiti o prilagoditvi in obsegu prilagoditve domače proizvodnje tujemu okolju. Še prej pa morajo razlike in posebnosti dobro proučiti in izpostaviti. Vsem panogam industrije (npr. industriji igrač) pa vseeno ni potrebna enaka raven zavedanja kulturnih razlik. Prav tako ni zavedanje le-teh tekom projektov ves čas enaka. Izkazalo se je, da dojemanje in zavedanje kulturnih razlik ni lahka naloga in da za uspeh pri tem še ni izoblikovana zanesljiva metoda.

Industrija igrač je tvegana panoga. Podjetja, ki se naloge lotijo pravilno in preudarno, zaslužijo veliko denarja. V nasprotnem primeru pa ga lahko prav toliko tudi izgubijo. Proizvodnja igrač lahko postane donosen posel in hkrati velik izziv.

Seznam svetovno uspešnih proizvajalcev je na vrhu zelo skoncentriran. Prvih deset podjetij obvladuje 50% tržni delež v Evropi, prvih pet pa 40% tržni delež na svetu. Združenje proizvajalcev igrač ocenjuje, da evropski trg z igračami posluje z dobičkom 22 milijard evrov na leto. Ameriški proizvajalci pa iznajdejo, ustvarijo in predstavijo trgu okoli dve tretjini vseh igrač na svetu. (Johnson M.E., 2001, str. 107).

Analitiki pripisujejo rast proizvodnje igrač trem faktorjem. Čeprav rodnost v razvitih državah še vedno upada, starši kupujejo otrokom več igrač in dražje igrače. Z naraščanjem števila ločenih staršev, praviloma naraste tudi število sorodnikov, ki otrokom kupujejo igrače. Sodobne ženske imajo otroke kasneje, kar pomeni, da si še pred načrtovanjem družine ustvarijo ugodno finančno zaledje.

Konkurenca v industriji igrač postaja vse ostrejša. Manjša in neuveljavljena podjetja največkrat kmalu propadejo ali pa spremenijo način poslovanja, ki omogoča prodajo brez posrednikov. Sistem veleprodaje počasi izginja, še posebej zato, ker členi na obeh koncih prodajne verige vztrajno izgubljajo pomen.

Namen diplomskega dela je najti najboljše potencialno tržišče za podjetje Toys "R" Us, ki bi ugotovitvam primerno razširila in prilagodila poslovanje v prihodnosti. Vzporedno z raziskavo o najboljšem tržnem prostoru za obravnavano podjetje, projekt izpostavi tudi deset svetovnih trgov, ki pripomorejo k boljšemu razumevanju tržnih zakonitosti in čim boljši izbiri tržišča. Na osnovi predhodnih analiz sem za proučevanje izbrala norveško

tržišče, saj na osnovi zastavljenih ciljev projekta, izmed desetih izbranih držav, prav norveški trg ponuja in zagotavlja najboljše možnosti za podjetje.
Diplomsko delo poskuša predstaviti nekaj predlogov in meril, ki naj bi se jih podjetja zavedala in upoštevala pri proučevanju in izbiri tujega tržišča.

Iskanje prepričljive razlage za blaginjo posamezne države kot tudi vsesplošno blagostanje se začne z zastavitvijo pravih vprašanj. Pri tem se je potrebno izogniti pojmu "tekmovalen narod", ki je v smislu gospodarske blaginje še kako pomemben. Eden glavnih gospodarskih ciljev vsake države je zagotoviti čim boljši življenjski standard svojih državljanov. Vendar pa ta zmožnost ne izvira iz neizoblikovanega dojemanja tekmovalnosti, ampak temelji na delovni in finančni zmogljivosti ter produktivnosti neke države. Iskanje razlage tekmovalnosti na državni ravni je torej napačen pristop k problemu. Pomembneje je razumeti determinante produktivnosti in stopnje rasti delovne storilnosti. Za ustrezne odgovore se je potrebno posvetiti posameznim industrijskim panogam in ne celotnemu gospodarstvu neke države.

Diplomsko delo temelji na zbiranju in razlaganju selektivnih meril, ki naj bi zagotovili čim boljše strateške odločitve podjetja. Načrt sestavljajo trije deli.

Prvi del je teoretična podlaga projekta, v katerem poskušam izpostaviti nekaj zakonitosti mednarodnega poslovanja in značilnosti trga z igračami, pri čemer sem si pomagala z domačo in tujo literaturo. V tem delu sem tudi predstavila podjetje Toys "R" Us in njegove tržne usmeritve.

V drugem delu sem se osredotočila na značilnosti norveškega trga kot tudi na predloge za ustrezen strateški pristop, ki bi zagotovil uspešno sodelovanje na tem trgu. Predlogi vključujejo predvsem možne tehnike vstopa na norveški trg, tržne zakonitosti in nekatere prednosti države na osnovi Porter-diamondovega modela.

V zadnjem delu pa sem povzela izsledke raziskav o privlačnosti norveškega trga, ki temelji na izdatkih in obsegu proračuna. Proračun podjetja je namreč osnova za vse strateške poteze na izbranem tržišču.

Zaključeki in Predlogi

Trg se hitro spreminja. Pojavljajo se vedno nova tržišča, trgovske skupnosti se širijo, komunikacijski kanali, ki se nanašajo na izdelke in prodajo le-teh pa se spreminjajo z vrtoglavo hitrostjo. Trženje ostaja del poslovanja, ki odraža želje in potrebe kupcev, ugotavlja kateri ciljni skupini lahko najbolj ustreže ter oblikuje proizvode, usluge in programe, ki se najbolj približajo zahtevam trga.

Veliko podjetnikov, ki se ukvarjajo s trženjem, se sooča z enako naraščajočo globalizacijo trga in konkurence. Pravila obstoja so se začela spreminjati v začetku osemdesetih let dvajsetega stoletja, ko je Theodore Levitt prvič uporabil izraz globalno trženje. Celo največja podjetja z obsežnim domačim tržnim prostorom ne morejo uspešno poslovati s prodajo zgolj na domačem trgu, še posebej, če so podjetja del velikih industrijskih panog kot so avtomobilska industrija, bančništvo in nenazadnje tudi industrija igrač. Šele prisotnost na velikih svetovnih trgih omogoča večje možnosti za obvladovanje gospodarskih kriz. Te uspe preživeti le trem do petim podjetijem v vsaki industrijski panogi.

Pobuda za globalizacijo izhaja tudi iz poslovnega okolja in temelji na prepričanju, da svet postaja vse bolj homogen in da razlike med tržišči različnih držav bledijo in celo izginjajo. Posledično morajo podjetja razširiti svojo mednarodno tržno strategijo, tako da izkoristijo prednostna tržišča, stroške, okoljske in konkurenčne dejavnike.

Na globalizacijo lahko gledamo tudi kot na rezultat procesa, ki je vrhunec sodelovanja in širjenja mednarodnega tržnega prostora. Mednarodno poslovanje zajema vse poslovne transakcije, tako privatne kot vladne, ki vključujejo najmanj dve državi. Motivi za mednarodno sodelovanje nekega podjetja izhajajo iz želje po povečanju prodaje, pridobivanju novih in raznolikih virov prodaje in nabave ter zmanjšanju tveganja zaradi konkurence. Izvajanje mednarodnega poslovanja je odvisno od zastavljenih ciljev podjetja in sredstev s katerim svoje cilje uresničujejo. Poslovne poteze so podvržene tudi psihološkim in družbenim dejavnikom in soočene s tekmovalnim okoljem.
Veliko podjetij je začelo širiti svojo prodajno mrežo na tuje trge. Tekom let tako razvijejo tržne mreže, podjetja pa vse bolj delujejo na svetovni ravni. Začnejo usklajevati izdelke in strategije za skupno tržišče. Takšna tendenca je opazna tudi v industriji igrač.

Industrija igrač se spreminja ne samo na področju proizvodov, ampak tudi na področju trženja le-teh. Očitne spremembe v maloprodaji igrač dokazuje naraščajoče število veletrgovin, specializiranih prodajalcev in elektronsko poslovanje, pri čemer se vsak posebej bori za svoj delež tržišča. Po podatkih Združenja ameriških proizvajalcev igrač, je leta 2000 Wall-Mart zasedel prvo mesto na lestvici trgovcev na drobno s 17% tržnim deležem, kar je izrinilo podjetje Toys "R" Us s 16,8% tržnim deležem na drugo mesto, tretje pa je zasedlo podjetje Kmart in Target.

Podjetje Toys "R" Us se je v zadnjih nekaj letih znašlo v težavah predvsem zaradi zmede in slabe organizacije v prodajalnah ter vse slabšega odnosa prodajalcev do strank in potencialnih kupcev. Leta 1999 je podjetje izvedlo nekaj drastičnih sprememb kot so bile prenova prodajaln, nova reklamna kampanja in vključevanje zaposlenih v sodobne izobraževalne programe. Zdi se, da zaenkrat spremembe pozitivno učinkujejo. Po skoraj dveh letih upadajočega dobička so sredi novembra 2001 pri podjetju zabeležili največji napredek pri prodaji v zadnjih desetih letih, ko se je zaslužek v trtjem četrtletju povečal za 55%.

Napake enega največjih proizvajalcev igrač so v opomin vsem vključenim v masovno trženje, ki se še vedno trudijo ohraniti tradicionalne vrednote pomembne za ohranitev kvalitete, izbora, udobnosti in primernega odnosa med prodajalcem in kupcem. Sodobna družba se tudi dobro zaveda novih tržnih strategij na hitro rastočem področju industrije igrač in občuduje uspeh zamisli kot je novi oddelek v podjetju Toys "R" Us imenovan Imaginarium.

Novost v trgovini na drobno odlikuje predvsem velik poudarek na odnosu med prodajalcem in stranko, pri katerem je še posebej pomemben osebni stik in izkazovanje pozornosti. Večji poudarek je tudi na izobraževanju prodajalcev, pridobivanju spretnosti zavijanja daril in znatnejšemu številu reklamnih predstavitev. Zaradi močne konkurence se prodajalci trudijo povečati svoj tržni delež z intenziviranjem ponudbe, kar poskušajo združiti z že obstoječimi prednostmi masovne prodaje. Prodajalci na drobno se morajo vrniti k starim in preizkušenim načinom poslovanja, ki v ospredje postavlja kupca.

Podjetje Toys "R" Us je vso pozornost usmerilo na kupce. Da bi povečali prodajo in se približali mladim potrošnikom se podjetje drži svojega načrta, katerega osnova je širjenje tržnega prostora. Izmed desetih potencialnih trgov se je norveški izkazal za najbolj primernega.

Norveška lahko namreč ponudi mnogo več kot le fjorde, gorske verige in vikinško zgodovino. Zelo malo evropskih držav se lahko primerja z norveškim tehnološko visoko razvitim gospodarstvom. Strokovnost temelji na dolgoletnem soočanju s problemi, ki so posledica gorskega reliefa, subpolarnega podnebja, velikih razdalj, razpršene poselitve - torej dejavnikov, ki Norveško uvrščajo med pionirje novih komunikacijskih tehnik in naprednih tehnologij. Največji delež tehnološkega razvoja se odvija v okolici Osla, ki je postal središče znanja in posledično območje kopičenja prebivalstva in razcveta industrije ter poslovanja.

Že od nekdaj je imel v norveškem gospodarstvu veliko vlogo tuj kapital. Industrijske panoge se gotovo ne bi tako hitro razvijale brez posredovanja tujih investitorjev. Približno 70% delniškega kapitala v 2007 podjetijih, katerih večinski lastniki so tujci, je skoncentriranega na območju Osla. Norveška vlada pa še vedno z navdušenjem pozdravlja tuje investicije v naraščajoči poslovni sredini.

Norveška ima že sama po sebi veliko nacionalnih konkurenčnih prednosti, ki privabljajo številne tuje investitorje med katerimi so najopaznejše:

Gospodarstvo:

- močno in stabilno gospodarstvo
- trdno politično ozadje
- finančna vladna podpora

Poslovanje:

- dostop do tehnologije za pridobivanje nafte in zemeljskega plina na območju Severnega morja
- vodilna pomorska industrija
- tehnološka in surovinska industrija
- poceni energija
- članica EEA, GATT in WTO (Evropskega gospodarskega združenja, Skupnega dogovora o carini in blagovni menjavi, Svetovnega trgovskega združenja)

Infrastruktura:

- zelo dobro razvito prometno omrežje
- poceni in visoko razvito telekomunikacijsko omrežje
- razvit satelitski nadzor in napredna tehnologija

Ljudje:

- izobražena in kvalificirana delovna sila
- razvit in kakovosten izobraževalni sistem
- dobro znanje tujih jezikov
- visok življenjski standard

Glede na opravljene analize se je norveški trg izkazal kot najboljša priložnost za podjetje Toys " R" Us. Vsi kazalci, ki so bili osnova za izbiro trga, so se namreč izkazali kot dobre možnosti in prednosti (v primerjavi z ostalimi izbranimi državami), razen davčna politika, saj davki za blago in usluge prispevajo kar 38% v državni proračun.
Država ima 4,5 milijonov prebivalcev, od tega pa jih kar milijon živi na širšem območju Osla, kjer bo podjetje postavilo svojo prodajalno.

Izkazalo se je, da na Norveškem še ni prave konkurence na področju maloprodaje igrač. Obstajajo sicer manjše prodajalne igrač, še pogosteje pa igrače prodajajo trgovine z mešanim blagom. To je za podjetje velika prednost, saj bo tako na svojem področju edini specializiran zastopnik obravnavane specializirane panoge. Prav tako si bo lahko podjetje kot prvo ustvarilo dobre začetne možnosti in si utrdilo položaj pred prihodom konkurence.

Podjetje Toys "R" Us bi moralo vlagati na norveški trg na podlagi podeljevanja prednostnih pravic, na izbiri ustreznih distributerjev. Podjetje in distributer naj bi podpisala pogodbo o sodelovanju. Toys "R" Us tako namerava poslovati na osnovi prodajne pogodbe z nekaterimi izjemami.

Podjetje Toys "R" Us bo izbralo glavnega prodajnega zastopnika, ki bo odgovoren za vse ostale pooblaščene prodajalce v državi. Podjetje je izbralo nekaj uspešnih srednje velikih distributerjev. Nekateri se že zelo zanimajo za sodelovanje s podjetjem. Na osnovi pogovorov in pogajanj se bo podjetje odločilo za bodočega partnerja, ki bo postal tudi njihov glavni distributer.

V odnosu med matičnim podjetjem in distributerjem je zelo pomembno, da se obe strani zavedata svojih dolžnosti in odgovornosti, ki jih morata dosledno izvrševati. Distributer se mora držati poslovnega načrta, ki ga priskrbi podjetje, hkrati pa pa naj bi tudi prispeval k izboljšanju poslovanja z izvirnimi predlogi ter vzdrževal stike z matičnim podjetjem.
Distributer mora tudi delovati v skladu s petletnimi tržnimi napovedmi, ki jih je potrebno vsako leto obnoviti. Matično podjetje pa mora izbranega zastopnika podpirati in vzpodbujati na vseh področjih, ki so bila določena v pogodbi. Ključ do uspeha leži ravno v izpolnjevanju pogodbenih obveznosti.

Prvo leto naj bi distributersko podjetje prodalo za 13,2 milijona dolarjev izdelkov, naslednje leto pa naj bi prodaja narasla za 30%. V tretjem in četrtem letu je načrtovana 20-25% rast prodaje. Čeprav bodo vlaganja matičnega podjetja prva leta zelo visoka, je P/L analiza pokazala 0,4% dobiček v prvem letu poslovanja. Kumulativna P&L analiza pa je pokazala, da bo dobiček vsako leto narasel za 25-50%. Prvo leto bo matično podjetje Toys "R" Us pomagalo svojemu zastopniku s finančnimi sredstvi iz lastnega proračuna. Finančna poročila zadnjih nekaj let kažejo na zadosten presežek, leta 2002 pa se je zaslužek povzpel na 404 milijone dolarjev.

Z odpiranjem novih trgovin na Norveškem bo Toys "R" Us še povečal dobiček. Distribucijsko poslovanje na norveškem bo po petih letih poslovanja prispevalo 2-3% k skupnemu dobičku podjetja.

Toys "R" Us je postalo globalno maloprodajno podjetje. Da bi laho sledili strategiji svetovnega trženja, so morali raziskati možnosti za povečanje svojega tržnega prostora, kar pomeni predvsem prisotnost na tujih trgih. Eno takih je tudi norveški trg. Nadaljni korak podjetja bo vstop na tržišče kake druge tuje države izbrane po merilih, ki so relevantni in pomembni za industrijo igrač.