

Forall phones

How can Forall Phones, a Portuguese SME operating in the thriving market of refurbished smartphones, successfully expand through Europe?

5.1 Denmark In-Depth Country Analysis

Work Project presented as part of requirements for the Award of the Management Masters Degree from NOVA – School of Business and Economics
January 22nd 2020

SME Competitiveness and Internationalization Field Lab carried out under the academic supervision of:
Professor Emanuel Gomes
Professor Pedro Teixeira



Denmark's Political and Economic factors present business opportunities, namely due to the EU single market and stable economic growth. Nevertheless, it is the social and environmental factors that present the highest attractiveness, given Danes environmental concerns and propensity to buy second-hand goods.

5.1. Denmark In-Depth Country Analysis

5.1.1. Country Overview



Political

Denmark is a constitutional monarchy with a representative elected parliament formed by several parties. Since 1909 governments are formed by stable minority administrations.^{1,2} In 1973, Denmark was the first Nordic country to join the European Union, being a member of EU's single market and Schengen Area³, participating in trade agreements with other European countries. Also, these countries are required to protect minorities and human rights, under the rule of law, displaying institutions' stability and democracy warranty.⁴



Technological

According to the Digital Economy and Society Index (DESI) 2019¹⁵, Denmark ranks 4th place of the most digital countries in the EU, with the government taking an important role digitalizing the public sector¹¹. Denmark has a long lasting machinery and engineering background that is boosting the country's robotics and automation industry. Its excellent fiber broadband infrastructure, the country was able to attract investment in data centers from tech giants and is home to thousands of digital start-up companies operating in advanced technology like Internet of Things, machine learning and blockchain, that can be used to increase business efficiency^{16,17}.



Economic

Danes have an above average purchasing power when compared to other EU countries, having presented a 1.49% economic growth in 2018⁵, the fifth highest GDP per capita in PPS⁶ and a low unemployment rate of 5%⁷. The economy grew 1.49% in 2018⁵, driven by intra-EU trade, which accounted for 61% of Denmark exports and 70% of imports.¹ Although the country opted-out of the Eurozone the Danish Krone is currently the only currency under the European Exchange Rate Mechanism II since 1999, so the exchange rate between the euro and other EU's currencies have narrow fluctuation margins.⁸



Legal

Denmark ranks 1st in the WJP Rule of Law Index¹⁸, hence it is a highly regulated country where law is well enforced. As member of EU, Denmark complies with the non-tariff barriers regulations in place.¹⁹ Trademarks in Denmark are valid for 10 years per renewal, following the Trademark Law Treaty²¹. Under EU's consumer law, consumers have the right to cancel and return the orders within 14 days, without needing justification¹⁶ and legal entities selling second-hand goods in Denmark must provide a minimum 2-year guarantee.²² The sale of second-hand goods are taxed under the marginal VAT scheme.²³ Although there are no specific regulations for the refurbished smartphone industry, current WEEE* regulations may affect the possibility of refurbishment of discarded smartphones.²⁰



Social

Demographically Denmark's total population has been increasing since 2014 at a CAGR of 0.38%, reaching the 5.7M mark in 2017⁹ and has one of the highly trained labor force in the world, presenting a Gini Coefficient of 0.26, meaning wealth is well distributed among the population.¹⁰ Representing high potential for the refurbished smartphone industry are the Danes' behavior: Tech-savvy used to make their daily life with the help of digital products¹¹; most transactions are cashless¹¹; Environment concerned using sustainable solutions¹²; In 2018, 61% of the population aged 18 to 75 bought second-hand goods¹³, with money, reuse and the environment as main drivers¹⁴.



Environmental

Besides following European common environmental rules, Denmark is a member of the Paris Agreement and is taking active initiative in achieving ONU's Sustainable Development Goals¹⁰, with the city of Copenhagen setting the goal of becoming the world's first carbon neutral capital by 2025.²⁴ The country is heavily investing in renewable energy production, especially wind and bioenergy from agriculture, already accounting for 30% of total energy used.²⁵ Danish companies are global leaders on making buildings more energy-efficient.¹⁰

Forall Phones does not have any direct point of contact in Denmark. Nevertheless, it can leverage the wide available information and the existence of Government Agencies, Embassies and Associations that are able to provide information regarding the Danish market conditions and regulations.

5.1. Denmark In-Depth Country Analysis

5.1.2. Contacts

1 2 3 4 5 6 7 8 9

Agents and distributors

Working alongside agents and distributors allows the company to test the market and anticipate meaningful risks, using a lower financial investment than opening an independent office.

Agents: Although it is not required to use agents to do business in Denmark, Forall Phones could benefit from their expertise of the Danish market and familiarity with potential clients and the business environment.

Distributors: Denmark ranks 1st in the trading across borders index and is a highly developed country. The largest international distributing companies are present in Denmark, so it will not be hard to find one.

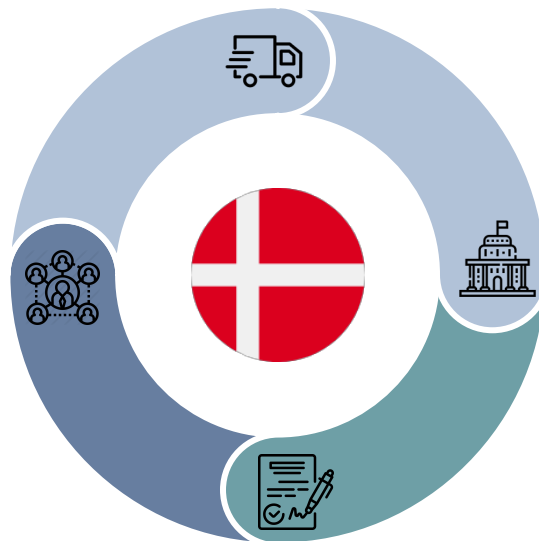
On Global Trade website, it is possible to find several agents and distributors in Denmark³.

Associations and organizations

Associations and Organizations usually have an extensive network of contacts across regions and business areas. They can be leveraged by Forall Phones to gain important contacts and market knowledge.

AIECEP Copenhagen⁴: Part of AIECEP Portugal Global, this branch is focused in helping Portuguese firms internationalization process.

Startup Denmark⁵: Danish association focused on helping startups establishing their businesses in Denmark. This association provides help in defining the business strategy and getting access to public and private financing.



Government agencies and embassies

Government Agencies and Embassies can help the company to get information on Danish Market and bridge the contact to important references.

Danish Business Authority⁶: is the Danish regulatory business agency. Its goal is also to provide easy access to information, in order to increase businesses growth.

Embassy of Portugal in Denmark⁷: Rita Laranjinha is the Portuguese Ambassador in Denmark. With the goal of strengthening ties between the two countries, contacting the Embassy of Portugal in Denmark may lead to a better understanding of Danish regulations.

Embassy of Denmark in Portugal⁸: One of the focus of the Danish embassy in Portugal is to bring investment to Denmark. Therefore, in contacting the embassy they will connect the company with local contacts and provide useful information regarding the market conditions and regulations.

International Chamber of Commerce⁹: is the world business organization, providing help and information regarding international trading regulations.

Letters of inquiry

Danish business communications should be brief and direct. Although the official language is Danish, over 80% of Danes speak English as a second-tongue and business communications are widely held in English given the multiculturalism of workplaces¹.

The Danish refurbished smartphone industry has 4 main players: Phonetrade, Bluecity, GreenMind and Refurb. When evaluating the attributes and comparing with Forall Phones it was possible to understand that the company scores in parity with competitors in Products' Diversity and Reviews. In 2018, the Danish Refurbished Smartphone Industry reached €7.3.M is sales and is dominated by Refurb and Bluecity who reached a combined Market Share of 75%.

5.1. Denmark In-Depth Country Analysis

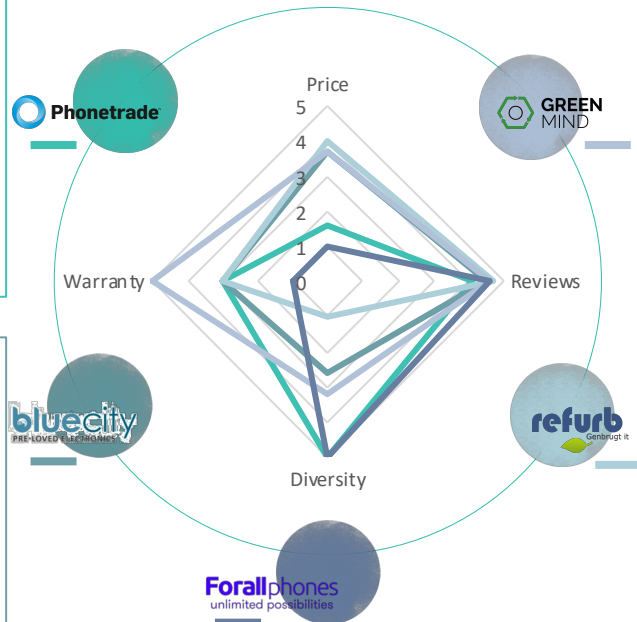
5.1.3. Competitor Analysis (1/2)

1 2 3 4 5 6 7 8 9

Competitors Benchmarking

Founded: 2010
HQ: Denmark
Business Model: In-house refurbished iPhones
Distribution Channel: E-commerce and 8 stores in Denmark
Geographical Coverage: Denmark, Sweden, Norway, Greenland, Faroe Islands, Germany, England, Finland
Warranty: 2 years

Founded: 2014
HQ: Denmark
Business Model: In-house refurbished consumer electronics
Distribution Channel: E-commerce, 8 stores in Denmark and 1 in Sweden
Geographical Coverage: Denmark, Sweden
Warranty: 2 years



Founded: 2010
HQ: Denmark
Business Model: In-house refurbished consumer electronics
Distribution Channel: E-commerce and 5 stores in Denmark
Geographical Coverage: Denmark
Warranty: 3 years

Founded: 2008
HQ: Denmark
Business Model: In-house refurbished consumer electronics, with B2B and B2C operations
Distribution Channel: E-commerce
Geographical Coverage: Denmark, Greenland, Faroe Islands, Sweden
Warranty: 2 years

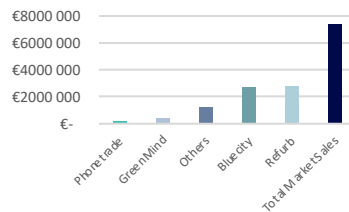
Competitors Sales and Market Share

Limitation: Danish public financial statements only provide information on the company's Gross Profit.

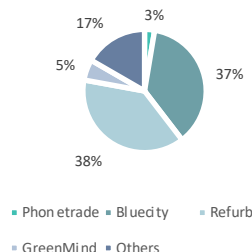
Assumption: To compute the competitors' sales and total Market Sales, 3 assumptions were made:

1. For companies selling a broad range of products (GreenMind, Bluecity and Refurb), it was assumed that profit attributed to smartphone sales is in the same proportion of the mobile market share of consumer electronics sales in the primary market in Denmark (23%);
2. To achieve the total revenue of smartphone sales, it was assumed that the gross margin is the same as Forall Phones' (22.28%);
3. From the competitors' analysis, it was possible to understand that there are several small players in the market. Hence, a Margin of Error of 20% was considered to calculate the total Market Sales.

Graph 1: Industry Current Sales



Graph 2: Competitors Market Share



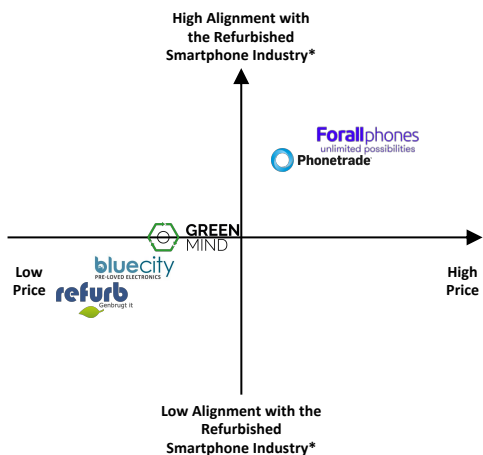
Herfindahl-Hirschman Market Concentration Index (HHI)= 31%

Although Phonetrade is Forall Phones most similar competitor, it has lowest sales volume among the main market players. Moreover, when evaluating the competitors, it was possible to understand that none has a community, presenting an opportunity for Forall Phones to leverage its expertise in community management to create a sustainable competitive advantage through the Forall Family, as it did in the home market.

5.1. Denmark In-Depth Country Analysis

5.1.3. Competitor Analysis (2/2)

Competitors Positioning



Graph 3: Competitors Positioning

* Alignment with the Refurbished Smartphone Industry was assessed regarding:

1. Product Focus – Higher smartphone product focus meaning higher alignment with the industry
2. Diversity of iPhone product offering – A company with a higher iPhone product offering is better aligned with the industry
3. Quality – Better reviews prove a better alignment

For company's selling a wide variety of products, it was assumed the reviews would be the same for all products.

Competitors Strengths and Weaknesses

	Phonetrade	bluecity PRE-LOVED ELECTRONICS	refurb Genbrugt it	GREEN MIND
Strengths	<ul style="list-style-type: none"> • First Danish smartphone refurbish company focused on Apple's products • Best iPhone's product diversity • Largest Geographical Coverage, serving 8 countries through the online store • Allows customers to sell their used iPhones • In-House Refurbishment 	<ul style="list-style-type: none"> • High Market Share (37%) • Allows customers to sell their used products • Offers price guarantee and discounts additional €7 on the lowest price found by a consumer • In-House Refurbishment 	<ul style="list-style-type: none"> • Highest Market Share (38%) • Lowest Market Average Price • Best Customers' Reviews • In-House Refurbishment 	<ul style="list-style-type: none"> • Stylish and easy to navigate website • Strong environment-friendly positioning • Allows customers to sell their used products or swap them for "new" refurbished ones • Highest market warranty time of 3 years • In-House Refurbishment
Weaknesses	<ul style="list-style-type: none"> • Lowest sales volume • Worst Customers' Reviews • Does not have a community 	<ul style="list-style-type: none"> • Does not have a specific product focus, selling all kinds of consumer electronics • Does not have a community 	<ul style="list-style-type: none"> • Lowest iPhone product diversity • Main product focus is refurbished computers • Hard to navigate website • Does not have a community 	<ul style="list-style-type: none"> • Low sales volume • Does not have a specific product focus, selling all kinds of consumer electronics • Does not have a community
Current Competitive Advantages	<ul style="list-style-type: none"> • Greatest Alignment with the Refurbished Smartphone Industry 	<ul style="list-style-type: none"> • Only competitor offering price-guarantee, even applying a further discount if a better price is found 	<ul style="list-style-type: none"> • First-Mover Advantage in the Refurbished Consumer Electronics Industry • Lowest Prices 	<ul style="list-style-type: none"> • Offers the greatest warranty-time of 3 years

The Danish Refurbished Smartphone Industry Market Size in 2019 was of 814,574 possible devices sold and has been growing at 4.99% yearly from 2014 to 2019. The Industry Sales Potential was forecasted to reach €525M in 2025.

1 2 3 4 5 6 7 8 9

5.1. Denmark In-Depth Country Analysis

5.1.4. Market Sales Potential



Market Size and Growth

Methodology

The **Danish Refurbished Smartphone Industry Market Size** was approximated using the chain ratio method with the following variables:

1. Total Population¹
2. Smartphone Ownership in Households in Denmark²
3. Average Share of population buying smartphones per year: 40.61%
4. Willingness to buy secondhand smartphones: 40.35%, indicator used in the country ranking analysis

Formula 1:

Danish Refurbished Smartphone Industry Market Size_t = Total Population_t x Smartphone Ownership_t x Share of Population buying smartphones per year x Willingness to buy secondhand smartphones

Table 1: Danish Refurbished Smartphone Industry Market Size

	2014	2015	2016	2017	2018	2019
Total Population	5646898	5,669,080	5,690,749	5,711,836	5,732,713	5,753,864
Smartphone Ownership in Households in Denmark	69%	74%	80%	82%	84,65%	86,39%
Percentage that bought	40,61%	40,61%	40,61%	40,61%	40,61%	40,61%
Willingness to buy secondhand smartphones	40,35%	40,35%	40,35%	40,35%	40,35%	40,35%
Market Size	638508	687,467	746,048	767,533	795,233	814,574

CAGR_(2014,2019)=**4.99%**

CAGR_(2018,2019)=**2.43%**



Industry Sales Potential

Methodology

The Market Sales Potential in euros for 2019 was computed using **Formula 2:**

Market Size Potential₂₀₁₉ x Average Market Price

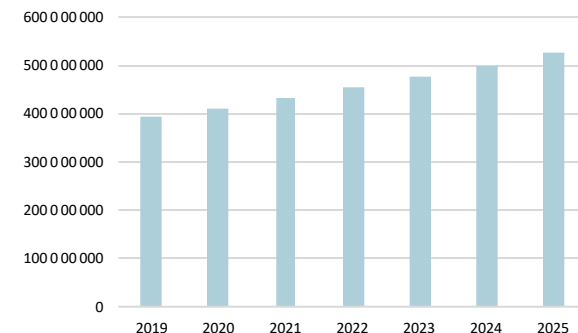
To forecast the Market Sales Potential from 2020 to 2025, the CAGR_(2015,2019)=4.99% was used.

Formula 3:

Market Sales Potential_t = Market Sales Potential_{t-1} x (1+CAGR_(2015,2019))

Average Market Price³: average price of iPhones sold by Danish companies. The models selected are all rank A, subject to information availability and take into consideration Forall Phones' availability, to reach a comparable value. The average price of each model was computed and then their average was set as the Market's average price.

Graph 5: Industry Sales Potential



Market Size Potential 2019	814 574
Average Market iPhone Price	€482
5-Year CAGR	4,99%
Forecasted Industry Sales Potential 2025	€525M

Denmark's Consumer Behavior, namely the share of secondhand buyers who are environmentally concerned, and the Industry Trends of incentives to companies operating in the circular economy present an attractive environment for Forall Phones. Moreover, being Denmark the best ranked country in the Ease of Doing Business Index there are no considerable market entry barriers to set up a business in the Danish Refurbished Smartphone Industry.

1 2 3 4 5 6 7 8 9

5.1. Denmark In-Depth Country Analysis

5.1.4. Market Sales Potential



Consumer Behavior

Tech-Savvy: The youngest population uses technology and smartphones on their everyday life⁶.

Online Shoppers: 83% of internet users purchased online at least once in 2017⁷, with IT, Telecommunications and Cameras representing the third most bought category⁹.

Apple Lovers: Apple's iPhone is the most chosen brand, with 52% market share⁵, as consumers perceive it as technologically superior and with a more stylish design³.

Secondhand Buyers: Danes have high propensity to buying secondhand goods, with 61% of the population aged 18 to 65 having bought second-hand goods in 2018⁷.

Price Conscious: 53% of the population who bought secondhand goods, listed "Save Money" as the main purchasing reason⁸. Moreover, the primary market consumers have been changing their purchasing behavior, choosing Chinese competitors, as Huawei, given their considerably lower prices³.

Environmental Concerned: Danes are conscious of their behavior's impact on the planet, hence the majority chooses to commute by public transportation or bicycles. Moreover, of the population who bought secondhand, 25% appointed "Avoid Overuse" and 21% "Do something good for the environment", as purchasing drivers⁸.



Industry Trends

Circular Economy Incentives: As the Danish Government is creating incentives to accelerate the shift towards a circular economy, allowing companies operating in related industries (such as the refurbished smartphone industry) to gain access to government funds¹.

High smartphone penetration: Denmark has a high smartphone penetration, amounting almost 85% in 2018 and forecasted to reach circa 90% by 2021².

Popularity of iPhones in the secondary market: It can be said that iPhones are the strongest brand in the refurbished smartphone industry, as it is the second most searched term in DBA Marketplace*⁴.

Trade-in Programs: Most competitors and mobile operators allow customers to sell their used devices. This presents a win-win situation, where smartphone owners may gain some money from selling their used devices, while refurbishing companies can increase their access to input products.



Market Entry Barriers

Ease of Doing Business: In 2019, Denmark ranked 3rd worldwide in the 2019 Ease of Doing Business Index¹⁰, the best ranked European country, meaning it is a highly attractive country to do business in.

Access to Suppliers: The industry trends of the trade-in programs, may allow Forall Phones to establish partnerships with Danish operators for the sourcing of input devices. Moreover, as Forall Phones is already operating in Europe and the product is similar in all European markets, the company may also establish these partnerships or agreements with traders or operators from other countries.

Access to Distribution Channels: Denmark ranks 1st in Trading Across Borders, meaning that it is the easiest country in the world to deal with imports and exports¹⁰. Moreover, the largest distributing companies are present in Denmark, meaning it will not be hard for Forall Phones to find distributors.

Consumer Behavior: As assessed, Danes are tech-savvy, have a preference for Apple products and are price and environment conscious, which represent opportunities for Forall Phones. Nevertheless, similarly to the scenario observed in all Europe, consumers are loyal to the smartphone brand rather than the refurbishing company, and have low switching costs.

Legal Constraints: The Danish Refurbished Smartphone Industry is still not regulated. However, companies need to comply with the EU's consumer law, offering at least 2 years warranty and allowing for the product's return until 14 days after the purchase.

*DBA Marketplace is a Danish online marketplace where individuals can sell and purchase all kinds of second-hand goods
Source: All sources can be found in the References section

The Danish Refurbished Smartphone Industry Environment is highly competitive, with the main players concentrating 75% of the Market Share. Nevertheless, there is a large gap between the Potential Market Sales and the Observed Sales, leading to an opportunity for Forall Phones. If, by 2025, the company is able to reach 52.5% of the market and have a conversion rate of 3.5%, it will be able to achieve €9.6M in sales revenue.

5. In-Depth Country Analysis

5.1.5 Company Sales Potential

1 2 3 4 5 6 7 8 9

Competitive Environment

Main competitors: Although there are several players in the Danish Refurbished Smartphone Industry, Refurb and Blue City are the largest players, taking 75% of the market share.

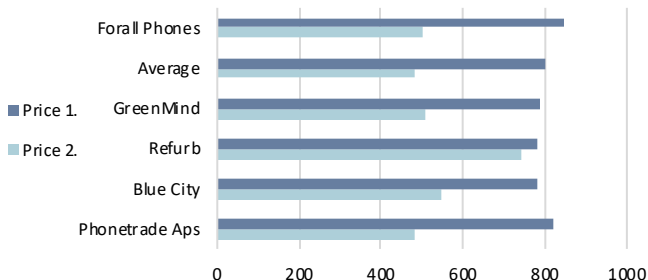
Product Focus: From the identified competitors, only Phonetrade presented high product focus, offering only iPhones, while all other competitors offered a wide range of consumer electronics products and brands.

Market Concentration: The current Market Concentration HHI is 31%, indicating that the market is concentrated.

Price: To Evaluate Price competitiveness and Forall Phones' ability to compete, two comparisons had to be made:

- Since some competitors have a low variety offer, using all models did not allow to reach a comparable price. Therefore, to understand the price positioning of competitors, only the price of rank A models that all competitors offered were considered. **Results:** Forall Phones and Phonetrade practice above average prices.
- To represent the pricing of the product availability of Forall Phones, average price of the current product offering was evaluated against the market average. **This represents a high limitation**, since competitors practicing below average prices in the above pricing, given their low product offer, present significantly higher prices when taking all models into consideration. **Results:** All companies practice above average prices.

Graph 6: Industry Prices



Important key results:

- Market Average Price of Price 2. (€482) is lower than Forall Phones' average price (€503)
- The Market is concentrated around two main players
- The main players also practice below Price 1. average prices.

Therefore, in order to be competitive, Forall Phones needs to:

- Heavily invest in Marketing in order to create brand awareness and increase the customers' perceived value of its products, similarly to its strategy in Portugal; **OR**
- Decrease prices, to be more competitive. This strategy is not the core of Forall Phones' strategy, but it should be noted.

Market Penetration Timetable

Given the Market Gap of Potential Sales₂₀₁₉ and the observed Sales₂₀₁₉, it is possible to state that there is space for Forall Phones to win some Market Share.

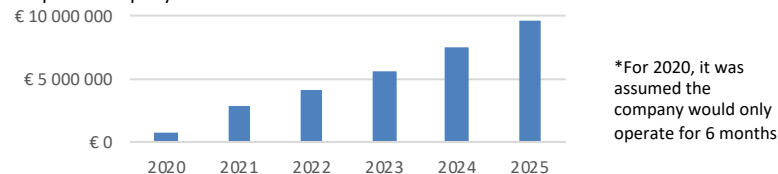
To evaluate the potential company sales from 2020 to 2025, it was assumed:

- Target Reach as percentage of Potential Industry Sales
- Conversion Rate as percentage of Target Reach

Both rates are expected to grow every year as the company's commitment and brand awareness increases.

Table 2: Market Penetration Timetable	2020	2021	2022	2023	2024	2025
Reach	40%	42.50%	45%	47.50%	50%	52.50%
Conversion	1%	1.50%	2%	2.50%	3%	3.50%

Graph 7: Company Sales Potential



Denmark's Market Entry Conditions do not present any significant constraint for Forall Phones, if entering Denmark. Moreover, being part of the European Union allows the company to have easy access to information and to leverage being based in another European Union country.

5. In-Depth Country Analysis

5.1.6 Market Entry Conditions

1 2 3 4 5 6 7 8 9

Import and Export Regulations

Customs procedures in Denmark are ruled by EU regulations, with operations from EEA duty-free⁶. On purchases and deliveries within the EU, a declaration of exchange of goods must be sent to Customs.

Ranking 1st in Trading Across Borders, Denmark's expected time dealing with documentary compliance on imports and exports takes around 1 hour³.

Registration

Opening a business in Denmark is rather easy and can be entirely done online in less than a day, with the right documentation. If the business owner does not have a resident or work permit in Denmark, then it is necessary to hire a lawyer to register the company with the Danish Business Authority (DBA)¹.

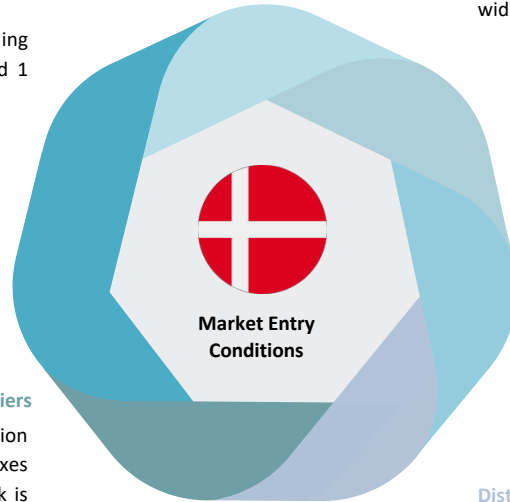
If Forall Phones chooses to Distance Sell, it should register for non-resident VAT with DBA, if sales exceed €38,000 per year².

Tax Burden and Tariff Barriers

After registering the business, the DBA sends the company's information to SKAT (Danish Customs and Tax Administration) whom collects taxes and provides tax advice¹. Ranked 9th in Paying Taxes index, Denmark is one of the easiest countries in the world to deal with tax payments and registrations³.

Forall Phones should use the Marginal VAT scheme, applying the 25% tax rate to the sale gains². The Danish Corporate Tax Rate is set at 22%³.

As a member of the EU, Denmark complies with the non-tariff barriers regulations in place.



Standards and Regulations

As a member of the European Union, Denmark complies with the standards and regulations set by the European Commission. Whenever these have slight differences from the set regulations, information is widely available in Denmark's Government websites.

Documentation

For Imports from another EU country, Denmark follows the regulations set by the European Commission.

For goods valued lower than €1,000 a verbal declaration at customs is sufficient⁷.

For goods valued over €1,000, the documentation needed is the Single Administrative Form, that can be obtained in the Chamber of Commerce⁷.

Payment and Financing Methods

Most transactions in Denmark are cashless, with businesses usually trading using online transfers and people paying for goods and services using their smartphones or cards⁴.

Start-ups set up in Denmark can have access to public and private funding with the help of Startup Denmark⁵.

Distribution Channels & Transportation

Ranked 8 in the Logistics Performance Index, Denmark presents a high worldwide score, performing especially well in Timeliness and Tracking & Tracing and Infrastructures⁶.

Transportation companies are widely available in the country, and information easily accessed online.

All in all, Denmark's Refurbished Smartphone Industry attractiveness can be considered as high, mainly due to a favorable Macro Environment, high Market Sales Potential and Company Sales Potential and the current Market Entry Conditions.

5. In-Depth Country Analysis

5.1.7 Conclusion

1 2 3 4 5 6 7 8 9

Country Overview

The Danish macro environment for the Refurbished Smartphone Industry is highly attractive, as Danes have a high propensity for buying secondhand goods, in order to save some money and do something good for the environment. Moreover, the Government is increasing efforts to become more environment neutral, giving incentives to companies operating in the circular economy.

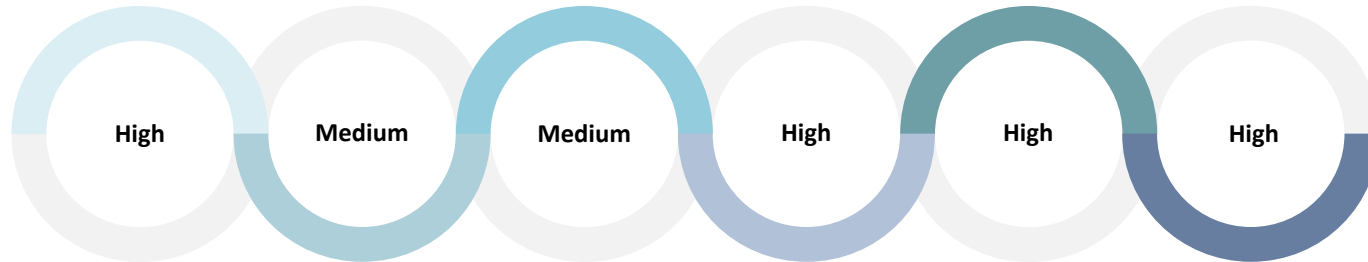
Competitors Analysis

Denmark's refurbished smartphone industry is currently dominated by two large players, taking 75% of the Market Share. It was also possible to assess that there is only another competitor as aligned to this industry as Forall Phones, and is currently underperforming other competitors. **Limitation:** The only possible way to calculate the main competitors' sales was a proxy used, that may not reflect the true market sales.

Company Sales Potential

Although the Danish Refurbished Smartphone Industry environment is competitive, if Forall Phones is able to reach 52.5% of the market and have a 3.5% conversion rate, it will be able to achieve €9.5 sales revenue in 2025. **Limitation:** Should be noted that the company sales potential are based on assumptions. Nevertheless, it is advised that the company must increase the consumers' perceived value in order to achieve this this sales potential.

Attractiveness:



Contacts

The Contacts quality of Forall Phones in Denmark is medium, given that the company does not possess any direct contact at the moment. Nevertheless, there are a number of associations and public agencies that provide help to companies expanding to Denmark.

Market Sales Potential

The Market Sales Potential is forecasted to reach over €525M in 2025, supported by the Danish Consumer Behavior and Industry Trends. Moreover, there are no significant Market Entry Barriers for Forall Phones to enter the market.

Market Entry Conditions

There are no Market Entry Conditions posing high constraints for Forall Phones to enter the Danish Market, mainly due to its membership to the European Union and its high rank in the Ease of Doing Business Index.

References

Country Overview

1. European Union (2019). Denmark Overview. Retrieved from: https://europa.eu/european-union/about-eu/countries/member-countries/denmark_en
2. Ministry of Foreign Affairs of Denmark (2019). Politics and economy. Retrieved from: https://ungarn.um.dk/en/about_denmark/country-facts/politics_economy/
3. The Danish Parliament (2019). Denmark's membership of European Union. Retrieved from: https://english.eu.dk/da/denmark_eu/denmarks_membership
4. European Commission (2019). The European Single Market. Retrieved from: https://ec.europa.eu/growth/single-market_en
5. The World Bank (2019). GDP Growth (annual %) – Denmark. Retrieved from: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=DK>
6. Eurostat (2019). GDP per capita in PPS. Retrieved from: <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00114>
7. OECD (2019). Unemployment Rate. Retrieved from: <https://data.oecd.org/unemp/unemployment-rate.htm>
8. European Commission (2019). ERM II – the EU's Exchange Rate Mechanism. Retrieved from: https://ec.europa.eu/info/business-economy-euro/euro-area/introducing-euro/adoption-fixed-euro-conversion-rate/erm-ii-us-exchange-rate-mechanism_en
9. Worldometers (2019). Denmark Population. Retrieved from: <https://www.worldometers.info/world-population/denmark-population/#broad-age>
10. OECD (2019). Income Inequality. Retrieved from: <https://data.oecd.org/inequality/income-inequality.htm>
11. Denmark.dk (2019). Digitalisation in Denmark. Retrieved from: <https://denmark.dk/innovation-and-design/digitalisation>
12. Denmark.dk (2019). Sustainability in Denmark. Retrieved from: <https://denmark.dk/innovation-and-design/sustainability>
13. Statista (November 2019). Did you purchase second-hand good in the last 12 months?. Retrieved from: <https://fesrvsd.fe.unl.pt:2099/statistics/794685/purchases-of-second-hand-goods-in-denmark-by-gender/>
14. Statista (November 2019). What are the main reasons for purchasing second-hand goods?. Retrieved from: <https://fesrvsd.fe.unl.pt:2099/statistics/794922/reasons-for-purchasing-of-second-hand-goods-in-denmark/>
15. European Commission (2019). DESI composite index. Retrieved from: https://digital-agenda-data.eu/charts/desi-composite#chart={%22indicator%22:%22desi_sliders%22,%22breakdown%22:{%22desi_1_conn%22:5,%22desi_2_hc%22:5,%22desi_3_uif%22:3,%22desi_4_idt%22:4,%22desi_5_dps%22:3},%22unit-measure%22:%22pc_desi_sliders%22,%22time-period%22:%222019%22}
16. Ministry of Foreign Affairs of Denmark (2019). Get connected to our wireless and mobile cluster. Retrieved from: <https://investindk.com/set-up-a-business/tech/wireless-and-mobile-technologies>
17. Denmark.dk (2019). Innovative for more than a thousand years. Retrieved from: <https://denmark.dk/innovation-and-design/innovation>
18. World Justice Project (2019). Denmark. Retrieved from: <http://data.worldjusticeproject.org/#/groups/DNK>
19. Societe Generale (2019). Denmark: Regulations and Customs. Retrieved from: <https://import-export.societegenerale.fr/en/country/denmark/regulations-customs>
20. Nordic Council of Ministers (2017). Circular Business Models in the Mobile Phone Industry. Retrieved from: <https://norden.diva-portal.org/smarsh/get/diva2:1153357/FULLTEXT02.pdf>
21. Societe Generale (2019). Denmark: Intellectual Property. Retrieved from: <https://import-export.societegenerale.fr/en/country/denmark/regulations-intellectual-property>
22. European Union (2019). Guarantees and returns - Denmark. Retrieved from: https://europa.eu/youreurope/citizens/consumers/shopping/guarantees-returns/denmark/index_en.htm
23. Lex (2019). Directive 2006/112/EC. Retrieved from: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62015CC0471:EN:HTML>
24. Denmark.dk (2019). Urban Solutions. Retrieved from: <https://denmark.dk/innovation-and-design/urban-solutions>
25. Denmark.dk (2019). Pioneers in clean energy. Retrieved from: <https://denmark.dk/innovation-and-design/clean-energy>

Contacts

1. Business Culture (2019). Business Communication in Denmark. Retrieved from: <https://businessculture.org/northern-europe/denmark-business-culture/business-communication/>
2. World Business Culture (2019). Danish Business Communication Styles. Retrieved from: <https://www.worldbusinessculture.com/country-profiles/denmark/culture/business-communication-styles/>
3. Global Trade (2019). Agents and Distributors in Denmark. Retrieved from: <https://www.globaltrade.net/m/c/agent-distributors/Denmark.html>
4. Portugal Global (2019). AIECEP Copenhagen. Retrieved from: <http://portugalglobal.pt/EN/about-us/overseas-network/Pages/ARedeAicep.aspx?IdPontoRede=12>
5. Startup Denmark (2019). Why Denmark. Retrieved from: <https://startupdenmark.info/why-Denmark>
6. Danish Business Authority (2019). Retrieved from: <https://danishbusinessauthority.dk/>
7. Embaixada de Portugal na Dinamarca (2019). Retrieved from: <https://www.copenhaga.embaxadaportugal.mne.pt/pt/>
8. Denmark in Portugal (2019). Retrieved from: <https://portugal.um.dk/en/the-trade-council/invest-in-denmark/>
9. International Chamber of Commerce (2019). Retrieved from: <https://iccwbo.org/>

Industry Market Potential

1. State of Green (September 2018). New National Danish Strategy for Circular Economy. Retrieved from: <https://stateofgreen.com/en/partners/state-of-green/news/new-national-danish-strategy-for-circular-economy/>
2. Statista (June 2019). Forecast of the Smartphone User penetration rate in Denmark from 2018 to 2024. Retrieved from: <https://fesrvsd.fe.unl.pt:2099/statistics/568087/predicted-smartphone-user-penetration-rate-in-denmark/>
3. Euromonitor International (August 2019). Mobile Phones in Denmark. Retrieved from: <https://www.euromonitor.com/mobile-phones-in-denmark/report>
4. Statista (October 2017). Leading products that people look for at DBA Marketplace in Denmark. Retrieved from: <https://fesrvsd.fe.unl.pt:2099/statistics/794777/leading-products-that-people-look-for-at-dba-marketplace-in-denmark/>
5. Statcounter (2019). Mobile Market Share in Denmark. <https://gs.statcounter.com/os-market-share/mobile/denmark/2018>
6. Denmark.dk (2019). Digitalisation in Denmark. Retrieved from: <https://denmark.dk/innovation-and-design/digitalization>
7. Statista (September 2018). Did you purchase second-hand good in the last 12 months?. Retrieved from: <https://fesrvsd.fe.unl.pt:2099/statistics/794685/purchases-of-second-hand-goods-in-denmark-by-gender/>
8. Statista (September 2018). What are the main reasons for purchasing second-hand goods?. Retrieved from: <https://fesrvsd.fe.unl.pt:2099/statistics/794922/reasons-for-purchasing-of-second-hand-goods-in-denmark/>
9. Statista (February 2019). Online Expenditure in Denmark by Product Category. <https://fesrvsd.fe.unl.pt:2099/statistics/684831/online-expenditure-in-denmark-by-product-category/>
10. Doing Business 2020 (2019). Economy Profile Denmark. Retrieved from: <https://www.doingbusiness.org/content/dam/doingBusiness/country/d/denmark/DNK.pdf>

Market Entry Conditions

1. Transferwise (2019). How to Start a Business in Denmark. Retrieved from: <https://transferwise.com/gb/blog/start-a-business-in-denmark>
2. PWC (2019). Value Added Tax in Denmark. Retrieved from: <https://www.pwc.dk/da/publikationer/2019/pwc-value-added-tax-denmark-2019.pdf>
3. Doing Business 2020 (2019). Economy Profile Denmark. Retrieved from: <https://www.doingbusiness.org/content/dam/doingBusiness/country/d/denmark/DNK.pdf>
4. Denmark.dk (2019). Digitalisation in Denmark. Retrieved from: <https://denmark.dk/innovation-and-design/digitalisation>
5. <https://startupdenmark.info/why-Denmark>
6. Worldbank (2019). LPI global rankings. Retrieved from: <https://lpi.worldbank.org/international/global?sort=asc&order=Tracking%20%26%20tracking#datatable>
7. Santander Trade (2019). Import customs procedures in Denmark. <https://santandertrade.com/en/portal/international-shipments/denmark/customs-procedures>

How can Forall Phones, a Portuguese SME operating in the thriving market of refurbished smartphones, successfully expand through Europe?

Operating in the refurbished smartphone industry, Forall Phones aims to become a strong global brand.

The European industry environment is highly attractive due to favorable political and legal characteristics, positive consumer trends and consumption forecasts. Under this geographical scope, the company should enter Norway and Sweden (the most attractive countries) with e-commerce, leveraging its capability of creating a strong network of influencers and shapers abroad and benefiting from this communication channel.

Finally, the project is expected to have a payback period of 18 months and a positive NPV of €636K, representing a strong investment opportunity for the company.

Key Words:

Forall Phones

Refurbished

Internationalization

Community

Acknowledgments

*We want to acknowledge the help and guidance of **Professor Emanuel Gomes** during the months of the project. The priceless share of knowledge of the Professor was essential to carry the theoretical methodology in the work.*

*Additionally, we would like to thank the generosity and availability of **Professor Pedro Santos**. His contribution and feedback were indispensable to leverage the potential of the work project and untangle crucial topics.*

*To **Forall Phones' management team**, especially Luís Vieira, José Rodrigues and José Alves, for giving us the opportunity to develop this internationalization project and for providing valuable information for its completion, we extend our greatest gratitude.*

*Finally, we want to give a significant acknowledgement to our **families** and **friends** who supported us during the good, ordinary and hard days, when realizing the work project. Thank you for being there for us.*

Thank you all!

Executive Summary

Project Overview and Methodology:

- To evaluate Forall Phones expansion through Europe, an internationalization process was conducted comprising eight different phases. First, an overview of the company and a macro analysis of the European industry were performed in order to evaluate its attractiveness and potential growth. Secondly, the company's current situation and global readiness were assessed. Thirdly, a European country ranking and cluster analysis were made to select the five most attractive countries to execute an in-depth analysis. Afterwards, two countries were targeted and the most feasible entry mode was chosen. Finally, both marketing and financial plans were developed, to provide the client with valuable insights into the most advantageous marketing strategy and key financial figures regarding the project's viability.

Situation:

- Founded in 2016, Forall Phones is a Portuguese firm operating in the circular economy of refurbished smartphones, aiming to democratize access to premium technology. As part of its mission, the company wants to have a sustainable business, that helps both the society and the environment.
- In 2018, Forall Phones started internationalizing to Spain with its online channel and soon opened stores, believing it would boost the sales as it did in Portugal. The lack of assessment of the competition in the Spanish market led to negative results, which resulted in Forall Phones exiting the country in 2019. This internationalization failure resulted in a ROE of -1,254.58% in 2018, despite the revenue growth of 706% from 2017 to 2018, achieving a value of almost €4 million.

Question:

How can Forall Phones, a Portuguese SME operating in the thriving market of refurbished smartphones, successfully expand through Europe?

Answer:

- The EU single market and economic growth, the rise of environmental concerns and responsible purchases present opportunities for Forall Phones. Although there are still no specific regulations for this industry, environmental legislations are accelerating the growth of the circular economy.
- The largest global players operating in the European refurbished smartphone industry share operational and strategic characteristics, with the majority having no specific product focus neither premium brand specialization. Moreover, most use online sales as a distribution channel, leading companies to target similar segments. In Portugal, after Forall Phones, Phone House and Worten are the strongest competitors but do not consider smartphones' refurbishment as their core business, creating an attractive competitive environment.
- Concerning the KISF, companies must focus on customer loyalty towards the refurbishing company, ensuring fair prices with above-average quality to increase consumers' switching costs. Besides, seeking worthwhile contracts and relations with suppliers can provide a competitive advantage by lowering input costs.
- According to Porter's Diamond framework, Portugal, as the home base of Forall Phones operations, does not provide any significant advantages that could be leveraged to increase competitiveness when expanding to international markets. Moreover, Forall Phones' capabilities and resources were assessed in the dimensions of relevance, scarcity, transferability/replicability and durability, resulting in one sustainable competitive advantage of having a network of shapers and influencers that is a unique asset in Portugal.
- Due to its communication efforts, Forall Phones is able to generate high customers' perceived value of its products, leading to a successful differentiation strategy, visible in the firm's positioning in the 4th quadrant of the FSA-CSA Matrix.

Executive Summary

- From the Country Cluster Analysis, it was possible to group European countries in 6 clusters. Afterwards, with the Ecosystem analysis, it was evaluated how the countries relate to each other within the clusters. From this assessment, 2 clusters were excluded and 22 countries continued the selection process. Thereafter, according to the selected attractiveness criteria, the Country Ranking Analysis was an important step to obtain the 5 most attractive countries to perform an in-depth analysis: Denmark, Switzerland, Sweden, Norway and the Netherlands.
- To select the target countries, an in-depth analysis was performed based on market size, market concentration and entry barriers factors. Out of the five countries selected for the in-depth analysis, Norway is the most attractive one, outperforming the remaining in the majority of the considered categories, succeeded by Sweden.
- During the country analyses, it was possible to understand that no other competitor manages a community as Forall Family and that the capability of creating that network could be leveraged abroad, leading to first-mover advantages in community-based marketing. Other resources and capabilities identified should also be leveraged to create value, even if not offering competitive advantages.
- The selection of e-commerce as the entry strategy took into consideration the Uppsala Model's match of Market Knowledge and Commitment with the above-mentioned capability. However, it is highly advised for the firm to keep evaluating its performance to consider the possibility of increasing market commitment and, eventually, expand to Denmark due to the cultural and geographical proximity.

Marketing and Financial Plans:

- From the segmentation, it was possible to choose Millennials and Centennials as the target segments, as they present core characteristics that fit the company's value proposition and resources. For the positioning statement, the firm should target premium technology lovers that are environmental concerned, providing high-quality in-house refurbished smartphones at affordable prices.
- Although the core product line does not need to suffer differences, the packaging should be made with 100% recycled materials and minimum printing, allowing for better and easier recyclability. Each purchase should also include a "thank you" note printed on plantable paper. Concerning place, Forall Phones will place its products on its website with different language and currency selection options.
- Forall Phones should practice the same price in all markets. The promotion will be delivered through the most popular channels among consumers: online direct marketing, social media marketing, content marketing, and Forall Family, in order to increase brand awareness and perceived value.
- In the Financial Plan, some goals were defined, such as understanding the financial viability, market reach and penetration, profitability, return on invested capital, market share and foreseeable risks. For that reason, a financial statement analysis was conducted and the results obtained were promising. With a positive NPV, an IRR above the WACC and a payback period of 18 months, the expansion will create value to Forall Phones. Furthermore, the profitability ratios chosen to measure the performance, as the ROE (28.82%) and the Net Profit Margin (33.41%), among others, are encouraging. Moreover, the Break-Even Point in 2020 can be achieved by selling 992 devices, which is below the expected quantities it will sell. Finally, Forall Phones will finance the €500,000 of the project with Owner's Equity, as it is the best option considering the firm's current financial situation and the fact that the internationalization process must start soon. The company is expected to have accumulated cash of €47,277 in 2020, a figure expected to reach €13,480,827, in 2025. Thereafter, the expected growth of Norwegian and Swedish markets will sustain the increase in the net result over the years.

Conclusion and Final Remarks:

- The possible risks of this internationalization project were identified, as well as its causes and possible solutions. Under a worse scenario, poor replication of the process of creating the Forall Family in the target countries is the strongest risk, as the company would lack having a sustainable competitive advantage.
- The proposed internationalization process is expected to be a success, while providing the company with the tools, operational scale and know-how to keep expanding to other markets, allowing Forall Phones to become a global brand. The expansion of the business to Norway and Sweden are just the first steps.

Agenda

1. Company Overview

1. Background
2. Operations
3. Analysis of the Internationalization to Spain
4. Financial Performance

2. Macro Analysis: The European Refurbished Smartphone Industry

1. PESTLE Analysis
2. Key Industry Players
3. Porter's 5 Forces
4. Industry Trends and Forecasts
5. Key Industry Success Factors

3. Analysis of the Company's Situation and Global Readiness

1. Country-Specific Advantages: Porter's Diamond
2. Firm-Specific Advantages: Benchmarking Analysis
3. Firm-Specific Advantages: Resources and Capabilities
4. FSA-CSA Matrix and Strategy Clock
5. Reasons for Internationalization
6. Global Readiness Assessment
7. SWOT Analysis
8. TOWS Analysis

4. International Markets Selection

1. Selection Criteria
2. Preliminary Screening: Cluster Analysis
3. Preliminary Screening: Country Ranking Analysis
4. Selection of the highest potential countries

5. In-Depth Country Analysis

- | | | |
|---|---|--|
| <ol style="list-style-type: none">1. Denmark in-depth Country Analysis2. Switzerland in-depth Country Analysis3. Sweden in-depth Country Analysis4. Norway in-depth Country Analysis5. Netherlands in-depth Country Analysis6. Selection of the target country |  | <ol style="list-style-type: none">1. Country Overview2. Contacts3. Competitor Analysis4. Market Sales Potential5. Company Sales Potential6. Market Entry Conditions7. Conclusion |
|---|---|--|

6. Entry Strategy

1. Selection Criteria
2. Analysis of Entry Strategies and Entry mode selection
3. Conclusion and Recommendations

7. Marketing Plan

1. Situation Analysis
2. Segmentation - Targeting - Positioning
3. Marketing Mix

8. Financial Plan

1. Market size, Market share and Revenue estimation
2. Cost Estimation
3. Profit per Unit
4. Break-even Point
5. Financing Plan
6. Financial Statements
7. Financial Viability
8. Financial Analysis and Ratios
9. Sensitivity Analysis

9. Final Remarks

Forall Phones is a Portuguese company aiming to make premium technology accessible to everyone by selling semi-new high-quality refurbished smartphones. As part of its mission, the company wants to have a sustainable business that helps both the society and the environment.

1. Company Overview

1.1. Background ¹

Forall Phones operates in the **refurbished smartphone industry** characterized by providing consumers with semi-new restored, reconditioned, and repaired iPhones. The refurbishment can be considered as an auspicious strategy since the majority of the original value is retained. In fact, opposite to recycling, refurbishment does not involve total product alterations, benefiting from original ideation, creation, production processes, and costs.



Headquarters: Lisbon, Portugal



Founded: 2016



CEO: Luis Vieira

Founder: José Costa Rodrigues



Mission: Make premium technology accessible to everyone without compromising the next generations by giving a new life to products that could be wasteful.

Core business: Sale of semi-new high-quality refurbished smartphones, that are up to 50% cheaper than new ones.



In 2019, revenues are expected to reach €8M.

Environmental Impact

Forall Phones is focused on two directives from the United Nations' "Sustainable Development Goals" (SDG): Responsible Consumption and Production (SDG12) and Climatic Action (SDG13).

The company collects old and non-repairable iPhones, ensuring that all equipment is either recycled or disposed of correctly. Forall Phones already collected 1,000 old phones and treated 163 kg of e-waste. By selling over 25,000 phones, the company avoided the production of 4,086 kg of e-waste and 1,778 tons of CO2 emissions.

Geographical Coverage



Map 1: Forall Phones coverage



Eleven physical stores in Portugal



Online Store



The online store accounts for 20% of the sales, while the physical stores are responsible for the remaining 80%.

Social Impact

Forall Phones is building a community of sustainability-driven changemakers. The company co-creates with its clients, employees, partners and highly-motivated shapers, a new mindset based on a fulfilled life without compromising the next generations. Furthermore, by encouraging the ambassadors' entrepreneurial spirit, the firm is allowing them to develop their skills, experience new opportunities and go out of their comfort zone that ultimately will make them grow as human beings and professionals.

Forall Phones main business line is the sale of refurbished iPhones, which pricing strategy takes into consideration the market price of a new device, the pricing made by competitors and the signs of use. Although the company does not have a clear target, it uses different communication channels to increase brand awareness among different age segments.

1. Company Overview

1.2. Operations



Business Lines

The biggest share of revenues comes from the sale of **refurbished iPhones**, that had short-term use or store exposure (average of 12-18 months). The company acquires the equipment from distributors and individuals, performs the refurbishment and quality tests, ensuring that each iPhone is functioning at its maximum capacity as if it was new, ranking each device according to its signs of use, such as scratches and dents, that are not possible to repair.

Currently, Forall Phones divides its devices into three rankings¹:

- A - Excellent Condition, Minimum signs of use
- B - Good Condition, Light signs of use
- C - Reasonable Condition, Considerable signs of use

Each equipment sold to the final consumer is original and unlocked and comes with a charger and 1-year warranty.

Recently, the board has decided to study the introduction of an A+ premium category that, at the time of this analysis, was not yet developed. Also, the company has started retailing iPhone accessories from several producers.



Pricing Strategy

Forall Phones' pricing strategy is based on three steps:

Step 1: Price Ceiling and Floor

For the first pricing's step, Forall Phones sets Price Ceilings and Floors, to serve as indicators of the price range that must be followed. To do so, the company takes the market price of a new iPhone (same model and characteristics) and applies a 10% discount to set the Price Ceiling and 50% discount to set the Price Floor.

Step 2: Benchmark Competitors

The second step is a market analysis to understand how competitors are pricing products with the same characteristics and similar rankings.

Step 3: Price of different rankings - A, B and C

The last pricing step considers the different rankings. Forall Phones first prices a certain iPhone model with specific characteristics and then applies a difference in prices of around 8.5% between consecutive rankings.



Target Segments

The company does not have a clear targeted segment. Instead, it uses different communication channels to reach different market segments.



Physical Stores

Target: Non-Online Lovers
Age: Over 25
How: A large part of Portuguese consumers see physical stores more trustworthy than online retail.



Social Media

Target: Teenagers
Age: 13 to 16 years old
How: Direct advertising through social media.



Forall Family Community

Target: University Students
Age: 17 to 24
How: Forall Family, composed by Shapers (university students) & Influencers, who promote Forall Phones among peers.

Forall Family is a network of Shapers and Influencers used to create brand awareness and enhance the company's sustainable position. By building a connection with the consumer, the community contributes significantly to the total amount of sales.

1. Company Overview

1 2 3 4 5 6 7 8 9

1.2. Operations



Forall Family - Community

Forall Phones established a network of changemakers called Forall Family, using Shapers and Influencers to **advertise** its products and enhance the company's sustainable position. It should be noted that Forall Family members **are neither agents nor sales representatives**, as they do not sell the product directly to consumers or represent the company officially.

The Community had an important role in the company's growth and helped increase brand awareness. Currently, it continues to have a considerable impact on total sales, accounting for 34% of revenues.

Shapers and Influencers



- +50 Influencers
- Account for 11% of total sales



- +300 University students (Shapers)
- Account for 23% of total sales

To sustain and develop this network, a Community Manager is currently assigned in Portugal to promote Forall Phones among University students and social networks.

The Community Role

Through Forall Family, the company is investing in direct contact with potential customers, where Shapers and Influencers build a connection between consumers and Forall Phones' products.

The Changemakers have the role of increasing brand awareness through word-of-mouth and social media, promoting products quality and its sustainable contribution when purchasing from Forall Phones.

The network is developed in the academic environment, where the main target reached through this channel is found.



- Target: University Students
- Age: 17 to 24

Promoting Forall Phones among peers through the community is critical to improve brand loyalty and trust, as this target segment tends to be influenced by social media advertisement and consumer reviews.¹

Promo Code

When contacting a Shaper or Influencer, the consumer has access to a discount on its future purchases. Each Changemaker possesses a personal promo code that, when shared and used by a consumer, provides a direct discount of €10 on the final product and a compensation of €17 for the promo holder. This code can be used in either physical stores or online.

This is a win-win situation for both Forall Phones and its customers, by increasing the company's sales while providing a discount to the buyer.

Benefits

Creating a community from scratch, like Forall Family, requires effort and time investments that most companies are not willing to undertake, thus, such network is not easy to find in the market. Often, big companies struggle to build and manage a community, ending up acquiring smaller firms that already developed this resource. Moreover, Forall Family is expected to continue to contribute significantly to the total amount of sales since this type of promotion is more effective than common online advertisement¹ done by Forall Phones.

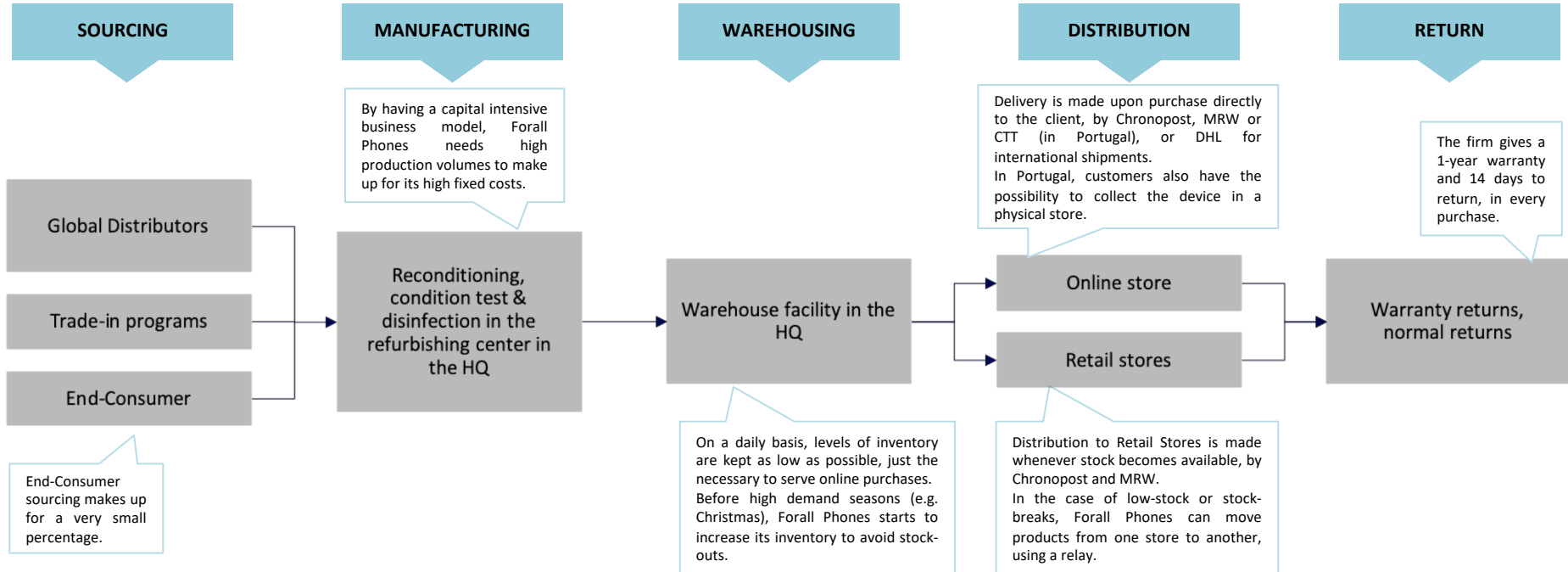
Forall Phones supply chain efficiency allows the company to ensure 7 days mean duration of the process since the purchasing order for suppliers is placed until having the product ready for sale.

1. Company Overview

1.2. Operations



Supply Chain



Scheme 1: Forall Phones' Supply Chain

Source: Provided by the client; Team Analysis

In 2018, Forall Phones started its international expansion by entering the Spanish Market with Online Sales. Believing that opening stores would boost sales as it did in Portugal, the company shifted its strategy, however lacking to properly assess the competitive environment.

1. Company Overview

1 2 3 4 5 6 7 8 9

1.3. Analysis of the Internationalization to Spain



Country Choice

When pursuing a global strategy, Forall Phones first decided to internationalize to Spain mainly due to **low cultural distance** and **large industry potential**, from the following data gathered by the company in 2017¹:



15% of total products refurbished in Europe are sold in Spain



13% demand growth for Apple products



92% of Smartphone penetration



7.5% of iOS penetration

Forall Phones assessed the market potential believing that entering Spain would require low investment in educating consumers regarding refurbished products and its intrinsic quality since large quantities of refurbished products were already being bought by Spanish consumers.

Also, although iOS penetration was relatively low among a large share of smartphone users, the company saw demand growth for Apple products as a market opportunity.



Entry Strategy

The **entry strategy** started as online sales, in July 2018, with Forall Phones' Community representing the top channel of promotion and advertisement, targeting university students.

After six months, the company opened its first store in Madrid, followed by Salamanca and Barcelona, intending to boost sales as it had happened in Portugal since in Spain, online sales were not sufficient. In Portugal consumers lacked trust in refurbished products and, even if they were used to buying online, they wanted to be able to see the product beforehand. This way, Forall Phones was able to increase sales by bringing to store the online customers that were unsure about the product and gained visibility among other segments that were not initially targeted. However, given the high percentage of refurbished European products sold in Spain, it is possible to state that the Spanish consumer did not require as much education and assurance regarding refurbished smartphones.

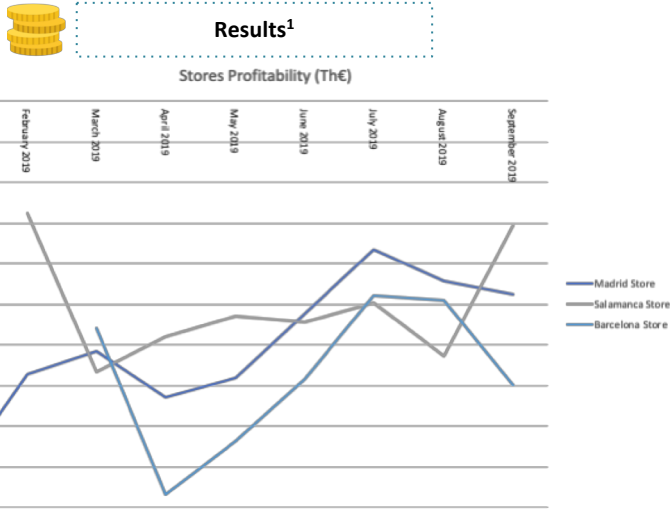
Forall Phones saw the stores' opening as a differentiator from the initially identified competitors: Backmarket and Refurb, two large refurbished products marketplace operating in Spain. Additionally, it was a strategy to increase brand recognition and trust in the quality of the products provided, which can be considered as the main constraint to reach full sales potential.

By first following an online sales entry strategy, the company neglected nonspecialized competitors focused on physical retailing, such as Phone House, that have a strong physical presence, brand recognition and large operational coverage in Spain.

Due to the negative results obtained in Spain and the required financial resources to maintain the stores, Forall Phones decided to exit the market. Taking the Uppsala Model into consideration, the company increased market commitment while lacking market knowledge, that could have been obtained through the Forall Family's community.

1. Company Overview

1.3. Analysis of the Internationalization to Spain



Graph 1: Spanish Stores Profitability (€ Thousands)

The main **costs** incurred were:

Community: €17 for each iPhone sold + Discount on price: €10

Marketing Expenses: €250,000

Stores Opening: €57,469€ in Madrid; €31,611 in Salamanca; and €50,001 in Barcelona.

As visible in the graph, the company never reached positive results. Thus, Forall Phones decided to exit the market as the financial burden was too high and was compromising the successful results in the Portuguese market. The three stores were officially closed in September 2019.

Literature Review²: The Uppsala Internationalization Process Model aims to explain how firms can gradually gain knowledge and experience while first operating in domestic markets, to further pursue a proper and well assessed global strategy.



Image 1: Uppsala Model

From the Uppsala Model, it is clear that to move from Exports to a Sales Subsidiary strategy, stronger market commitment alongside market knowledge increase are required. However, when shifting its strategy, Forall Phones increased its market commitment while lacking market knowledge. Hence, Forall Phones decided to **REPLICATE** the same strategy pursued in Portugal. However, it all happened in a very short time-period not allowing the company to truly gather knowledge about the Spanish market, leading to a poor entry strategy assessment. Since the company relied on the Community to serve as Brand Ambassadors, it could have used it to increase market knowledge before increasing market commitment.

Since 2016, revenues have been increasing and grew 706% from 2017 to 2018, achieving a value of almost €4 million. On the other hand, ROE had a huge drop to -1,254.58% in 2018. Moreover, the D/E ratio has been affected not only by negative results but also from a €0.5 million loan obtained.

1. Company Overview

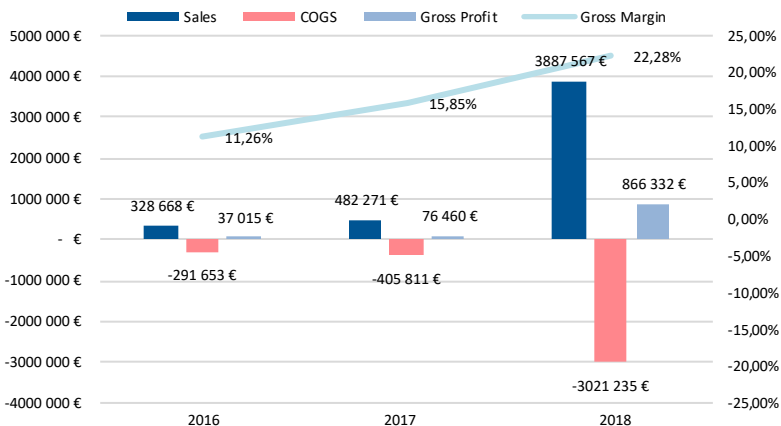
1 2 3 4 5 6 7 8 9

1.4. Financial Performance

Using the Balance Sheet and the Income Statement provided by Forall Phones, an overall financial analysis was performed for 2016, 2017 and 2018.

Gross Profit and Gross Margin

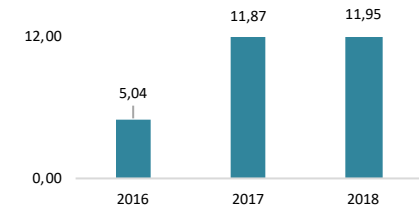
The increase in sales volume meant an increase in revenues and in the cost of goods sold (“COGS” onwards). Additionally, this increase in operational scale led to an upward shift in the proprietary learning curve, allowing gross margin and profitability to increase.



Graph 2: Forall Phones Sales, COGS, Gross Profit and Gross Margin from 2016 to 2018

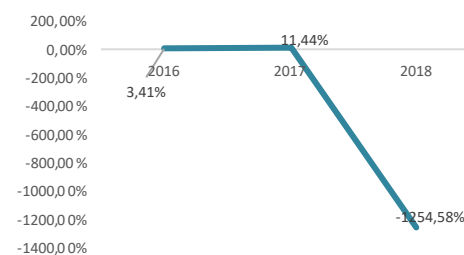
Debt-to-Equity Ratio

The Debt-to-Equity ratio has been increasing since 2016, reaching almost 12 in 2018. The company has been facing decreasing net profits, especially in 2018 from the bad results of the operations in Spain, which decreased total equity, despite the injection of €700,000 by the new investor in 2018. A loan of €500,000 from BPI was also obtained in the same year.



Graph 3: Forall Phones Debt-to-Equity Ratio 2016-2018

Return on Equity



Graph 4: Forall Phones Return on Equity

When calculating the ROE, it was possible to conclude that there was a huge drop in 2018, given the considerable decrease in the Net Income supported by higher costs in Supplies and External Services, Staff Costs and Other Provisions. Moreover, in 2018, Publicity and Advertising represented a large share of the company’s cost structure accounting for €316,702.21, mainly due to the beginning of operations in Spain.

After calculating other types of margins, it was possible to verify Forall Phones' decrease in performance during 2018. In fact, the Operating and Net Profit Margins were negative, with the Net Income reaching -€692,052. Signs of possible financial distress are key aspects the company should address.

1. Company Overview

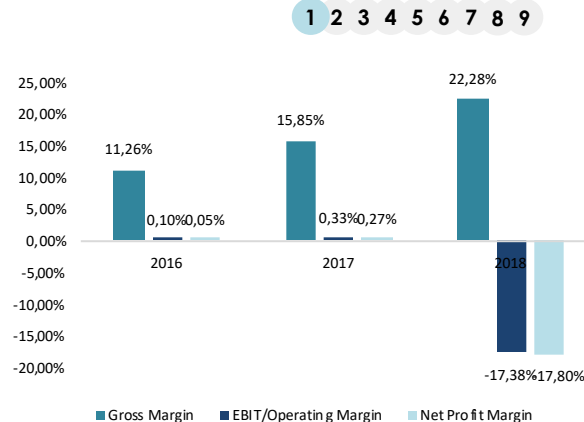
1.4. Financial Performance

Profitability Ratios

The only profitability ratio that has been increasing over time, and with positive values in 2018, is the Gross Margin, meaning that Forall Phones has the ability to sell a product for more than the cost of producing it. On the contrary, the Operating Margin and the Net Profit Margin suffered huge drops from 2017 to 2018, which can be explained by higher costs related to the operations in Spain, affecting EBIT and Net Income. Given the negative Operating Margin, the company management must find ways to continue operating before long-term issues arise. Additionally, the Net Profit Margin shows that the company was unprofitable during 2018, with a Net Income of -€692,052. Thus, and as previously mentioned, the company understood the financial burden of operating in Spain and decided to exit the market.

	2016	2017	2018
EBIT	319.91	1,599.09	-675,561.79
Net Income	171.63	1,308.05	-692,052.24

Table 1: Forall Phones EBIT and Net Income (2016-2018)



Graph 5: Forall Phones Profitability Ratios (2016-2018)

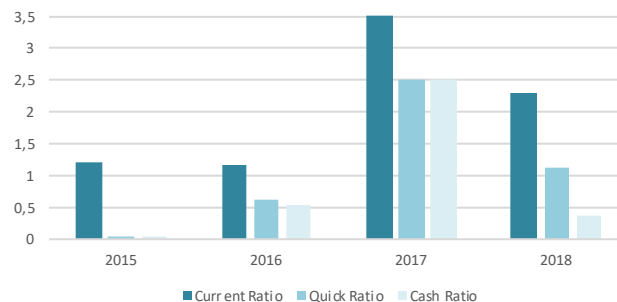
Liquidity Ratios

The three liquidity ratios calculated had the same pattern since 2016, increasing from 2016 to 2017, and then decreasing in 2018. Using the values from the Current and Quick ratios, it is possible to conclude that in 2018 the company had lower liquidity to meet its short-term obligations and is relying more on its operating cash flow and loans when compared to 2017. The Cash Ratio is the only measurement that had its lowest value in 2018, presenting a value of 0.39 which, being lower than 1, indicates that the company is at risk of having financial difficulty.

Looking through the values of Current Liabilities, it is possible to see that it had a huge increase in 2018, supported by the loan taken to finance the operations in Spain.

	2016	2017	2018
Current Liabilities	34,052.03	56,564.75	607,126.85

Table 2: Forall Phones Current Liabilities (2016-2018)



Graph 6: Forall Phones Liquidity Ratios (2016-2018)

In Europe, Political and Economic factors present business opportunities, namely due to the EU single market and economic growth. Moreover, the rise in environmental concerns and responsible purchases are key aspects to demand growth for refurbished technological products.

2. Macro Analysis: The European Refurbished Smartphone Industry

1 2 3 4 5 6 7 8 9

2.1. PESTLE (1/2)

Literature Review: A PESTLE analysis aim is to understand and minimize threats from six different environments. This analytical tool allows businesses to reach their goals by providing strategies for business planning, especially regarding external change drivers.¹



Political

Countries within the European Union benefit from collective foreign trade, tax, and fiscal policies. The EU single market², allowing free movement of services and goods, alongside with trade agreements with other European countries, and with EU membership in the World Trade Organization, bring several political benefits for companies from EU countries trading with other state members. Also, these countries are required to protect minorities and human rights, under the rule of law, displaying institutions' stability and democracy warranty.

However, the recent migratory waves from Middle Eastern countries to Europe has increased the power of far-right wing parties that, although still considered as a minority, can represent a risk for business-related decisions in the future.

Finally, Brexit is bringing uncertainty to firms that trade or aim to internationalize to the UK, as trade agreements might be reviewed.²



Economic

At the EU's level, countries presented a 1.1% economic growth in 2019 when compared to 2018³. Since the 2008 financial crisis, European Union countries have been able to keep inflation rates below 2% (Central Bank target). Also, the unemployment rate scored 7.5% this year, the lowest rate since 2008⁴.

Auspicious labor market conditions have led to solid wage growth that reached 2.2% in mid-2019 and, combined with low and steady inflation rates, endorsed the disposable income growth.⁵

Despite learning from the latest financial crisis and developing key measures and policies to avoid a new one, European institutions are facing challenges that can disrupt economic growth and prosperity, distressing European Central Bank's agenda, mainly affecting exports. The prospect of the UK leaving the EU has brought uncertainty for businesses in the remaining European countries and also the US-China trade war has affected countries highly dependent on foreign trade such as Germany and Italy.⁵



Social

Demographically, European Union natural population change has been negative over the past years⁶, having a positive population growth only due to net migration.⁷ Also, the European Commission's efforts to promote and instigate education attainment have led to an increasing number of inhabitants with higher education levels⁸.

As for the consumer behavior and buying trends⁹ (considered to be quite similar among European countries), Europeans are increasingly shifting to environmental responsible purchases, leading brands to urge in answering to such substantial demand. Finally, consumers are demanding products and services that can reduce work and life anxiety, decreasing the need to use several different devices in the everyday life, which explains the rise of smartphone penetration, given its broad range of functionalities. Moreover, products related to improving one's image on social media networks are on the rise, and iPhones are in the center of perception of a higher status.⁹

By focusing on Europe, Forall Phones can benefit from the EU's foreign trade policies and WTO membership. Moreover, although Economic growth environment in Europe is attractive for companies, the estimated real GDP growth rate of 1.5% in 2019 was the lowest since 2012 which, aligned with the shift to environmentally responsible purchases and increased technology demand from the Social trends, creates strong opportunities for technology refurbishing companies, with environmental concerns positioning, by offering lower-priced products to customers.

Although there are still no specific regulations for this industry, environmental legislations are accelerating the industry growth and the shift towards the circular economy. All in all, the European macro environment is highly attractive for companies focusing on refurbished products.

2. Macro Analysis: The European Refurbished Smartphone Industry

1 2 3 4 5 6 7 8 9

2.1. PESTLE (2/2)



Technological

Although some large producers restrict access to original components and diagnostic tools for non-authorized actors, requiring them to use lower quality copy components, hardware diagnostic tools are already available in the market.¹⁰ While some are built-in the smartphone device, others can be performed through an app available on App Stores, that even private users can access, or with some widely available tools by opening the smartphone and checking its components.

The latest technology advancements¹¹ that may affect the refurbishing industry are AI and machine learning¹², the growth of robots' use and the increase in internet penetration and speed with the upcoming launch of internet 5G. Continuous technological improvement can help the refurbishment process: it can increase its effectiveness by identifying the components that need to be replaced, and it may optimize the process by reducing human mistakes and time needed.¹³



Legal

In March 2019, the European Commission launched a report¹⁴ giving recommendations to the circular economy's main stakeholders, stating that there is a need to give incentives to circular projects, making changes to the regulatory system, markets and financial risk assessment that are still favoring linear projects. However, some waste electrical and electronic equipment (WEEE) regulations affect players wishing to refurbish discarded smartphones, since previous owners may discard as waste smartphones that are still good to refurbish.¹⁵ At the same time, some producers require refurbishing actors to receive authorization from them. Given that there are still no clear regulations and refurbishment standards, companies can be affected by previous situations.

Under the EU consumer law, consumers have the right to cancel and return the orders within 14 days, without needing justification¹⁶. Moreover, legal entities selling second-hand goods need to provide a minimum 2-year guarantee, that, in some countries, can be reduced, although never shorter than 1 year.¹⁷



Environmental

According to the United Nations, less than a quarter of all e-waste is recycled, while the rest ends up in landfills. To face this challenge, the EU launched a Directive on WEEE¹⁸, in order to prevent waste of hazardous materials and promote reuse and recycling of valuable resources. This is a highly concerning issue since electrical and electronic equipment waste is expected to reach 12 million tons in 2020.

These directives represent large opportunities for refurbishing companies since used electrical and electronic devices that cannot be disposed of are considered valuable raw materials for this industry. Also, refurbishment processes do not require heavy production facilities, leading to lower greenhouse gas emissions for products entering the circular economy.

Given the early life stage of the refurbished smartphone industry, there is still no industry-specific regulations. However, some producers already require refurbishing actors to receive authorization from them. Nonetheless, environmental legislations and technological developments are supporting the refurbishing industry, allowing companies operating in this industry to benefit from the high technological development while also being considered as low carbon footprint businesses.