



Team #316

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Executive Summary

Innospark is a Lithuanian company founded in 2012 whose goal is to develop educational toys to stimulate children's creativity. The company's flagship product is the Educational Play Light Table, while the target countries are mainly Lithuania and Latvia; expansion in other European countries has started recently.

In Section 1: Description and Analysis of the current state, we have shortly described the company, its history and products; then we have performed an analysis of Innospark's competitive position. What emerges is that currently there are four main threats: local imitators, international competitors, traditional toys and electronic devices. In Section 2: Market Success Criteria, we have identified the main market characteristics critical to the company's success. In Section 3: Market analysis and Selection, we have selected Sweden as the target country, afterwards analysing its potential market, main competitors and CAGE Framework dimensions. In Section 4: Entry mode and Distribution, we have selected indirect export as the most suitable entry mode for Sweden, with sales agents as intermediaries for the schools' market and distributors and retailers for the private. In Section 5: Pricing, we have fixed the light tables' price for Sweden at 322.45 € through a 9-step model we have developed, differentiating for the distribution channels; finally, we have suggested the pricing strategies to adopt. In Section 6: Marketing, we have defined Innospark's total marketing budget for the first year of entry in Sweden (68,303 €), the key features of the marketing campaign that should be adopted, along with the relative costs and specific recommendations, and the allocation of the budget in the several spending categories; we propose digital marketing and educational fairs and conventions as the main tools. In Section 7: Funding, we have chosen to launch an equity-based crowdfunding campaign on the Swedish platform FundedByMe to gather 133,786.51 € to finance the company's expansion in Sweden; finally, we have provided a business plan and step-by-step guidelines to launch, organize and manage the campaign.

Section 1: Description and Analysis of the current state

1.1. Short description of the company: history and products

For Innospark, the essence of problem solving is creativity. Founded in Lithuania on June 2012, the company spent three months developing its products, website, marketing and pricing strategies before its first sale. Innospark's head project is Edu2, which designs, produces and sells educational products. The company's goal is to develop educational toys with a creative stimuli for children in order to help them to improve their problem-solving skills, self-confidence, imagination and creativity. The principal markets for Innospark are Lithuania and Latvia; in 2015, the company has started to sell its products to other European countries, such as UK, Estonia, Germany, Poland and Spain, and also US.

Innospark's flagship product is the Educational Play Light Table (239 €), a table made of white laminated plywood with plenty of unique accessories, such as the lights, designed for children at the age of primary and pre-school years. The company offers also other educational products such as creative furniture (Creative Furniture Toy Constructor Tetricube), a Sand and Water Tabletop, a Sensory Play Space Divider, creative sets (Sand Gardens and Nature), shapes (Forest Tales, Sea Tales, Letters and Numbers) and pom poms (Felt Wool Berries). A new product that Innospark is about to launch is Monai, a unique light platform that is trying to finance through a crowdfunding campaign on Indiegogo.

1.2. Competitive position analysis

As regards the light table, the flagship product, the company is the leader in its national market: Innospark's light table is the first educational play table for the 3-7 year-old Lithuanian children and it is used in over 80% of the kindergartens. Despite this, competition is still present. There are mainly four sources of competition in the market:

1. The biggest threat that the company has to face is represented by the local Lithuanian imitators, which copy Innospark's product and then sell it in the same national market.

2. Big international companies. In 2015, Innospark has started its internationalization process, selling its first goods outside the national borders; to compete abroad against the biggest companies in the industry, with high production volumes and lower costs due to economy of scale, can be very hard and challenging for such a small firm. The following are Innospark's main international competitors that sell in European countries:

Company	Home Country	Light table's Price [US \$]
Whitney Brothers	USA	315 - 395
JonTi Craft	USA	200 - 532
Alex Brand	USA	439
Guide Craft	USA	144 - 439

Table 1 Innospark's main international competitors who sell in Europe, their home country and light table's price [US \$]

Besides the physical presence in the international market, these competitors also sell their products on the web, through famous online channels such as Amazon.

3. Companies producing substitute goods - the more "traditional" toys companies, such as Lego or SmartMax, who are not direct competitors, as they don't offer the same products, but sell substitute goods that stimulate child's creativity and are widely used in kindergartens.

4. Indirect competitors, i.e. companies that sell tablets and other electronic devices, such as smartphones and PCs, with an increasing offer of apps specifically developed for children.

1.3. SWOT Analysis

What emerges from the SWOT Analysis (Figure 1) is that Innospark's main strength is its product itself: indeed, four out of five of the strengths that we have identified are related to the product characteristics, such as high quality, vision of the product as a concept and its links with the Reggio Emilia approach, an educational method that is spreading worldwide for its innovative ideas and flexibility in applying them. Thus, the unique and innovative features of the products and the bond with the Reggio Emilia philosophy represent Innospark's strongest competitive advantages. The main weaknesses of the company are connected with its low brand power and its organization, with unstructured business functions, especially marketing, logistics and distribution; this translates into costly and time-consuming processes.

The main opportunities for Innospark belongs predominantly to three categories: 1) Better exploitation of already existing conditions, such as the Reggio Emilia approach network as a vehicle to make international actors know the company, the web and its possibilities and the growing interests of families in educational tools; 2) Achievement of partnerships with local logistics distributors, regional administrations and international educational organizations; 3) Foreign markets and expansion abroad. The main threats for the company are represented by the four sources of competition we analysed in the previous paragraph.

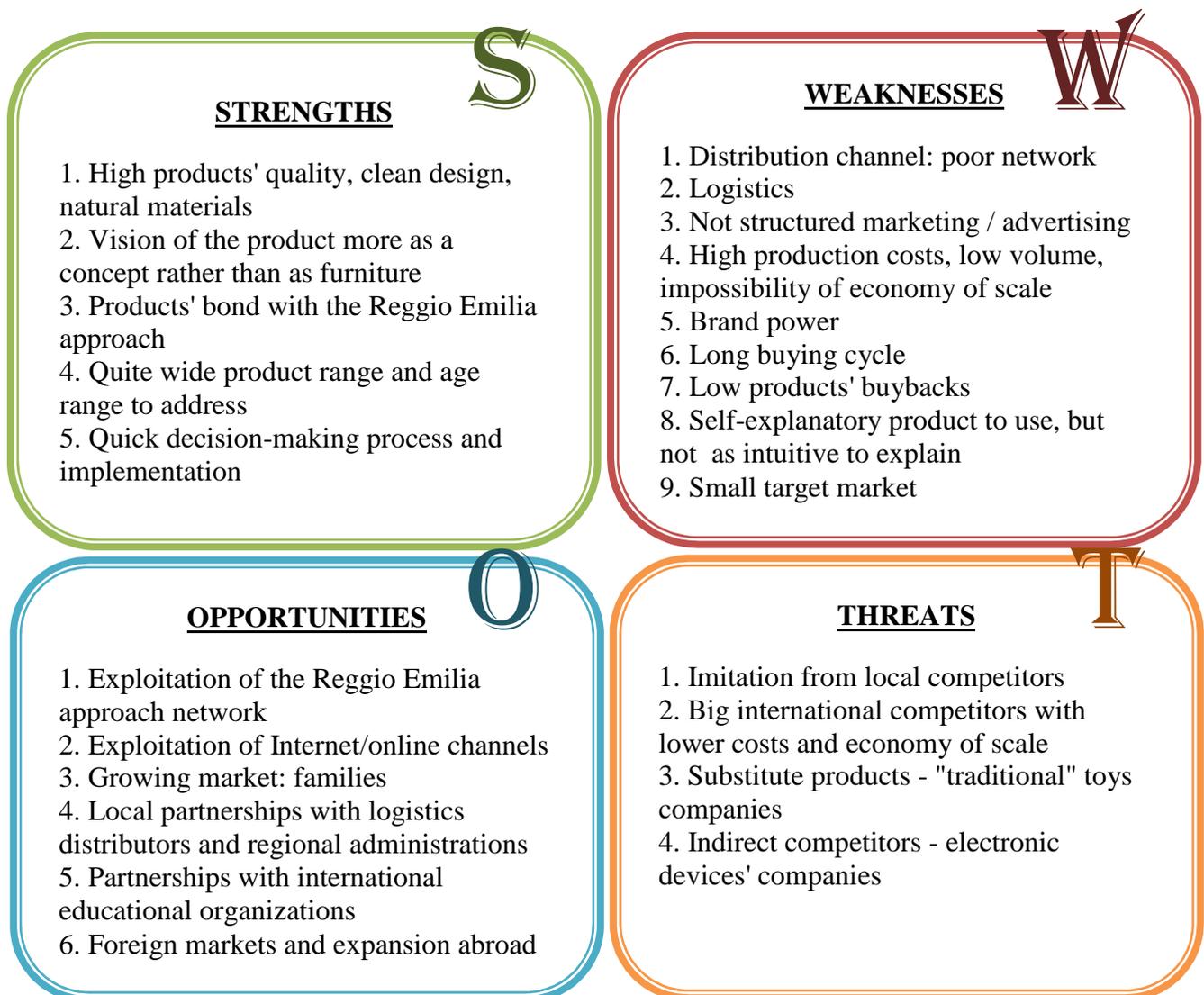


Figure 1 Innospark's SWOT Analysis

Section 2: Analysis of the Market Success Criteria critical to the economic success of Innospark's products

- Cultural environment and values:

1 - Importance of the education of the child and Reggio Emilia approach +

Educational level

Popularity of the Reggio Emilia approach is fundamental to Innospark, as its products are tightly connected to the values and the ideas behind this specific educational method; this connection is probably the company's strongest competitive advantage. Furthermore, Innospark has the concrete opportunity to exploit the connections and the network that this philosophy already has, to make its products known: the more known and established the Reggio Emilia approach is in a country, the more likely Innospark will succeed in that region.

This aspect is linked to a demographics factor, the educational level. The higher the level of education within a country, the stronger the focus on children education and the willingness to pay for such a technological product is likely to be. Parents with a higher education level are more likely to take the education of their children at a higher interest, spending money on the best and most effective tools to stimulate their children's creativity.

- Political and legal environment:

2 - Property rights and intellectual property right protection

At the moment, the main threat for the company is the local imitators, who not only steal the company's ideas, but also market share with it. Since choosing a market without any competitor is impossible, it would be Innospark's best interest to focus on markets where the intellectual property right protection is granted. Innospark sees its products more as a concept rather than simple furniture; thus, intellectual property right represents one of the biggest company's competitive advantage and needs to be protected. There are several ways to do so: patents, industrial design protection, geographical indications, and so on (European

Commission, 2016). In our opinion, Innospark should consider two options for its light table: the first one is to obtain either a national patent (granted by the competent national IP authorities in the respective country) or an European one (granted centrally by the European Patent Office), to get the exclusive right for the invention; the second is to register the product's design at OHIM, the Office of Harmonization of the Internal Market (European Union Intellectual Property Office, 2016), obtaining the exclusive right to use it and preventing any third party from doing so in the European Union for up to 25 years.

What emerges from this short analysis is that the European Union has an extremely solid and established system for the intellectual property right protection.

3 - Government policy toward trade and education administration

Regarding this factor, we believe that Innospark should operate inside the EU borders to take advantage of the free trade area. With little to no *trade tariffs* in selling its products abroad, the company will no further incur costs on top of the

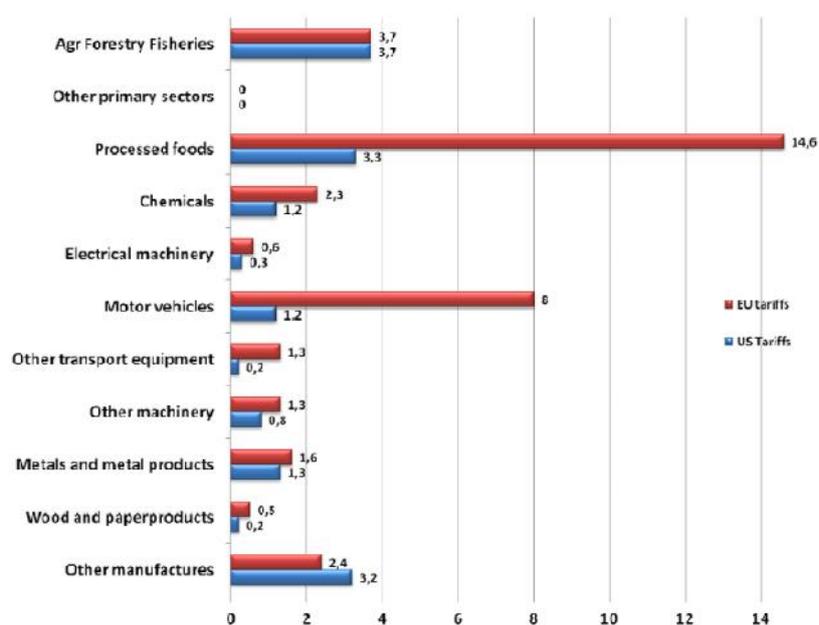


Figure 2 Trade tariffs on some kinds of production 2011 (Eurostat, 2011)

expensive production costs that it has to face for its high quality standards. On the contrary, the trade tariffs to export to the US, for instance, are not negligible, displayed by Figure 2.

Regarding the *education administration*, it is important to note that Innospark's main source of profit comes from schools. Thus, it becomes fundamental that the chosen country grants a certain degree of autonomy for schools to decide how to spend their funding: the more the autonomy and decentralization of schools' expenditure, the better for the company.

- Economic environment:

4 - Income level + Distribution of the wealth

In relation to Innospark's high quality products, their price needs of course to cover the high production costs. It is more likely that countries with a quite high *income level and GDP per capita* will buy more expensive products for children: the company's products need to be affordable in relation to the disposable income of the customers. Moreover, the wealthier a country, the more it is likely to care about education in general and to be willing to pay a premium price for the education of its children.

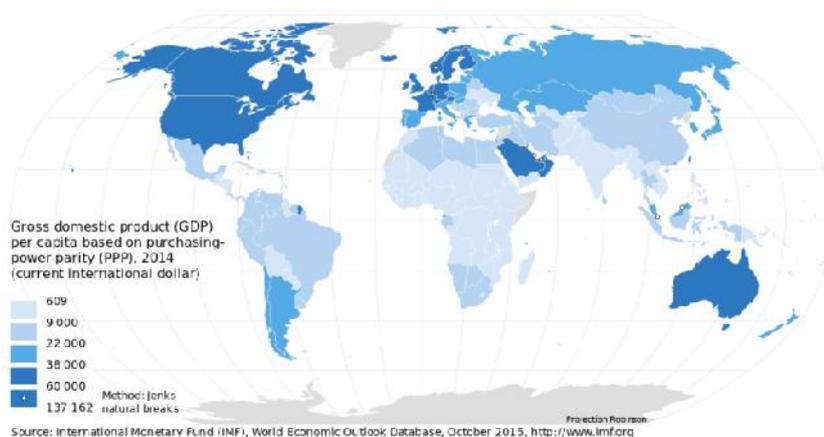


Figure 3 GDP per capita [current US \$] based on PPP, 2014

For instance, Innospark's light table is priced 239 €, i.e. \$ 272.30¹. Considering the Lithuanian GDP per capita, \$ 16,489.7 in 2014², the product results quite affordable, with a reasonable

price for that market. The average GDP per capita of the EU was \$ 36,447.9 in 2014², remarkably higher than Lithuania's. This opens an enticing opportunity for the company to enter and excel in the European regions, possibly better than in its home market (Figure 3).

In addition, the more equal the *distribution of the wealth* in a country, the more families are likely to afford Innospark's products. This needs to be considered together with the income level: if a country's GDP per capita suggests that its population could afford the product, but there is a strong disequality in the distribution of wealth, with many poor families and a few rich ones, the company is more likely to sell a smaller number of products rather than when the majority of the families has an income near to the country's average.

¹ (Yahoo! Finance, 2016)

² (World Bank, 2014)

Section 3: Market analysis and Selection

- **Step 1: Additional minor factor** to take into account in the analysis: Age level - the younger the population of a country, the better for Innospark.
- **Step 2: Preliminary analysis**. As a result of the analysis performed in Section 2, it's clear that the **European Union** should be Innospark's choice of market to expand in. Indeed:
 - Intellectual property right: regulated by supra-national EU laws / common patent.
 - Government policy toward trade: free trade area within the EU.
- **Step 3: Selection of the four most promising countries**. Considering all the mentioned Key Success Factors, we have selected the following European countries: **Netherlands, Sweden, Denmark and France**. These countries are the ones for which our KSFs' values are best among all the European Union. In particular, we have chosen only one country for the BeNeLux region (Belgium, Netherlands, Luxemburg) because it would be a less risky strategy to begin entering only one of them to test the reaction of the market, and then possibly expand to the whole region; we chose Netherlands because it's the one that fits best the selected specifications. A similar reasoning has been conducted for Scandinavia (also, Norway is not an EU member). We haven't included Poland in the analysis for two reasons: first, Innospark has already started to export there, and we are looking for a new country; secondly, the KSFs suggest that there are countries with better values.
- **Step 4: Analysis and comparison of the four chosen countries** using the selected market success criteria. For each market success criteria, we have chosen the proxy or measure that in our opinion best represents that factor, and we have established of a ranking of the countries by giving them a score from 1 (worst country) to 4 (best country). Of course the following table doesn't include the two KSFs considered in our preliminary analysis, the intellectual property right and the government policy toward trade, because they are "non-differential" within the EU (the same regulations apply for all the four chosen countries).

MARKET SUCCESS CRITERIA	PROXY/MEASURE	COUNTRY				
		Netherlands	Sweden	Denmark	France	
Importance of the education of the child and Reggio Emilia Approach	Presence of the country in the Reggio Children International Network ³	Yes	Yes	Yes	No	
		4	4	4	1	
Educational level	a) Share [%] of the 25-54 year-old population (proxy of the parents with little children) in 2014 with ⁴ : 1. Secondary and post-secondary education 2. Tertiary education	1. 42.6 2. 36.8 Sum: 79.4	1. 45.2 2. 41.4 Sum: 86.6	1. 43.8 2. 38.4 Sum: 82.2	1. 44.0 2. 37.0 Sum: 81.0	
		1	4	3	2	
		b) Education expenditure [% on GDP] in 2012 ⁵	5.9	7.4	8.8	5.7
		2	3	4	1	
Government policy toward education administration	Decentralization of schools' expenditure [centralized or local]	Both	Local	Local	Centralized	
		2.5	4	4	1	
Income level	GDP per capita in 2014 [nominal \$] ⁶	52,138.7	58,898.9	60,718.4	42,725.7	
		2	3	4	1	
Distribution of the wealth	Gini coefficient in 2012 [on a scale from 0 to 100, where 0 represents perfect equality and 100 perfect inequality] ⁷	28.0	27.3	29.1	33.1	
		3	4	2	1	
Age level	Share [%] of the 0-14 year-old population in 2015 ⁸	16.73	17.12	16.77	18.66	
		1	3	2	4	
TOTAL SCORE:		15.5	25	23	11	

Table 2 Comparison of the four chosen countries using the selected market success criteria

According to our analysis, the total score, given by the vertical sum of the partial scores, indicates Sweden as the most promising country to enter in. Furthermore, Sweden is promoting a project founded by the EU and coordinated by European Schoolnet (European Schoolnet, 2011) that aims to introduce new technologies and ICT in the schools, in order to

³ (Reggio Children, 2016)

⁴ (Eurostat, 2014)

⁵ (Eurostat, 2012)

⁶ (World Bank, 2014)

⁷ (World Bank, 2012)

⁸ (CIA - Central Intelligence Agency, 2015)

develop innovative educational methods for the future. This project represents a great opportunity for Innospark to propose its innovative light table as the educational tool of the future. For these reasons, we have chosen **Sweden** as the country with the greatest potential.

3.1. Analysis of the selected country: Key market characteristics to know

▪ Potential Market:

- Schools: Children from 1 to 6 year olds can attend kindergartens in Sweden.

a] Number of 1 year-old children in Sweden in 2015 ⁹	117,932
b] Number of 2 year-old children in Sweden in 2015 ⁹	117,126
c] Number of 3 year-old children in Sweden in 2015 ⁹	117,959
d] Number of 4 year-old children in Sweden in 2015 ⁹	117,323
e] Number of 5 year-old children in Sweden in 2015 ⁹	121,939
f] Number of 6 year-old children in Sweden in 2015 ⁹	118,812
g] Share of children attending kindergartens in Sweden in January 2016 ¹⁰	55% under the age of 3 96% from the age of 3 to 6
h] Number of children attending kindergartens in Sweden ¹¹	586,274
i] Number of kindergartens in Sweden ¹²	~ 21,000
j] Number of children for each kindergarten in Sweden	$h / i = 28$
k] Estimated number of children per Innospark's light table	6
l] Estimated number of Innospark's light tables (and so Sand and Water tabletops and accessories) per kindergarten ¹³	$j / k = 4.67$
m] Estimated number of Innospark's light tables in Sweden (Schools' Potential Market)	$l \cdot i = 98,070$

Table 3 Estimation of the Swedish Schools' Potential Market for Innospark [pieces]

- Private: Since the light table is a collective and durable good, that lasts for over 10 years, we assume that each family would buy only one light table, regardless the number of children it has. For the same reasons, we assume that only families with at least a 0-5 year-old child would be willing to buy it, excluding the 6 and 7 year-old children, that in our opinion are already too old to justify such a long-term and durable investment for a family.

Number of families with at least a 0-5 year-old child in Sweden in 2014 ¹⁴ (Private Potential Market)	522,718
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Table 4 Estimation of the Swedish Private Potential Market for Innospark [pieces]

⁹ (Statistics Sweden, 2015)

¹⁰ (European Union, 2016)

¹¹ $a + b \cdot 55\% + c + d + e + f \cdot 96\%$

¹² (Educational CountryFile, 2008)

¹³ Considering that Innospark estimates an average purchase for a Lithuanian customer as 2 light tables, 2 Sand and Water Tabletops and 2 accessories, 4.67 of each of them seems a reasonable forecast for the Swedish market, where the number of children per kindergarten is way bigger than in Lithuania.

¹⁴ (Statistics Sweden, 2014)

If we consider that Sweden has one of the lowest Gini coefficient, 27.3 in 2012, we are confident that the great majority of these families could potentially afford the product.

- **Main competitors**: The same ones of Section 1, except for the local imitators, that can be prevented adopting the suggestions about intellectual property right provided in Section 2.
- **Analysis of the country**: Our aim is not as much to provide a complete and thorough investigation on Sweden, rather than to focus only on the information relevant to Innospark.

- **CAGE Framework**

- **Cultural**

Evaluation of Hofstede dimensions: Sweden

vs. Lithuania. As displayed by Figure 4 (The Hofstede Centre, 2016), there is a certain cultural proximity between the two countries. Specifically, Sweden has a more decentralized power and feminine society, lower uncertainty avoidance and higher indulgence.

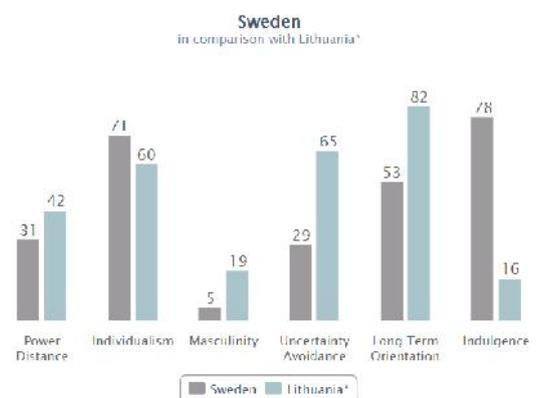


Figure 4 Hofstede dimensions of Sweden and Lithuania

HDI: Human Development Index. The Swedish HDI is 0.907 (on a scale from 0 to 10), the 14th higher in the world; Lithuania's is 0.839, ranking 37th in the world¹⁵. This implies that both countries have high life expectancies, GDP per capita and level of education.

Kindergartens in Sweden. Children until 5 years old have a guaranteed place in kindergartens. The great majority of them attends kindergartens, to allow parents to work, and spend great part of their day in the school (kindergartens work from 6:30 am to 6:30 pm). Children have much autonomy and playing is considered the most important tool to learn.

- **Administrative**

The Swedish school system and the fundamental role of the Municipalities. The high quality of the Swedish education system comes from one of the largest public expenditure

¹⁵ (United Nations Development Programme, 2015)

within the EU (European Commission, 2015), that has been fully decentralized to the 290 Swedish municipalities since the 1990s, with both municipalities and schools having a high degree of autonomy on resource allocation. The 97% of the investment is public, regardless of whether education is delivered through municipal or independent schools. Each municipality decides how much of its funds to give to schools, according to the possibilities given by its balance sheet; pre-schools and schools account for more than 40% of the municipal budget. This type of environment is ideal for Innospark: it allows to negotiate orders with the single municipalities and schools, with easier negotiation processes and more chances to succeed.

➤ **Geographic**

Size of the country. Sweden is the third largest country in the EU - seven times bigger than Lithuania -, with a population of nearly 10 million - three times more than Lithuania's.

Physical proximity. The geographical proximity between Sweden and Lithuania will certainly have positive impacts on transportation costs, delivery time and affidability.

➤ **Economic**

Currency. Despite Sweden is a EU member, its current currency is the Swedish Krona.

Imports. Imports of goods/services accounted for 40.8% of Sweden's GDP in 2014 ¹⁶.

Ease of doing business. Sweden is the 8th country in the world in terms of ease of doing business and the 17th in terms of trading across borders (World Bank Group, 2016).

Commercial formalities and procedures are easy to undertake.

○ **Additional aspect: Legal**

The Swedish legal system is balanced, sound, transparent and reliable. Contracts are standardized and documents are often used for simple procedures. The tax system is direct and corporate tax is amongst the lowest in Europe; the country applies contribution exemptions and authorizes total tax deductions on interest (GlobalTrade.net, 2014).

¹⁶ (World Bank, 2014)

Section 4: Entry mode and Distribution

As a preliminary consideration, Sweden has one of the lowest country risk in the world (PwC - PricewaterhouseCoopers, 2015). In this case, the other relevant dimensions to consider when choosing the entry mode come from Innospark's primary needs at this point:

- Maintain the products' high quality
- Guarantee intellectual property right protection Low spillovers
- Low upfront investment and required resources (financial capabilities and personnel), due to the company's small size Low cost and managerial complexity

In particular, the last point is a binding constraint that limits our choice considerably; thus, acquisitions, greenfield investments, wholly owned subsidiaries, FDIs and management contracts are not viable entry modes for the company at this stage.

▪ Which entry mode to choose?

Licensing Franchising	<ul style="list-style-type: none"> • Not suitable for such a high sales potential as estimated • Intellectual property could be put in danger • Risk of poor quality management
Contract manufacturing	Risk of poor quality of the products
<u>Exporting</u>	<ul style="list-style-type: none"> • Coherent with the company's small size • Low amount of required resources • Very low risk of losing intellectual property • Attractive for the benefits given by the free trade area <p style="text-align: center;"><u>Most suitable entry mode at the moment</u></p>

Table 5 *Viable entry modes for Innospark in Sweden and Selection*

For the future, if the sales in Sweden will be as high as expected, Innospark could consider to switch to contract manufacturing and/or to open a Swedish sales subsidiary.

▪ Which type of exporting to choose?

Export Trading Company (ETC)	Not suitable for recurring transactions
Export Management Corporation (EMC)	<ul style="list-style-type: none"> • Added costs and higher selling prices • Little to no quality control on export strategies
"Piggyback" exporting	Risk of brand erosion
<u>Indirect exporting</u>	<u>Most suitable entry mode at the moment</u>

Table 6 *Viable types of exporting for Innospark in Sweden and Selection*

▪ **Which intermediaries to choose?**

CHOSEN INTERMEDIARY FOR EACH MARKET	REASONS of why they should be the best choice for Innospark	KEY FEATURES OF THE AGREEMENT that should be proposed to the intermediary
SCHOOLS' MARKET: SALES AGENTS	<ul style="list-style-type: none"> • Their knowledge of the market, business practices, language, laws, culture. • Importance of explaining to the customers the connection with the Reggio Emilia philosophy. • Direct demonstration as the most effective sales method so far. • Allow more accurate identification of kindergartens and their needs. • Grant guidance while negotiating with public institutions such as schools and municipalities. • Dedicated effort for the schools' market as the largest source of profits. • Particularly delicate, time-consuming and resource-demanding transactions, crucial negotiation because of the large order's size. • No need of after sale service. 	<ul style="list-style-type: none"> • Commission-based reward, getting a percentage only when the sale is made, given the long times (sometimes more than a year) and difficulties of the negotiation. • Require a training period for the agents before starting to sell, given that a comprehensive knowledge and understanding of the Reggio Emilia philosophy is absolutely required to sell Innospark's products.
PRIVATE MARKET: DISTRIBUTORS AND RETAILERS	<ul style="list-style-type: none"> • Direct approach is too costly for such a large potential market as the private segment estimated in Section 3. • The distributors are already well known by the customers, thus Innospark can exploit their reputation. 	<ul style="list-style-type: none"> • Exclusive distribution, i.e. dealing with a limited number of distributors who own the sale rights for a specific area. • Not grant exclusivity to a single distributor, but rely on 2-3 of them. • Not yield the ownership right on the products completely to the distributor, instead keep the leverages and take care directly of the pricing, marketing, etc. to address to the final consumer. • Insert a provision about intellectual property right protection. • Agreement for a dedicated space within the retailer, where kids can test the light table directly and play with it, in order to raise brand knowledge. • Use also online retailing and online channels.

Table 7 Choice of the intermediaries for each Swedish market segment, reasons of the choice and key features of the agreements

Possible exception: We don't exclude any opportunity a priori; if there is the possibility to achieve an agreement with a distributor that sells specifically and only to schools and kindergartens and has a strong and long-lasting relationships with them and with the municipalities, Innospark should take also this opportunity into account.

▪ **Ranking of three potential sales agents/distributors/retailers in the Swedish market in terms of their potential**

○ **Sales agents**

📌 Online platform for sales agents: **SalesAgentHub.com** (www.salesagenthub.com/)

📌 Needed Pre-requisites: 1. Country covered: Sweden; 2. Home country: Sweden (to benefit from their knowledge of the local market); 3. Compensation: Commission-based sales.

📌 Ranking of the chosen sales agents, contacts and useful information:

Rank: 1	
Sales Agent ID	AGT26023
Sales Agent profile	www.salesagenthub.com/index.php?file=c-salesagentdetail&iSalesRepId=26023
Product lines	"We have long experience in technical and or complex sales all over the world. We have a lot of contacts and have experience in South America, Asia and Europe including Russia. Looking for companies that want to be in new markets."
Target customers	Technical or other products
Categories	Pretty much any category of products
Experience	More than 5 years
Education	Bachelor degree
Agent type	Individual sales agent

Table 8 Sales Agent #1, useful information

Rank: 2	
Sales Agent ID	AGT25724
Sales Agent profile	www.salesagenthub.com/index.php?file=c-salesagentdetail&iSalesRepId=25724
Product lines	"We have a lot of contacts in different fields. From big Swedish manufactories to smaller Danish ones in different fields. Honesty is something we value, down to earth, and driven."
Target customers	From smaller companies to big ones, bigger stores and multinationals
Categories	Pretty much any category of products
Experience	More than 5 years
Education	Bachelor degree
Agent type	Multi-agent sales agency (3 agents)

Table 9 Sales Agent #2, useful information

Rank: 3	
Sales Agent ID	AGT00706EU
Sales Agent profile	www.salesagenthub.com/index.php?file=c-salesagentdetail&iSalesRepId=7706
Product lines	Home decor and textiles for private homes and interior projects
Target customers	Interior stores and interior architects
Categories	Arts, Crafts, Gifts / Electrical and Lighting / Home & Office
Experience	1 - 5 years
Education	Post Graduate
Agent type	Multi-agent sales agency (2 agents)

Table 10 Sales Agent #3, useful information

○ Distributors

Rank: 1	Lekolar AB ¹⁷
Webiste	www.lekolar.com/en/corporate-start
Contacts	Head Office: info@lekolar.com Swedish Lekolar AB: kundtjanst@lekolar.se / Phone: +46 479-198 00
Target market	Schools and pre-schools
Countries served	Nordic region: Norway, Denmark, Finland, Sweden
Positioning on the market	Market leader in the Nordic region in creating learning environments in schools and pre-schools by supplying educational products, furniture and equipment, consumables and arts & crafts materials.
Head Office location	Osby, Sweden
Interesting info	<ul style="list-style-type: none"> • Customers: local municipalities, schools and pre-schools who have signed frameworks agreements with them, following public procurement procedures. • Many employees are former or pre-schools teachers, pre-school teachers or recreation instructors. This enables Lekolar AB to interact with educational staff on their level and better understand their situation. • Wide range of products (over 10,000) on the Nordic market. • Sweden accounts for 45% of Lekolar's sales.
Experience	40 years

Table 11 Distributor #1, useful information

Rank: 2	Lär & Lek
Webiste	www.lar-lek.se/en
Contacts	info@lar-lek.se / Phone: 004640543343
Target market	Educational market
Countries served	Sweden
Head Office location	Oxie, Sweden
Interesting info	<ul style="list-style-type: none"> • Goal: to continually offer innovative products. • The products are carefully selected and there is a great emphasis on quality, simplicity and safety. • Packages are generally dispatched within 2 days after receipt of payment. • Presence of an online store.
Experience	17 years

Table 12 Distributor #2, useful information

○ Retailers

Rank: 3	TOP-TOY
Webiste	www.top-toy.com
Contacts	lbj@top-toy.com (specific contact for new suppliers) / Phone: +45 4616 3656
Target market	Children's toys - Private market
Countries served	Northern Europe: Denmark, Scandinavian countries, Iceland, Germany
Positioning on the market	Industry leader: largest retailer for children's toys and related products in Northern Europe.
Head Office location	Denmark
Sales Channels	1. TOP-TOY: Retail business / 2. BR: Retail arm / 3. TOYS"R"US: Retail arm. Presence of an online store.
Experience	53 years

Table 13 Retailer #3, useful information

¹⁷ Lekolar AB, with its strong and consolidated relationships with municipalities and pre-schools, is exactly the kind of exception we discussed above regarding the schools' market. With this distributor, for the future we can think to exploit its established network and extend the nature of our agreement also to Finland and Denmark, our second choice for the country, gaining a privileged access to the Nordic regions.

Section 5: Pricing

Since we decided to keep and take care of the leverages directly, instead of leaving them to our intermediaries, we have to fix a price that properly address the final consumer.

The three typical pricing methods (cost plus methods, benchmarking and value pricing) are not applicable here (we don't know the exact cost structure of Innospark's light table, there is no direct competitor in Sweden, the innovative product and untapped market makes it difficult to apply value pricing); thus, to determine the price of the Educational Play Light Table for the Swedish market, we have developed a 9-step pricing model. As a result of essential information missing (such as production costs), this model should be used with caution and intended more as a strategy and way to proceed, rather than a specific, final price.

- **Step 1: Start from the Lithuanian price** on Edu2 website: 239 €
- **Step 2: Nominal price.** Considering only the different currencies and nominal exchange rates ¹⁸, we obtain the following nominal price:

	Euro [€]	US Dollar [\$]	Swedish Krona [SEK]
Nominal exchange rate	1	1.1394	9.2694
Nominal price	239	272.30	2,215.38

Table 14 Nominal exchange rate on April 2nd, 2016, and resulting nominal price of Innospark's light table

Step 3: Maximum price that Swedish consumers would be willing to pay according to their purchasing power: Real price. We need to consider that the purchasing power of consumers is not the same in every country; even for countries with the same currency, what you can buy with 1 € in Lithuania is different from what you can buy with 1 € in Germany, for instance. For this reason, we suggest to consider a certain Purchasing Power Parity (PPP) when fixing the product's price for Sweden ¹⁹.

¹⁸ (Yahoo! Finance, 2016)

¹⁹ A small clarification: Since Lithuania adopted the Euro only on January 1st, 2015, data from online sources regarding its PPP refer to the previous Lithuanian currency, thus they are not applicable to the current light table's price, which is priced in Euro. For this reason, we assume that the PPP in Lithuania can be reasonably approximated using the comparable PPP of a similar Baltic State, Estonia, which adopted the Euro - January 1st, 2011.

To calculate the real price that Swedish consumers would be willing to pay according to their purchasing power, three different methods can be used:

	Swedish Krona [SEK]	Euro [€]	US Dollar [\$]
First method	3,623.24	389.57	444.19
Second method	3,490.72	375.32	427.94
Third method	3,359.68	361.23	411.88

Table 15 Real prices that Swedish consumers would be willing to pay for Innospark's light table according to their purchasing power

- **First method:** use the comparative price levels, that are the ratios of PPPs for private final consumption expenditure to exchange rates: 100 €for Estonia and 163 €for Sweden ²⁰. This means that the price level in Sweden is 63% higher than in Estonia, i.e. that you would spend 163 €in Sweden to buy the same basket of goods and services that you can buy for 100 €in Estonia. Thus, the real price for the product in Sweden is: $239 \text{ €} \cdot 1.63 = 389.57 \text{ €}$.
- **Second method:** use the Purchasing power parity for private consumptions (since Innospark's light table belongs specifically to this category) in terms of national currency units on US Dollars: 0.64 €/€ for Estonia and 9.347533 SEK/\$ in 2014 ²¹. This method results in a real price of: $\frac{239 \text{ €}}{0.64 \text{ €/€}} \cdot 9.347533 \text{ SEK/€} = 3,490.72 \text{ SEK}$.
- **Third method:** use "Salary Converter" (salaryconverter.nigelb.me), an online application that uses an MIT licensed code and World Bank data to convert automatically the real value of a salary in one country to the real value it would have in another country.
- **Validation of the results:** We believe that the relatively little differences between the prices using the three different methods are a result of approximations and different times at which data were collected (2016 the first, 2015 the second, 2014 the third). Given that, we are convinced that the results we have found are reliable and can be used moving forward. A higher price point for the Swedish market is coherent with the analysis performed in Section 3: Sweden has higher economic and cultural standards than several European countries.

²⁰ (OECD.Stat - Organisation for Economic Co-operation and Development, 2016)

²¹ (OECD.Stat - Organisation for Economic Co-operation and Development, 2014)

In conclusion, we believe that the minimum price among the three calculated, 361.23 € should be considered as the maximum price Swedish consumers would be willing to pay.

- **Step 4: Minimum price value the company could afford in the worst case scenario: Shipping costs.** Currently, Innospark ships its products through normal mail. Let's consider the worst case scenario, i.e. the company would not succeed in achieving a partnership with a Swedish logistics provider and would have to use a courier, as it does at the moment. To estimate shipping costs under this scenario, we have used the data from one of the most famous couriers, DHL. The distance between Lithuania and Sweden is considered as "Zone 2" (DHL, 2016), while we assume that the light table's weight comprehensive of its cardboard box and plastic tapes/air cushions packaging, ready for the shipping, is likely to be less than 5 kg (material: laminated plywood). Using these data, we would have a maximum cost of 821 SEK for shipping in 3-4 days, which converts to a total of 88.27 €(DHL, 2016). According to this scenario, the minimum price that Innospark could offer is: $239 \text{ €} + 88.27 \text{ €} = \underline{327.27 \text{ €}}$

Swedish Krona [SEK]	Euro [€]	US Dollar [\$]
3,043.81	327.27	373.15

Table 16 Minimum price that Innospark could offer for the light table in the worst case scenario, i.e. shipping through courier

- **Step 5: Choice of a price level.** With the previous steps, we have determined a price range for the light table: [327.27 € 361.23 €].

Despite consumers in Sweden would be willing to pay such a high price, a difference of 122.23 € with the Lithuanian price seems excessive, also considering that prices tend to be similar within the EU, especially with such a strong geographical proximity between the two countries. Furthermore, we know from market research that the determining factor for the Swedish consumers is price; since costumers tend to obtain information from online before buying something, especially consumer durables as Innospark's light table (Santander, 2016), they would be hesitant to purchase the light table given the large difference with the price on Innospark's website, and question the potential of buying it at the Lithuanian price.

For these reasons, we recommend choosing the minimum price of 327.27 € as the price to adopt in Sweden. This price is aligned with Innospark's intended positioning strategy: pricing at premium to competitors because the company's light table is a completely different product from other competitors', with unique features linked to the Reggio Emilia philosophy.

- **Step 6: Adjustments.** For psychological reasons, we prefer to lower the Swedish price from 3,043.81 SEK to 2,999 SEK. The difference is 4.82 € which is reasonable for the amount of light tables we plan to sell: this is not a cheap mass produced product, so this difference would not result in a substantial loss of revenues; on the contrary, according to "The Psychology of Pricing: A Gigantic List of Strategies" (Kolenda, 2015), we are confident that this adjustment will increase the sales. Also, the difference with the Lithuanian price is nearly 83 € less than the normal shipping costs: this will prevent Swedish consumers from buying directly from the website at the Lithuanian price. In conclusion, the suggested price of Innospark's Educational Play Light Table for final consumers in Sweden is:

Swedish Krona [SEK]	Euro [€]	US Dollar [\$]
2,999	322.45	367.66

Table 17 Price of Innospark's Educational Play Light Table for the final consumers in Sweden

- **Step 7: Differentiation: Prices that Innospark should propose to its sales agents, distributors and retailers.** We found two sources to guide our strategy about this issue:

1. According to a CBI market survey on the toy industry in Germany, "The toys and games market in Germany" (CBI - Customer to Business Interaction, 2007), the average margins that intermediaries usually get on the manufacturer's price in the specific industry are 2-5% for sales agents, 15-25% for distributors and 50-100% for retailers.

2. According to a LIUC (one of the most famous Italian universities) study on the toy industry in Europe, "Il mondo dei giocattoli" (Creazza, Dallari, & Gattolin, 2008), the average margins are: 5-10% for sales agents, 25-40% for distributors and 30-40% for retailers.

Taking into account both of the studies, we believe that the average values can be considered as reasonable margins. Thus, Innospark should offer a commission of 5% on the final consumer's price on each sold light table to its sales agents, and a discount of 25% and 45% on the total sale respectively to its distributors and to the retailer.

Since the biggest sales' volume comes from schools, we are confident that Innospark will earn a high return with the chosen values; this also let us believe that such important discounts to distributors and to the retailer could be afforded. Finally, Innospark could adjust our suggested discount rates basing on its effective structure of production and transportation costs, once achieved a logistics partnership, assessing if it could actually afford these rates.

- **Step 8:** Extend the same step-by-step reasoning to the other company's products.

- **Step 9:** Pricing strategies. Innospark has a specific and quite strict policy on this issue: it doesn't offer frequent discounts to the final consumer because that would lower the value's perception of its products in the consumer's mind. This makes perfect sense considering that Innospark's products should be seen more as concept rather than simple furniture. Thus, we suggest to keep a fixed price policy to the final consumers as the *general standard*. We also suggest to keep as a standard a 50% discount on the accessories, both for schools and final consumers, if bought combined with the Educational Play Light Table. *Exceptional policies* that Innospark could think to adopt without compromising the perception of its products are:

- On the schools' market: Loyal customers programs and loyalty discounts for recurring purchases, giving also the high profits that the company should gain from that market. We suggest to offer a discount of 500 SEK, i.e. 53.76 €(about 17% of the price), on each purchased light table after the first sale. According to Innospark, the flow of new customers has been of about 90% in 2013 and 2014; thus, it's likely that this discounted price will be rarely applied, but still it will work as an incentive to purchase again from the company.

- On the private market: Increased discounts to distributors/retailers on huge quantities.

Section 6: Marketing

▪ Definition of the Total Marketing Budget recommended for the first year of entry

a] Schools' Potential Market ²²	98,070
b] Expected Innospark's market share on the schools' market in the first year of entry ²³	3%
c] Private Potential Market ²²	522,718
d] Expected Innospark's market share on the private market in the first year of entry ²³	~ 0%
e] Expected Quantity of sold light tables in the first year of entry ²⁴	2,942
f] Light table's Price ²⁵	322.45 €
g] Expected Revenues from light tables in the first year fo entry	$e \cdot f = 948,648$
h] Share of the expected revenues from light tables to allocate to the Marketing Budget for the first year of entry ²³	7.2%
i] Estimated Total Marketing Budget for the first year of entry	$g \cdot h = 68,303 \text{ €}$ = \$ 77,879

Table 18 Estimation of Innospark's Total Marketing Budget for the first year of entry in Sweden

We believe that the estimated marketing budget is coherent both with the company's inexistent brand and product awareness in Sweden and its financial capabilities. The given budget is not too expensive to finance or too little to be ineffective for its strategic efforts.

➤ To determine the expected market share on the schools' market, we have used two methods: a quantitative calculation as the starting point/maximum value in the best case scenario and a qualitative reasoning to determine the point value.

○ Quantitative method: starting point/maximum value in the best case scenario

We know that Innospark has a market share of over 80% on the Lithuanian schools' market; we also know from the company directly that the sales growth has been 37% in 2015 and that Innospark sold over 300 light tables in 2014.

²² From Section 3: Market Analysis and Selection - Potential Market

²³ Explanation in the text.

²⁴ $a \cdot b + c \cdot d = 2,942.1$

²⁵ From Section 5: Pricing

Assumption: In Section 5, we have suggested to offer schools a discount of 500 SEK (i.e. 53.76 €) on each purchased light table after the first purchase. From a legal and administrative point of view, as we said in Section 3, the schools' purchases depend on their respective municipality's budget; therefore, we think reasonable to assume that schools will purchase Innospark's products once a year. Thus, since the first sale is at full price, the calculations for the first year of entry will consider the light table's full price of 322.45 €. Also, as said in Section 5, the flow of Innospark's customers has been dominated by new costumers, giving the 90% of first purchases in 2013 and 2014; therefore, it is likely that the discounted price will be rarely applied even after the first year.

The reasoning we have done is the following. Let's suppose that a company sells X_1 units of its product in year 1, achieving a MS_1 market share; then it sells X_2 units of the same product in year 2, achieving a MS_2 market share. If the company's customers are all new and purchase the product only once (and we can approximate Innospark's case to this quite well, since, as said in Section 5, the flow of new customers has been of about 90% in 2013 and 2014), it's likely that there is the following type of correlation between the company's sales and market share: $X_1 : MS_1 = X_2 : MS_2$. Thus: $MS_1 = \frac{X_1}{X_2} \cdot MS_2$, where, in Innospark's case, $MS_2 = 80\%$, $X_1 = 300$ and $X_2 = X_1 + 37\% X_1 = 411$. Therefore: $MS_1 = \frac{300}{411} \cdot 80\% = 58.39\%$, that is an estimation of Innospark's market share in 2014. If we assume that the market share growth has been stable at $80\% - 58.39\% = 21.61\%$ per year since the beginning of the business in 2012 (this assumption doesn't pretend to be absolutely true; we prefer to keep a conservative attitude just for a calculation purpose, in order to have a starting point/value to reason on the Swedish market share), we can estimate the market share for the previous years of business as: $58.39\% - 21.61\% = 36.78\%$ in 2013 and $36.78\% - 21.61\% = 15.17\%$ in 2012 (first year).

- Qualitative method

For the following reasons, we consider reasonable to lower the estimated Lithuanian market share in 2012 at 3% in the Swedish Schools' market for the first year of entry:

1. Market size: Sweden has roughly 21,000 kindergarten, making it unrealistic even to contact all of them in the first year of entry;
2. New product: Innospark's product is completely new and innovative for the Swedish consumer, requiring time for users to fully comprehend its unique features and value;
3. Unknown company/brand: the company and the brand is completely unknown in Sweden, requiring time to raise brand knowledge;

4. Spread of the Reggio Emilia philosophy: from a cultural point of view, according to the Market Analysis we performed in Section 3, the Reggio Emilia approach is present but still has to be promoted, especially focusing on the link with Innospark's light table.

➤ To determine the expected market share on the private market, we have done the following reasoning. In Lithuania, the private market is extremely small compared to the schools' one; this is even more so the case for a brand-new country as Sweden. We believe that Innospark will be likely to receive not negligible revenues from the Swedish private market starting from the second year of entry. Also, we do not want to seem too optimistic in our expected revenues predictions for the private segment, provided that it is a second-class market for the company. As a result, we prefer to set our previsions and budget without relying too much on this unpredictable segment at this stage. Of course, this doesn't mean that the company will not address its efforts and marketing budget at all to this market; it just means that its efforts will take more than just one year to be rewarded.

➤ To determine the share of the expected revenues to allocate to the marketing budget, we have considered the last CMO Survey report (The CMO Survey, 2016), sponsored by Deloitte; firms usually allocate to the marketing budget these percentages on the revenues:

Industry	Type of customers
Education: 4.8%	B2C product: 9.5%
Manufacturing: 5.0%	

Table 19 Percentages on the company's revenues usually allocated to the marketing budget

We have decided to consider the average value of both the industry and type of customer. First, we took the average of the education and manufacturing industries, since Innospark's light table belongs to both of them, to get 4.9%. Then we calculated the total by averaging the total industry average, 4.9%, with the B2C percent, 9.5%, and arrived at a 7.2% total.

- **Key features of the marketing campaign**

The following first two Marketing spending categories address schools and privates together, the third and the fourth schools' market only and the last two private market only.

MARKETING SPENDING CATEGORY	SPECIFIC RECOMMENDATION	COST
<p>1. Participation in Education Tradeshows, Fairs and Events</p> <p><i>Objectives:</i> - Promote and make the Reggio Emilia philosophy and its link with Innospark known to the consumers, according to what we said in Section 3 - Let the children test and play directly with the company's products</p>	<p>➤ Formex <i>Location:</i> Stockholmsmässan - Stockholm International Fairs <i>Description:</i> Trade fair with Nordic interior design, gifts, delicacies, craft, interior textile, fashion, paper, toys and designed products for children (there is a specific category called "Kids & Toys"). <i>Days:</i> August 24th - 27th, 2016 <i>Website:</i> www.formex.se/?sc_lang=en <i>Contact for "Kids & Toys":</i> shara.said@stockholmsmassan.se <i>Application form:</i> www.formex.se/~media/files/formex/for-utstallare/artiklar/formex_anm_eng_aug_2016_klick.pdf</p> <p>➤ Skolforum <i>Location:</i> Stockholmsmässan - Stockholm International Fairs <i>Description:</i> Scandinavia's largest meeting place for the development of teachers and school principals. <i>Days:</i> October 21st - November 1st, 2016 <i>Website</i> (available in Swedish only): www.skolforum.com <i>Contact form:</i> www.skolforum.com/for-utstallare/kontakta-eventservice <i>Application form</i> for "Small Meetings": www.skolforum.com/~media/files/res_sm/for-utstallare/monterlosningar/monterpaket_small-meeting_2015.pdf</p>	<p>Application fee: 3,000 SEK Price: 1,280 SEK/sqm (min 9 sqm) Total: 14,520 SEK 1,583.51 € \$ 1,786.52 (Assumption: 9 sqm considered)</p> <p>Price: From 9 to 12 sqm: 795 SEK/sqm Total: 7,155 SEK 780.30 € \$ 880.34 (Assumption: 9 sqm considered)</p>
<p>2. Digital Marketing</p> <p><i>Objectives:</i> - Make consumers aware of the existence of the products - Raise brand knowledge - Convince consumers to search for further information about the company and its offering, according to the already cited propensity of Swedish consumers to search for information online before purchasing</p>	<p>➤ Email Marketing and Newsletters about the company and the Reggio Emilia philosophy <i>Suggested website</i> to create a newsletter: MailChimp, GetResponse, AWeber, IContact, ConstantContact. <i>Recommended frequency:</i> bi-weekly <i>Suggestion:</i> hire a specialized intern to design an effective newsletter.</p> <p>➤ Social Networks and Edu2 Website Update/Upgrade 1. Creation of specific <i>Swedish channels</i> with a more captivating design 2. Add the <i>Swedish language</i> choice to the already existing channels 3. Add <i>videos</i> on the Edu2 website. <i>Suggestion:</i> rely on the specialized intern to achieve an effective and captivating design. An alternative to the intern is to contact Proformica (website: http://proformica.com/en-index.php), Swedish market leader in Web design.</p> <p>➤ Digital and Online Advertising <i>Display advertising:</i> 1. Web banner ads (graphical ads displayed within a web page) 2. Frame ads (dedicated space in a web page) 3. Expanded ads (rich media frame ad that changes dimension) <i>Location of the ad on the page:</i> Side-box <i>Page on the website:</i> Home page <i>Nature of the website:</i> Educational and toys websites or websites for women <i>Contract length:</i> 6 months (renewal for the year) <i>Suggestion:</i> rely on the specialized intern to achieve an effective and captivating design. An alternative to the intern is to contact Proformica.</p>	<p>Average price per year: ~ 1,950 SEK ~ 213 € ~ \$ 240 Cost of the intern: none.</p> <p>Cost: none.</p> <p>Average price for a side-box ad on the home page website for a year²⁶: 97,531 SEK 10,636 € \$ 12,000 Choosing an educational and a toys website: 195,062 SEK 21,273 € \$ 24,000</p>

²⁶ (Quirk's - Marketing Research Media, 2016)

<p>3. Holding Seminars and Conventions about Innospark and the Reggio Emilia approach</p> <p><i>Objective:</i> Same as 1.</p>	<p>Meeting Rooms in Stockholm, Sweden: www.meetingsbooker.com/se/en/meeting-rooms/Stockholm%2C%20Sweden/?page=1&isearchscroll=1&zoom=13&latitude=59.33009323216523&longitude=18.064512649999983&uid=b469dc64-1902-4a46-bf77-f0c53779a811</p> <p><i>Frequency of the conventions/seminars:</i> Three times a month.</p>	<p>Average price for a meeting room: ~ 4,000 SEK ~ 436 €/ ~ \$ 492 For a year (4 meeting rooms to book): ~ 16,000 SEK / ~ 1,745 € ~ \$ 1,970</p>
<p>4. Advertising on Specialized Education Magazines</p> <p><i>Objectives:</i> - Make consumers aware of company's existence - Raise brand knowledge - Convince people to search for further information</p>	<p><i>Publishing company:</i> Egmont Kärnan AB <i>Head Office:</i> Malmö, Sweden <i>Description:</i> Egmont Kärnan publishes magazines for children and young adults (foreign rights available), comics for children and adults as well as games and activity sets for children. Egmont Kärnan is part of the Egmont group which publish magazines, comics, books, film, TV-programmes, textbooks, games and electronic entertainment. <i>Website</i> (available in Swedish only): www.egmontkarnan.se <i>Contact form:</i> www.egmontkarnan.se/contactus <i>Ad:</i> One page-ad <i>Design of the ad:</i> Use the Educational Play Light Table's pictures from Edu2 website (for instance: www.edu2.lt/en/files/2013/05/EngagedPlayLightTable.png) <i>Suggestion:</i> rely on the specialized intern to design a captivating ad.</p>	<p>Available information in Swedish only.</p>
<p>5. Advertising on Women's and Lifestyle Magazines</p> <p><i>Objectives:</i> - Make consumers aware of the existence of the products - Raise brand knowledge - Convince consumers to search for further information about the company and its offering</p>	<p><i>Women's Magazine: Se & Hör</i> <i>Description:</i> One of the best selling magazines in Sweden, published by Allen Media. <i>Frequency of publishing:</i> Twice a week <i>Ad:</i> One page-ad once a week <i>Design of the ad:</i> Use the Educational Play Light Table's pictures from Edu2 website (for instance: www.edu2.lt/en/files/2013/05/EngagedPlayLightTable.png) <i>Suggestion:</i> rely on the specialized intern to design a captivating ad.</p>	<p>Confidential information.</p>
<p>5. Advertising on Women's and Lifestyle Magazines</p> <p><i>Objectives:</i> - Make consumers aware of the existence of the products - Raise brand knowledge - Convince consumers to search for further information about the company and its offering</p>	<p><i>Lifestyle Magazine: Hem Ljuva Hem</i> <i>Head Office:</i> Stockholm, Sweden <i>Description:</i> A lifestyle magazine published in Stockholm by Station 5 AB, a subsidiary of the Plaza Publishing Group. <i>Website</i> (available in Swedish only): www.hemljuvahem.org/ <i>Contact:</i> redaktionen@hemljuvahem.info <i>Ad:</i> Full page-ad <i>Design of the ad:</i> Use the Educational Play Light Table's pictures from Edu2 website (for instance this one: www.edu2.lt/en/files/2013/05/EngagedPlayLightTable.png) <i>Suggestion:</i> rely on the specialized intern to design a captivating ad.</p>	<p>Cost for a full page-ad²⁷: 39,500 SEK 4,308 € \$ 4,860</p>
<p>6. Dedicated place in the retailer</p> <p><i>Objective:</i> Let the children play directly with the products.</p>	<p>Two mutually exclusive alternatives:</p> <ul style="list-style-type: none"> ➤ Small dedicated place in the chosen retailer, TOP-TOY ➤ Make a Shop-in-Shop agreement with the retailer, following the example of other main companies of the sector, such as Best Buy²⁸. 	<p>Confidential information.</p>

Table 20 Key features of Innospark's marketing campaign in Sweden: marketing spending categories, specific recommendations and costs

²⁷ (Sveriges Tidskrifter, 2016)

²⁸ (Forbes - Trefis Team, 2015)

Marketing Budget Allocation

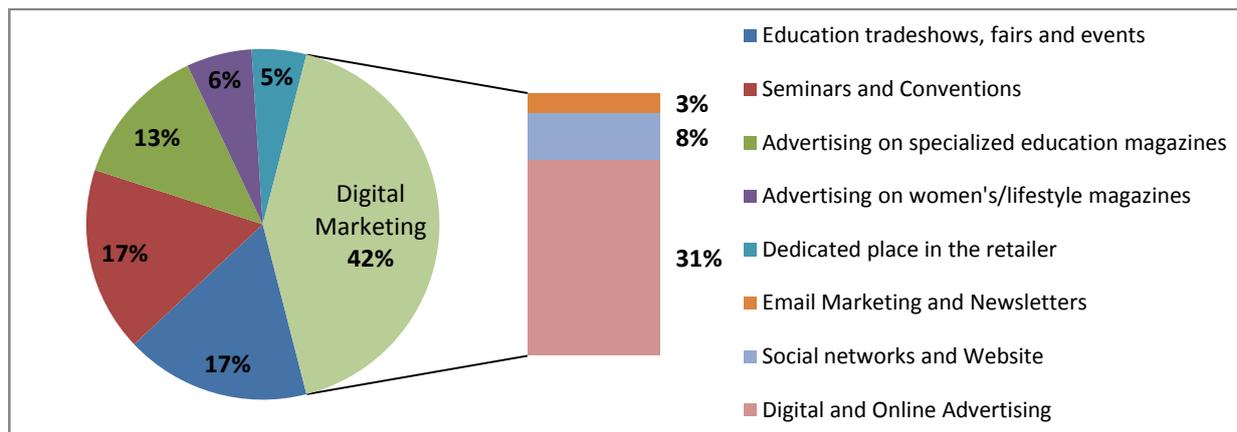


Figure 5 Innospark's Total Marketing Budget allocated in the chosen spending categories

o Breakdown of Budget Allocation (Figure 5)

1. Educational tradeshows, fairs and events: 1,583.51 € + 780.30 € + 9,000 € (budget allocated for other possible events) = 11,363.81 € 17%

2. Digital Marketing: 213 € + 21,273 € + 7,000 € (budget allocated for other possible digital marketing solutions) = 28,486 € 42% ²⁹

Digital Marketing sub-categories:

- Email marketing and Newsletters: 213 € + 2,000 € = 2,213 € 3.3 %
- Digital and Online Advertising: 21,273 € 31.2%
- Social networks and Website remaining 7.5% (~ 5,123 €)

Figure 6 Breakdown of Digital Marketing sub-categories Budget Allocation

3. Seminars and Conventions: 1,745 € + 10,000 € (budget allocated for other possible needs) = 11,745 € 17%

4. Advertising on specialized education magazines ³⁰: 4,308 € · 2 = 8,616 € 13%

5. Advertising on women's/lifestyle magazines: 4,308 € 6%

6. Dedicated space in the retailer remaining 5% (~ 3,415 €)

o Rational for Budget Allocation: a quite high percentage (17%) for both education

fairs and seminars is coherent with the nature of Innospark's products, while a very high one

²⁹ This data aligns with the usual percentage allocated to Digital marketing by firms in the manufacturing industry, i.e. 2.8% of the revenues (Gartner, 2013), that in our case would be 39% of Marketing budget.

³⁰ 4,308 €: Proxy of the cost from lifestyle magazine's data (Table 20)

2: Number of suggested specialized educational magazines

for digital marketing (42%) and quite high for magazines (13 + 6 = 19%) is coherent with the Swedish consumers' habit to look for information, especially on the web, prior to purchase.

Section 7: Funding

▪ **Step 1: Funding amount needed.** We suggest Innospark to set as the founding amount the Swedish part of its first-year Net Working Capital (NWC):

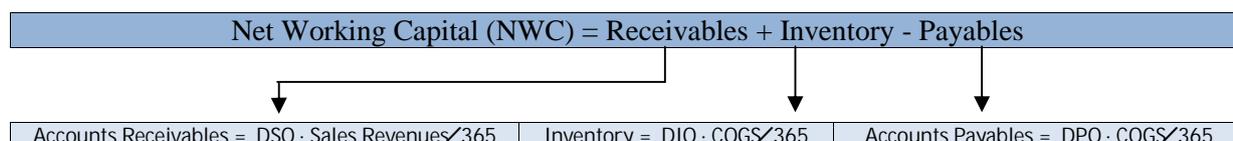


Figure 7 Net Working Capital and scomposition in its three components

We suggest to adopt as DSO (Days Sales Outstanding), DIO (Days Inventory Outstanding) and DPO (Days Payable Outstanding), the average values for the European Nordic countries, that, according to PwC's Cash for Growth - Annual Global Working Capital Survey (PwC - PricewaterhouseCoopers, 2014), were the following in 2013:

Industry	DSO	DIO	DPO
Consumer goods	42	40	26
Technology	63	22	42
Mean	53	31	34

Table 21 Average DSO, DIO and DPO for the European Nordic Countries in 2013

From Section 6, we know Sales Revenues account for 948,648 € To calculate COGS (Cost of Goods Sold), we have conducted the following reasoning. We know from Innospark directly that the Net Profit Margin for the company as a whole has been 7% in 2014. We have decided to keep a conservative attitude towards this value, assuming that Innospark will do its best to keep its Net Profit Margin constant also in the new Swedish market. Thus:

Net Profit Margin = Net Income / Sales Revenues	Net Income = 948,648 € · 7% = 66,405.36 €
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Figure 8 Net Profit Margin formula and Innospark's Expected Net Income from the Swedish market in the first year

that is Innospark's Expected Net Income for the Swedish market in the first year fo entry. At this point, we have redacted Innospark's Expected Income Statement regarding the light table for the Swedish part of its business in the first year of entry (values expressed in Euro):

Revenues		948,648
- Cost of Goods Sold (COGS)	X	
Gross Profit		948,648 - X
- Total Operating Expenses		
<u>Selling Expenses</u>		
Marketing Expense ³¹	68,303	
Commissions Expense ³²	$322.45 \cdot 2,942 \cdot 5\% = 47,432$	
Transportation ³³	$88.27 \cdot 2,942 = 259,690$	
<u>General & Administrative Expenses</u>		
Salaries ³⁴	-	
Insurance ³⁴	-	
Rent ³⁴	-	
Licenses ³⁵	4,725	
Travel ³⁶	$176 \cdot 8 = 1,408$	
<i>Total Operating Expenses</i>	381,558	
Gross Operating Income		567,090 - X
- Corporate Taxes ³⁷	$22\% \quad 567,090 - X \cdot 22\%$	
NET INCOME		567,090 - X · 78%

Table 22 Innospark's Expected Income Statement regarding the light tables for the Swedish part of its business in the first year of entry

Given Net Income = 66,405.36 € X = COGS = 481,954.92 € We have a confirmation of the validity of this result considering that, assuming Inventory = Ending Inventory - Beginning Inventory = 0:

$UPC \text{ (Unit Production Cost)} = COGS / \text{Expected Sold Quantity (i.e. 2,942)} = 163.82 \text{ €}$

Figure 9 Estimated Unit Production Cost for Innospark's light tables

Thus: Lithuanian Mark-up = $1 - UPC / \text{Lithuanian price (i.e. 239 €)} = 31.46\%$, which aligns with the average 20-40% mark-up in the toys' industry (Smarta - Start up Loans, 2013); the Swedish mark-up is higher, at 49.20%, consistently with what we decided in Section 5 and with the higher purchasing power and willingness to spend for education shown in Section 3.

³¹ From Section 6: Marketing

³² $322.45 \text{ €} : \text{light table's price from Section 5} / 2,942: \text{Expected Quantity of sold light tables from Section 6} / 5\% : \text{Sales agents' commission from Section 5. The Expected market share for the private segment is } \sim 0\% \text{ (from Section 6), thus we do not need to consider the discounts for the distributors and the retailer.}$

³³ The transportation cost per shipped light table in the worst case scenario is 88.27 € from Section 5.

³⁴ Non-differential from the Lithuanian business, thus they have already be accounted in the Lithuanian Income Statement. No additional cost for the possible hiring of an intern (suggested in Section 6).

³⁵ Total cost to obtain the new Unitary European Patent, as suggested in Section 2 (European Commission).

³⁶ 176 €: average cost of a roundtrip plain ticket Vilnius (Lithuania) - Stockholm (Sweden) with Wizz Air - Finn Air company / 8 roundtrips: 2 fairs + 4 seminars/conventions in the meeting rooms + 2 possible meetings with the retailers or the magazines' companies, as suggested in Section 6.

³⁷ 22%: statutory corporate income tax rate in Sweden (Deloitte, 2015).

Finally:

<p>Accounts Receivables = $53 \cdot 948,648\text{€} / 365 = 137,749\text{€}$ Inventory = $31 \cdot 481,954.92\text{€} / 365 = 40,933.16\text{€}$ Accounts Payables = $34 \cdot 481,954.92\text{€} / 365 = 44,894.43\text{€}$</p> <p>→ NET WORKING CAPITAL = 133,787.73 € / \$ 150,310.46 / 1,225,511.22 SEK</p>
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Figure 10 Net Working Capital and components' calculation

Innospark's needed funding amount to enter into Sweden, rounded in the local

Swedish currency, accounts at **1,225,500 € / 133,786.51 € / \$ 150,309.08.**

▪ **Step 2: Viable funding options.**

METHODS	PROS	CONS
<p>1. Crowdfunding Three main types: 1. <u>Reward</u> 2. <u>Lending-based</u> 3. <u>Equity-based</u></p>	<ul style="list-style-type: none"> - Keep the decisional power - Time saving - Access to capital: no upfront fees - Exploitation of investors' know-how and network - Exploitation of the campaign as a marketing tool 	<ul style="list-style-type: none"> - All-or-nothing approach - Imitation threat - Not good for complex project: the concept should be easily understandable - Not proper for large investment - Possible underestimation of the costs for the campaign
<p>2. Business Angels</p>	<ul style="list-style-type: none"> - Managerial experience of the business angel - Exploitation of the angel's network - Easy access to capital 	<ul style="list-style-type: none"> - For start up in business from 1-2 years - Loss in decisional power - Difficulties in the evaluation of the angel - Considered as secondary businesses by angels - Low investment
<p>3. Venture Capital</p>	<ul style="list-style-type: none"> - Typically high investment - Exploitation of network and knowledge of a professional investor - No repayment or interest - Long-term funding relationship - Investors' scarce involvement in the day-by-day running of the business 	<ul style="list-style-type: none"> - Large investor's strategic role - Very large part of the equity share required by the investor - Focus more on the financial return rather than on the business growth - Demanding, costly and time consuming
<p>4. Bank Loan</p>	<ul style="list-style-type: none"> - Autonomy in spending and taking decisions 	<ul style="list-style-type: none"> - High interest rates - Difficulties in obtaining the loan, long time and small amounts

Table 23 Viable funding options for Innospark: pros and cons

▪ **Step 3: Selection.** All these options are viable for the company. Considering that:

○ Innospark is not a start up company; it is in the growth stage of its cycle life, it has recorded a successful experience in its home country and it wants to expand its business abroad. Business Angels are not the best option.

○ Innospark is based mainly on the work of two people only: the entry of a new person could threaten their decisional power and the core vision and values which the company is based

on. Furthermore, Innospark is a young company with a very large potential growth: losing a considerable part of the control does not represent the optimal choice for the ownership, especially with the pressure for financial results that an external investor could put to the company. Venture Capital is not the best option.

- Considering the company's size and financial capabilities, it would be difficult to get a loan and costly to pay high interests. Bank loan is not the best option.

- Innospark's products are innovative and linked to educational and social issues.

Crowdfunding is the best option.

More specifically, Innospark has already an experience with an Indiegogo reward crowdfunding campaign to launch *Monai*, its new product³⁸. The campaign is not going as expected so far, since the company has raised only 2% out of \$ 70,000, the campaign goal. Furthermore, we don't think that Lending-based crowdfunding is the best option, as we can make previsions and calculations, but we don't know for sure how the entry into the Swedish market will proceed actually. For these reasons, we suggest **Equity-based crowdfunding** as the best option; this method doesn't represent a threat to the decisional power of the ownership because Innospark would be able to fundraise the required amount through a large number of donors, who would receive only a small amount of the company's shares.

- **Step 4: Choice of the platform.** We suggest to operate through a Swedish platform because in this way it is possible to exploit the knowledge and the network of our donors and to do marketing through the crowdfunding campaign. Sweden is one of the European countries where crowdfunding is very common for small businesses that want to grow and Swedish people are generally very familiar with the newest financing forms for new businesses' growth; indeed Sweden is the most active European country in the start up sector.

³⁸ www.indiegogo.com/projects/monai-feel-the-rhythm-of-your-day#/

There are a lot of crowdfunding platforms that operate in Sweden. The three platforms that we consider the most interesting ones for Innospark are:

Platform	Country	Website
FundedByMe	Sweden	www.fundedbyme.com
CrowdCube	UK (dedicated page for Sweden)	www.crowdcube.com
Invesdor	Finland (very strong presence in Sweden)	www.invesdor.com

Table 24 Swedish crowdfunding platforms considered for Innospark's campaign in Sweden

We don not consider the biggest platforms such as Kickstarter and Indiegogo because they are more focused on Reward crowdfunding and because they are not Swedish. We suggest to conduct the crowdfunding campaign on **FundedByMe** because it's one of the top five European crowdfunding platforms and it's Swedish.

- **Step 5: Organization and step-by-step guidelines for the crowdfunding campaign.**

1. Define the campaign title	Education across borders: Expansion of a promising educational toys-company in Sweden
2. Define the funding goal amount and its use	1,225,500 €/ 133,786.51 €/ \$ 150,309.08 for the expansion in the Swedish market.
3. Define the period of the campaign	We suggest 30 days, because a short campaign encourages investors to donate quickly, without post-poning the donation.
4- Apply on the platform	www.fundedbyme.com/en/accounts/register/entrepreneur/?next=/en/application/start
5. Create a message	Unlikely the Monai's campaign, create a message that focuses not only on the products, but more in general stresses the company's values and philosophy, the attention for the child and his development and education, and the link with the Reggio Emilia approach, to make investors really understand why they should finance Innospark and to engage them on an emotional level. The company could create a strong and impressive mission statement to associate to its brand, to communicate all these elements immediately.
6. Develop a one-page business plan to inform the potential investors	<ol style="list-style-type: none"> 1. Description and pictures of Innospark's products. 2. Effective description of the problem solved by the company's product, shorter but more captivating than the Monai's one. 3. Innospark's Business model: reliability and solidity. Also, it's fundamental to present and underline the successful experience the company has in its home country. 4. Target market: Swedish pre-schools and kindergartens, then families. 5. Competitive advantage: Innovative nature of the products and their link with the Reggio Emilia approach, underlining also the absence of direct competitors. 6. Team: Presentation of the CEO and the designer. 7. Financial plan: the analysis we have performed at the beginning of this section. 8. A few self-explicative and captivating pictures and one short video only, unlikely for Monai's campaign, which is very comprehensive and information-packed but too long. This causes the campaign to lose the reader's attention before reaching the core. Links to the company's page on social network. 9. Equity shares: a reasonable amount of the total company's shares, for instance 20%, as the total proposed, to divide among investors according to the amounts of their donations.
7. Conduct and effective PR and social media promotion campaign	Tradeshows, fairs, events, seminars and conventions we proposed in Section 6. Communicate through a Q&A area to engage the interested investors.
8. Give feedbacks to donors	Through e-mails.

Table 25 Step-by-step guidelines for the crowdfunding campaign inclusive of a detailed business plan to present to investors

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