

FRANCHISING

Bachelor Thesis



THESIS COACH

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EXECUTIVE SUMMARY

This thesis was designed as an assignment of the Foundation Work Incubator for a client based in Estonia. The client was considering to establish a retail franchise in Estonia in cooperation with a Dutch franchisor. Before the client could decide on whether to further execute this idea, a risk assessment had to be conducted on the industries that the client was particularly interested in: fashion, toys and core food industry in Estonia. It was important to conduct a risk assessment, because it would enable the possibility to perform risk management. Risk management involved the avoiding and mitigating of risks that could have harmed the business' success.

The problem of this thesis was that the client needed a better understanding of the potential external risks when establishing a Dutch retail franchise in the fashion, toys or core food industry in Estonia. So the objective was to recommend the client how to respond to the potential external general environmental and industry risks of establishing a Dutch retail franchise in the Estonian fashion, toys and core food industry and to inform the client which of these industries had the lowest net risk.

The first research question was concerned with the potential risks that the client could face when establishing a retail franchise in the Estonian market on a macro-level, thus the general environmental risks. In this way the client could get a clear picture of the major potential risks regardless of the industry that was going to be entered. On the meso-level, a focus was put on the potential risks per industry. The second research question looked at the potential external risks in the fashion industry, while the third research question focused on the toys industry and the fourth research question on the core food industry. No analysis on a micro level took place as this type of analysis would focus on internal aspects. The focus of this thesis was put on the external factors. The last research question was set to achieve the thesis objective and answer the question on how the client should respond to the risks identified and which industry represented the lowest net risk.

The proposed research strategy was the case study research strategy as the thesis would be focusing on specific information about the potential risks in the specified industries (fashion, toys and core food) in Estonia. The data was collected by conducting interviews and surveys. A trip to Tallinn was made and the shops within the five biggest shopping malls were analyzed. From this analysis it could be concluded which stores were performing better. Store employees were asked to fill out a survey so that specific information on the customer base as well as the prices of the products could be obtained. Furthermore, three Dutch franchisors operating each in the Estonian fashion, toys and core food industry were interviewed in order to gain some significant information about the Estonian market and the industries.

It soon became clear that the Estonian market was a tough market to penetrate successfully. The main potential risks on a macro level were the anxiety for a coup d'état by Putin, the high price sensitivity of the Estonians and the expensive rental prices for good store locations in shopping malls. The main potential risks in the fashion industry was the high level of competition and the specific clothing taste of the Russians which represented 24.8% of the population. The main potential risk in the toys industry was the negative birthrate that has been an issue in Estonia for the past few years. In relation to the core food, the main potential risk identified was the

strict food policy that was present in Estonia. It was concluded that the core food industry was the most attractive industry to enter. This was because the core food industry had the lowest net risk in comparison to the fashion and toys industry.

The recommendations for the client were to settle a franchise agreement with a franchisor that offer products which are affordable to the Estonians as a response to the high price sensitivity of the Estonians. Furthermore, it was recommended that the client makes use of political insurance for whenever Putin does try to take over Estonia and this political instability might cause financial losses. Another recommendation was to ensure that the franchise store was placed at a location nearby the greatest shopping mall in Estonia in order to avoid the high rental prices while still being visible to the people passing by. As a response to the specific taste of the Russians, it is recommended to the client to enter into a franchise agreement with a franchisor that offer a very diverse collection of clothing and accessories so that a larger target market can be obtained. In relation to the toys sector, it was recommended to enter into a franchise agreement with a franchisor which also targets adults so that the negative birth rate does not cause significant losses.

During the research was identified that the Estonian population was quite small in comparison to the population in the Netherlands. (1.25 million Estonians, 16.7 million Dutchmen). The client was recommended to make use of store member cards. In this way he client could stay in contact with the customers and build strong long term relationships with the customers.

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INTRODUCTION

This thesis is designed as an assignment of the Foundation Work Incubator (SWI) for a client based in Estonia. The client contacted the Foundation with the question whether a risk assessment could be conducted in order to determine if establishing a retail franchise in cooperation with a Dutch franchisor would be possible and a beneficial move to undertake. The client is particularly interested in the fashion, toys and core food industry because these are the industries which are currently profitable in Estonia.

This research has an emphasis on the potential risks the client might face and how these could be responded to in a beneficial manner. The purpose of this thesis is to provide the client with valuable information that can be used as basis when deciding whether to execute the plan to establish a franchise in Estonia or not. With the information presented in this thesis, it should become clear to the client how to respond to the risks identified whenever is decided to establish the retail franchise in the fashion, toys or core food industry. Furthermore, the recommendations provided in this thesis will inform the client which industry has the lowest net risk.

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List of Abbreviations:

PESTLE – Political, Economic, Socio-Cultural, Technological

GDP – Gross Domestic Product

EU – European Union

MIGA - World Bank's Multilateral Investment Guarantee Agency

MKB – Midden- Klein bedrijf

RND – Raad Nederlandse Detailhandel

IBMS – International Business & Management

BBA – Bachelor of Business Administration

1. INTRODUCTION TO MANAGEMENT PROBLEM

Estonia is a post-Soviet country that gained its independence in the year of 1991¹. Since its independence, Estonia has had as goal to become a member of the European Union (EU) and became an EU member state in the year 2004². Since its membership, Estonia experienced great economic growth with an annual GDP growth of 4.8%³. This economic growth has had as result that different international companies were attracted to invest in the country⁴. This has led to the increasing number of franchises available in Estonia. Franchising can be described as a set of exclusive rights that may relate to design, know-how, trademarks, brand and other intellectual property that the franchise holder grants the franchisee⁵. The increased number of different brands in Estonia has made the Estonian highly competitive making it more difficult for local brands to compete⁶. This has resulted that Estonian entrepreneurs prefer working under an established brand rather than building a start-up company, thus franchising⁷. One of these entrepreneurs that prefer working under an established name is for whom this thesis has been designed and will be referred to as the client in the rest of the thesis. The client is considering to establish a new retail start-up company in Tallinn, Estonia by entering into a franchise cooperation with a Dutch franchisor. In other words, the client wants to set up a Dutch retail franchise in Estonia.

The client has worked for several years in the Estonian retail sector within the oil industry. During this period the client has had several projects that required traveling back and forth to the Netherlands. This is how the client got in touch with the Dutch business world. During these trips the client was so intrigued by Dutch retail franchises such as WE fashion (clothing/accessories store), Hunkemöller (women lingery store), Intertoys (toys store) and Oil & Vinegar (Mediterranean food store) which in turn led to the consideration of establishing a Dutch retail franchise in Estonia. Furthermore, the client explained that a franchise agreement is the preferred type of business ownership as it involves less costs as when building up an own brand and the client will not have to face the challenge of designing an own operational system which takes up more time to accomplish.

Though the client does not have a specific idea of how the store would be like, an overview was provided beforehand of the characteristics that were considered relevant by the client for a Dutch franchisor to have in order to enter into a cooperation. These characteristics were chosen in relation to the budget the client has, the kind of profit the clients wants to make (i.e. targeting a bigger market, in order to gain larger profits), the facility of operating in a market known to the client and the client's awareness of the industries that are profitable at the moment in Estonia. The awareness of the industries that are currently profitable in Estonia was obtained by the client being active for several years in the retail sector in Estonia.

¹ Estonian Ministry of Foreign Affairs. (2009). Estonia - 5 years in the European Union. Tallinn, Estonia.

² Estonian Ministry of Foreign Affairs. (2009). Estonia - 5 years in the European Union. Tallinn, Estonia.

³ Eesti Pank. (2014). Estonian Economy and Monetary Policy. Tallinn, Estonia: Statistics Estonia.

⁴ Lucas, E. (2013, December 10). Putin's Latest Hunting Trip. The Wallstreet Journal.

⁵ Leimans, A. (2013, May 9). Why Franchise? Baltic Business News.

⁶ Leimans, A. (2013, May 9). Why Franchise? Baltic Business News.

⁷ Leimans, A. (2013, May 9). Why Franchise? Baltic Business News.

Below is to find the overview of the client's required characteristics set for the Dutch franchisor.

- *Type of franchise:*
 - *Product/trademark franchising (i.e. manufacturer-retailer arrangement); or*
 - *Business format franchising (wholesaler or concept owner operator-retailer or service sponsor-retailer).*
- *Geographical area: franchisor not yet established in Estonia, Finland, Sweden, Latvia, and/or Lithuania*
- *Field of business:*
 - *fashion/accessories; or*
 - *child/toys; or*
 - *core food/drink(i.e. cheese, sausage, coffee, thee);*
- *Average customer purchase: approx. range 20 - 40 €*
- *Target customer: mass market (B2C i.e. Consumer and/ or B2B i.e. Business)*
- *Franchisee store investment: max 750 € per square meter.*

1.1 Problem Statement

Though the client is aware that the fashion, toys and core food industries are profitable at the moment in Estonia, the client would like to obtain some constructive information on the potential external risks that might arise when entering these industries in Estonia. Understanding what the potential risks are within these industries would enable the client to outweigh the risks per industry and in turn identify the industry that would be the most beneficial to enter in regards to the industry that involves the least risks. Furthermore, knowing what the potential risks are is important to the client so that risk management can be applied. In general, it is significant for any entrepreneur considering a new business investment to conduct a risk assessment and perform risk management as it ensures that risks that might harm the business' success can be mitigated or avoided before great losses to the business occur⁸.

There are three main categories of potential risks: uncertain general environmental (macro-level), uncertain industry (meso-level) and uncertain firm-specific variables (micro-level)⁹. Whenever international trade takes place, the external potential risks are the most significant to consider as these risks attract the largest proportion of the public and today are the major risks for the individual, for companies and for society as a whole¹⁰. Furthermore, the client also requests to obtain information on the potential external risks, so a closer look needs to be taken at the general environmental uncertainties risks and the uncertain industry risks. The uncertain firm-specific variables are concerned with operations, liability, R&D, credit and behavior within a firm. The uncertain firm-specific variables will not be analyzed as these are internal and the focus of this thesis will be on the external factors. General environmental uncertainties are concerned with factors that might influence the business across industries. These factors are political instability, government policy instability, macroeconomic

⁸ Miller, K. D. (2013). *A Framework For The Integrated Risk Management In International Business*. West Lafayette, USA: Palgrave Macmillan Journals.

⁹Heathcote, J., & Perri, F. (2013). *Assessing International Efficiency*. London, UK: Centre for Economic Policy Research.

¹⁰ Bruch, M., & Kreutzer, R. (2009). Which risks will be more dangerous in the future: internal or external risks? *Alianz Global Corporate & Specialty*.

uncertainties, social uncertainties and natural uncertainties¹¹. Macroeconomic uncertainties relate to the inability to determine what goods and services can be produced most competitively¹². Examples of macroeconomic uncertainties are interest rate risk, currency rate risk and cyclical. Social uncertainties are risks that involve social unrest in a country while natural uncertainties on the other hand are risks that are concerned with unforeseen bad weather patterns. The industry uncertainties are the risks specific to an industry and are concerned with input market uncertainty, product market uncertainty and competitive uncertainty¹³. The potential risks identified on a macro-level will provide the client with a clear view of the potential risks that need to be taken into consideration regardless of the industry that is entered. Determining the potential risks on a meso-level will enable the client to outweigh the risks per industry. A common risk in the fashion industry is the high level of competition that a business faces¹⁴. However, is this the same within the Estonian fashion industry?

The **management issue** is described as following:

“The client needs a better understanding of the potential external risks when establishing a Dutch retail franchise in the fashion, toys or core food industry in Estonia”.

So when looking at the case of the client the question that rises is what the potential risks are per industry and how can the client best respond to these risks in order to obtain success? As mentioned before, the type of risks that need to be identified are the external general environmental uncertainties and the industry uncertainties.

The **objective of this thesis** is described as following:

“To give recommendations to the client concerning the response to the external general environmental and industry risks for the industries: fashion, toys and core food when starting up a Dutch franchise in Estonia”.

Responding to the potential risks of the Estonian fashion, toys or core food industry refers to the actions that the client will take to mitigate and avoid the risks that might harm the business’ success. Within this thesis the ‘best’ response that the client could undertake, is defined as the actions that are crucial to take in order to ensure the success of the client’s business.

1.2 Research Questions

Having identified the problem of this thesis and where the focus lies, research questions have been designed. According to Alvin C. Burns and Ronald F. Bush (2006), the research questions will provide a structuring in regards to the elements that need to be taken into account to achieve the thesis objective.

¹¹ Miller, K. D. (2013). A Framework For Integrated Risk Management In International Business. London, UK: Palgrave MacMillian

¹² Ring, P. S., Kenway, S. A., & Govekar, M. (1998). Management of The Political Imperative In International Business. Minnesota, USA: University of Minnesota

¹³ Miller, K. D. (2013). A Framework for Integrated Risk Management In International Business. London, UK: Palgrave MacMillian

¹⁴ Christopher, M., Lowson, R., & Peck, H. (2004). Creating Agile Supply Chains In The Fashion Industry. In A. G. Parsons, International Journal of Retail & Distribution Management (pp. 367-376). UK: Emerald Group Publishing.

In order to be able to determine what the potential risks are when trying to set up a Dutch fashion, toys or core food retail franchise in Tallinn, a clear view needs to be obtained first concerning what franchising is. Having obtained the relevant information on the aspects of franchising, the research on determining the potential risks can start. The first research question is concerned with the potential risks that the client might face on a macro level: the general environmental uncertainties. Having obtained an understanding of the general environmental potential risks of establishing a franchise in Estonia, a closer look can be taken at the potential industry risks on a meso-level. The second research question is focused on the potential risks within the Estonian fashion industry. Then a closer look will be taken at the potential risks within the toys industry with the third research question and the fourth research question is set to analyze the potential risks within the core food industry. Now that adequate knowledge and understanding has been obtained on the potential risks on the macro level as well as per industry, the recommendations to the client can be presented. The fifth research question determines how the client should respond to the potential risks identified and which industry involves the least risks.

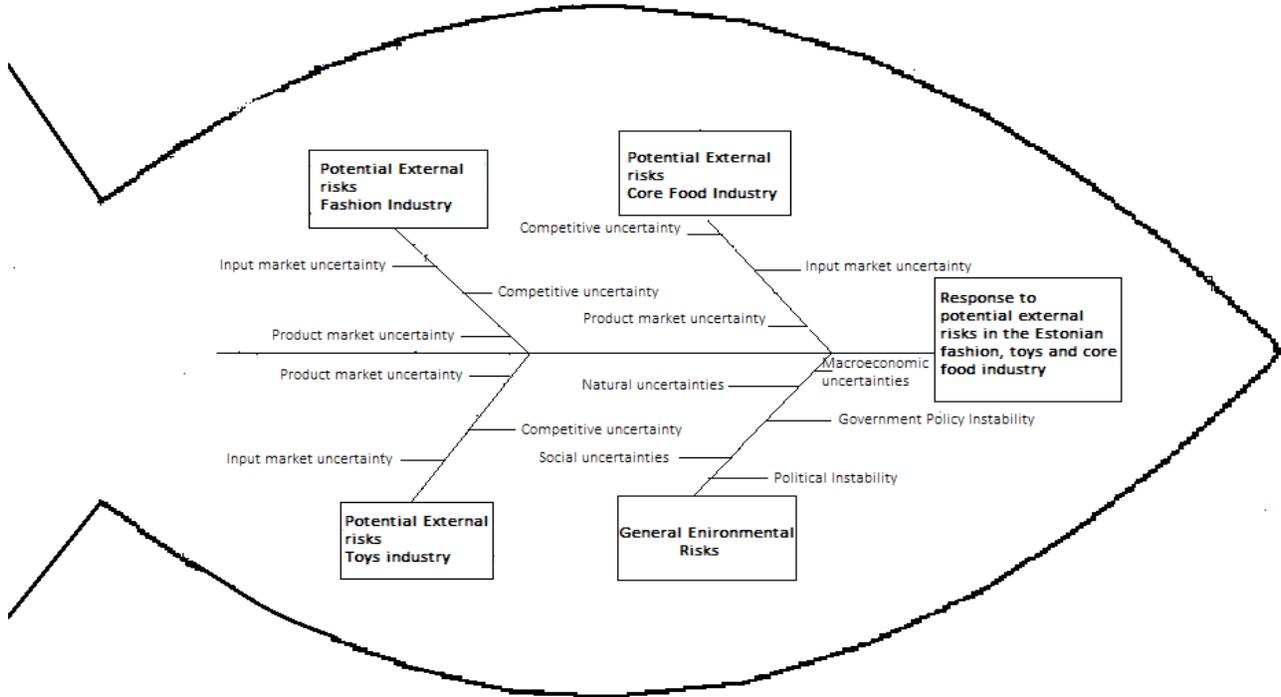
The research questions are designated as following:

1. *What are the potential general environmental risks on macro level that the client might face when entering the Estonian market?*
2. *When looking at the Estonian fashion industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?*
3. *When looking at the Estonian toys industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?*
4. *When looking at the Estonian core food industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?*
5. *How should the client respond to the potential external risks identified and which of the researched industries has the lowest net risk?*

The information obtained throughout the research that is going to be conducted, will be used to answer these research questions. Having answered these research questions, conclusions will be made and recommendations will be designed.

1.3 Ishikawa Diagram

Below is to find the Ishikawa diagram designed for this thesis that highlights the areas that need to be researched and evaluated in order to solve the management issue¹⁵.



Summary

This thesis has been designed for an Estonian entrepreneur whom is considering to establish a Dutch fashion, toys or core food retail franchise in Tallinn, Estonia. For the sake of simplicity, this entrepreneur will be referred to as 'the client' in the rest of the thesis. The problem of this thesis is the need of the client for a better understanding of the potential external risks when setting up a Dutch retail franchise in Estonia. Therefore, the objective of this thesis is to recommend the client how to best respond to these potential external risks and to inform the client which of these industries has the lowest net risk. In the following pages the literature used for this thesis will be presented.

¹⁵ Fukuda, R. (1989). Cedac: A Tool for Continuous Systematic Improvement. Portland, United States of America: Productivity, Inc.

2. LITERATURE REVIEW

In this part of the thesis a review on the literature relevant to the research will be presented. In order to ensure the high quality and reliability of this thesis only academically recognized sources will be used. The literature chosen, is based on the research questions presented in the previous section. Furthermore, a combination of conceptual frameworks and theories will be introduced as these form the foundation of the research.

2.1 PESTLE Analysis

Before researching the specific elements relevant to retail franchising in Estonia, some understanding about the Estonian market needs to be obtained. For this thesis a PESTLE analysis has been conducted in order to get a view of the current situation in Estonia. By conducting a PESTLE analysis, significant information in regards to the Estonian market can be obtained. PESTLE is the acronym of Political, Economic, Socio-cultural, Technological, Legal and Environmental and represents the factors within a country that are to be researched throughout the analysis¹⁶. There are different items that can be taking into account when conducting the PESTLE analysis such as government policies, economy trends, lifestyle trends, etc. From the many items that can be taking into account, provided by different literature, a selection has been made on the items relevant for this specific thesis. Below is to find the visual representation of the elements that are researched using the PESTLE framework.

PESTLE		
Political		Political stability
		Trade regulations
		Tax guidelines
		Bureacracy
Economic	Current economy	Economic growth
		Inflation /interest rates
	Income levels	
Socio-Cultural		Impact globalization
		Demographics
		Education
		Consumer Behaviour
Technological		Lifestyle
	Current technology	
Legal		Government spending on technology
		Consumer Protection law
		Health and safety law
Enviromental		Employment legislation
	Weather	
		Climate Change

Figure 2- PESTLE Analysis

¹⁶ Brooks, C. (2013). PEST Analysis: Definition, Examples & Templates. Business News Daily.

2.1.1 Political

- Political Stability

Estonia gained its independence from the Soviet Republic in the year of 1991 and has since this time become more and more involved with international trade¹⁷. The current government type is a parliament democracy and its coalition comprises of the Estonian Reform Party (R) and the Pro Patria and Res Publica Union (PPRP)¹⁸. The current Prime Minister of Estonia is Taavi Rõivas and has been elected on 26th of March 2014. The 34 year old Taavi Rõivas is the youngest Prime Minister that Estonia has ever had¹⁹. The government has over the years continue to keep up its democratic spirit and has now some additional mechanisms within its political system which are enforced to ensure the right balance of the power of the state²⁰. This has ensured that Estonia is worldwide considered to have a stable political structure and practice. For the client this means that the chance is very small that prevailing political instability factors arise in the coming 4 years where Taavi Rõivas will be the Prime Minister. Examples of political instability factors include a high level of corruption or the threat of civil wars etc.

- Trade Regulations

Estonia has been characterized as being one of the most successful emerging market economies in Central and Eastern Europe that in turn has resulted in Estonia being ranked as one of the freest economies in the world²¹. Estonia has a liberal trade policy that together with the balanced budget requirements and the currency board arrangement (CBA) that the country has, is described as a stable non-interventionist macroeconomic policy framework²². Next to the free trade agreements that Estonia has within the European Union, Estonia also has free trade agreements with Ukraine, Turkey and the Faroe Islands²³. The most significant trade regulations that are enforced in Estonia include competition policy, price controls, and the transfer of business and shares.

Competition policy

The Estonian Competition Act was enacted in October 2001 with the aim to stimulate healthy competition in the interest of free entrepreneurship. This free entrepreneurship is concerned with the extraction of natural resources, manufacture of goods, the provision of services and products while ensuring that there are no limitations on competition in other economic activities²⁴. This means that there is a high probability that the client will face some level of competition regardless of the sector in which the franchise will be.

¹⁷ Central Intelligence Agency. (2013, september 3). World Factbook. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/>

¹⁸ Terterov, M. (2003). Doing business in Estonia. London, UK: Kogan Page Limited.

¹⁹ Europost. (2014, March 28). Estonia Swears EU's Youngest Prime Minister. Europost.

²⁰ Terterov, M. (2003). Doing business in Estonia. London, UK: Kogan Page Limited.

²¹ Terterov, M. (2003). Doing business in Estonia. London, UK: Kogan Page Limited.

²² Hannula, H., Radosevic, S., & Tunzelmann, N. V. (2006). Estonia, The New EU Economy. Hampshire, UK: Ashgate Publishing Limited.

²³ Hannula, H., Radosevic, S., & Tunzelmann, N. V. (2006). Estonia, The New EU Economy. Hampshire, UK: Ashgate Publishing Limited.

²⁴ Vilu, A. (2013). Guide To Doing Business And Investing In Estonia. Tallinn, Estonia: PWC, Price Waterhouse Coopers.

Price Controls

Within the Estonian Competition Act mentioned above, a general rule is enforced in which is stated that fixed prices or any other trading conditions between undertakings are prohibited. However, the advice of which prices to set forth for certain products by the suppliers, is not considered to be a violation of the price control regulation²⁵. So in regards to the franchise that the client wishes to establish, it would not be a violation of the price controls regulation whenever the franchisor encourages certain prices to the client.

Transfer business and shares

Within the Law of Obligations Act in Estonia, whenever assets of a business enterprise are sold to another party, the buyer also receives all the obligations related to these assets. This is the same concerning shares of a company. If the shares of a company are acquired, the buyer also acquires all the rights and obligations of the company²⁶. This means that when a company has debts when the acquisition agreements was signed, the acquiring party, will also receive these debts. This is very important to consider for the client when choosing which franchisor to enter a cooperation with. This can be seen as a potential risk, since there have been cases in the past were companies provide biased information to potential buyers.

- Tax Guidelines

In Estonia simplicity is the tax system is stimulated by the government by assuring no 'hidden extras' in concern to the taxes that need to be paid in the country. There is a flat income tax of 26% and a VAT system of 21%²⁷. The new Prime Minister Taavi Rõivas wishes to lower the VAT to 20% in the year 2015. Estonia strives for the future to develop tax system where higher rates are asked for higher earners as is being required in most developed countries²⁸. Tax for distributed profit is 21%, when no dividends are distributed the Corporate Income Tax is 0%. However, when profit distributed to shareholders comes from subsidiary company or from permanent establishment corporation has in another country, then profit distribution is tax exempt. Thus, for the franchise in Estonia, tax on profit is not accounted as the distribution of profit is for a foreign situated company²⁹.

- Bureaucracy

The level of bureaucracy is very low in Estonia due to the extensive use of the internet and other advanced tools of operation. Nowadays entrepreneurs can register their businesses in less than 20 minutes and Estonians can fill out their income tax return in less than five minutes. This has become possible thanks to the open, decentralized system created in Estonia that links together various services and databases³⁰. This will make it easier to establish the start-up company in Estonia as not too much paperwork needs to be done, resulting in a faster process of establishment.

²⁵ Vilu, A. (2013). Guide To Doing Business And Investing In Estonia. Tallinn, Estonia: PWC, Price Waterhouse Coopers.

²⁶ Vilu, A. (2013). Guide To Doing Business And Investing In Estonia. Tallinn, Estonia: PWC, Price Waterhouse Coopers.

²⁷ Terterov, M. (2003). Doing business in Estonia. London, UK: Kogan Page Limited.

²⁸ Euroactiv. (2014, March 27). Estonia Swears in Youngest EU Prime Minister. Euroactiv.

²⁹ KRM Advisor. (2014, March 4). Estonian Company Registration. Retrieved from <http://www.estoniancompanyregistration.com/taxes-in-estonia>

³⁰ Terterov, M. (2003). Doing business in Estonia. London, UK: Kogan Page Limited.

2.1.2 Economic

- Current Economy

Annual GDP stands for Growth Domestic Product and measures the change in value of the goods and services produced by a country economy during the period of a year³¹. The average Annual GDP of Estonia from the 1996 up till 2013 has been 4.80% which is quite high in comparison with the Netherlands that has an Average Annual GDP of 0.53% from the year 1988 till 2013³². This shows that Estonia's economy is developing fast and continuously. Since Estonia became part of the European Unions, the countries interest rate has lowered and is now at a percentage of 0.25%. This shows that is actually is stimulated to borrow funds in Estonia. Furthermore, the inflation rate is 4.02%, which is quite high when considering that the average inflation rate in Europe accounts for 2.21%³³. This shows that the rapid economic growth in Estonia, has had as effect that goods and services have become more expensive to the consumers.

- Income Levels

In comparison to other EU countries the average income level in Estonia is low. The average wage in 2013 that an Estonian receives monthly is 937 Euros, which is a 2.5% growth from the year of 2012³⁴. This shows that there is an increase in the amount of money people in Estonia make in the month, but in comparison to the other EU countries it is still quite low. In regards to the client, it is important to keep this in mind whenever deciding with which franchisor to start a cooperation with. This is because, starting into a cooperation with a franchisor which offers only expensive products, the chance that people cannot afford it would be significant resulting a higher risk of failure. This low income level as well as the low operating costs that are involved when entering the Estonian market, has made Estonia very attractive for foreign investors. Not only are there limited requirements in concern to the Estonian employment legislation; the labor costs are very low in regards to the insurance that has to be paid for the employees or the taxes³⁵.

- Impact Globalization

Globalization has had a positive impact on Estonia as the country quickly adapted to the changes worldwide and a major part of its revenues come from world trade. Estonians have educated themselves in such a high level that 77% of Estonians have direct access to internet and English is a widely spoken language in Estonia³⁶. Estonia was in the year of 2007 in the top 10 of the World's Most Globalized list³⁷.

³¹ Trading Economics. (2014, April 21). Trading Economics. Retrieved from <http://www.tradingeconomics.com/estonia/gdp-growth-annual>

³² Trading Economics. (2014, April 21). Trading Economics. Retrieved from <http://www.tradingeconomics.com/estonia/gdp-growth-annual>

³³ Trading Economics. (2014, April 21). Trading Economics. Retrieved from <http://www.tradingeconomics.com/estonia/gdp-growth-annual>

³⁴ Eesti Pank. (2014). Estonian Economy and Monetary Policy. Tallinn, Estonia: Statistics Estonia.

³⁵ Eesti Pank. (2014). Estonian Economy and Monetary Policy. Tallinn, Estonia: Statistics Estonia.

³⁶ Collier, M. (2007, October 23). Estonia breaks into globalization top 10. Baltic Times.

³⁷ Collier, M. (2007, October 23). Estonia breaks into globalization top 10. Baltic Times.

2.1.3. Socio-Cultural

- Demographics

Estonia has a population of 1.25 million people with an annual growth of -0.68%. For a few years Estonia has a negative birth rate resulting in a diminishing number of inhabitants. The age structure in Estonia is shown below.

0 – 14 years → 15.6%, 15 – 24 years → 11.2%, 25 – 54 → 41.5%, 55 – 64 → 18.6%, 65 and over → 18.2%³⁸.
101,018 M / 95,204 F 72.318 M / 68.373 F 250.244 M / 271.450 F 71.518 M / 94.029 F 77.492 M / 156.275 F

From the total population 68.7% is from Estonian ethnicity, 24.8% from Russian ethnicity, 1.7% from Ukrainian ethnicity and 1% Belarusian³⁹. After Estonia was declared to be independent in 1992, many Russians stayed in Estonia while others that have returned to Russia, spend their holidays in Estonia. This has led that next to the official Estonian language, the Russian language is also spoken by many inhabitants in Estonia. The other language that is spoken by some is Ukrainian.

- Education

Estonia has since its independence been working on becoming an open learning society, where every Estonian is a lifelong learner. Based on this goal a tough educational system has been set up as an aim of educating every Estonian how to think in the future⁴⁰. The educational system in Estonia is divided in several stages:

1. Pre-school (for children between the age of 3 till 7 years old, provided at home or child care institutions like crèches)
2. Basic Education (teaches the grades 1 till 9)
3. General Upper Secondary Education (Has to be completed in order to be able to apply for higher education, takes three years to complete)
4. Vocational Education (aims to teach practical skills, can be done after completion of basic education or Secondary Education)
5. Higher Education (can be acquired at three levels: Bachelor, Master and Doctoral)
6. Adult Education

Estonians have educated themselves in such a high level that 77% of Estonians have direct access to internet and English is a widely spoken language in Estonia.

- Consumer Behavior

Estonia experienced a deep economic fall during the crisis, but has adjusted rapidly after the crisis in comparison to the other Baltic States and has since the recession accomplished to maintain its annual growth of 4% to 5%⁴¹. However, even with the rapid adaptation of the country, the crisis has had a major impact on the consumer

³⁸ Central Intelligence Agency. (2013, september 3). World Factbook. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/>

³⁹ Central Intelligence Agency. (2013, september 3). World Factbook. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/>

⁴⁰ Estonian Ministry of Education and Research. (2009). Estonia Educational System. Tartu, Estonia: Estonian Parliament.

⁴¹ Eesti Pank. (2014). Estonian Economy and Monetary Policy. Tallinn, Estonia: Statistics Estonia.

spending in the country. This is because before the crisis, Estonia faced an unsustainable boom in consumption resulting in that the Estonians lacked on savings for the rainy day⁴². The fact that social insurance in Estonia is also quite low (<€200), had also a major influence on the consumption in the country. This means that the consumption in Estonia will take some more time to recover in comparison to rapid recovery of the country's GDP. Fortunately, as the GDP accounts for a somewhat higher percentage than the average in Europe, the Estonians have some leeway to continue catching up with the income levels of the rest of Europe⁴³.

- Lifestyle

Though Estonia has a small population, it is a country with a lot of history and a lot of traditions. One of the significant traditions that take place in Estonia include the National Song and Dance Festivals. During this event, hundreds of thousands of Estonians come together to see thousands of people folk dance and around 20,000 singing people in a choir⁴⁴. It is also very popular in Estonia to sing in a choir. Next to the singing and dancing, traditional handicraft and cooking are common in Estonia. A lot of Estonians like to grow their own food i.e. berries, carrots etc., healthy food is very much appreciate by Estonians⁴⁵. Keeping this in mind, it would not be profitable for the client to introduce core food products that can easily be grown by Estonians themselves.

2.1.4. Technological

- Current Technology

Thanks to a forward-thinking government a well-developed ICT sector and very adaptable population, Estonia has become one of the most advanced e-societies in the world. E-Estonia is the term to which the highly emergence is referred to. A lot of things can now easily be done online in Estonia: e-voting, e-banking, e-business, e-taxing and much more⁴⁶. Between the age of 16 years old and 74 years old, 77% of the Estonian population uses the internet. This is a quite high percentage in comparison to the other EU countries. The popular program of communication, Skype, is designed in Estonia. In Estonia people have access to Wi-Fi everywhere; even in some forests⁴⁷. Though a lot of things can now be done online as well as e-commerce, surprisingly enough, Estonia's percentage of e-commerce is less than the half of the average in Europe⁴⁸.

- Government spending on technology

The Estonian government supports R&D extensively and is even willing to change certain laws in order for some ICT innovations to have the proper use. Because of this, Estonian ICT institutions have had the possibility to implement the key technologies in ICT and in result become more competitive in the international market of technology by performing ongoing R&D projects⁴⁹.

⁴² Eesti Pank. (2014). Estonian Economy and Monetary Policy. Tallinn, Estonia: Statistics Estonia.

⁴³ Eesti Pank. (2014). Estonian Economy and Monetary Policy. Tallinn, Estonia: Statistics Estonia.

⁴⁴ Estonian Tourist Board. (2014). Way of Life: Traditional Estonian Lifestyle. Tallinn: Estonian Parliament.

⁴⁵ Mutt, M. (2013). Estonian Culture. Tallinn: Estonian Ministry of Foreign Affairs

⁴⁶ Mutt, M. (2013). Estonian Culture. Tallinn: Estonian Ministry of Foreign Affairs

⁴⁷ Mutt, M. (2013). Estonian Culture. Tallinn: Estonian Ministry of Foreign Affairs

⁴⁸ Wire Reports. (2013, August 8). Estonians spend less On-Line. Baltic Times.

⁴⁹ Ljas, A. (2014). Estonia - A Front Runner In Applying Modern IT Solutions. Tallinn, Estonia: Estonian Investment Agency.

2.1.5. Legal

- Consumer Protection

The laws regulating consumer protection in Estonia include the Consumer Protection Act, Trading Act, Advertising Act and the Law of Obligations Act. These laws are set to protect consumers by establishing benchmarks to which products and service need to uphold. These benchmarks are concerned with product safety, consumer contracts, public services, labelling etc.⁵⁰. Especially within the Core Food sector, it is very important for the client to comply with the laws set for the products as the non-compliance might have an effect on the public health.

- Health and Safety

Occupational Health and safety is provided by the companies self and some of them run their own clinics. The Estonian government does not subsidize any of the health and safety services by clinics that are in concern with someone's occupation⁵¹.

- Employment Legislation

Issues that are in concern with employment and labor are regulated by the Employment Contracts Act. The Employment Contracts Act has set some central principles as a way to create inform companies as well as employees which rules need to be followed⁵². These central principles are:

1. any person has the right to freely choose his or her field of activity, profession and place of work;
2. employers and employees may freely join unions and associations;
3. working conditions shall be under state supervision;
4. In employment relationships, stability should be striven for, and the employees have a right to remuneration and holidays; in case of conflict between the provisions applicable towards the employment relationship, the provisions favorable for the employee should be applied⁵³.

2.1.6. Environmental

- Weather

Estonia is located in the North-Western part of the East-European plain and its weather is mainly influenced by the North-Atlantic Ocean stream and the Baltic Sea. The Baltic Sea ensures that during the winter the coastal areas are warmer than inland, but in the spring the inland is warmer than the coastal areas. The average annual temperature in Estonia is between 4.3°C and 6.5°C where in the winter the average temperature is between -6°C and -7°C, and in the summer the average temperature is between 16°C and 17.4°C⁵⁴. During the summer, Estonians like to leave the go camping or visit the small villages in the country. However, as a result of

⁵⁰ Vilu, A. (2013). Guide To Doing Business And Investing In Estonia. Tallinn, Estonia: PWC, Price Waterhouse Coopers.

⁵¹ Kaadu, T., Tammaru, E., & Runkla, E. (2007). Work & Health Country Profiles of 22 European Countries. Helsinki: Finnish Institute of Occupational Health.

⁵² Vilu, A. (2013). Guide To Doing Business And Investing In Estonia. Tallinn, Estonia: PWC, Price Waterhouse Coopers.

⁵³ Vilu, A. (2013). Guide To Doing Business And Investing In Estonia. Tallinn, Estonia: PWC, Price Waterhouse Coopers.

⁵⁴ Estonica. (2012, September 28). Climate Estonia. Encyclopedia about Estonia.

internalization, in the past few years ore and more Estonians choose to travel to other countries during the summer period⁵⁵. From the end of April till the halfway of August, Estonia finds itself in the rather unique astronomical twilight zone. This refers to the zone where after the sunset it does not become immediately dark⁵⁶. From October till March the days in Estonia are very short as it is mostly dark⁵⁷.

- Climate Change

Since the year 1961, the winter seasonal air temperature in Estonia has increased by 3.2°C on average. Next to this, the seasonal precipitation increased by 45 mm and a decrease in the average snow cover in Estonia has occurred⁵⁸. There are at the moment more uncertainties in regards to the future precipitation in Estonia than on the future temperature. The uncertainty on the future precipitation goes hand in hand with the uncertainty on the future river flow of the Baltic region which in turn can cause extreme climate events in the future⁵⁹.

2.2 Theoretical foundation of the research

In this section the theoretical basis used for this research is presented. First it is important to understand what franchising actually is in order to outline the elements of this form of business relevant per research question.

2.2.1 Defining franchising

Richard E. Caves (Harvard University) and William F. Murphy (Cornell Law School) defined franchising as “a definite or indefinite period of time in which the owner of a protected trademark grants another person or firm, for some consideration, the right to operate under this trademark for the purpose of producing or distributing a product or service” (Lafontaine, 2005). However, when looking at the definitions other intellectuals and organizations have given the concept franchising, some differences can be identified. For instance, the International Franchise Association, world’s oldest and largest organization representing franchising worldwide⁶⁰, has defined franchising as “a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obligated to maintain a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format and/or procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources”⁶¹. The difference between these two definitions is that in the first definition it appears that the franchisee does not have another choice than operating under the franchisor’s trademark rather than the franchisor’ format or the franchisor’s procedure described in the second definition.

⁵⁵ Estonica. (2012, September 28). Climate Estonia. Encyclopedia about Estonia.

⁵⁶ Luik, V. (2013). Estonians. Tallinn: Ministry of Foreign Affairs.

⁵⁷ Luik, V. (2013). Estonians. Tallinn: Ministry of Foreign Affairs.

⁵⁸ Ministry of the Environment of Estonia. (2009). Air Temperature Changes Until Now. Tallinn: Climate Adaptation.

⁵⁹ Ministry of the Environment of Estonia. (2009). Air Temperature Changes Until Now. Tallinn: Climate Adaptation.

⁶⁰ Romaniello, S. (2014, february 16). International Franchise Organization. Retrieved from <http://www.franchise.org/aboutifa.aspx>.

⁶¹ Mendelsohn, M. (1982). *The Guide to Franchising*. Great Britain: Pergamon Press ltd.

Another definition of franchising from O.C. Ferrell (University distinguished professor), Geoffrey A. Hirt (Professor Finance at DePaul University) and Linda Ferrell (Professor marketing at New Mexico University) is “a form of licensing in which a company – the franchisor- agrees to provide a franchisee the name, logo, methods of operation, advertising, products and other elements associated with the franchisor’s business, in return for a financial commitment and the agreement to conduct business in accordance with the franchisor’s standard of operations” (Ferrel, Hirt, & Ferrell, 2009). In this definition is now specified that the franchisee has no choice in the way that business can be conducted as it has to go in accordance to the franchisor’s standard of operations. This is then again different from the two previous definitions presented. Looking at the differences in definitions, it can be concluded that defining exactly what franchising is, is rather difficult. Therefore, it is important to identify the key elements of franchising rather than trying to define it. These key elements are based on the many definitions of franchising presented in the literature available about franchising. The key elements of franchising are:

- I. A contract in which is stated that the franchisor grants the franchisee the right to operate with the trade mark and/or format owned by the franchisor;
- II. During the contract the franchisor will provide know-how and training to the franchisee;
- III. The operations of the franchisee will be substantially determined by the franchisor;
- IV. The franchisee is required to provide the franchisor with some sort of payment.

So in the case of the client wanting to enter into a cooperation with a Dutch franchisor, a contract will be formed between the client and the Dutch franchisor, in which the Dutch franchisor will provide know-how and training to the client so that the client can operate under the trade mark and trade format of the franchisor. However, the client will be subject to some sort of continuous payment to the franchisor for the grant of working under the franchisor’s brand. Furthermore, the client will have to follow some guidelines set by the franchisor in concern to the operations of the franchise establishment.

2.2.2 Pros and Cons of franchising

The client wishes to enter into a franchise agreement with the consideration that it will involve low costs and will serve as an easier way to enter the Estonian retail market. Nevertheless, it is important for this research to determine the advantages and disadvantages of franchising in order to get a better view of what the Dutch franchise possibilities would mean for the client in regards to the benefits and potential problems. Therefore, a closer look will be taken at the advantages and disadvantages from the franchisee’s perspective rather than of the franchisor.

Pros

Don Daszkowski, president and owner of Business Mart, Inc. and the Franchise Buyers Network explained that entrepreneurs franchise because it is a relatively easy way to enter the business world successfully⁶².

⁶² Daszkowski, D. (2013, October 4) <http://www.businessmart.com/>

A trademark, concept or product that is already successful in the international market will be most-likely quicker accepted and successful in another market than a whole new concept, trademark or product⁶³.

Françoise J. Gamet-Pol, lawyer at Attorney At Law and specialist in economic development, described that due to the fact that the franchisee will get the chance to use a well-proven concept, trademarks and products, penetrating a market would be easier⁶⁴. An example of a franchise that would be easier accepted and successful in the market is McDonalds. McDonalds has proven to be a successful franchise operation worldwide, thus the failure rate of this franchise is relatively low.

Next to the strong brand image of a franchisor, the guidance of the franchisor to the franchisee also gives some level of assurance in regards to the success of the business⁶⁵. The franchisee will benefit from the franchisor's assistance as the franchisor is already experienced in its field of business as has the specialized knowledge on how to best run the franchise business.

Martin Mendelsohn, a globally successful entrepreneur from CT Partners, stated that "a franchisee's lack of knowledge and experience will be overcome by the training program of a franchisor" (Mendelsohn, 1982). Lawrence J. Cohen, CEO Cookie Associates, states that the chance to success for a franchisee is greater if the franchisee follows the guidelines of the franchisor. "If you're selling a Big Mac and you decide to use a plain bun because you don't like the sesame seed bun, well, it's no longer a Big Mac," (Martin Mendelsohn, 2012)⁶⁶. So not only is the assistance of the franchisor to the franchisee very helpful especially to an unexperienced franchisee, it also ensures that the consumers receive the same quality of services and products that the franchisor is known for.

Another advantage of franchising is that it relatively involves low capital requirements⁶⁷. For instance, if the client decides to establish a wholly-owned retail company, the costs would be much higher than when deciding to start up a franchise. Paul H. Rubin, senior fellow at Technology Policy Institute specialized in Political economy, noted that there are also some franchisors that will help the franchisee help raise capital by for example cosign for a bank loan⁶⁸. However, some franchises do not require a high capital investment and so no bank loan needs to be taken. When looking at the Dutch Franchise Directory, a list with the major franchisors in the Netherlands, the initial capital investment of some franchises listed may account for just €2000,-⁶⁹.

In terms of the economic advantage that the franchise of this thesis will have is that the franchise could contribute to the privatization of the previously state-owned economy of Estonia ⁷⁰. P. Zeidman and Michael Avner, authors and partners of Washington Law Firm, constituted that several governments in the Central and Eastern Europe consider the use of franchising by the local business people as a way to privatize the previously state-owned businesses⁷¹. Due to the fact that Estonia was occupied for quite

⁶³ Daszkowski, D. (2013, October 4) <http://www.businessmart.com/>

⁶⁴ Gamet-Pol, F. J. (1997). *Franchise Agreements Within The European Community*. United States of America: Transnational Publishers, Inc.

⁶⁵ Campbell, D. (2008). *International Franchising*. Great Britain: Kluwer Law International

⁶⁶ Sullivan, P. (2012, May 18). *Franchise Success Means Doing Things The Franchiser's Way*. The New York Times

⁶⁷ Campbell, D. (2008). *International Franchising*. Great Britain: Kluwer Law International

⁶⁸ Gamet-Pol, F. J. (1997). *Franchise Agreements Within The European Community*. United States of America: Transnational Publishers, Inc.

⁶⁹ Plus, F. (2013, October 20). <http://franchiseplus.nl/>

⁷⁰ Gamet-Pol, F. J. (1997). *Franchise Agreements Within The European Community*. United States of America: Transnational Publishers, Inc.

⁷¹ Gamet-Pol, F. J. (1997). *Franchise Agreements Within The European Community*. United States of America: Transnational Publishers, Inc.

some time and the country received independence not too long ago, in the last years it has been focused on becoming a strong economy and an international market player⁷². Therefore, franchising has become quite popular in Estonia as a way to easily start a business and as a stimulation of privatization⁷³.

Cons

Though franchising has a lot of advantages it also carries some disadvantages for the franchisees. The main disadvantage of franchising is the limited decision making that the franchisee has in terms of the franchise business⁷⁴. As mentioned before, the franchisor will provide the franchisee with ongoing managerial assistance. As this is an advantage, it can also be seen as a disadvantage as the franchisor will always need to be notified about the actions taken by the franchisee. Curtis Kroeker, general manager of BizBuySell, advised entrepreneurs that if they can't see themselves relinquishing operational decision-making and other activities, they should not consider franchising as business ownership⁷⁵.

Another disadvantage of franchising is that the franchisee will have to pay the franchisor on a regular basis certain fees⁷⁶. Lisa LaMotta from Forbes Magazine talks about the importance of reading the franchising contracts so that no additional fees are paid by the franchisee to the franchisor⁷⁷. In order for the client not to pay any unnecessary fees to the selected franchisor, she should take a close look at the standard contract terms for a franchisee.

2.2.3 Franchising structures

There are two main structures of franchising: Product-Trademark franchise structure and the Business Format franchise structure⁷⁸. The difference between these two types of franchising is that a product-trademark franchise, will not provide the client with an entire operational system by the franchisor⁷⁹.

The International Franchise Association described product-trade mark franchise as a "supplier-dealer relationship in which the franchisor licenses its trademark without a system for running the franchise" (International Franchise Association, 2013). This type of franchise is also referred as the manufacturer-retailer arrangement by others⁸⁰. Business Format franchising on the other hand is described by J. Michael Geringer, Professor Polytechnic University, as an arrangement in which the franchisor provides management in specific areas to the franchisee⁸¹. It depends on the type of retail that will be chosen to work with by the client, which type of franchise is more beneficial. For example, the American 7-Eleven store has opened a franchise in Taiwan, however, almost all aspects of the store chain were re-formatted in the Taiwan store including its layout,

⁷² Greeley, B. (2012, July 20). Krugmenistan vs. Estonia. Bloomberg Businessweek

⁷³ Greeley, B. (2012, July 20). Krugmenistan vs. Estonia. Bloomberg Businessweek

⁷⁴ Lafontaine, F. (2005). Franchise Contracting and Organization. United Kingdom: Edward Elgar Publishing Inc.

⁷⁵ Kroeker, C. (2013, June 5). Independent Business or Franchise? How to Decide?. Inc. Magazine

⁷⁶ Gamet-Pol, F. J. (1997). Franchise Agreements Within The European Community. United States of America: Transnational Publishers, Inc.

⁷⁷ Lamotta, L. (2008, January 9). Secrets and Snags to Franchising Success. Forbes Magazine

⁷⁸ Geringer, J. M. (2010). International Business. United States of America: McGraw-Hill Irwin

⁷⁹ Geringer, J. M. (2010). International Business. United States of America: McGraw-Hill Irwin

⁸⁰ Mendelsohn, M. (1982). The Guide to Franchising. Great Britain: Pergamon Press Ltd.

⁸¹ Geringer, J. M. (2010). International Business. United States of America: McGraw-Hill Irwin

positioning, and product offerings etc.⁸². “This trade mark franchise has proven to be successful in Taiwan rather than a business format franchise” (Chen & Chang, 2012).

2.2.4 Franchise Contracts

Jeff Elgin, CEO of FranChoice Inc. wrote a guide that helps determine whether a franchise contract is viable. In this guide Elgin identifies issues that might be presented in a franchise contract and which of them can be a sign of a bad franchise agreement⁸³. These issues are:

1. “Agreements made with a strong franchise company are typically non-negotiable;
2. A franchisor’s willingness to negotiate its provisions in the agreement should be seen as a warning sign;
3. Franchise agreements are one-sided (Mostly the franchisor’s perspective);
4. Agreement is full of must-dos + must-don’ts;
5. Agreement describes clause that prohibits franchisee to sell the business to third party;
6. Agreement describes clause that allows franchisor to change the deal without the franchisee having a say in it” (Elgin, 2009)

It is important for the client to get an attorney to look at the franchise contract whenever a cooperation with a Dutch franchisor will take place in order to ensure that the clauses presented by the Dutch franchisor does not cause problems to the client. However, the points mentioned above will serve as a tool when analyzing the documents involved when establishing a franchise agreement. Furthermore, it is important to take a detailed look at the way that Dutch franchisors present their Uniform Franchise Offering Circular (UFOC). Mary Crane from Forbes Magazine describes the UFOC as “a document that obliged the franchisor to disclose information about him/herself, the business model and the franchise agreement before anything is signed by the franchisee” (Crane, 2007). By taking a look at the UFOC of different Dutch franchisors in the sectors of fashion, toys and food, a distinction can be made on which of these franchisors could provide viable information for the thesis in terms of i.e. experience, size etc.

2.2.5 Qualifications franchisee

It differs per franchisor the qualifications and criteria they set for selecting a franchisee. However, there are some similarities in the aspects that the most look at. These aspects include the importance placed on the financial situation of the potential franchisee, the preference of location where the retail store will be placed and the request for some knowledge of franchising and the sector of the franchise operation⁸⁴. Eric Eshner, managing director 26-store eatery, stated that the requirements for wannabe franchisees has been tougher after the credit crunch and that applications are nowadays not even looked at once has been determined that the applicants do not meet the financial criteria⁸⁵. McDonalds for example, requires a specific location for its franchisee store before entering into an agreement⁸⁶. Some franchisors require entrepreneurs interested in

⁸² Chen, S.-F. & Chang, A. (2012, March 12). 7-Eleven in Taiwan. Harvard Business Review

⁸³ Elgin, J. (2009, May 28). 10 Things About Franchise Contracts. Entrepreneur

⁸⁴ Maltby, E. (2010, November 15). Want to Buy a Franchise? Requirements Went Up. Wallstreet Journal

⁸⁵ Maltby, E. (2010, November 15). Want to Buy a Franchise? Requirements Went Up. Wallstreet Journal

⁸⁶ Thompson, M. (2013, October 18). <http://smallbusiness.chron.com/mcdonalds-franchise-location-requirements-40457.html>. Opgehaald van Houston Chronicle.

buying a franchise to design a business plan in order to determine whether the entrepreneur has the potential to run the franchise beneficially⁸⁷.

2.2.6 Identifying a Viable Franchisor

One of the most significant aspects that identify a viable franchisor is its brand recognition⁸⁸. This indicates the reputation a franchisor has in its market and it helps determine the level of customer loyalty to the brand⁸⁹. Furthermore, how the present franchisees perceive the franchisor also shows whether entering into an agreement with the selected franchisor would be beneficial⁹⁰. The Federal Trade Commission, a U.S. Agency specialized in the regulations concerned with international trade worldwide, determined that “the more widely recognized a brand is, the more customers it would attract” (Federal Trade Commission, 2008).

2.2.7. Retailing

Retailing refers to the final activities taken to ensure that a product or service is provided directly to a consumer⁹¹. These actions include selling through a store, selling through the mail, over the phone, selling door to door or through the Internet⁹². From all these different ways of performing retailing, three basic types of retailers have been identified: Food retailers, General Merchandise retailers and Non-store retailers⁹³.

Nowadays there are four types of food retailers that have been concluded: Conventional Supermarkets, Supercenters, Warehouse Clubs and Convenience Stores. A conventional supermarket is a large self-service retail food store where consumers can get groceries, meat, and nonfood items such as health and beauty aids⁹⁴. Examples of conventional supermarkets are Carrefour, Giant, Albert Heijn. A supercenter on the hand is a larger store than the conventional supermarket, where a full-line discount store (a retailer which offers a broad variety of merchandise, limited service and low prices) is combined with a supermarket⁹⁵. An example of a supercenter is Walmart. A warehouse club consists of different retailers that offer a limited and irregular food supplies with little to no service and low prices⁹⁶. Examples of a warehouse club include Makro and Sam’s Club. A convenient store is smaller than the above mentioned food retailers and offers a limited assortment of merchandise and can be often found on convenient locations such as train stations⁹⁷. An example of a convenience store is 7-Eleven.

There are six major types of general merchandise retail: Department stores, Full-line Discount stores, Specialty stores, Category specialists, Off-price retailers and Extreme-value stores. Examples of department stores are Macy’s, Peek & Kloppenburg and the Bijenkorf. An example of a full-line discount store is Target. A specialty

⁸⁷ Miller, K. (2012, October 16). What it costs to buy a Franchise. Bloomberg Businessweek.

⁸⁸ Ferrel, O., Hirt, G. A., & Ferrell, L. (2009). Business. Avenue of the Americas, New York: McGraw-Hill Irwin.

⁸⁹ Kotler, P., & Armstrong, G. (2010). Principles of Marketing. New Jersey: Pearson Education.

⁹⁰ Crane, M. (2007, February 2). A caution Tale for New Franchisees. Forbes.

⁹¹ Dunne, P. M., Lusch, R. F., & Carver, J. R. (2011). Retailing. Mason, USA: South-Western Cengage Learning.

⁹² Dunne, P. M., Lusch, R. F., & Carver, J. R. (2011). Retailing. Mason, USA: South-Western Cengage Learning.

⁹³ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc.

⁹⁴ National Retail Foundation. (2008). Retail Industry Indicators. Washington, DC.

⁹⁵ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc.

⁹⁶ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc.

⁹⁷ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc.

store offers its consumers a limited amount of merchandise categories and a high level of customer service⁹⁸. An example of a specialty store is Victoria's Secret.

Category specialists are retailers that offer consumers a narrow but extensive merchandise where mostly self-service applies⁹⁹. An example of a specialty store is IKEA. Off-Price Retailers are also known as closeout retailers and offer brand-name merchandise to consumers at a discount off the manufacturers' suggested retail price (MSRP)¹⁰⁰. An example of an off-price retailer is Big Lots. Extreme-value retailers are small stores that offer consumers a limited amount of merchandise but a very low prices¹⁰¹. An example of an extreme-value retailer is Zeeman.

Non-store Retailing is also called online retailing or more commonly used: E-commerce. E-commerce is the action of selling products or services through the internet¹⁰². Amazon is an example of a non-store retailer.

2.2.8. Retailers in the Netherlands

The 'Detailhandel Nederland' is the central organization for retail within the Netherlands in which all Dutch retailers are registered and it is divided into two branches: Midden en Klein Bedrijf- Nederland (MKB) and Raad Nederlandse Detailhandel (RND)¹⁰³. RND is the association within the Netherlands that is occupied with the registration of all the large retail businesses as well as the regulations involved. RND is then again divided in different associations per sector of which VGS and VGT represent the sector fashion, VGW represents the sector household and VGSB represents the retail companies that offer a broad range of products and cannot be placed in only one sector (i.e. IKEA offers, household products, a restaurant and children toys)¹⁰⁴. Here the client will be able to obtain a list of all the Dutch retailers within the fashion, toys and core food sectors. From there on viable franchisors can be selected.

2.2.9. Fashion Retail

Fashion is a rather broad concept which by many people is considered to have different meanings, but for this thesis, a closer look will be taken at fashion retail which is commonly referred to as Merchandise Retailing¹⁰⁵. Merchandise Retailing involves the purchase of fashion items such as clothing, shoes, jewelry, luggage and leather goods that afterwards are sold in a store directly to consumers¹⁰⁶. The type of Merchandise retail that the client has in mind is specialty store which falls within the general merchandise retailing.

⁹⁸ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc.

⁹⁹ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc.

¹⁰⁰ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc

¹⁰¹ Levy, M., & Weitz, B. A. (2012). Retailing Management. New York, United States: McGraw-Hill Companies Inc

¹⁰² The Economist. (2013, July 13). The Emporium strikes back. The Economist, p. 15.

¹⁰³ Detailhandel Nederland. (2013, November 10). <http://www.detailhandel.nl/>

¹⁰⁴ Raad Nederlandse Detailhandel. (2013, November 10). http://www.rndweb.nl/view.cfm?page_id=12776

¹⁰⁵ Harris, B. (2014, April 23). What is Retail Merchandising? Retrieved from WiseGeek: <http://www.wisegeek.com/what-is-retail-merchandising.htm>

¹⁰⁶ Dunne, P. M., Lusch, R. F., & Carver, J. R. (2011). Retailing. Mason, USA: South-Western Cengage Learning.

2.2.10. Toys Retail

Toys can be referred to as enjoyable items which can be used by young people as well as by old people to play with¹⁰⁷. Action figures, Video Games, Puzzles and Stuffed animals are examples of toys. So in regards to toys retail, it can be described as the act of purchasing toys for the purpose of selling the toys in a store directly in a store. The type of toys retail that the client wants is a category specialist and thus falls within the general merchandise retailing.

2.2.11. Core Food Retail

Core Food can be described as food that is rich of vitamins and minerals that is mostly used as building blocks for the creation of multi-ingredient recipes¹⁰⁸. So, the most significant character of core food is that it has no additives. Examples of core food items are: eggs, fruits, vegetables, vegetable oil, fish and low fat cheese. Core food retail is the selling of these type of healthy products through a store directly to the consumers.

2.2.12. Success and Failure factors of a retail business

In this thesis, success factors are perceived to be the significant facts that facilitate the accomplishment of desired business goals in a favorable manner. Failure factors on the other hand refer to the internal and external negative influences on a business that might harm the success. So what are the common success and failure factors up till now for the retail sector? Common success factors include: innovative retail format, low prices and the 'big middle' segment. An innovative retail format involves retailers ensuring that the customers get a real joyful shopping experience which as result makes these customers buy something in the store¹⁰⁹. Ensuring this shopping experience can be stimulated by playing certain music, having a certain smell in the store or even providing a small children's corner where children can play. A great example of a retailer that has a strong innovative retail format is IKEA. Then low pricing is another key success factor in the retail business as it attracts a large public. And then targeting the 'big middle' is eventually the success factor that every retailer wishes to maintain. Targeting the big middle refers to being able to target the largest potential base of customers¹¹⁰. This in turn ensures high profits for a retailer. A common success factor in Estonia include loyal customers due to the small market of Estonia. Furthermore, when looking at the success factors on an international basis, the openness of the Estonian market as well as the Lithuanian and the Latvian market, makes it for retailers easier to expand business across the Baltics.

One of the common failure factors that retailers face in Estonia nowadays are the high level of competition due to the low barriers there are to entry the retail market as well as the minimal regulation¹¹¹. Another failure factor is the high level of uncertainty in regards to the consumer's demand. Consumers' preferences change over time and there is for retailers not a fully reliable way in predicting this consumer behavior. So if a retailer is not able to adapt to these preferences of the consumers, major losses can take place. This change in consumer's

¹⁰⁷ Crupnick, R. (2012, October 19). Drilling To The Core In Toy Spending. Retrieved from NPD Group Blog: <https://www.npdgroupblog.com/drilling-to-the-core-in-toy-spending/#comment-4736>

¹⁰⁸ Nutrition Coordination Center. (2014). Core Foods. Minnesota, USA: University of Minnesota.

¹⁰⁹ Grewal, D., Krishnan, R., Levy, M., & Munger, J. (2011). Retail Success And Key Drivers. Jsor.

¹¹⁰ Grewal, D., Krishnan, R., Levy, M., & Munger, J. (2011). Retail Success And Key Drivers. Jsor.

¹¹¹ Mawby, E. (2011, March 18). How To Succeed In The Retail Industry. Business Strategy.

preference has strong to do with the rapid growth that Estonia has experienced in the past years¹¹². The failure factors with the high influence on the business' success can then be considered to be the potential risks that a business faces¹¹³.

2.2.13. Risks of International Business

Risk can be described as the unpredictability of a company's performance due to uncertain internal and external environmental variables¹¹⁴. In regards to international business, there are three main categories of risks: uncertain general environmental, uncertain industry and uncertain firm-specific variables¹¹⁵.

General environmental uncertainties are concerned with factors on macro-level that might influence the business across industries. These factors include political instability, government policy instability, macroeconomic uncertainties, social uncertainties and natural uncertainties¹¹⁶. Political instability is often related with changes in political regimes that is caused by war, a revolution, coup d'état or any other political disturbance¹¹⁷. An example of how this political instability might influence the performance of a business is the higher probability of ownership/control of the business in the country in question¹¹⁸. Government policy instability goes often hand in hand with political instability and is concerned with the set of rules for businesses and the continuation of the rule of law¹¹⁹. If there is a change in the political regime in a country for example, there is a greater possibility that there will be no continuation of the rule of law applied to the business and the business would have to adapt to new rules. Macroeconomic uncertainties on the other hand relate to the inability to determine what goods and services can be produced most competitively¹²⁰. Examples of macroeconomic uncertainties are interest rate risk (influence the demand of product/service in a country) and currency risk (influences the value of money generated)¹²¹. Another macroeconomic uncertainty is cyclicity. Cyclicity is concerned with the extent an industry is influenced by the expansion and concentration within business cycles¹²². Business cycles can be referred to as the irregular movements in a country's economic activity¹²³. Thus, cyclicity risks is related to the level of impact fluctuations in a country's economic activity have on an industry. Macroeconomic uncertainties, political instability and government policies instability also have an impact on social uncertainties. Social uncertainties comes from the strong beliefs, values, and attitudes

¹¹² McKenzie, B. (2006). *Baltic Journal of Management*. London: Emerald Group Publishing Limited.

¹¹³ Mohammed, A., & Sykes, R. (2013, January 3). *Sharpening Strategic Risk Management*. PriceWaterhouseCoopers.

¹¹⁴ Heathcote, J., & Perri, F. (2013). *Assessing International Efficiency*. London, UK: Centre for Economic Policy Research.

¹¹⁵ Miller, K. D. (2013). *A Framework For Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian.

¹¹⁶ Miller, K. D. (2013). *A Framework For Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian.

¹¹⁷ Miller, K. D. (2013). *A Framework For Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian.

¹¹⁸ Ring, P. S., Kenway, S. A., & Govekar, M. (1998). *Management of The Political Imperative In International Business*. Minnesota, USA: University of Minnesota.

¹¹⁹ Rao, S. R. (2010, February 1). *Stability of Government Policies*. Retrieved from Citeman- The Online Business Community: <http://www.citeman.com/8577-stability-of-government-policies.html>

¹²⁰ Ring, P. S., Kenway, S. A., & Govekar, M. (1998). *Management of The Political Imperative In International Business*. Minnesota, USA: University of Minnesota.

¹²¹ Oxelheim, L., & Wihlborg, C. (2008). *Corporate Decision-making With Macroeconomic Uncertainty*. New York, USA: Oxford University Press.

¹²² Risk Management Association. (2004). *RMA's Body of Knowledge*.

¹²³ Dr. Econ. (2002, May 1). *What Are Business Cycles And How Do They Affect The Economy?* Retrieved from Federal Reserve Bank of San Francisco: <http://www.frbsf.org/education/publications/doctor-econ/2002/may/business-cycles-economy>

of the population and the inception that these are being violated¹²⁴. Examples of social uncertainties include social unrest, riots and demonstrations. The fifth general environmental uncertainty dimension is natural uncertainties and stands for unforeseen weather patterns such as hurricanes or earthquakes that can have a strong impact on business¹²⁵. In the case of Estonia, the general environmental uncertainties that occur at the moment include the anxiety of falling back under the power of the Russians. Furthermore, Estonia already has a high inflation rate in comparison to the other European countries. Since Estonia has experienced a rapid economic growth in the past years with a prediction that this will continue, this inflation rate might become even higher. This would mean that the prices of goods and service in Estonia will only increase more.

The industry uncertainties on the meso-level that have the potential of influencing a business is often somewhat different per industry in which a business finds itself. However, there are some common industry risks: input market uncertainty, product market uncertainty and competitive uncertainty¹²⁶. Input market uncertainty has to do with the difficulty of obtaining and maintaining a strong influence on the supplier's production process, the supplier's prices and the quality in which suppliers provide the products/services¹²⁷. Product market uncertainty refers to the instable demand of consumers' preferences in regards to the output of a particular industry¹²⁸. Changes in consumers' tastes, the availability of substitute goods and the scarcity of complementary goods are examples of product market uncertainties. Competitive uncertainties on the other hand take place when other firms within the same industry conduct certain competitive actions that as result have a negative effect on the performance of one's business¹²⁹. The main industry uncertainty in Estonia is the high level of competition in the fashion retail sector. There are a lot of different fashion brands in the Estonian market that would make it more difficult for the client to stand out with a fashion brand whenever the decision is to enter this sector.

Firm-specific uncertainties are risks that arise from sources which are unique to the firm and often also internal¹³⁰. These risks are frequently concerned with firm's primary categories: operations, liability, research and development, credit and behavior within the firm¹³¹. An example of a firm-specific uncertainty is the change within a firm after the acquisition of another firm.

¹²⁴ Miller, K. D. (2013). *A Framework For Integrated Risk Management In Internatonal Business*. London, UK: Palgrave MacMillian.

¹²⁵ Miller, K. D. (2013). *A Framework For Integrated Risk Management In Internatonal Business*. London, UK: Palgrave MacMillian.

¹²⁶ Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

¹²⁷ Beckman, C. M., Haunschild, P. R., & Philips, D. J. (2004). *Firm-Specific Uncertainty, Market Uncertainty, and Network Partner*. California: Organization Science.

¹²⁸ Beckman, C. M., Haunschild, P. R., & Philips, D. J. (2004). *Firm-Specific Uncertainty, Market Uncertainty, and Network Partner*. California: Organization Science.

¹²⁹ Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

¹³⁰ Beckman, C. M., Haunschild, P. R., & Philips, D. J. (2004). *Firm-Specific Uncertainty, Market Uncertainty, and Network Partner*. California: Organization Science.

¹³¹ Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

2.2.14. Methods of Responding to International Business Risks

Though different literature and business professionals have different opinions on how to respond to potential international business risks, there are some basic steps that a firm can take to be able to overcome certain risks affecting the business. These steps are divided into two basic approaches for managing uncertainties: financial risks management and strategic risk management¹³².

Financial risk management is the implementation of finance-related techniques as a way to reduce the firm's exposure to the internal and external environmental uncertainties¹³³. The two main financial risk management techniques are the purchase of insurance and the buying or selling of financial instruments such as future contracts. A future contract involves two parties making an agreement on the buying and selling of a particular asset at a specified price at a pre-determined time in the future¹³⁴. This financial instruments is commonly used by firms to reduce the exposure to risk.

Strategic risk management is mostly conducted by firms as a way to respond to the external risks that arise when doing business¹³⁵. These risks are related to the demand of the consumers, problems of integration, R & D, customer retention, pricing pressure, industry downturn, and partner losses¹³⁶. With the use of strategic management, five generic responses can be used against these risks: avoidance, control, cooperation, imitation and flexibility¹³⁷. Avoidance as a response to international risks occurs whenever a firm establishes that investing in a certain market or product is too risky and as a result postpones the business or if already active, to retreat from this business¹³⁸. Control on the other hand does not involve the retreat from a certain market or postponing any business, it is involved with the way firms try to control potential environmental uncertainties¹³⁹. An example of how firms try to control is the lobbying with government institutions to dismiss certain laws detrimental to the firm. The third response, cooperation, occurs when firms work together with other parties for the long-term as a way of ensuring that the level of rivalry is reduced¹⁴⁰. An example of this type of strategic management is the establishing of long-term cooperation with a local supplier whenever entering into a new market. Then imitation is a rather simple concept which involves a firm copying another firm as a way to stay competitive relevant. And last but not least, firms use flexibility as a strategic risk management move to reduce uncertainties. Flexibility occurs when a firm can easily adapt to new situations¹⁴¹. Most of the times firms which are flexible, decrease de cost of organizational adaptation. In the case of the client, the most suitable responses include control, cooperation and flexibility. As one of the risks is the anxiety of a Russian take over, a way of

¹³² Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

¹³³ Crockford, N. (1986). *An Introduction to Risk Management*. Cambridge, UK: Woodhead-Faulkner.

¹³⁴ *Economic Times*. (2014, February 1). Definition of Futre Contracts. *Economic Times*.

¹³⁵ Mohammed, A., & Sykes, R. (2013, January 3). *Sharpening Strategic Risk Management*. PriceWaterhouseCoopers.

¹³⁶ Mohammed, A., & Sykes, R. (2013, January 3). *Sharpening Strategic Risk Management*. PriceWaterhouseCoopers.

¹³⁷ Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

¹³⁸ Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

¹³⁹ Miller, K. D. (2013). *A Framework for Integrated Risk Management In International Business*. London, UK: Palgrave MacMillian

¹⁴⁰ Doz, Y. L. (1996). *The Evolution of Cooperation in Strategic Alliances*. London, UK: John Wiley & Sons Ltd.

¹⁴¹ Sanchez, R. (2003). *Strategic Flexibility in Product Competition*. United States: Jstor.

controlling this is by adapting a political risk insurance which provides coverage for financial losses caused by actions undertaken by host governments or other actors¹⁴². This political insurance can be obtained by making clear agreements with the Estonian government as well as the Dutch government as the franchise brand is originally Dutch. On the other hand, cooperation can be a suitable response whenever the client faces strong competition within the sector operating. Furthermore, being flexible can result in turning a potential risk into a factor which would not cause any harm to the success of the business of the client. As the high inflation rate is a risk, by being flexible, providing products at a higher price, but with better service can ensure high profits. This is because people in Estonia are not used to high service in retail stores.

2.3 Useful Frameworks

Porter's 5 Forces

The Porter's 5 Forces model will be used in this thesis to investigate the potential threats within the fashion, toys and food industry in Estonia. Identifying these threats will help determine the strength of each force within the particular industries. Below is to find a visual representation of the forces where the focus lies.

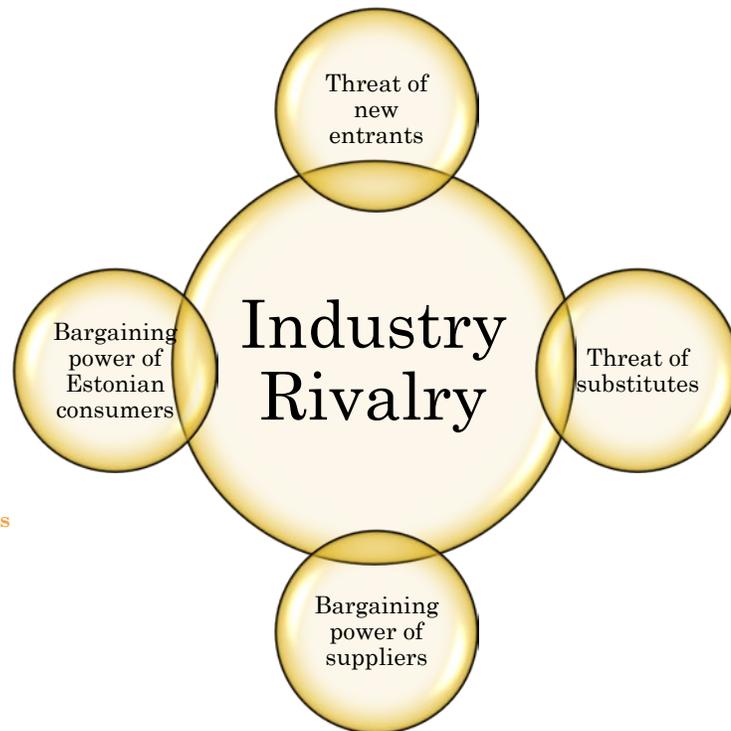


Figure 3- Porter's 5 Forces

¹⁴² Freely, E. (2014). *Managing Political Instability in Emerging Markets*. Atlanta, USA: Marsh USA Inc.

GE McKinsey Matrix

The GE McKinsey matrix is a framework mostly used by large corporations in order to identify which business units have the most potential of being successful in an industry. The way in which this matter is calculated is by analyzing the attractiveness of the industry in question and the competitive strength of the business unit within this industry (McKinsey, 2008). In this thesis the GE McKinsey matrix will be used in order to identify which products (fashion products, toys or core food) would have a greater chance of having a competitive advantage within their industries. Below is to find a visual representation of the GE McKinsey matrix.

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		Business Unit Strength		
		High	Medium	Low
Industry Attractiveness	High			
	Medium			
	Low			

Figure 4- GE McKinsey Matrix

2.2.7 Relevance Tree

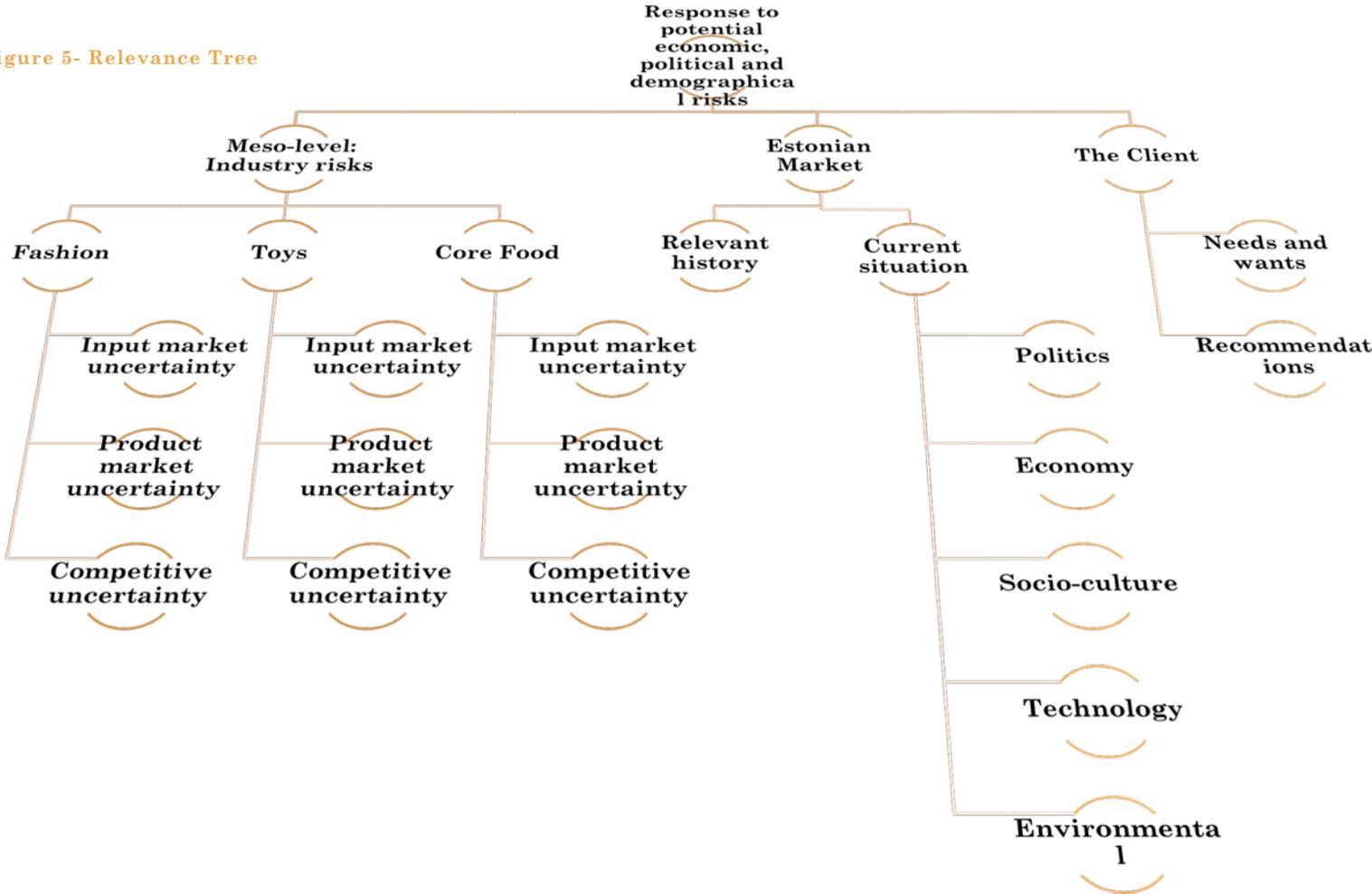
‘A relevance tree is a method tool that will help form some structure in the literature research and give some guiding in the search process’ (Sharp and Howard, 1996)¹⁴⁴. Before determining which literature was going to be used for this thesis, a relevance tree was designed. This relevance tree has helped identifying which key words are directly relevant to the research objective and the research questions and the level of significance of each key word. The areas that are considered more important have more branches.

¹⁴³ Mullins, J. (2010). *The New Business Road Test*. London, UK: Prentice Hall.

¹⁴⁴ Saunders, M., Lewis, P., & Thornhill, A. (2000). *Research Methods for Business Students*. Great Britain: Pearson Education Limited.

Below is to find the relevance tree that had been designed.

Figure 5- Relevance Tree



Summary

In order to ensure the high quality of this thesis only academic recognized sources will be used. The theoretical foundation of this thesis used is based on the research questions and the concept on how to answer these. The subjects that will play an important role throughout this thesis include: Defining Franchising, Pros and Cons of franchising, Franchising Structures, Franchising Contracts, Qualifications Franchisee, and identifying a viable franchisor.

3. METHODOLOGY

This section of the thesis details the proposed research method by describing the research strategy that is to be used. Based on this research strategy, data collection methods have been chosen and will be presented. Next to this, the sampling issues, the measures to guarantee the credibility of the research, and the potential project risks will be outlined in this chapter.

3.1 Research Strategy

In order to obtain high qualitative information for this thesis and to achieve the thesis' objective, it is important that a suitable research method is used¹⁴⁵. For this thesis, an inductive approach will be taken and the research strategy chosen is the case study¹⁴⁶.

Performing an inductive approach is concerned with collecting data and afterwards developing a theory as a result of the data analysis¹⁴⁷. As conclusions will be made after the extensive amount of data is obtained, an inductive approach is the most appropriate. Case study will be used as the research strategy of this thesis and can be described as the tactic used to obtain an intensive and detailed understanding of a single case or a limited number of cases related to each other¹⁴⁸. The main characteristics of this type of strategy is that it aims to answer questions such as what, why and how by the use of different data collection methods such as interviews, surveys, documentary analysis and observation¹⁴⁹. For this thesis, interviews will be taken, surveys will be conducted, participant observation will take place and content analysis will be applied for the interpretation of the data collected. The case study strategy has been chosen because it is the most suitable for the research that needs to be conducted as this thesis is involved with finding specific information about the potential external risks that the client might face when establishing a Dutch retail franchise in the Estonian fashion, toys or core food industry. An understanding of these risks need to be obtained in order to be able to make viable recommendations to client.

3.2 Data collection method

In the research process, a combination of quantitative research techniques and qualitative research techniques will be used as a way to collect, analyze and interpret data by observing what people say as well as observing the sources already available. The research questions designed for this thesis will be presented after which the suitable data collection method per research question will be introduced and afterwards further evaluated. After conducting the research and having obtained the extensive amount of data, content analysis will be applied

¹⁴⁵ Burns, A. C., & Bush, R. F. (2006). *Marketing Research*. Upper Sadle River, New Jersey: Pearson Prentice Hall.

¹⁴⁶ Saunders, M., Lewis, P., & Thornhill, A. (2000). *Research Methods for Business Students*. Great Britain: Pearson Education Limited.

¹⁴⁷ Saunders, M., Lewis, P., & Thornhill, A. (2000). *Research Methods for Business Students*. Great Britain: Pearson Education Limited.

¹⁴⁸ Saunders, M., Lewis, P., & Thornhill, A. (2000). *Research Methods for Business Students*. Great Britain: Pearson Education Limited.

¹⁴⁹ Burns, A. C., & Bush, R. F. (2006). *Marketing Research*. Upper Sadle River, New Jersey: Pearson Prentice Hall.

as a way of structuring and interpreting the data obtained so that conclusions and recommendations can be made. Furthermore, the use of frameworks will help organize and summarize the information obtained. The frameworks that will be used for this thesis are the Porter's 5 Forces and the GE McKinsey Matrix.

3.2.1 Research Questions

1. What are the potential general environmental risks that the client might face when entering the Estonian market?

A significant tool that helps in achieving the thesis objective is the information available on cases similar to the case of this thesis. In this case, Dutch retail franchises in the fashion, toys and core food sectors that are already established in Estonia or that were established in Estonia can provide significant information. By interviewing the Dutch franchisors already operating in the Estonian market, an inside perspective can be obtained on the general environmental issues that the franchisors have dealt with. The methods that are going to be used to collect this information are:

- Semi-structured Interviews
- Participant Observation

2. When looking at the Estonian fashion industry, what are the potential input market, product market and competitive industry risks that the client might face when establishing the Dutch retail franchise in this industry?

During the interview with the Dutch fashion franchisor established in Estonia, specific questions in regards to the current situation of the Estonian fashion industry will be asked. In this way an inside perspective can be obtained on the external risks within this industry. Furthermore, surveys will be taken from the retail employees in Tallinn to get a view of how the mobility is in the stores and which stores seem more successful. This information will serve as an extra source in determining whether the fashion retail stores are performing better or worse than the toys stores and core food stores. The following methods will be used:

- Semi-structured Interviews
- Survey
- Participant Observation

3. When looking at the Estonian toys industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?

While conducting the interview with the Dutch toys retail franchisor established in Estonia, the interviewee will be asked to provide information on the current situation of the Estonian toys industry. This will ensure that significant inside information on the potential external risks within the industry can be obtained. The surveys

taken from the retail employees in Tallinn will also serve to identify whether the toys retail stores are performing better or worse than the fashion and core food retail stores. The methods that are going to be used to collect this information are:

- Semi-structured interviews
 - Survey
 - Participant observation
4. When looking at the Estonian core food industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?

A Dutch core food franchisor whom is established in Estonia will be interviewed in order to get some inside information on the core food industry in Estonia. The interviewee will be asked which external risks were dealt with. Furthermore, the surveys taken from the retail store employees will identify whether the core food stores are performing better or worse than the fashion and toys retail stores. The methods that are going to be used to collect this information are:

- Semi-structured interviews
 - Survey
 - Participant observation
5. How should the client respond to the potential external risks identified and which of the research industries has the lowest net risk?

With this last research question the objective of this thesis should be achieved: “To recommend the client how to best respond to the potential external general environmental and industry risks of establishing a Dutch retail franchise in the Estonian fashion, toys or food industry and to inform the client which of these industries has the lowest net risk”. By looking at the information obtained from the extensive research conducted, conclusions will be made. Content analysis will be conducted, the Porter’s 5 Forces Model as well as the GE McKinsey Matrix will be applied and afterwards recommendations will be made.

3.2.2. Survey: Interviewer-administered questionnaires

The survey research technique that will be used for this thesis is interviewer-administered questionnaire. This type of survey is concerned with a questionnaire given to the respondents while the interviewer is present and records at the time of responding¹⁵⁰. In order to get a view of how the Estonian retail market is currently progressing, direct contact with retail store employees within the sectors of fashion, toys and core food will take place in Tallinn, Estonia and they will be asked to fill out a questionnaire. From the PESTLE analysis conducted before hand on what kind of country Estonia actually is, it became clear that almost half of the year the

¹⁵⁰ Saunders M., Lewis P., Thornhill A. (2000). *Research Methods for Business Students*. Harlow. England: Pearson Education Limited

temperature is below zero degrees Celcius. From this came out that most Estonian shop indoors as it is too cold outside. Therefore, the direct contact with the store employees will take place in the five big shopping centers in Tallinn: Kristiine, Rocca Al Mare, Solaris, Viru Keskus and Ülemiste. These are the shopping places that generate the most customers, thus the best locations for setting up a Dutch retail franchise¹⁵¹. The questionnaire will obtain eleven questions which are a combination of (partially) close-ended questions with multiple answers, two-option responses questions and “other, please specify” questions.

3.2.3. Semi-structured interviews

Before interviewing the Dutch retail franchisors in Estonia, a list with 10 open questions will be designed in order to generate the right information during the interview. Naturally, during the interviews more questions will come up as the conversation proceeds. A combination of dynamic and thematic questions will be asked to the franchisors during these interviews. Thematic questions refer to questions that aim to obtain information specifically relevant to the research topic. Dynamic questions on the other hand are used to make the conversation with the interviewee flow well¹⁵². Discussions on the interviewees’ lived experiences can be the outcome of dynamic questions. In this way the interviewees will feel more comfortable and would be more willing to share valuable information. Semi-structured interviews are interviews in which beforehand certain themes and questions are determined, but these may vary per interview¹⁵³. Due to the possibility that the Dutch franchisors that are to be interviewed might not want to answer all questions directly, the semi-structured approach seems the most appropriate. Each interview will take more-or-less an hour in order to get as much information as possible from the franchisors.

3.2.4. Participant observation: Observer as participant

Participant observation is a qualitative research technique that is commonly used for the purpose of get an idea why people act in certain ways by observing and recording their behavior¹⁵⁴. This research technique is important to apply during the interviewer-administered questionnaires in order to get a view of if the way the store employees act influences the mobility within the stores. The type of participant observation that will be used is observer as participant and it involves observing the respondents without taking any part in the activities within the retail stores. The store employees will be asked to fill in the questionnaires but before they are asked to this, they’re actions in the stores will be observed.

3.2.5. Content Analysis

Content analysis as a research methods that has been described by Hsiu-Fang Hsieh (professor Fooyin University, Taiwan) and Sarah E. Shannon (professor University of Washington, Seattle USA) as a research method which

¹⁵¹ Estonian Public Broadcasting. (2013, 12 5). Lasnamäe Super Mall Cleared by Tallinn Government . Eesti Rahvusringhääling.

¹⁵² Liamputtong, P. (2009). *Qualitative Research Methods*. South Melbourne, Australia: Oxford University Press.

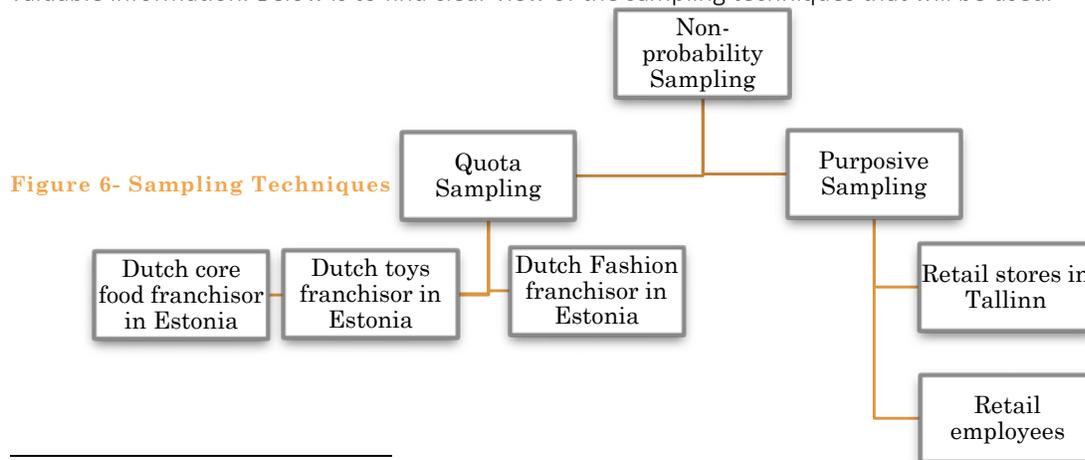
¹⁵³ Saunders M., Lewis P., Thornhill A. (2000). *Research Methods for Business Students*. Harlow. England: Pearson Education Limited

¹⁵⁴ Saunders M., Lewis P., Thornhill A. (2000). *Research Methods for Business Students*. Harlow. England: Pearson Education Limited

can be used to subjectively interpret text data through a strategic process that identifies themes and patterns¹⁵⁵. Having obtained the extensive information through documentary secondary data, interviewer-administered questionnaires and the semi-structured interviews, the content analysis will be conducted to identify the potential risks and potential success factors while determining which viable recommendations to the client can be made.

3.4 Sampling

The use of a sampling technique will help reduce the amount of data that needs to be gathered by following a method structuring the specific data that needs to be considered rather than researching all possible elements¹⁵⁶. The type of sampling technique that will be used for this thesis is Non-probability Sampling where the respondents are chosen based on own subjective judgment¹⁵⁷. This method has been chosen as not every person in Estonia will be part of the sample and specific information is needed from people who are most likely to provide valuable information. Furthermore, the non-probability sampling techniques that are used are quota sampling and purposive sampling. Quota sampling is a non-random way of selecting respondents as sample as they are to represent the population¹⁵⁸. This method has been chosen because specific people will be selected to be part of the sample and the ones that will be part of the sample will represent the whole population. Three Dutch originated franchisors whom are/were established in Estonia within the fashion, toys and core food industries will be interviewed. This is a very specific sample that will represent the population of all Dutch franchisors operating in Estonia. Purposive sampling on the other hand is not as specific as quota sampling, but does form a structuring based on own judgment. This technique will be used when selecting the stores of which the employees will be asked to fill in the questionnaire as well as the employees self. This method is chosen as there will not be any specifics on how the store or employee should be. The only requirement for selecting the stores is that it has to be in the sector fashion, toys or core food. For selecting the employees the only requirement is that they have a managing position as these are the employees who are thought to provide more valuable information. Below is to find clear view of the sampling techniques that will be used.



¹⁵⁵ Yan Zhang, B. M. (2009). *Qualitative Analysis of Content*. Westport, United States of America: Libraries Unlimited Inc.
¹⁵⁶ Saunders M., Lewis P., Thornhill A. (2000). *Research Methods for Business Students*. Harlow. England: Pearson Education Limited
¹⁵⁷ Burns, A. C., & Bush, R. F. (2006). *Marketing Research*. United States: Pearson.
¹⁵⁸ Saunders M., Lewis P., Thornhill A. (2000). *Research Methods for Business Students*. Harlow. England: Pearson Education Limited

The sample size chosen for the semi-structured interviews represents the three franchisors within the fashion, toys and core food sector. The number of Dutch retail franchisors in Estonia is limited and it is therefore that interviewing one Dutch retail franchisor per sector will be sufficient as they represent a high percentage of the population which is all the Dutch retail franchises situated in Estonia. This in turn ensures that the sample taken represents the target population with a high level of precision. Next to the franchisors that will be interviewed, retail store employees will be asked to fill in a questionnaire in order to get some inside information on how the retail stores per industry are actually doing. The goal is to have at least nine respondents per shopping center of which each three respondents represent a different industry: fashion, toys and core food. So the total respondents for the questionnaire is set to be 45. Only three respondents per sector will be asked to fill in the questionnaire in order to ensure a balance in the number of respondents per sector. Within the fashion sector there are more stores available than in the toys sector or the core food sector. Furthermore, every shopping malls has similar stores. The same store will not be taken twice in the sample. The franchisors and retail store employees have been chosen to be part of the sample as they represent a valuable source for answering the pre-determined research questions. They can provide significant information in regards to current situation of the Estonian retail market as they are currently operating in this market. The population of this research include Dutch franchisors established in Estonia and retail store employees in Estonia within the sectors fashion, toys and core food.

3.4.1. Unit of analysis

The focus of this thesis lies on the external general environmental and the industry risks within the Estonian market and the Estonian fashion, toys and core food industries. Therefore, the unit of analysis can be described as the Estonian fashion, toys and food industries.

3.4.2. Unit of observation

There was direct contact with the Dutch embassy established in Estonia in order to gain some information on the Dutch companies that were operating in Estonia. A list with all the Dutch companies in Estonia was provided by the embassy. From this list, only the companies that had a franchise in Estonia were taken into consideration for further developments throughout the thesis. The Dutch franchise companies from this list were in turn categorized by the industry in which they were operating and the companies in the fashion, toys and core food industries were then evaluated to determine which of these companies were going to be part of the sample. It was surprisingly that not many Dutch fashion, toys and food retail franchises are available in Estonia.

The Dutch core food franchisor that has been chosen to be part of the sample is Erwin Wassenaar, owner of “Juustukuningad”, the only Dutch cheese shop in Estonia. The first store was established in the year of 2012 and has since then expanded to six stores in Estonia and Latvia. Juustukuningad has been chosen as part of the sample, because not only is it food retail franchise, but also a core food retail franchise, what is exactly what the client is interested in. Furthermore, Juustukuningad is a successful cheese brand in Estonia and information provided by Mr. Wassenaar can serve as an example on how a core food retail store can become successful in the Estonian market.

The Dutch fashion franchisor that has been chosen to be part of the sample is G-star Raw. G-star raw is an internationally known fashion brand that is specialized in denim among other things. The company has been chosen as part of the sample, because it is an international successful company and significant information in regards to the success factors might be obtained. Prezemek Wilk, sales manager Baltic States region will be interviewed for the research.

The Dutch toys franchisor that has been chosen to be part of the sample is Glowforth. Glowforth is an international gaming brand that has a franchise subsidiary in Estonia. Furthermore, Glowforth was also the only toys franchisor from Dutch origin. Zoot Nel, owner and founder of Glowforth, will be interviewed for the research.

Both Glowforth and Juustukuningad were somewhat easier to get in contact with, but G-star on the other was a bit of challenge. G-star is quite a large company, so they get often requests for information which they have to decline due to the lack of time the company has to go through all the requests. Although it took a while, direct contact was made with the sales manager of the company.

3.5 Reliability

In order to ensure the credibility and high quality of this thesis, certain measures need to be taken as a check-up on whether the information obtained is reliable. For this thesis a combination of academically recognized literature and business magazines will be used as secondary data. Before collecting the primary data, a question evaluation will be performed as a way to minimize the possibility of question bias that might cause the respondents to answer wrongly. For instance, asking “open” questions during the interviews so that the respondents have to think before answering. Furthermore, a combination of the lifestyle inventory measurement and anonymity will be used.

3.5.1. Lifestyle inventory measurement

Lifestyle inventory measurement is an analysis that measures the interviewee in regards of his/her activities, interests, and opinions¹⁵⁹. In this way, a better understanding of the type of lifestyle will be obtained from the franchisors and then it can be determined whether they have any personal interests involved in the way questions are answered. This measurement will be used in a way that before questions are asked in regards to the franchising, the interviewees will be asked some questions with the focus on their lifestyle.

3.5.2. Anonymity

The retail store employees will not be asked to fill in any names or personal data as an insurance of the anonymity of the questionnaires given. In this way the Estonian store employees might feel safer to answer the questionnaires.

¹⁵⁹ Burns, A. C., & Bush, R. F. (2006). *Marketing Research*. Upper Saddle River, New Jersey: Pearson Prentice Hall.

3.5.3. Function Store employees

For the sake of gaining reliable information out of the questionnaires, only information obtained from the employees with a higher position, i.e. store manager, will be used as they are also most-likely more aware of everything that is going on in the store. The way it is going to be ensured that most of the respondents have a higher position is by pre-selecting the variables they can choose from on the question which is concerned with their function in the store. For instance:

Question 1.	Function
<input type="checkbox"/>	Visual Merchandiser
<input type="checkbox"/>	Stand-in Supervisor
<input type="checkbox"/>	Supervisor
<input type="checkbox"/>	Combination of all above mentioned
<input type="checkbox"/>	Other:

3.6 Planning + risks

In order ensure the progress of this thesis it is important to plan beforehand what needs to be done and when it needs to be done. This will help keeping a structured way of working and it will help ensuring that the work is done. In Appendix 1 the Gantt chart is presented in which the tasks for this research is outlined while showing the deadlines given. Here is to find a visual explanation of what needs to be done step by step in order to complete the thesis within a timely manner. The time given for every task has been set up with the consideration of the risks that might affect the research. These risks are that insufficient respondents filled out the questionnaire and that the franchisors selected may not be interested in providing information.

If insufficient respondents fill in the questionnaire, personal contact will be taken with retail companies to see whether they might provide information in regards to their customer base.

If it occurs that the selected franchisor is not interested in providing information, a closer look needs to be taken to the Dutch retail franchisors that operate in a similar industry. The information obtained from these franchisors can still help obtain valuable information to achieve the thesis objective. For instance, gaining an overall view of the potential economic, political and demographical risks of setting up a Dutch retail franchise.

Summary

For this thesis, an inductive approach will be taken and case study will be used as research strategy. There are different methods that will be used to collect data, these methods are: surveys, semi-structured interviews, and participant observation. The sampling type that has been chosen is the non-probability sampling and a combination of quota sampling and purposive sampling will be used. As a way to ensure high qualitative reliable data, when collecting the primary data the lifestyle inventory measurement and anonymity will used to minimize the possibility of question bias. In regards to the questionnaires that will be filled in by store employees in Tallinn, only information obtained by employees with a higher position, i.e. floor manager, will be used.

4. RESEARCH FINDINGS

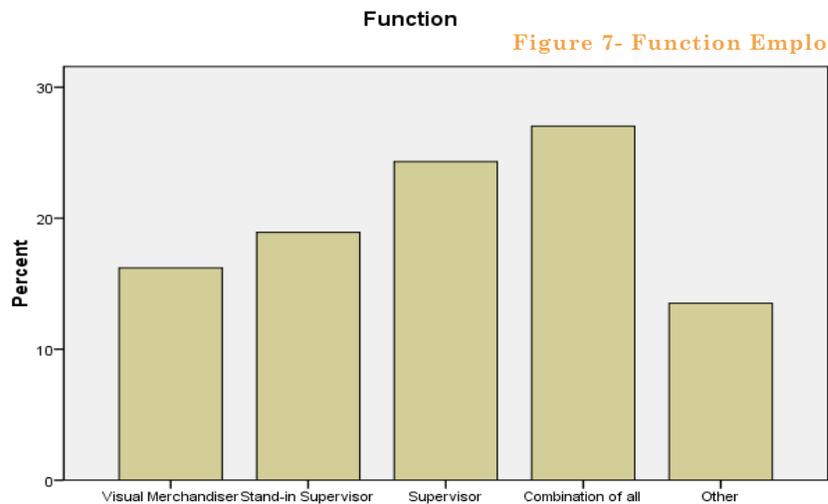
In this part of the thesis, the findings from the extensive research conducted will be presented. The case study research strategy was used for this thesis and semi-structured interviews, survey and participant observation was conducted in order to obtain the data that is to be presented. The extensive research conducted for this thesis was a trip to Tallinn, taken surveys from retail employees in Tallinn, interviewing three Dutch retail franchisors that are established in Estonia and the use of different literature.

4.1 Trip to Tallinn, Estonia

The introductory research in Tallinn, Estonia started on November the 7th till November the 10th of the year 2013. The research involved requesting the Estonian retail employees of fashion, toys and core food stores to fill in the predesigned questionnaire. The aim was to have 45 respondents, but due to the fact that not every store selected was willing to fill in the questionnaire, 37 responses were obtained. However, the answers provided by these 37 respondents has been alighting enough to get an idea of how the retail businesses are doing in Tallinn. This information will then help determine what the trend is in the Estonian retail market at the moment which in turn can be taken into account when deciding which recommendations are viable for the client.

4.1.1. Gender + Function store employees

As mentioned before, anonymity was applied within the questionnaires so that the respondents felt secure with filling in the questionnaire. However, the question was raised on what gender the respondents had as a way to identify if there is a pattern in the sex of the employees that work within a store. Furthermore, the respondents were asked to fill in their function within the store so that a distinction could be made on which



filled in questionnaires could be considered to be more reliable in concern to the respondents that had a higher position in the store. As can be seen from the graph above, the retail stores in Tallinn were mostly managed by women and in almost every store within the malls visited, mostly women were working at that moment. Next to this, from the respondents, 94.6% were female¹⁶⁰. For the introductory research mostly supervisors, stand-in supervisors or people who have a combination of a supervisory task and other tasks were asked to fill in the questionnaire. As can be seen in the graph, these are also the people that form the majority of respondents

¹⁶⁰ Viola, Arleny. "Retail in Tallinn" Questionnaire (2013, November 7;8;9)

with 70.2% (18.9% Stand-in supervisor, 24.3% Supervisor and 27% Combination of all)¹⁶¹. Within the respondents that filled in “Other” included salespersons and cashiers.

4.1.2. Franchise + Type of Retail

In order to get an idea if franchising is a common type of business ownership in Tallinn, the respondents were asked to fill in whether the store was a franchise. Surprisingly, most of the retail stores in Tallinn are franchises and account for 70.3% of the stores that were part of the research¹⁶². Another point that stood out was that most of the stores are within the sector of fashion/accessories.

Is this store a franchise?				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	26	70.3	70.3	70.3
No	11	29.7	29.7	100.0
Total	37	100.0	100.0	

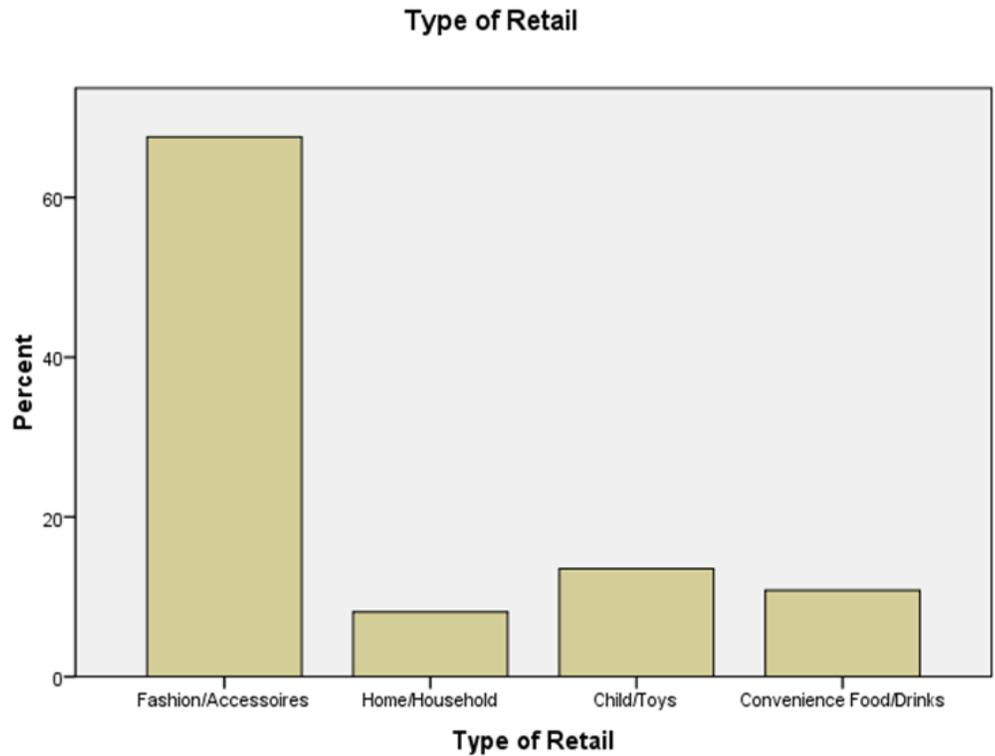


Figure 8- Franchise and Type of Retail

In the graph shown above can be seen that the sector fashion/accessories has the highest percentage and accounts for 67.6%¹⁶³. Following up is the sector child/toys with 13.5%¹⁶⁴. However, in comparison to the fashion/accessories sector, it still is a limited availability.

¹⁶¹ Viola, Arleny. “Retail in Tallinn” Questionnaire (2013, November 7;8;9)

¹⁶² Viola, Arleny. “Retail in Tallinn” Questionnaire (2013, November 7;8;9)

¹⁶³ Viola, Arleny. “Retail in Tallinn” Questionnaire (2013, November 7;8;9)

¹⁶⁴ Viola, Arleny. “Retail in Tallinn” Questionnaire (2013, November 7;8;9)

4.1.3. Price range + Average purchases

In order to get an idea of the level of price elasticity that currently occurs in Estonia, the respondents were asked to fill in what the price range was of the products that were sold within their stores. The lowest price range is between 0€ and 50€, and the highest range is above the 300€.

Having asked the retail store employees to fill in the questionnaires, it became clear that the lower the prices were, the higher the number of customers that actually purchased products in the store. In the graph

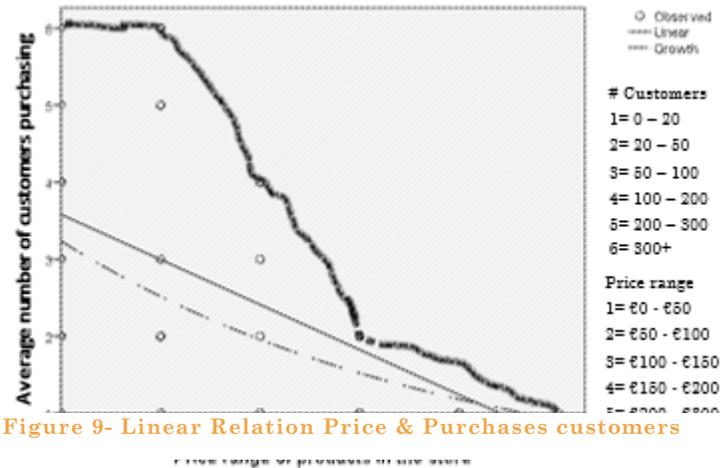


Figure 9- Linear Relation Price & Purchases customers

is shown the linear relation between these two aspects. The vertical axis (Y- axis) represents the average number of purchasing customers and the horizontal axis (X-axis) represents the price ranges of the products sold in the stores. However, taking an overall look at the average number of purchasing customers, it is much lower in comparison to the number of purchasing customers of a retail store in the Netherlands.

4.1.4. Decline/ increase customers

First, the question on whether there was a decline in customers was raised and afterwards the respondents had to fill in whether there was an increase of customers. This method helped to ensure the reliability of the answers to some extent as whenever a respondent tried to fill in “yes” for both questions, they started to realize that this was not possible. So they really started to think about the question asked in order to give a correct answer. Throughout the research it became clear that most of the stores actually had an increase in customers and accounted of 45.9% of the respondents¹⁶⁵. The stores that had a decline in the number of customers accounted for 8.1%¹⁶⁶. The other 56% of the respondents felt that there was not necessarily an increase or a decrease, the number of customers coming into the store was similar to the year before.

4.1.5. Store availability + Online Shopping

In order to get an idea of which other cities in Estonia also attract customers, the respondents were asked to fill in whether the retail store was available in other cities and if so, what the name of the city was. From the answers obtained, 62.2% stated that the retail store was also available in another city. The city that then mostly was mentioned was Tartu.

¹⁶⁵ Viola, Arleny. “Retail in Tallinn” Questionnaire (2013, November 7;8;9)

¹⁶⁶ Viola, Arleny. “Retail in Tallinn” Questionnaire (2013, November 7;8;9)

4.2 Interviews Franchisors

Three interviews were taken with the owner and founder of a cheese shop in Estonia, the owner and founder of a game store in Estonia and the sales manager of G-star responsible for the stores in the Baltic States. From these interviews an extensive amount of data was obtained and will be discussed in further detail in this section. The aim of these interviews was to gain inside information on how a Dutch retail franchise progresses in Estonia. Before the interviews occurred, a list of ten questions was designed in order to have a basis on the information that is needed to achieve the thesis objective. The information that is valuable for this thesis includes:

- The attractiveness of the Estonian market and the cities which are more attractive for a retail franchise;
- The beneficial/challenging factors of having the retail store in the industry in question;
- The economic factors and the effect on the franchisor's business;
- The political factors and the effect on the franchisor's business;
- The demographical factors and the effect on the franchisor's business;
- The ways the franchisors have overcome the challenges of the economic, political and demographical factors;
- The perceptions of the franchisors on how Estonia would be in the coming five years, and
- What the franchisors would recommend an entrepreneur interested in doing business in Estonia.

These aspects have been interpreted in the interview questions for the franchisors and have resulted in interesting answers from all three of the interviewees.

4.2.1. Attractiveness Estonian market and cities

Each franchisor was asked the question why they were interested in doing business in Estonia to which the responses were very different. Mr. Wilk from G-star explained that G-star entered the market seven years ago with the objective to expand the company's business and generate revenues, while Mr. Nel from Glowforth on the other hand was attracted to the Estonian market by the highly specialized software engineers that are within the country. Mr. Wassenaar from Juustukuningad started doing business in Estonia after noticing how fond Estonians were with the Dutch cheese and the scarce availability of Dutch cheese within the country.

The factors that make Estonia an attractive market to do business in are concerned with the openness of the Estonian market, the ease of establishing strong brand awareness, the limited availability of foreign products and the flexibility of the Estonian business environment. With the openness of the Estonian market is meant to say that getting in contact with other potential business people is rather easy in comparison with the Netherlands¹⁶⁷. In the Netherlands it somewhat more difficult to get in direct contact with a business person that is in a higher position¹⁶⁸. Furthermore, due to the small population of Estonia, word-of-mouth is a very strong marketing tool in Estonia. So once a new product is introduced to the market, the word-of-mouth in Estonia already brands your product, not only in Estonia, but also in the other Baltic States: Latvia and

¹⁶⁷ Nel, Z. (2014, February 15). Glowforth in Estonia. (A. Viola, Interviewer)

¹⁶⁸ Wassenaar, E. (2014, March 4). Juustukuningad. (A. Viola, Interviewer)

Lithuania¹⁶⁹. Due to the fact that Estonia, not yet is fully internationally integrated, not all foreign products are available in the Estonian market. This in turn results in the scarcity of certain products. Additionally, in Estonia it is the younger generation who conduct the most business in the country. As presented in the PESTLE analysis, Estonia has a 37 year old Prime Minister which is an example of this younger generation having a great influence in the country. This younger generation has resulted in the existence of a flexible business environment in Estonia. An example is that business meetings in Estonia can easily be done by Skype.

All three of the interviewees agreed on that Tallinn is the city in Estonia with the most potential for doing business in the retail sector. Tartu and Pärnu are the two cities after Tallinn, with the greatest potential.

4.2.2. Beneficial/challenging factors of having retail store in industry in question

As mentioned in the previous section, one of the attractive factors of Estonia is the openness of the market. For Mr. Nel from Glowforth this resulted in obtaining quickly cooperating partners in Estonia. Glowforth is somewhat dependent on its software engineers and in Estonia these were quickly identified and generated.

Customer service is not necessarily practiced in every store. For Mr. Wassenaar from Juustukuningad, this has resulted in being a benefit as he introduced his cheese with a high level of customer service. The Estonian customers were not used to this type of service and immediately were fond of it. These customers then in turn preferred to buy their cheese at Juustukuningad. The first Juustukuningad store was opened in 2012 and today there are already 6 stores. What also helped Mr. Wassenaar was the demand by the Estonian consumers for more core food products.

Next to these beneficial factors during the set-up process of the retail stores, some challenging factors also took place. These challenging factors included the weather conditions and the high costs of rent. In regards to the weather in Estonia, as presented in the PESTLE analysis, Estonia has one-third of the year really cold weather. This results in that the Estonian consumers prefer to shop in shopping malls. In result there are no real shopping streets in Estonia where a retail store can be located. So the issue that retailers face now with these shopping malls is that the owners of these shopping malls ask for extremely high prices they for the rental of a spot within their shopping malls. This in turn causes that the prices of the products in these retail stores are somewhat higher as a way of keeping a balance with the costs and turnover. For G-star, the average percentage of rental costs for the overall costs accounts for 15% in Europe, in Estonia this percentage is as high as 25% to 30%¹⁷⁰.

There is a high level of competition in the Estonian fashion industry and G-star is an example of a fashion store that has had difficulty in responding to this strong competition in Estonia. Another challenging factor within the fashion industry is that there are still a lot of second hand stores in Estonia which are much valued by the Estonians as they provide traditional Estonian clothing. Furthermore, 24.8% of the population in Estonia is Russian which in turn represents a large portion of the potential target market. However, the Russians have a

¹⁶⁹ Wassenaar, E. (2014, March 4). Juustukuningad. (A. Viola, Interviewer)

¹⁷⁰ Wilk, P. (2014, March 19). G-star in Estonia. (A. Viola, Interviewer)

very diverse fashion taste in comparison with the Estonians and prefer to buy their clothing and accessories in their home country.

When looking at the Estonian toys industry, the main challenge that businesses face, is the negative birth rate that has been an issue in Estonia for the last couple of years. Toys stores have a smaller target market in comparison to the target market in the Netherlands and if this negative birth rate continues, this target market will only become smaller. Next to the shrinking target market, the strict policy set on children toys make it more difficult for toys businesses to continuously offer new products to the Estonian market as these products have to meet very strict requirements. Furthermore, the life cycle of toys is rather short so the toys stores in Estonia have to keep changing the product line.

The main challenge within the core food industry is the strict policy on food that is set in Estonia. There is still some influence of the communism time in the Estonian government which in turn make it difficult for core food business to present new food products in a way which is not a custom in Estonia. Governmental agents controlling the food conditions are very likely to forbid the display of food unknown to the Estonians in a way that is not common to Estonians. Mr. Wassenaar for example faced this inflexibility with his cheese. In the law stated that dairy products, including cheese needed to be kept in the refrigerator while in general Dutch cheese does not need to be kept in the fridge as it will diminish the taste. It took Mr. Wassenaar a while to be able to convince the government representatives that keeping the cheese outside the fridge will not harm anyone.

4.2.3. Economic factors

Estonia experienced a downturn during the credit crunch, but adapted quickly and is now in a better position than before the crisis. This has ensured an increase in the number of people being part of the middle class, which in turn is considered to be a success factor by the franchisors. This is because people in the middle class can afford to buy more products, thus increasing sales for the franchisors.

Another economic success factor was the low personnel costs that need to be paid by the franchisors. As the low personnel costs is seen as a success factor it also causes that the average income level is low in Estonia. Though the middle class is rising, the fact remains that there is still a significant number of people that have a low income level. The average monthly income in Estonia accounts for €800 while in the Netherlands for example the monthly income accounts for €1600¹⁷¹. This causes price sensitivity amongst the Estonian customers¹⁷². G-star for example suffers from this price sensitivity as the brand is perceived as an expensive luxury brand by people with a low income, while not luxury enough by people in the middle class¹⁷³.

Furthermore, the inflation rate in Estonia is quite high in comparison with the other European countries. The average inflation rate in Europe is 2.2% and the inflation rate in Estonia is 4.02%. G-star for example has a higher price list in Estonia than it has in the Netherlands due to this inflation.

¹⁷¹ The Government of The Netherlands. (2014). What is Bruto Average income? The Hague: The Government of The Netherlands.

¹⁷² Wassenaar, E. (2014, March 4). Juustukuningad. (A. Viola, Interviewer)

¹⁷³ Wilk, P. (2014, March 19). G-star in Estonia. (A. Viola, Interviewer)

4.2.4. Political factors

The main political success factors in Estonia are the exempt of company tax for franchisors as well as the low level of bureaucracy that there is in Estonia. Next to this, the level of corruption in Estonia is significantly low which goes hand in hand with a stable political system¹⁷⁴.

At the moment there is some political pressure in Estonia due to the happening in Ukraine with the Krim and President Putin. President Putin felt that he had the right to “protect” his Russian people living on foreign countries. In March, the peninsula of Ukraine, the Krim, was annexed by military troops of Putin. The Estonians are afraid at the moment that this will also happen to them as there are many Russians living in Estonia as well. This uncertainty has resulted in a somewhat less spending by Estonian consumers. Next to this happening, though Estonia is a very modern country with its advanced technological systems, within the government there is still a somewhat inflexible way of working in concern to bending laws.

4.2.5. Demographical factors

The demographical success factors are concerned with the number of tourists, the number of students and the facility of expanding to the other Baltic States. There are a lot of Finnish and Swedish tourists entering Estonia on a yearly basis which in turn increase the sales during their stay in Estonia¹⁷⁵. Furthermore, Tallinn is known for being a college city which is full of students. These students after their graduation will find a job and afterwards be part of the middle class, the same middle class that will be able to afford more products and thus will increase the spending in the country. One of the challenges that retailers face in Estonia is that is great percentage of the population (24.8%) is Russian. The Russians living in Estonia often go back to their home country Russia to get products their which are different than the products sold in Estonia. This causes a lower consumer spending during the Russian holiday periods¹⁷⁶.

4.2.6. The ways of overcoming the economic, political and demographical challenges

All three of the interviewed franchisors have found their own way in responding to the challenges dealt with in a beneficial matter.

Mr. Nel from Glowforth faced the issue of having a too small target market in Estonia, he responded to this failure factor by entering the other Baltic States. Next to this, he made use of the fact that the Estonia are very technological advanced by offering online shopping. Mr. Wilk from G-star on the other faced the failure factors of the weather conditions as well as the price sensitivity. The way G-star handled these issues is by relocating the store to a place very visible in the main shopping street of Tallinn and by introducing a cheaper price list than it had before. G-star in Estonia offers products now at the same prices as in Germany. And in addition, Mr. Wassenaar from Juustukuningad faced the same issue as Glowforth: too small target market. He responded to

¹⁷⁴ Nel, Z. (2014, February 15). Glowforth in Estonia. (A. Viola, Interviewer)

¹⁷⁵ Wilk, P. (2014, March 19). G-star in Estonia. (A. Viola, Interviewer)

¹⁷⁶ Wilk, P. (2014, March 19). G-star in Estonia. (A. Viola, Interviewer)

this factor by also expanding its business abroad while also offering entrepreneurs the option to become franchisees.

4.2.7. Estonia in 5 years

All three of the interviewed franchisors stated that the Estonian market will remain attractive to do business in the coming five years. This is because the economy is emerging, the middle class is growing and the border with other foreign countries are becoming more open. As Estonia is an emerging market, it is typical for the economy to grow fast which as consequence increases the number of people being part of the middle class. However, this will also mean that the personnel costs will increase for the franchisors. Next to this, as Estonia is becoming more internationally involved, it is becoming more and more open to international trade. Estonia has now for example an agreement with the United States that no VAT has to be paid amongst American and Estonian companies¹⁷⁷.

4.2.8. Recommendations given by the franchisors

All three interviewed franchisors agreed upon that as an entrepreneur interested in doing business in Estonia, the Estonian language should definitely be dominated and the market should be experienced first. Another recommendation made by Mr. Wilk from G-star is to establish a retail store that offers cheap products. Though the middle class is growing, it still represents a small percentage of the total population. So in order to be able to target a bigger public, it is better to focus on the people with the lower income. Mr. Wassenaar gave as recommendation that when the choice has been made to establish a franchise, that it is important to ensure that the brand is known to the Estonian consumers, otherwise it would be better to copy the concept and build an own brand.

Summary

A trip to Tallinn, Estonia was made with the objective of getting a view of the mobility of the retail stores in Estonia. From this research, valuable information was obtained which can be used as a tool for making the recommendations to the client. Next to the trip to Tallinn, three interviews were taking with three Dutch franchisors which are situated in Estonia. These franchisors have provided significant information on how they have experienced doing business in Estonia.

¹⁷⁷ Nel, Z. (2014, February 15). Glowforth in Estonia. (A. Viola, Interviewer)

5. CONCLUSIONS AND RECOMMENDATIONS

In this part of the thesis, the conclusions made in concern to the data obtained, will be presented. This will help to narrow down which information is relevant in order to make valuable recommendations to the client. The conclusions will be presented as answers to the research questions that were designed for this thesis. Having presented the conclusions, the recommendations will be discussed. In this section of this chapter, actions that are considered to be beneficial for the client to ensure success will be assessed.

5.1 Conclusions

1. What are the potential general environmental risks that the client might face when entering the Estonian market?

The general environmental risks that the client might face regardless of the industry the client decides to operate in are: the price sensitivity of the population, the bad weather conditions, the high rental prices of the shopping malls, the high rate of inflation, the limited target market and the anxiety for a takeover by Putin.

The high inflation rate within the country will cause the client to ensure that the prices set for the products offered are somewhat higher so that profit can still be made when selling them. However, the price sensitivity of the Estonian consumers makes it difficult for the client to increase prices as this will also mean that if the prices are too high, the sales will be low and the probability of the retail store to be successful will be limited. This price sensitivity is strong related to the fact that the average income in Estonia is quite low.

Furthermore, the bad weather conditions make it difficult for the client to place the store at any location outside of the mall. The number of customers visiting will be low if the store is placed far away from the shopping malls and the Estonians are required to walk in the bad weather to get to the store. But then again the rental prices of the shopping malls are so high that in order to outweigh the profits from the costs, the client would have to increase its prices even more to ensure profit.

The Estonian market is relatively small which in turn represents a smaller market to target. This in turn results in that the revenues made in the Estonian market are relatively lower than the revenues made in the Dutch market. In order to gain extensive profits by targeting a big market, the client should consider to penetrate other Baltic markets next to the Estonian market.

The lower spending by Estonians due to the anxiety of a coup d'état by Putin will definitely be a challenge for the client. As Estonia had been occupied for a long time and has gained its independence not so long ago, it can be concluded that a fear remains of the possibility that the Estonians might fall back to the same situation.

2. When looking at the Estonian fashion industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?

When looking at the literature used, the information obtained from Mr. Wilk from G-star and the information obtained from the field research in Tallinn, it can be concluded that the fashion sector is a quite challenging industry to enter. The main risk is the large number of fashion brands already available in the Estonian market that as consequence has ensured a high level of competition. No real risks in concern to the input market are applicable to the client as the client will obtain a franchise model as the type of business ownership and the suppliers with whom the franchisor already cooperates will remain the same to the client. However, in concern to the product market risks, the much valued traditional Estonian clothing form second hand store might result in less sales to the client. Furthermore, the specific clothing taste of the Russians and the fact that the Russians purchase a lot of clothing in their home country represents a smaller target market for the client.

As Estonia is an emerging market, more and more international companies invest in the country in a relatively short period of time. This has had as result that the availability of international fashion brands were quickly adapted in the Estonian market and the number of options to the Estonian consumers is extensive. It will be difficult for the client to stand out with a fashion brand.

Due to the rapid growth of the country and the extensive offer of international products, Estonians consumers value much more the traditional clothing of the country. Therefore it would be a challenge for the client to compete with the local second hand stores as they provide these traditional clothing.

As Russians make up 24.8% of the population it is important to take this target group into consideration in order to obtain greater sales. However, the Russians have such a diverse clothing taste in comparison to the Estonian clothing taste that the client would have some difficulties in satisfying both target groups.

3. When looking at the Estonian toys industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?

As the Estonian market is relatively small, it does not take long for the customers entering the toys stores get familiar with the products being sold and demand new products after a while. This has as result that the life cycle of the toys sold in Estonia is short. The continuous change in preferences by the Estonians consumers make it challenging for the toys stores to stay ahead of the consumer demand.

Due to the continuous negative birth rate in Estonia for the last couple of years, the Estonian government has set strict policy on the toys being imported in the country as a way of protecting the children in the country. Toys franchisors have to meet the strict requirements set by the government in order to be able to sell their products. Whenever the client decides to enter the toys industry, it should keep in mind the strict policy that is set for toys. In concern to the franchise framework provided to the client, there might be a possibility that certain toys provided by the franchisor's supplier do not meet the requirements set by the Estonian government. In this

case the products supplied for the franchise of the client can be different than the products supplied to other countries. Furthermore, if the negative birth rate continues over the upcoming years, the target market for the client will also diminish.

4. When looking at the Estonian core food industry, what are the potential input market, product market and competitive risks that the client might face when establishing the Dutch retail franchise in this industry?

Estonia has somewhat stricter rules in concern to the selling of food which in turn can be a challenge to the client when the franchise model has set certain requirements for the placement of the core food which are not allowed in Estonia. Due to the communism influence within the government, bending these rules is a real challenge, so for the client it would be really difficult to come into a compromise with the Estonian government agents.

The fact that the business ownership that the client wants is a franchise from a foreign franchisor, there is a possibility that the core food provided by the franchisor to the client are not in line with the Estonian customs. In order to be able to sell these products, the government agents have to approve the display of these products which in turn might be a challenge as the franchise model is already pre-designed.

Since the availability of core food products in Estonia is rather limited, the client would not face any real competition when entering this market. Furthermore, there is a demand by the Estonian consumers for more core food products, so it would be easier for the client to attract customers.

5.2 Recommendations

In this part of the thesis, the recommendations set for the client will be introduced which in turn will represent the last research question designed for this thesis. The recommendations are designed with the purpose of advising the client which steps should be considered in order to be able to establish a successful retail franchise in Tallinn, Estonia.

5. How should the client respond to the potential risks identified and which industry represents the lowest net risk?

First of all, it is recommendable for the client to enter the core food industry as this industry represents the lowest net risk. Furthermore, in this way the greater potential input market, product market and competitive risks identified within the Estonian fashion and toys industry are avoided.

Though the core food industry is a very attractive industry to enter, there are some potential risks that the client should keep into consideration when entering the market. The potential risks that are significant when entering in the core food industry are the anxiety for a takeover by Putin, the high level of price sensitivity by the Estonian consumers, the high rental prices of the shopping malls and the strict regulations in concern to food products that are set by the Estonian government.

So in regards to the anxiety that exist amongst the Estonians for a takeover by Putin, the client could respond to this by making use of political insurance which is available from different entities including nationally-sponsored insurance agencies, private insurers and the World Bank's Multilateral Investment Guarantee Agency (MIGA)¹⁷⁸. This type of political insurance will ensure that any financial losses that the client might face as consequence of expropriation or war are covered. Next to this insurance, another way of responding to this risk is by using it into a marketing campaign when entering the market. So when creating awareness in Estonia of the new retail core food store, a way of attracting customers is by showing understanding on the situation within the country and emphasizing the "bright side" in the promotional campaign. With the bright side is meant that though there is an anxiety of what Putin's next move would be, the Estonians are now stronger than ever as an unity. Stimulating the Estonian spirit through a strong promotional campaign can ensure a stable increase in sales, because the Estonian consumers will feel understood and valued.

By designing a strong promotional campaign in which an understanding of the political situation is shown as well as showing the benefits of purchasing core food products would not only be a response to the Putin anxiety, it would also show the Estonian that their demand for healthy core food is answered with the introduction of the new retail core food franchise from the client. Whenever is established that the core food store is successful, the client should consider entering the other Baltic markets as a way of expanding the business and gaining more profits.

In regards to the price sensitivity, the client could respond to this risk, by entering into a cooperation with a core food retail franchisor of which the prices of the products are affordable to the Estonian consumers. There are different Dutch retail franchisors with products ranging from different prices from which the client can choose to cooperate with.

When looking at the high rental prices from the shopping malls, the client could place the retail store near the shopping malls. The store would still be easy to access for the Estonians, but the costs that the client would have to pay for rent would be much less. Furthermore, it is advisable to ensure that the store is up and running during the summer period when the weather is nicer. As Estonians also like to travel, it is more beneficial to open the store at the end of the summer when the most people are already back from their vacation. The end of August is recommendable as the weather in Estonia is still nice and people have returned from their vacations. In this way the Estonian consumers would be more willing to visit the store outside the mall as the weather will not form an issue. Then when awareness is already generated, during the winter period, the Estonian consumers will still continue to buy the products.

In concern to the strict regulations set for food products by the Estonian government, the client could contact the government agents before establishing the retail core food store in order to make certain agreements beforehand so no surprises occur and no financial losses are made. For the core food products that the Estonian

¹⁷⁸ Comeaux, P. E., & Kinsella, N. S. (1994). *Reducing Political Risk in Developing Countries*. New York, USA: New York Law School .

government has restrictions on, the client can beforehand choose with which products substitution can take place.

Summary

Having conducted the extensive research for this thesis it became clear that the core food industry is the most attractive industry for the client to enter. Not only will the client face a low level of competition, there is also a demand for core food products in the Estonian market. Though the core food industry is the most attractive industry, there are some potential risks which need to be taken into consideration by the client. By designing a solid plan beforehand on how to respond to these risks, the client will have the opportunity to establish a successful retail franchise in Estonia.

6. STRATEGIC IMPLEMENTATION

In this chapter of the thesis, an overview is presented on the actions that need to be taken in order for the client to establish a successful retail franchise in Tallinn, Estonia. Furthermore, strategic objectives will be clarified, the tasks that need to be conducted will be evaluated and the progress for establishing the retail franchise will be charted.

6.1 Objectives

The objectives in concern with the strategic implementation for a business are essential as they form the basis of the implementation¹⁷⁹. The objectives provide a guideline on what needs to be achieved so that afterwards suitable tasks can be undertaken¹⁸⁰. When looking at the client wishes, specific objectives can be identified. The objectives are:

- Establishing a franchise agreement with a viable Dutch core food retail franchisor
- Arrange political risk insurance
- Ensure awareness amongst Estonian consumers
- Establish retail core food store during summer period (End of August)

The client will first have to find a viable core food franchisor with whom a franchise agreement can be established. This franchisor will then in turn provide the client with training and know-how concerning the business model. In the meantime it is important to conduct some risk management by arranging political risk insurance for whenever severe political instability occurs. Then a solid marketing plan needs to be designed in order to create awareness amongst the potential Estonian consumers of the opening of a new retail core food store. And then the store can be established at a location near the shopping malls so that the rent costs are relatively lower than when established at the shopping malls, but still easy to access for consumers.

6.2 Tasks

Knowing what the objectives are, the tasks needed to achieve these objectives need to be determined. Keep in mind that the goal is to have the store open by the summer period, so all actions described are with the aim of achieving this.

1. Find viable Core Food Franchisor

The first step that the client needs to take is to find a Dutch viable core food franchisor with whom a cooperation can be initiated. As the client already designed an overview with pre-determined characteristics that the potential franchisor has to have in order for a business relation to be established, a distinction can easily be

¹⁷⁹ Richards, D. (2014, March 14). Writing a Business Plan - Implementation Plan. About Entrepreneurs.

¹⁸⁰ Richards, D. (2014, March 14). Writing a Business Plan - Implementation Plan. About Entrepreneurs.

made between the potential franchisors and those who do not meet the requirements. Below is to find the pre-determined characteristics designed by the client.

- *Type of franchise:*
 - *Product/trademark franchising (i.e. manufacturer-retailer arrangement); or*
 - *Business format franchising (wholesaler or concept owner operator-retailer or service sponsor-retailer).*
- *Geographical area: franchisor not yet established in Estonia, Finland, Sweden, Latvia, and/or Lithuania*
- *Field of business:*
 - *fashion/accessories; or*
 - *child/toys; or*
 - *core food/drink(i.e. cheese, sausage, coffee, thee);*
- *Average customer purchase: approx. range 20 - 40 €*
- *Target customer: mass market (B2C i.e. Consumer and/ or B2B i.e. Business)*
- *Franchisee store investment: max 750 € per square meter.*

The Dutch franchisors who meet the pre-determined characteristics can then in turn be evaluated by looking at their business accomplishments and their long term objectives for the company. By looking at the business accomplishments, a conclusion can be made on the sustainability of the company and whether a cooperation with this franchisor would be beneficial in concern to the health of the company. The long term objectives of the franchisor are important to consider as it represents the future plans of the franchisor. If these future plans do not go hand in hand with the vision of the client, a cooperation with this franchisor will not be established. The client wishes to grow further into the franchise business by establishing multiple successful franchises in the future, if the objectives of the franchisor is to just have one franchise in Estonia, this would not be according to the wishes of the client for the long term. Having found the franchisor to cooperate with, agreements could be signed by both parties.

2. Design solid business plan

Designing a business plan ensures that the steps that need to be taken to establish a successful retail franchise store in Tallinn, Estonia are pre-determined so the client knows beforehand which aspects are important to consider¹⁸¹. A business plan will provide the client with the tactical decisions that need to be made for the retail franchise to be successful. Together with the franchisor with whom cooperation will be established, the business plan can be completed as the franchisor is already experienced in this. The business plan will include the objectives that the client has set for its business, the four marketing P's: Product, Price, Promotion and Place, the financial overview, and the implementation of the actions mentioned. So the product would be core food products, the price would be up to max €40, the promotional campaign will emphasize an understanding of the current situation in Estonia while presenting a positive look, and the place will be a store location near one of the largest shopping malls.

¹⁸¹ Berry, T. (2006, March 3). 15 Reasons You Need A Business Plan. Entrepreneur.

3. Arrange political risk insurance

Now that the client is aware of the specific tactical decisions that need to be taken in order for the retail franchise to become successful, the client needs to conduct risk management to ensure that potential losses are kept to a limited extent. As presented in the previous chapters, there is an anxiety for Putin at the moment in Estonia. In order for the client not be subjected to any financial losses due to a possible take-over by Putin, political risk insurance need to be arranged. Any financial losses that might occur due to the political instability, will be covered by the insurance source that the client wishes to cooperate: nationally-sponsored insurance agencies, private insurers or the World Bank's Multilateral Investment Guarantee Agency (MIGA).

4. Implement business plan

The business plan that has been designed by the client together with the franchisor with whom a cooperation will be established can now be implemented. The franchisor will provide the client with training and know-how in concern to the retail franchise that is to be established. The products will be provided by the franchisor and the prices will already be set by the franchisor in accordance to the inflation rates and VAT in Estonia. So the next step is to find a good location for the store. The store will be near one of the greatest shopping malls in Tallinn. In concern to the promotional campaign, the campaign can start in the two weeks before the opening of the store. In this way people can be informed of the opening of the store well ahead, but not too long before the opening. As mentioned before, the goal is to open the store in the end of August so the promotional campaign will be during August as well.

6.3 Progress

The progress of these actions that need to be performed by the client is presented in this section.

In order for the client to be able to select a viable franchisor to cooperate with, the client should obtain a list of the Dutch retailers available by contacting Detailhandel Nederland. From these Dutch retailers a distinction needs to be made on the ones who are within the core food sector and offer franchise. Then a closer look needs to be taken to the other pre-determined characteristics set by the client.

An evaluation needs to take place on which of the Dutch core food retailers who offer franchise and meet all the pre-determined characteristics has the most potential for a cooperation. When the franchisor has been identified, a franchise agreement can be signed and the client will be provided with training and know-how from the franchisor. Together with the experienced franchisor a business plan can be designed from the retail franchise in Tallinn. In the meantime the client needs to arrange its political risk insurance by first contacting the different insurance agencies, private insurers and MIGA. Having established which insurance contract suits the client best, signing the rental contract for the store is the next step. Then the store can be built up according to the franchise model and marketing bureaus can be contacted. They will be asked to present different promotional campaigns from which the client will choose the best one. The promotional campaign can then start and two weeks later, the store can be opened.

Below is to find the visual representation of the progress of the crucial actions that need to be taken.

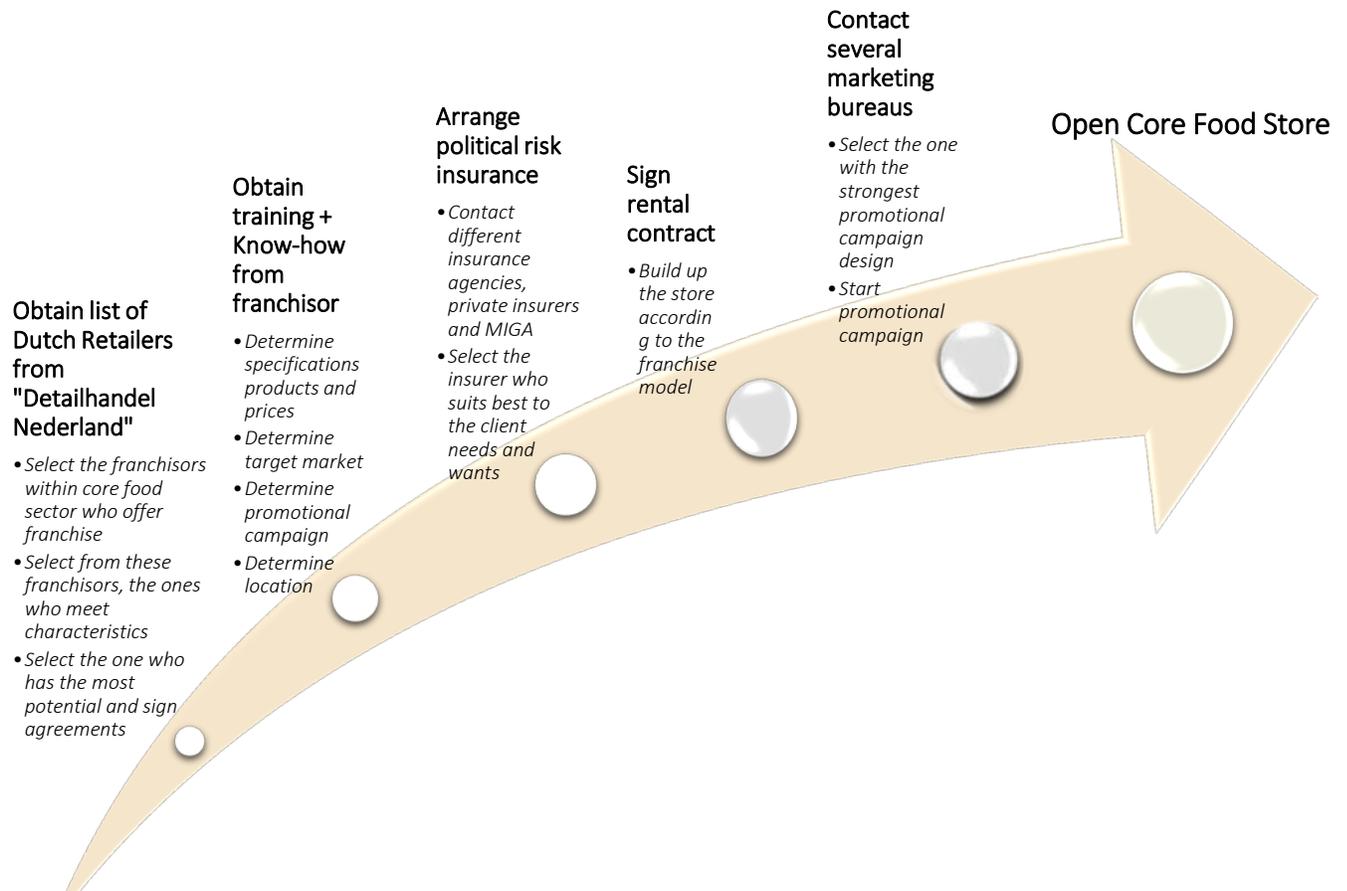


Figure 10- Implementation progress

The aim is to open the store in the end of August. The date recommended is the 29th of August 2015. Not only is it in the end of August, it is also on a Saturday where most Estonians are off work and have the liberty to go and see the opening of the store.

Summary

The client should contact Detailhandel Nederland in order to obtain a list from all the Dutch retailers. From this list the potential core food franchisor can be identified and contact can be made. Then the next step is to build up a solid business plan together with the franchisor and arrange political risk insurance. Afterwards a rental contract can be signed and the store can be build up according to the franchise model. Then the promotional campaign can be started. It is advised to open the store at the 29th of August.

7. REFLECTION

Looking back at the steps that were taken to complete this thesis, it can be concluded that it was quite a challenge to achieve the thesis objective: “To recommend the client how to best respond to the potential economic, political and demographical risks when establishing a fashion, toys, or core food retail franchise in Tallinn, Estonia”. Determining what the exact economic, political and demographical risks are, was not an easy task, due to the unawareness about the market at first. Furthermore, getting in contact with the franchisors within the sample as well as the store employees, took some more time to accomplish than expected beforehand. However, by using different sources for the gathering of information, the needed data was successfully obtained and conclusions were made. From these conclusions viable recommendations were presented.

7.1 Professional competencies

As a graduating International Business & Management student my main motivation for writing this thesis is the possibility to put into practice the knowledge I have gained in the couple of years of following the IBMS course. Throughout the IBMS course my understanding on how to apply Marketing & Sales, Supply Chain Management, Finance & Accounting as well as Human Resource Management in a business has developed extensively in a beneficial matter. Though not all of these aspects were significant for this thesis in particular, the knowledge of these aspects has provided enough insight to be able to solve the management issue of this thesis. Furthermore, my ultimate goal is to become a well-known and experienced international marketer. Completing this thesis successfully is a step closer in achieving this goal. As an international business student, working on this thesis have been a very educative and enriching experience as several professional competencies that are significant for a future international function have been beneficially enhanced. These professional competencies are the ability of cooperating with different cultures, the development of international strategic vision and the enhancement of entrepreneurial thinking. The Estonian culture is a complete different culture than the Dutch culture, so when approaching the store employees in the malls, it soon became clear that just asking to fill out a questionnaire will not help to get the data needed. During this research, the store employees first had to know exactly what was going to happen with the information they might provide and what kind of effect it would have on them within their jobs. Once it was clear what the employees wanted to know before filling in the questionnaires, a different approach was taken and more filled-in questionnaires were obtained. In order to be able to recommend the client how to respond to the potential economic, political and demographical risks when entering into a franchise agreement with a Dutch franchisor, a strategic way of thinking had to take place. This has enhanced the international strategic vision as well as the entrepreneurial thinking. That the client wanted a franchise in one of these sectors does not necessarily mean that it is a good idea. Entrepreneurial thinking took place when deciding which steps would lead to a successful start-up for the client.

7.2 Interpersonal Competencies

Throughout the research process several interpersonal competencies were enhanced and obtained. The main competency that was enhanced throughout the research process was the ability to take initiative and work independently. Due to the difficulty of obtaining some significant information from the literature used, direct contact had to be made with individuals who could provide a direction on where to find this information. So several times a detour was taken in order to obtain the information that was needed. Another competency that was stimulated, was the ability to express ideas correctly while making sure that it was coherent with the research topic. At first it was quite a challenge to make sure that all the extensive amount of data was presented in a logical and understandable way, but by rewriting and comprehensive reading, this matter was not an issue. Furthermore, the ability to manage time efficiently and plan work activities beneficially, was enhanced.

7.3 Eligibility Bachelor degree

The theory as well as the practice obtained throughout the International Business & Management course, has enabled that the above mentioned professional and interpersonal competencies have been developed and enhanced. With the completion of this thesis this competencies have been put into practice and further developed in such an extent that eligibility for a bachelor degree can be concluded. The knowledge gained throughout the IBMS course have been put into practice in the last couple of months for the completion of this thesis. A right balance was obtained between what the client demanded and what the Rotterdam University required from a BBA eligible thesis. Level 3 of competencies has been reached throughout the IBMS course and the completion of this thesis. Not only have I independently dealt with challenges in regards to obtaining the right information throughout the thesis process, I have overcome these challenges in a way that I obtained all the information needed and was able to communicate it correctly in this thesis.

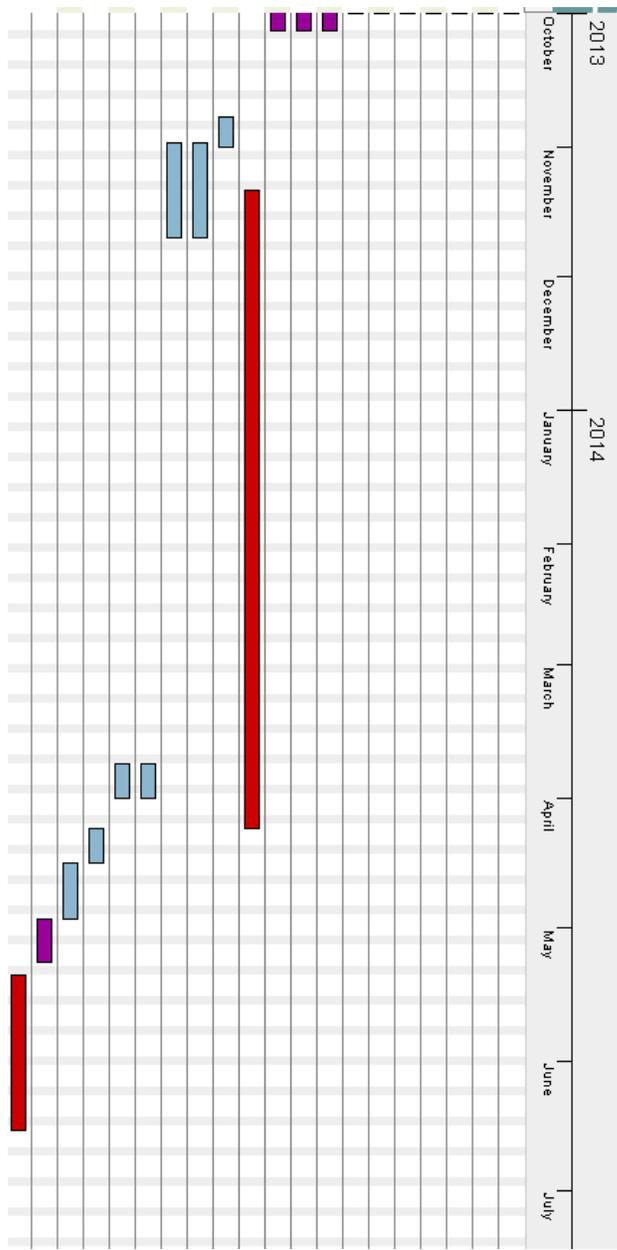
Summary

The theory and practice obtained throughout the IBMS course has enabled that the right knowledge could be applied for the completion of this thesis. Several professional as well as interpersonal competencies have been developed and enhanced throughout the research process that has led to the conclusion of eligibility for a BBA degree.

APPENDIX 1: GANTT CHART



Name	Begin date	End date
• Expore background Foundati...	8/30/13	9/3/13
• Meeting the Client	9/3/13	9/6/13
• Define Research Problem	9/5/13	9/12/13
• Formulate Research Goal	9/5/13	9/12/13
• Identify Main Research Questi...	9/5/13	9/12/13
• Review Relevant Literature	9/12/13	9/20/13
• Formulate Theoretical Found...	9/12/13	9/20/13
• Choose Research Strategy	9/20/13	10/4/13
• Choose Data Collection Meth...	9/20/13	10/4/13
• Describe Sampling and reliabi...	9/20/13	10/4/13
• Refine Thesis Proposal	11/11/13	4/7/14
• Prepare Field Work	10/25/13	10/31/13
• Carry out field work	10/31/13	11/21/13
• Analyze obtained data	10/31/13	11/21/13
• Report Research findings	3/24/14	3/31/14
• Discuss Findings with the client	3/24/14	3/31/14
• Handle project risks	4/8/14	4/15/14
• Draw Conclusions and formul...	4/16/14	4/28/14
• Strategic implementations an...	4/29/14	5/8/14
• Refining thesis and present	5/12/14	6/16/14



APPENDIX 2: QUESTIONNAIRE

This questionnaire is designed with the objective of gaining some understanding on how retailing in Estonia evolving and how the Estonian market is like. The questions will be used for research only and not for the distribution of any products.

1. Gender

- Female
- Male

2. Function

- Visual Merchandiser
- Stand-in Supervisor
- Supervisor
- Combination of all above mentioned
- Other:

3. Is this store a franchise

- Yes
- No

4. Type of retail

- Fashion/Accessories
- Home/ Household
- Child/ Toys
- Sports/ Health
- Convenience Food/ Drinks

5. Name of the store

.....

6. Price range of products in the store

- €0 - €50
- €50 - €100
- €100 - €150
- €150 - €200
- €200 - €300
- €300 +

7. Average number of customer per day

.....

8. Is there a decline in customers in comparison with last year?

- Yes
- No
- Not Applicable

9. Is there an increase in customers in comparison with last year?

- Yes
- No
- Not applicable

10. Is the store available in other cities in Estonia?

- Yes, in
- No

11. Does the store offer online shopping?

- Yes
- No

We thank you for your time and cooperation. The results of this questionnaire will be used within in a thesis assignment for the Rotterdam University based in the Netherlands.

APPENDIX 3: INTERVIEW - GLOWFORTH

The interview was held with Mr. Zoot Nel, founder and director of Glowforth. The interview took place on the 14th of February with the objective of gaining some information about the Estonian market. Furthermore, the focus of this interview was to gain some information from the perspective of Zoot Nel as a Dutch franchisor with an establishment in Estonia. As the interview had a semi-structured basis, the questions designed beforehand will be presented and the information provided by Mr. Nel will be presented per question to which the information better fits under.

1. *Could you tell me a bit more about your company? For instance, what is in short what your company offers and the mission & vision company?*

We operate in a market that is quite speculative. In concern to IT, we are like a substitute of the local IT companies in the Estonian market and the business in which they have been operating in the last 20 years. We offer a new refreshing view on a part of what these local companies also do, like programmers. In Estonia, they don't not have specific people who can do this, like us. This has enabled us to work together with Estonian companies who earned their money with IT that as a result has helped us to establish this company in regards to i.e. finance. We work in a quite specific industry, so I don not dare to say that in the other industries this would be the same.

2. *What has attracted your company to enter the Estonian market?*

Well, I'm originally from Amsterdam and we established a studio in Amsterdam with help from the Gaming fund. This was a fund that helped gaming studios to establish themselves. Afterwards we got a few offers from different publishing companies, you could say. But there was also an accelerator. This was a sort program where as a starting entrepreneur you enter into a speed acceleration where within three months you have multiple mentors coaching you as well as other entrepreneurs in one class. Here they teach you how to pitch your product, but we also visited different conferences and got promoted through the press. We got accepted in this program with our project. One of the requirements set for this program was that a part of the team would work in Tallinn for a while. And for me, Tallinn was an unknown place. I always visited other places in Europe like Spain, Portugal and Italy, but I've never heard from Tallinn before. I thought it was an interesting step to take and for me it turned out to be a real eye-opener. I have been here for almost two years and I think the Estonian people are much friendlier than the Dutch people as I have experienced lately. I thought the atmosphere in the Netherlands was a bit embittered. Furthermore, my company is dependent of specialized software engineers that are limited in the Netherlands. Most people are concerned with becoming a consultant or a psychiatrist etc. Estonia on the hand, has a lot of specialized software engineers to offer with whom I could start a cooperation with.

3. *During the set-up process of your company's subsidiary in Estonia, which factors were beneficial and which factors were challenging?*

Well, when coming to Estonia, I soon had some partners with whom I started a cooperation with. So this happened rather fast. Here in Estonia you just make an appointment and you can walk right into the office of this business people. While in the Netherlands, you have to continue calling them and sending emails. What I did have some difficulties with was the strict policy from the government on the toys I brought in Estonia. The Estonian business people are much more accessible than the Dutch business people. And a real success factor for my business was that due to the smaller population, you soon can obtain a competitive advantage which in the Netherlands is somewhat more difficult to obtain. In the Netherlands you have a lot of competition because there are a lot of people who are battle for the same position. Therefore, it is more difficult to stand out while here, in Estonia, they actually have a shortage of certain talents in different sectors. The Estonian consumers also have very specific needs on the toys sold in the store. Sometimes some customers of mine come to the store and say that there are no new stores and that they will come back when something new is available.

4. Having established the subsidiary in Estonia, what were definitely the success & failure factors in regards to the economic situation in Estonia?

When I left the Netherlands, the economic atmosphere was kind of dreary and what I thought was very interesting about Estonia, is that the people just have the feeling that they keep moving forward. They are very optimistic. Like some people of my generation have never had a fireplace before and now they do. So the middle class is just developing and people enjoy this development. So for the Estonians it is actually just getting better and it's just a nice and optimistic atmosphere. The costs for personnel is really low in comparison to the Netherlands. This is because of the average income level here in Estonia. The average income level here in Estonia is around €800. However, the social activities are much cheaper. For instance, going to the cinema will cost you just around €5. Like buying a house is really cheap in comparison to the Netherlands. You could buy a nice house for already €75.000. And people are done with their mortgage within 15 to 20 years. They are not set up with a mortgage for the rest of their lives. This enables them to save more money when they are older. You also see here a lot people with very fancy cars which I always found very strange. But I just came to the conclusion that this because they do not have a big pressure of paying any mortgage like people do in the Netherlands. So they probably can afterwards get a loan to buy a nice car. Another thing is that the import of products is rather expensive due to the small target market of Estonia. You cannot buy in products for cheaper prices as you would need smaller amounts than in other countries. This is why the variety of certain products is very small. The tourism in Estonia is actually quite solid because of its central place between Russia, Germany and Finland. A lot of Russian people come to Estonia for vacation. If you look at the start-ups. I don't know exactly the statistics, but my girlfriend comes from the world of start-ups. It's like a community which is concerned with start-ups. I believe that Estonia has one of the highest percentage of start-ups in Europe.

5. Having established the subsidiary in Estonia, what were the success & failure factors in regards to the political situation in Estonia?

A real advantage in Estonia is that the government doesn't require companies to pay any company tax. The tax system in Estonia is transparent. Everything is digitalized and very modern. So you could easily set up a new company without any bureaucracy involved. There is also like no corruption in Estonia and if there is corruption, it is nil. Everything can be done online. The government also has this trade agreement with the United States that you as a company do not have to pay any VAT taxes. So if I would for example sell something to an American company, I would not have to pay the 21% VAT that you normally would have to pay.

6. Having established the subsidiary in Estonia, what were the success & failure factors in regards to the demographics of the Estonian population?

Up till the 90's, Estonia has been part of a communist regime, with this communism ideology and communism political frame. And this has actually an upside. Because in the Netherlands, you have this different layers where it is much more difficult to climb to the top. There is always someone who stays doing the same thing for too long and after a while is not so flexible anymore causing a sort of stagnation for young entrepreneurs which in certain occasions would like to climb up. And the thing in Estonia is that this older generation of people, let's say the ones who are now around there 60's, are still from the time where there was communism. So a part of these people don't understand anything of how to business and how to be internationally involved or even how to be service oriented. In the time of communism, there was no pressure on being friendly to the customers and this has led to that these people are not really able to do business in the Western way. So what you see now it that the younger generation, who has not been that long part of the communist regime, have now the chance to handle businesses. So here in Estonia, you see a lot of young entrepreneurs which is very refreshing and nice. It is also easier when doing business, because you can directly approach people in different ways. Like Skype comes from Estonia. The IT-sector is very developed in Estonia. You have everywhere free Wi-Fi and I have for example an Identification Card which has this chip that I can use to sign all contracts and even vote. A lot has been digitalized, so Estonia is very developed with IT. Furthermore, it is quite common in Estonia to go to the shopping malls not necessarily to buy something, but also to see people and to be seen. It gets dark very early in Estonia, let's say around 16:00h or

17:00h, so people got to the shopping malls where there is good light and people can be seen. You can do everything in the mall that you need, buy a book, go to the jewelry store, and do groceries. It's more of a social gathering than in the Netherlands where I usually go to the shopping centers to just buy something and leave. Because of the cold temperature, people prefer going to the malls, because outside it is freezing. And another thing I noticed was that you have a very small population of which most people live near the big cities. This means that the target market is also much smaller. You have a lot of different cultures in Estonia. Like Finnish people working in Estonia and Russian people. You have a lot of Estonian people working in Finland. For my business another good thing is that in Estonia the weather is not so great, so people often choose to stay inside and play some games with the family. So for me this means higher revenues. For some companies it is quite challenging that the birth rate in Estonia is a negative number as they might feel that their future target market might decrease. For my business it is actually a good thing. Parents spoil their kids a lot because most of the time they're only children. So for me this is quite a good thing, because it increases sales. However, I do feel that in the long term, if this negative birth rate continues it might form a threat to my business.

7. When looking at the economic, political and demographical failure factors, how did you manage to overcome these factors?

Because Estonia is a small country and the local market is quite small and not so attractive, are the most companies internationally oriented. This is also what I do. The companies who I work with are companies who have different international distribution channels. We sell our products also to the United States, other European countries and Canada. Because what you see is that Estonians use their IT skills to sell their products through the internet worldwide. That has led that Estonians are enriched with knowledge of a broad market. Also because they are not distracted by opportunities in the local market.

8. Do you feel that the Estonia market will remain attractive for your company in the coming 5 years? Please explain why yes or why not.

I am working on building up my online gaming and I have established a cooperation with two local investors. We expect that the company will only grow and if this growth continues, it is important for me to be here in Estonia to manage the company. I have a team of ten people with whom I often work with so I'm constantly working together with the managers of the company. So as long as the company stays healthy, I will continue doing this in Estonia.

9. Last but not least, what would you recommend any entrepreneur that is interested in establishing a start-up company in Estonia?

When operating on a local basis, it is very important to be able to speak the Estonian language as the local market is less flexible than the international market. Coffee Kiosks would be a very difficult market to enter as there are already a lot of players who have obtained loyal customers here in Estonia. You have like this Italian entrepreneur who is quite known in Tallinn who also imports his own coffee beans. A franchise for Victoria Secret would be very successful in Estonia. Beauty and fashion is very important in Estonia.

APPENDIX 4: INTERVIEW – JUUSTUKUNINGAD

The interview was held with Mr. Erwin Wassenaar, founder and director of Juustukuningad. The interview took place on the 4th of March with the objective of gaining some information about the Estonian market. Furthermore, this interview had as focus to gain some information from the perspective of Erwin Wassenaar as a Dutch franchisor operating in Estonia. As the interview had a semi-structured basis, the questions designed beforehand will be presented and the information provided by Mr. Wassenaar will be presented per question to which the information better fits under.

1. Could you tell me a bit more about your company? For instance, what is in short what your company offers and the mission & vision company?

The Dutch ambassador in Tallinn once contacted me, because his wife, chairwoman of the International Women Club, organized a Christmas Market where the Dutch ambassadors would sell Dutch products. So I was there selling cheese and the sale of the cheese went so well, that I asked myself why not open a cheese store? I didn't know that at first, but Dutch cheese is very wanted in Estonia, Latvia and Lithuania. So in March 2012 I opened my first Cheese shop in Tallinn. That is already two years ago and last Friday we opened our 6th store. So the business is going very well. We also have three franchises in Kyiv in Ukraine and one franchise in Riga in Latvia.

2. What has attracted your company to enter the Estonian market?

My wife is from Estonia and I met her in 2007 in Maastricht. Before I didn't know anything about Estonia either till I got here in Estonia for the first time in the year 2007. I immediately thought that Estonia was very interesting. In 2008 I partly sold my company back in Holland and in 2010 I sold it entirely. Then I moved to Estonia and I had to do something so I started with reorganizing a 5-stars Hotel in the old city in Tallinn which was owned by a Dutch entrepreneur. Afterwards I entered the cheese industry.

3. During the set-up process of your company's subsidiary in Estonia, which factors were beneficial and which factors were challenging?

The supply of Dutch cheese in Estonia is reasonable, but the sales technique is different. In Estonia, the 'try before you buy' is not a logical concept and therefore not used. And I offer my customers this concept which is very new in Estonia. When customers come into my store they can try all the cheeses first and from there on they can choose which one they would like to buy. This is not possible in the supermarkets or the specialties stores in Estonia. There you just have to buy it immediately and hope that you as consumer like it. So the people really liked this concept I had to offer and continuously come to my store. Having established the first store, there were a lot of people saying that my store was so nice and that they wished they had that in their country, or city. So I started to offer franchises to these people and for already 25.000 euros they have a store established according to the Juustukuningad concept.

4. Having established the subsidiary in Estonia, what were definitely the success & failure factors in regards to the economic situation in Estonia?

There are a lot of people who are very price sensitive, so you see that the stores that offer low priced fashion garments such as an H&M and a Zara, are very popular in Estonia, but there is also a part of the population that appreciate high qualitative fashionable products and are willing to pay extra for it. Brand is then very important for these consumers. So I think that the stores that offer high qualitative products from popular brands, are doing very good, but if you are not selling popular brands, you could better focus on selling products that are very cheap. I think if you establish a Primark subsidiary here in Tallinn that would be very profitable. The average income in Estonia is around €700 and €800 after tax. This is a bit higher than the minimum income, especially in Tallinn the incomes are higher because here work a lot of office people. Also when you look at the income you have left after paying all your monthly bills in Estonia, is kind of the same amount as what you have left in the Netherlands, due to the lower expenses of Estonia. However, if you do make only €300 a month, this is somewhat more difficult. And in my stores I also

see that at the end of the month, the sales go down and then at the beginning of the month the sales go up. The social allowances that people receive as well is around €90 and these people you most often see at the food aid center.

5. Having established the subsidiary in Estonia, what were the success & failure factors in regards to the political situation in Estonia?

In Estonia you don't have to pay taxes over the profits your company makes so the money you get as profit you could for example reinvest into your company. Next to this, the flat tax rate is the same for everyone, 21%. The also the same VAT tax that is imposed in the Netherlands. So in general the taxes are much lower than in the Netherlands. The social costs that an employer has to pay for their employees is somewhat higher than in the Netherlands, but on the other hand the minimum income level is very low. The minimum income level in Estonia is €300. So even with the higher social costs, the overall expenses are lower than in the Netherlands. Furthermore, because Estonia has just got its independence for 20 years now, there is still a hint of communism style when doing business. For example in regards to my store, there was this woman who has to control if everything is going according to the rules. There is this book where is stated which requirements are set for certain products. And if something new is brought to Estonia, it is very difficult to change the rules or just not apply the rules. I know that the Netherlands is somewhat easier in this. I remember when I just started my business, my cheese was not in the refrigerator because Dutch cheese does not need to be in the refrigerator. And the woman thought this was very strange, because in Estonia they are accustomed to having all the cheeses in the refrigerator. So she said that my cheese also had to be in the refrigerator and I opposed, because that takes away the flavor of the cheese. So I had a whole discussion about this so that my cheeses could stay outside of the refrigerator. So she was looking in her book saying, no it says here that cheese is a dairy product and it needs to be in the fridge. They just didn't want to make any mistakes, so they really were like this is what the law says and this what needs to be done. They did not discuss with me or consider that it was a new concept so maybe other rules could apply. No, there was no flexibility. You would think because Estonia used to be part of the Soviet that the level of corruption would be high, but it is actually impossible to bribe someone here.

6. Having established the subsidiary in Estonia, what were the success & failure factors in regards to the demographics of the Estonian population?

A lot of companies situated in Estonia which grow fast, tend to enter the Latvian and Lithuanian market as they are neighbor countries. The thing about Estonia is that the market is quite small, it is comparable with the market of Friesland in the Netherlands. So the entrepreneurs that want a bigger market often go to Lithuania and Latvia or Finland. These markets are open, so it is rather easy to start a business there. However, the culture and the language of these countries differ a lot from each other. I always compare these countries with the Netherlands, Belgium and France. If a finish person is in Estonia, the people easily recognize him or her. I have to say that getting in contact with people coming from Estonia, Lithuania, Latvia and Finland is somewhat easy, because a lot of people know each other throughout these countries. The Netherlands is more compact and more introvert. Also because of the small population a lot of people know each other and in return know us as well. This has attracted a lot of people to our stores resulting in a rapid increase of real loyal customers. I also think that in regards to the discrimination in Estonia, it is more based on sexual orientation rather than how people look. In concern to the culture, it was challenging for business, because Estonia does not have a real cheese culture as in the Netherlands. The Estonians just eat cheese on bread, often with cucumber and tomatoes. But eating cheese as a snack, that something that is now slowly turning. I have tried to convince people in the last two years that it could be eating as snack as well and now I see that people come to my store and buy little shelves where they can put the cheese as snacks.

7. When looking at the economic, political and demographical failure factors, how did you manage to overcome these factors?

I have to say that I buy my cheeses for a very low cost price that allows me to offer the consumers a more reasonable price. So I have kind of the same prices as in the Netherlands, but if I look at the cheeses that are mostly sold, I see that the cheeses that are higher priced are the ones that are best sold. The Estonian come especially to my store to buy higher priced cheese. I also have this 'Jonge Kaas' that I sell for seven euros per kilo, but people often get the cheeses that are for twenty or thirty euros per kilo.

Coming to my store is for them a whole different experience than getting cheese at the supermarket, so they prefer buying cheese at my place for a higher price. Like last Christmas I sold around 60.000 Christmas packages of cheese. In concern to the rules which were set for the cheeses to be in the refrigerator, over time they saw that the Dutch cheese did not necessarily needed to be in the fridge, and now we already have six stores, so they see that we know what we're doing. But yeah, it was somewhat difficult to overcome this issue in the beginning. I do think that the Netherlands is somewhat more flexible in regards to certain rules. Furthermore, I don't really have any direct competition, there are the supermarkets that also sell Dutch cheese, but the service is very different, customers can not try before buying. So customers like to come to my store and buy the cheese at my place.

8. Which cities in Estonia do you feel are more attractive to do business at?

I have a store in Tartu, I have four stores in Tallinn and I have a store in Pärnu. I think these are the best cities. And then comes Narva. But Narva is very Russian oriented and it also is situated at the border with Russia. But meanwhile the fear for Russia has increased a lot. The Estonians see what has happened with Ukraine, so they are afraid that the Russians also will try to enter Estonia. So some are very scared of what might happen, but there are others who say that it cannot happen, because Estonia is part of the European Union as well as the NATO and NAVO.

9. Do you feel that the Estonia market will remain attractive for your company in the coming 5 years? Please explain why yes or why not.

At first I thought that it would be challenging to sell some of my cheese, because they are a bit higher priced as the ones that the Estonian customers could get in the supermarkets. But fortunately, people really were willing to pay some extra for high qualitative cheese. Like last year we had a turnover of one million Euros and this year it probably would be around 1.6 million Euros. We are really establishing a strong brand. I think that the market will continue to grow. Off course I don't know what is going to happen with the whole Ukraine and Russia situation, cause if there would be a third world war, then it would be a whole different story. But I don't think this is going to happen, because the border with Russia is becoming more and more open. Like St. Petersburg, is just three hour drive from here and it is a great market. The Russian also prefer to go on vacation to a near place, so they like going to Estonia. The only challenge that I might face is if the economy grows too fast and as result the labor costs increase extensively. But this is with every country that is booming.

10. Last but not least, what would you recommend any entrepreneur that is interested in establishing a start-up company in Estonia?

I also think that integration and marketing is very important for business in Estonia. Last Sunday they had the qualifying round for the Eurovision Song festivals in Estonia and there was a group that was eating my cheese. These people even talk about my cheese, so with this type of free promotion I was able to position myself successfully in the market. When I came to Estonia I joined a choir, because everyone here in Estonia sings, that is quite common here. Here I met a lot of people including the ones of the Eurovision. Afterwards my store was mentioned in the newspaper and the next day I had around 150 people in my store. I also think that it is not beneficial to set up a franchise in Estonia that is not really internationally known, instead you could set up your own store. It probably will cost you the same time and the same financing. I also think that a store like HEMA would be very profitable in Estonia.

APPENDIX 5: INTERVIEW – G-STAR

The interview was held with Mr. Przemek Wilk, Sales manager G-star responsible for the divisions of the Baltic States. The interview took place on the 19th of March with the objective of gaining some information about the Estonian market. Furthermore, this interview had as focus to gain some information from the perspective of G-star as a Dutch company that offers franchises in Estonia. As the interview had a semi-structured basis, the questions designed beforehand will be presented and the information provided by Mr. Wilk will be presented per question to which the information better fits under.

1. *Could you tell me a bit more about your company? For instance, what is in short what your company offers and the mission & vision company?*

So I'm a sales manager for the Baltics region of G-star and basically I'm responsible for sales but actually I'm responsible for everything. As part of my job I'm familiar with the Estonian market as well, it is one of the countries for which I'm responsible. I have been working for G-star since 2012, so I haven't been involved at the time of the set up because this has been already 7 years ago.

2. *What has attracted your company to enter the Estonian market?*

For G-star as most of the other companies, they see the entering of Estonia as an opportunity to increase the sales. In terms of E-commerce, Estonia is very developed in this. This country is actually really modern. The store in Estonia is a franchise, it is not a subsidiary. There are a lot of requirements, like one of the requirements is that we want a partner that is experienced in retail. And yes, it is off course a big investment, so if you want to open a store, you have to have some money. You need to show that you are able to invest, because G-star off course is also investing.

3. *During the set-up process of your company's subsidiary in Estonia, which factors were beneficial and which factors were challenging?*

It is a problem in not only Estonia, but in all Eastern-Europe countries, the problem is that there are no shopping streets, only shopping centers. The people do their shopping in the shopping malls. But to be in a shopping mall it is very expensive, because the rent prices are very high in the shopping malls. G-star does not yet offer online shopping in Estonia, but we're trying to convince our partner to sell through the internet. And yes, I hope they will do it, it is not easy off course to build a website which is a friendly environment for people buying denim. But yes, this is definitely going to happen, because the whole market, not only in Estonia, also in other countries is going into this projection. So E-commerce is very important. Taking into consideration Zalando, Zalando is everywhere so it is a very important customer for G-star. So definitely internet sales is very important for us, especially in Estonia. If you take into consideration that you have internet for free in Estonia. So this is definitely the direction that we should go. If you compare the Estonian market with the Netherlands, not only the Estonian market also Lithuanian and Latvia, it is completely different. Because as I said before, you should have a store in a shopping mall, the weather is shitty for let's say one-third of the year, it's minus 10 or minus 15 for a few months. So people prefer to shop in the shopping malls and the rent in the shopping malls is very expensive. So it is a tough market because you have a lot of competition in the fashion industry, you have shitty weather, so if you have a store on the street it is complicated to sell in for example November or December. Like the average you pay for rent costs normally is around 15%, but in Estonia this accounts for around 25%. The people who own a shopping mall have an extreme power over the prices, because they know that everyone wants to be within the mall. These people also prefer people who have their own retail, G-star only owns one store in Amsterdam, and the rest is franchises. In countries like Estonia, there are no real shopping streets, this is because it used to be a communism country and there were no shops in communism countries. Another thing that makes it a bit difficult for foreign fashion brands in Estonia, is that the country already has a lot of second hand stores where people buy a lot of stuff. They like buying there, because they have a lot of traditional goods which are much valued by Estonians.

4. *Having established the subsidiary in Estonia, what were definitely the success & failure factors in regards to the economic situation in Estonia?*

And to be honest, G-star in Estonia is more expensive than in Holland. The Dutch price list is for the Dutch market but fortunately we have now applied the German pricelist and it is a bit higher than the Dutch price list, like three or four percent. In Estonia there are not so many middle class people, so G-star is off course perceived as a luxury brand. However, the issue is that it is not luxury enough like Burberry and those kind of high-end brands, but it is more luxury than Levi's and other denim brands. Actually, G-star's position is in the middle. And that is kind of an issue, because not so many people are able to afford or buy the G-star brand. The consumer is 35 years and older. And yes, Estonia was doing well before and for the past years it has not be such a great economy. But now it is actually picking up and they also have the Euro now. So for international companies this is a very good thing.

5. *Having established the subsidiary in Estonia, what were the success & failure factors in regards to the political situation in Estonia?*

The atmosphere in Estonia is not so bad, because it is already a very long time ago that Estonia was part of the communist regime. But especially now with what is happening with Putin and Ukraine and the Krim, the people in Estonia are a bit worried. This is because as I said, around 30% of the population has Russian roots. So they are a bit afraid that Putin will go to Estonia, Latvia and Lithuania, because there are still a lot of Russian people living there. The policy of Putin is to attack other countries if Russians are in trouble. So there might be a possibility that you see Russian military or Russian troops in Estonia, I hope not. Especially now with the industry it is not good. And the European Union is a little bit slow, so NATO is more important for Estonia in this case. So I don't think that this is going to happen, but people are a little bit afraid, because we are not sure if Putin is a normal guy or if he is a maniac or a stupid guy. You never know if it is like that and that is the problem. Furthermore, the taxes are not so high, the VAT is 21% and the personal taxes are not so high either.

6. *Having established the subsidiary in Estonia, what were the success & failure factors in regards to the demographics of the Estonian population?*

You need time in Estonia and you need to know that around 30% of the Estonian inhabitants is Russian. A lot of Russians live in Estonia, but they buy a lot of their products in Russia, especially in St. Petersburg which is really close to Tallinn, it's just a few hours' drive by bus. And you have a lot of Russians coming to Tallinn, but G-star is not a brand for those people. However, there are also a lot of tourists from Finland and from Sweden and these are potential customers for G-star. It's a bit complicated, because the city itself has only 350,000 people, so it is not so big. So if you take into consideration that half of these people have Russian roots, the group of people that can be considered to be potential G-star customers is quite small. Though there are Russians living in Estonia, the real Estonians are actually more Scandinavian, so there are more Swedish. These people like to dress a bit tougher. Well the good thing is that there are a lot of young people, students, living in Tallinn. It is a city full of students and I think this is good for G-star, because these people can see the store in the city since it is in a very good location. In the future they can become the customers of G-star, so this is good for us. There are a lot of young people in Estonia and this is the future I think for G-star. And G-star is a bit of a tough brand, it is not so feminine and Estonian women like the more feminine brands such as Guess.

7. *When looking at the economic, political and demographical failure factors, how did you manage to overcome these factors?*

The store is getting better now and it has been relocated to another place. The location that we have now, is on the streets, but it is very visible, it is located by the main cross road. It is also good for the brand awareness and it is a better location than the previous one because the previous location was a bit hidden from the public. Tallinn is not a very big city. A year ago, G-star Estonia had even higher prices than the German pricelist. It was plus ten or fifteen percent in comparison to the Dutch pricelist. And now we lowered the prices to the prices of Germany. Furthermore, the store has loyal customers, the customers received some sort of card, a discount card. With this, the store has a base of 3000 customers and these can be said to be loyal customers.

8. Which cities in Estonia do you feel are more attractive to do business at?

Estonia is a small country with one big city which is Tallinn and the second biggest city in Estonia is Tartu.

9. Do you feel that the Estonia market will remain attractive for your company in the coming 5 years? Please explain why yes or why not.

The percentage of people that are in the middle class is also increasing and it is only becoming better in the next few years, because this is also the process that we see in the other markets we're in. And this is for sure good for the economy of Estonia. Especially Tallinn will be good for those people who graduate from colleges, because now there are not so many young people that have a university degree. And the situation is now changing because people realize that they have to have a good degree to have a good job. So this is something that is definitely going to help not only G-star, but also other brands. This will help people to earn more money, otherwise they will not be able to become part of the middle class.

10. Last but not least, what would you recommend any entrepreneur that is interested in establishing a start-up company in Estonia?

I think that's cheap shops would be successful in Estonia. You have this cheap shop called Terranova, these kinds of shops are good for Estonian market. This is because the income level is not so high. Also sport brands like Nike and Puma would be successful. People still like to wear sneakers in Estonia. Like H&M entered the market like 6 months ago and has since then been very successful. And it is very important to see the market. Just spend a few days and see the market. Furthermore, it is important to take into consideration that there are not so many rich partners to start a cooperation with. This is because it is a small country and there not so many people to whom you can go and cooperate with.

APPENDIX 6: PORTER'S 5 FORCES + GE MCKINSEY MATRIX

As mentioned in chapter 2, a powerful tool in defining the attractiveness of a market is the Porter's Five Forces model. In this section a visualization is provided of the attractiveness of the Estonian market using the Porter's Five Forces Model. Three Porter's Five Forces Model are presented which each present one of the pre-determined industries. In these models, the forces influencing the attractiveness of the fashion, toys and core food industry will be discussed. These forces are the bargaining power of buyers, the bargaining power of suppliers, the level of rivalry, the threat of new entry and the threat of substitutes.

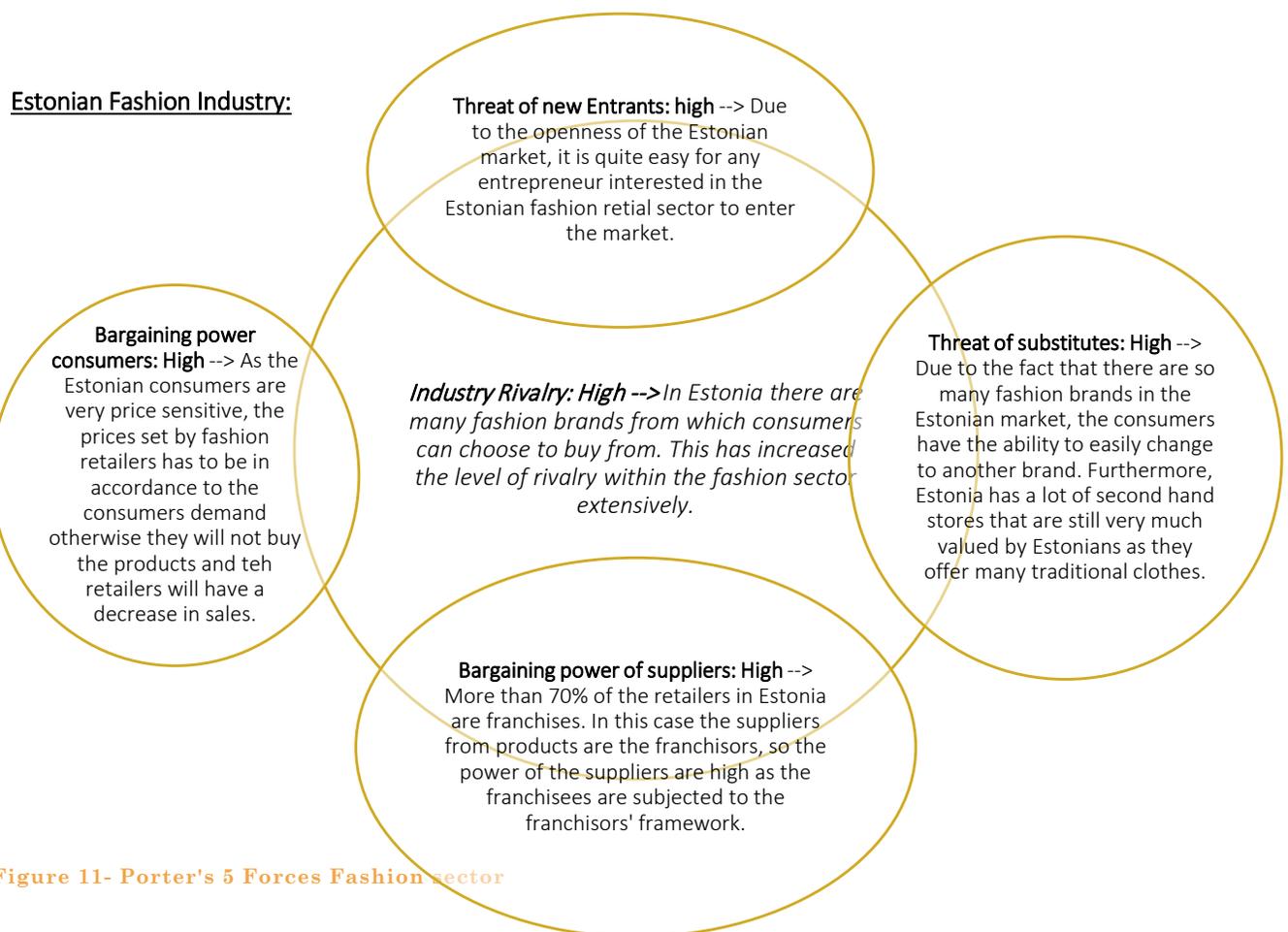


Figure 11- Porter's 5 Forces Fashion sector

Estonian Toys Industry:



Figure 12- Porter's 5 Forces Toys Sector

Core Food:

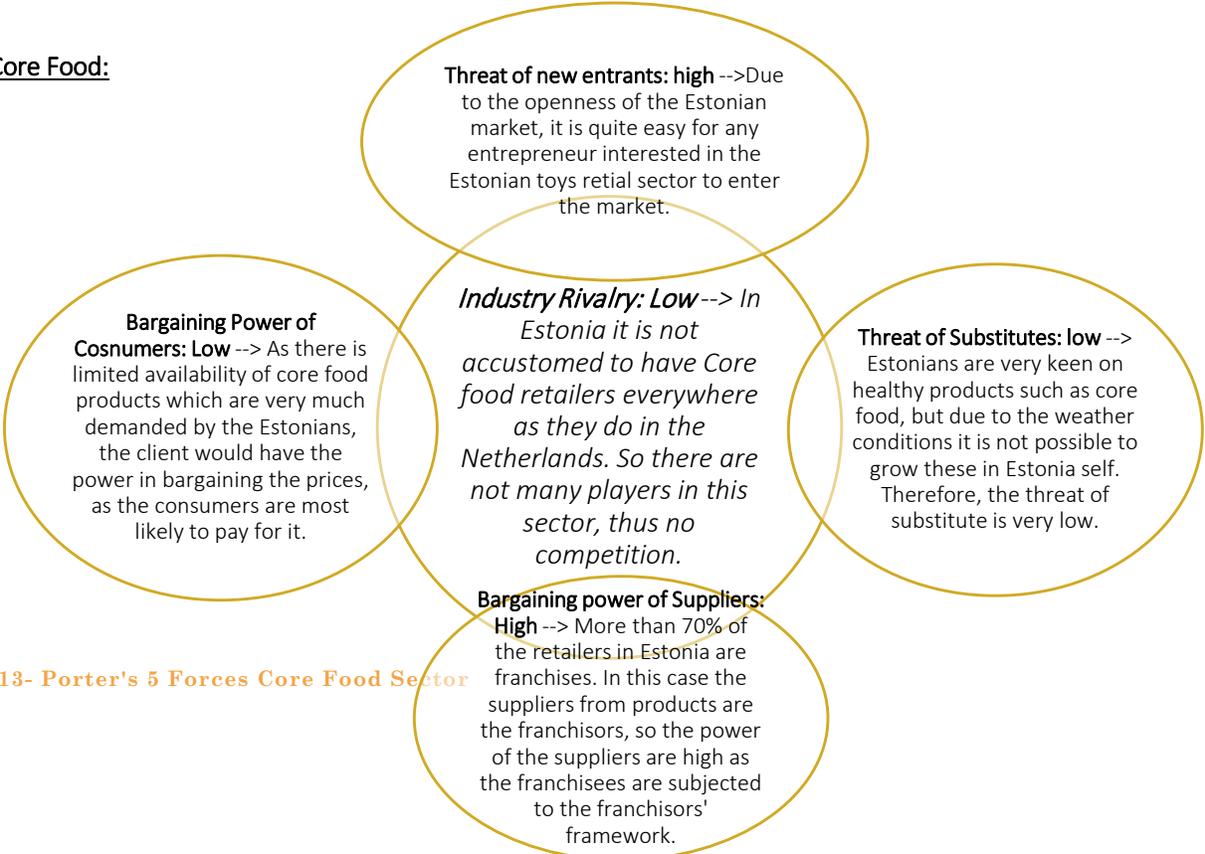


Figure 13- Porter's 5 Forces Core Food Sector

From all three sectors, the core food is the most attractive sector to enter. This is because the availability of retail stores in the core food sector is quite limited, but quite wanted by the Estonian consumers. Estonians are very keen on healthy products and as core food is known for being healthy, this is a great opportunity for the client. So when entering this sector the level of competition is very low, resulting in the possibility of gaining a competitive advantage in a rapid period of time.

5.1.3. GE McKinsey Matrix

The GE McKinsey Matrix is used as a way of identifying with which products (fashion products, toys or core food) the client would have a greater chance in obtaining a competitive advantage. Below is to find the GE McKinsey Matrix.

		Business Unit Strength		
		High	Medium	Low
Industry Attractiveness	High	Core Food		
	Medium		Toys	
	Low			Fashion

- GE McKinsey Matrix

After having concluded that strength of each force within the Porter’s Five Forces model, the attractiveness of the fashion, toys and core food has been concluded. With this information, the GE McKinsey matrix has been designed and as can be seen from the graph, the core food is the type of product in which the client should invest. The industry of the core food is the most attractive and the strength of core food within its business is high due to the limited availability in the Estonian market and the demand for it by Estonian consumers.

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