

STRATEGIC POSSIBILITIES IN THE INTERNATIONAL CHILDREN AND FAMILY MARKET



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The creation of this report has been initiated by Lifestyle & Design Cluster under the KIDS project funded by the EU.



ABOUT THE KIDS PROJECT

Overall objective

The overall project objective is to foster the internationalization of the EU children's industry by supporting the set-up of a European Children's Cluster (the ESCP-4i) to uncover and exploit the most promising international business opportunities for the children and family markets. KIDS ESCP-4i will bring together many SMEs, large companies, research and technological partners, public authorities, academia, etc. from different disciplines in a unique European-wide collaborative platform for internationalization. Circularity, digitalization, and gender-based perspective will be key players in the project:

Sustainability

Sustainability and Circular Economy are overarching models of this project. This means that, acknowledging the increasing demand from customers for circular economy-based products, the focus will be in working with SMEs to make design and production processes more sustainable, by fostering opportunities for reducing and re-using the waste generated by the different segments of the children's industry e.g. increasing the reuse of toys, increasing the use of sustainable materials, etc.

Digitalization

As stated in the 'An SME Strategy for a sustainable and digital Europe' only 17% of SMEs have successfully integrated digital technologies into their businesses, compared to 54% of large companies. Traditional SMEs are often uncertain in their choice of digital business strategy, have problems tapping large repositories of data available to larger companies and shy away from advanced AI-based tools and applications. At the same time, they are very vulnerable to cyber threats.

Gender-perspective

Research shows that children learn cultural stereotypes at an early age which are perpetuated by the media and adults, who subtly reinforce them. The self-limiting beliefs that these stereotypes create can cause a "snowball" effect, affecting girls' careers and future career choices. They can even discourage them from pursuing prestigious careers, especially in fields where intelligence prevails. Up to the age of five, boys and girls think they can be whatever they want. However, from that age, girls begin to think that boys are more competent in different areas of life, which will prevent them from carrying out certain professions. This gap is what is called the Dream Gap.



Target group

The project refers to the end-user of children between 0 and 12 years old. Nevertheless, this approach includes families, as they are the key players

in taking decisions on behalf of children. Therefore, the consumption patterns, habits and preferences of families need to be integrated when designing business strategies for.

OBJECTIVES AND RESEARCH APPROACH

Objectives

The main objective of this deliverable is to provide an overview of strengths, weaknesses, opportunities, and threats assessed by SMEs within the children's sector in Denmark, Spain, and France in order to provide new valuable insights and strategic possibilities for internationalization strategies toward markets outside of the EU interested in children's clothing, furniture, toys, educational activities, etc.

Research approach

The research approach and methodology outlined in Table 1 was implemented to achieve the defined objectives: At first, the interview structure was defined, and questions were selected to get in-depth

knowledge from the partnership cluster members (SMEs) related to their experience of internal strengths/weaknesses and external opportunities/threats in terms of digitalization, circular economy, gender-neutrality, and internationalization. The interviews were conducted based on an interview guide and then collected and analyzed in order to select and divide the answers into common strengths, weaknesses, opportunities, and threats across partnership cluster members. This enabled the preparation of a comprehensive SWOT analysis including the four categories: digitalization, circular economy, gender-neutrality, and internationalization. With insights from the advisory board, the report conclusively evaluates new strategic possibilities for the SMEs.



Table 1: Research approach and methodology

OVERVIEW OF THE SME PROFILES

The following partnership cluster member (SMEs) from Spain, France and Denmark has been interviewed to provide an overview of assessed strengths, weaknesses, opportunities, and threats within the children's sector in order to provide new valuable insights and strategic possibilities for internationalization strategies.

	COUNTRY	COMPANY SIZE	PRODUCTS/SERVICES	PRESENT MARKETS
1	Spain	35 employees	Manufacturing company within baby care	North and South America (Mexico, Peru, smaller Latam countries)
2	Spain	110 employees	Baby care and educational material for parents and teachers	Europe (Spain, United Kingdom), United States, Australia, Middle East
3	Spain	250 employees	Educational and children's publisher of digital solutions for schools	Europe (Spain), North and South America (Mexico, Ecuador and Brazil)
4	Spain	28 employees	After-school activities of robotics, technology and programming	Europe
5	Spain	68 employees	Educational language training and outdoor education activities	Europe (Spain, Catalonia), Russia
6	Spain	80 employees	Manufacturing and (marketing) trading company of auxiliary services	Eastern Europe, Africa, Australia, Canada, Middle East, Asia (South Korea)
7	Spain	12 employees	Board games and comic books	Europe (Spain, Catalonia, Portugal, Italy), United States, Latin America.
8	Spain	21 employees	Manufacturing company of toys and musical instruments	Europe (Spain), North and South America (Mexico, Argentina, Colombia), United States
9	Spain	19 employees	Board games and toys.	Europe (Spain), Africa (Morocco), Middle East, Canada, North-, South-, and Central America (Mexico, Ecuador, Chile, Costa Rica) Asia (Malaysia, Taiwan, Hong Kong), New Zealand, Australia
10	Spain	1396 employees	Amusement Park	Spain

	COUNTRY	COMPANY SIZE	PRODUCTS/SERVICES	PRESENT MARKETS
1	France	3 employees	Children's furniture and development services for eco-responsible furniture	Europe
2	France	27 employees	Children's furniture and clothing	Europe, North America and South America, United states
3	France	45 employees	Children's care and toys	Europe
4	France	100 employees	Educational material for schools	Europe, Latin America, Asia, and North America.
5	France	3 employees	Children's footwear	Europe

	COUNTRY	COMPANY SIZE	PRODUCTS/SERVICES	PRESENT MARKETS
1	Denmark	350 employees	Manufacturing and (marketing) trading company within children's furniture and interior	Europe, United States, Asia (India and China)
2	Denmark	600 employees	Manufacturing company within children's clothing	All markets
3	Denmark	4 employees	Women's and children's clothing	Europa and Japan
4	Denmark	4 employees	Children's footwear and shoe-builder	Europe (Germany and Denmark)
5	Denmark	3 employees	Children's footwear	Europe (Germany, Denmark, Belgium, Sweden)

Table 2: Overview of SME profiles, divided by country.

VALUABLE INSIGHTS FOR INTERNATIONALIZATION

The following sections will provide an overview of strengths, weaknesses, opportunities, and threats (SWOT) assessed by SMEs within the children’s sector in Denmark, Spain, and France in order to provide new valuable insights for internationalization strategies toward interesting markets outside of the EU.

THE SMEs INTERNAL STRENGTHS

DIGITALIZATION	<ul style="list-style-type: none"> • Sustainability and technology are used interconnectedly • High level of digital maturity and ambition
CIRCULAR ECONOMY	<ul style="list-style-type: none"> • Focus on circular or sustainable strategies • Innovatively re-thinking business models • Focus on ensuring a long lifecycle with high-quality products
GENDER PERSPECTIVE	<ul style="list-style-type: none"> • Gender-neutral products are key to endorsing brand values • Focus on empowering girls and diversity in product development • Experience with designing, manufacturing, and marketing toys without gender bias • Simple product adaptation toward gender-neutral products
INTERNATIONALIZATION	<ul style="list-style-type: none"> • European business acumen and high trustworthiness in international markets. • A large variety of designed products high on quality functionality, innovation, sustainability, and safety • Experience in expanding to similar and familiar markets • Established contacts, offices, or concept stores in target markets

Digitalization

The level of digital maturity and ambition is high among the SMEs, both regarding internal and external operations: *“Digitalization is in our DNA, is where we communicate all our news and releases and have a virtual community with our loyal players”*. Several SMEs use their focus on sustainability and technology interconnectedly to develop new digital services for customers: *“When you visit our stores in China, you can see our products in virtual reality. In China, you can look into the public database to find apartments, so the consumers can in-store point out which room the children’s room is. When the room has been identified, we can then take the selected package of products digitally and dump them into a virtual reality setting*

immediately. This enables the consumers to see how the products in-store will look like at home”.

Circular economy

Circular and sustainable strategies are a part of the SMEs’ value proposition or seen to back up brand values and increase their engagement in ‘doing better’: *“We want to ensure the life cycle of our products, so we participate in a program to collect toys and childcare supplies to guarantee their recycling, we used recycled materials in our production for some products, we are FSC certified and we are in the process of becoming a B Corp”*. Many SMEs are already innovatively re-thinking their business models and the use of data, for example through made-to-order models or take-back systems: *“We*

would like to close the loop and reuse the materials in our take-back system. When a consumer sends a pair of shoes back, they get a voucher of 150 DKK to buy new shoes on our web shop”.

Especially concerning take-back systems, the SMEs are designing high-quality products to ensure their value on the resell market: *“The products are designed to have a long lifecycle, and it is moreover designed to be inherited. If you are looking at reseller platforms, you will find many products, which are in their second or third life cycle”*.

Gender-perspective

The SMEs see gender-neutral products as key to endorsing their brand values and creating an equal society, and several SMEs mention that they do not design products with gender in mind. Therefore, SMEs are experienced in designing, manufacturing, and marketing toys without gender bias: *“We have always designed gender-neutral collections and only a fraction in our catalog is marked pink and blue.”* The SMEs are also increasing their focus on

diversity in product development: *more gender representation and balance”*. Furthermore, several companies design dolls with disabilities or rare skin conditions for inclusiveness purposes. SMEs with less experience can benefit from the simple product adaption towards gender-neutral products.

Internationalization

The SMEs have a large variety of designed products high on quality, functionality, innovation, sustainability, and safety, which they already have experience selling to similar and familiar markets.

Furthermore, the European brands are known for their business acumen and high trustworthiness in international markets, and several of the SMEs have already established contacts, offices, or concept stores in the target markets: *“We have an office in the US because we want to succeed in this market. It’s a search. It’s all about being present, at the fairs, and finding the right people.*



THE SMEs INTERNAL WEAKNESSES

DIGITALIZATION	<ul style="list-style-type: none"> • Investments involve agile development and continuous iterations when digitizing the company • Lack of knowledge, competencies, and willingness to invest • Lack of internal willingness to digitize the company
CIRCULAR ECONOMY	<ul style="list-style-type: none"> • The use of recycled products is time- and labor-intensive. • Lack of solid sustainable strategies and transition towards circular economy • Sustainability raises the complexity of the supply chain • Hard to recycle old products as they consist of many different parts
GENDER PERSPECTIVE	<ul style="list-style-type: none"> • Unable to define KPIs to improve gender neutrality politics • Markets with a strong consciousness about gender equality refuse certain brands or products
INTERNATIONALIZATION	<ul style="list-style-type: none"> • Lack of a dedicated, resourceful team to build solid internationalization strategies • Products need adaptation to international markets. • Complexity in the go-to-market strategies as to different maturity levels in target Markets • Language barriers

Digitalization

Investment involves agile development and continuous iterations when digitizing the company – among the SMEs, this results in a lack of knowledge, competencies and willingness to invest inside the company: *“For innovation to flourish we need to dedicate the resources and set up cross-functional teams. However, the day to day management of our unpredictable supply chain leaves little room for focusing on these kinds of large-scale projects”*. Furthermore, the SMEs struggle with internal lack of willingness to digitalize the company.

Circular economy

There is a lack of solid sustainable strategies and transition toward circular economy: *“It's a complicated subject (...), we are manufacturers and sellers of finished products. So, the circular economy is today difficult to adapt to a company like ours. We said to ourselves, why not put products on hire, but that requires a lot of work. Selling second-hand products is not our job”*. This emphasizes the reasons why circular solutions is not implemented in

the SMEs, who find it cost-effective to be more sustainable as it is both time and labor-intensive. This also implies for recycling of old products, as they consist of many different parts. Furthermore, related to sustainability, some SMEs find a rising complexity in the supply of raw materials if the manufacturing has to be as close as possible to the point of sale which challenges transparency and traceability.

Gender-perspective

Some SMEs cannot define KPIs to improve gender neutrality politics, both inside the companies and regarding the products. Furthermore, there is an internal fear of losing market share if focusing more on gender-neutral products: *“We are gradually changing our catalog to exclude the pink/blue divide yet there is resistance with certain classical lines as they bring in steady income. We have a challenge in overcoming internal fears of losing market share if we move to gender-neutral with certain products”*. Moreover, a lack of internal willingness can be an obstacle to increasing gender-

neutrality: “We will continue to make blue products for boys when we can, and pink for girls when we can. We’re not going to start adapting to seasonal and assumed trends, dictating us what to do”.

Internationalization

SMEs struggle to establish a dedicated, resourceful team to build solid internationalization strategies to ensure profitability, including gaining knowledge on how to enter target markets. Some SMEs do not have the right tools and knowledge to enter new markets, and some have unsuccessful partnerships with foreign sales managers and agents.

Furthermore, some of the SMEs need a significant product adaptation to some international markets, and the go-to-market strategies must be adapted to the maturity level of the target markets: “Our products need significant adaptation to these markets given the cultural and physical differences of women and children of Asian, Middle-eastern, etc. ethnicity.” It creates a high level of complexity and is complicated by language barriers that creates a lack of efficient communication on key-values e.g. digital platforms. “(...) we as a small organization

need to handle many languages digitally. It naturally creates some limitations, because the financial expenses come into play (...). But since we as a kid’s brand work with this reassuring value that everything is in the local language, there is a possibility to miss out on our key values and points”.



EXTERNAL OPPORTUNITIES FOR THE SMEs

DIGITALIZATION	<ul style="list-style-type: none"> • The pandemic has fostered a global digitalization of companies • High digital maturity in markets and among consumers
CIRCULAR ECONOMY	<ul style="list-style-type: none"> • Conscious consumers • Exploration of circular take-back systems as resell and rental • Creating shared value and circular economy is crucial for future business • Several markets have legal ecological requirements for children’s products.
GENDER PERSPECTIVE	<ul style="list-style-type: none"> • Societal responsibility for closing the gender and dream gap • Some markets show high maturity towards gender-neutral products
INTERNATIONALIZATION	<ul style="list-style-type: none"> • Low competitive environment in some markets • Increasing global wealth and buying power among consumers. • Consumer segments are more dependent on lifestyle • EU legislation in kids’ textiles and toys

Circular economy

Creating shared value and establishing circular principles in the business model is crucial for future business. Consumers are becoming more critical, quality-conscious and are taking ethical, sustainable, and ecological aspects into account in consumption decisions. As a consequence, the global reseller market is rapidly expanding, and the exploration of take-back systems is increasing as a way of fostering circularity. In relation to this, several markets have legal ecological requirements for children's products which SMEs can benefit from, if they already are engaged in sustainability.

Gender-perspective

Research shows that children learn cultural stereotypes at an early age that suggest that women are not as smart as men. These stereotypes are perpetuated by the media and adults, who subtly reinforce them. Though, there is seen a rising global focus on closing the gender gap and dream gap among children and especially some markets are highly mature towards gender neutrality, which the SMEs are experiencing as well: *“We have conducted focus groups and surveys on social media in Spain and we see a strong trend towards gender-neutral products. We have observed this trend grow stronger in 2022. We believe in*

anticipating the legislation that we think will impose these standards sooner or later.” Closing the gender gap is seen as a societal responsibility which also implies SMEs engagement: *“(…) we're kind of obliged to deal with it”.*

Internationalization

There is seen an increased buying power as the global wealth (especially of the middle class) is increasing. This is also changing the patterns of the consumer segments, which are more dependent on lifestyle than national areas and borders: *“The same customer exists all over the world, regardless of location (…) Metropolitans get the same impulse and have the same purchasing patterns regardless of location in comparison to locals in a given country”.* This creates new opportunities for internationalization as consumer needs can be similar across borders. Furthermore, there lies an opportunity in the EU legislation on kids' textiles and toys which can give SMEs competitive advantages in the global market. Though many global markets are highly competitive, often less developed countries has a low competitive environment within the children's sector and are therefore more open to new products and services, where European brands might have an advantage.



EXTERNAL THREATS FOR THE SMEs

DIGITALIZATION	<ul style="list-style-type: none"> • Differences in market maturity • Successful large companies with integrated digital technologies
CIRCULAR ECONOMY	<ul style="list-style-type: none"> • Critical and price conscious consumers • Expensive alternatives to current materials
GENDER PERSPECTIVE	<ul style="list-style-type: none"> • Low market maturity - buying patterns are still dependent on gender stereotypes
INTERNATIONALIZATION	<ul style="list-style-type: none"> • Consumers tend to buy from local/national brands • Complex regulatory standards for the international development of products • Political barriers regarding trade and transport of goods

Digitalization

Consumers' maturity level varies depending on their country's relation to digitalization and accessibility of e.g. the internet. Only 17% of SMEs have successfully integrated digital technologies into their businesses, compared to 54% of large companies. Traditional SMEs are often uncertain in their choice of digital business strategy, have problems tapping large repositories of data available to larger companies and shy away from advanced AI-based tools and applications. At the same time, they are very vulnerable to cyber threats.

Circular economy

Consumers are critical and want the best quality for their children but at fair prices. This creates a challenge for SMEs, especially as alternatives to current materials including plastic are expensive and unavailable: *"There is a shortage of recycled PVC available worldwide. With some toys, it is easy to use recycled materials, but others are challenging due to strict health-safety regulations."*

Gender-perspective

Market maturity is still low as gender-neutrality is seen as a trend in an early stage and markets still prefer gender-specific toys and textiles *"We have always manufactured gender-neutral products."*

Interestingly, over the past few years, we have received some specific orders for pink/blue products which seems to go against the current trend. Also, interesting to note that sometimes clients ask what gender a toy is intended for and we don't know what to answer." Several SMEs have noticed that customers continue to choose gender-specific products.

Internationalization

The complex regulatory standards for international development of products make it hard to enter certain markets and sectors. It is expressed by several SMEs that although there exists a demand from consumers in foreign markets, it is not possible for entering the market due to legislation and different laws in the states. Furthermore, the barriers regarding trade and transport of goods are becoming a bigger issue: *"Politically, the world has become a more difficult place for organizations to operate in. Brexit is a good example hereof (...) Additionally, several commercial conditions such as the transport of goods cost five times more than just a year ago. Many organizations are experiencing several delays and there is an uncertainty in the deliveries that need to be handled"*. Besides, some consumers tend to be more willing to buy from local/national brands – and prefer local language across (digital) customer touchpoints.

STRATEGIC POSSIBILITIES FOR INTERNATIONALIZATION

<p>Strengths</p> <ul style="list-style-type: none"> • Experience in expanding to similar and familiar markets • Established contacts, offices and concept stores in target markets <p>Weaknesses</p> <ul style="list-style-type: none"> • Lacking dedicated, resourceful team to build solid internationalization strategies. • Products need adaptation to international markets. • Complexity in the go-to-market strategies as to different maturity levels in target Markets • Language barriers <p>Opportunities</p> <ul style="list-style-type: none"> • Consumer segments are more dependent on lifestyle than geographics. <p>Threats</p> <ul style="list-style-type: none"> • Low market maturity 	<ul style="list-style-type: none"> • Understanding the consumer segments is crucial. SMEs can benefit from established contacts, offices, and concept stores in target markets to gain market insights into consumer lifestyles. • Understanding consumer segments is easier in similar markets, as they are dependent on a similar lifestyle. • A focus on similar markets will require less product adaptation and lower the language barriers which lowers the complexity of the go-to-market strategies. • A focus on mature markets will lower the complexity of the go-to-market strategies as the SMEs are fulfilling a need rather than creating a need. • Look outside the company and explore new partnerships for internationalization which can help build solid internationalization strategies
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In order to evaluate the strategic opportunities for the SMEs' internationalization strategies, the identified strengths, weaknesses, opportunities, and threats were presented to the advisory board who agreed on the identified elements. Based on the SWOT analysis, new insights were shared among the Advisory board to explore strategic opportunities for the internationalization strategies of the SMEs. Supported by the SWOT analysis and the insights from the advisory board, the new strategic opportunities (TOWS) are outlined below.

Strategic opportunity 1: Ensure new markets need your product/service

The first strategic opportunity assesses both internal strengths, weaknesses, and external opportunities and threats. Therefore, it has both an internal and external focus on internationalization.

Get to know your market

A large part of internationalization is about knowing the new markets. It is crucial for the internationalization strategy that the needs, culture, habits, mindset, and lifestyle of the market and its

consumers are mapped out - and this requires a long-term effort. As an intrusive company in the market who wants to succeed, the SME needs to understand the market and try to satisfy its needs instead of creating a need with their products and services. In addition, the Advisory board notice that it is often product adaptations that can get in the way of internationalization. By understanding the market, the SMEs will have a change to successfully customize their products and services to other lifestyles and cultures. Thereby, the market must be chosen based on its maturity towards the company's products and services, as maturity in the market can't be created by the companies.

In addition, the climate is also important to keep in mind when choosing new markets, as some markets with either a much warmer or colder climate than the company itself may place restrictions on sales of the company's core products or services. In line with culture and climate, it is also mentioned that it is essential to be physically present in the desired market for internationalization. This can be in the form of frequent visits, a permanent office,

a concept store, or in collaboration with other companies creating a joint facility in market communities or cities for families and children, where both distributors, companies, and children can visit. This will provide both market insights and enable potential partnerships with different local actors and distributors.

Look towards similar markets

Based on the above, the Advisory board agreed that the SMEs must find the mature markets that are most reminiscent of their own country in terms of culture, lifestyle, and consumption habits – moreover maturity in terms of digitalization, gender equality and sustainability. Thereby, the SMEs can more easily adapt established products, marketing, and sales strategies, and internationalization to new markets - making the markets more accessible, although they may be far geographically from Europe.

For example, Danish companies can look into markets such as Canada, New Zealand, and Australia, where a similar culture exists concerning wages, mindsets, and buying habits. Conversely, it can be attractive for Spanish companies to look towards South America. Similar markets can also have the advantage of low language barriers, which can strengthen communication across consumer touchpoints.

Strategic opportunity 2: Establish strategic partnerships

The second strategic opportunity addresses how the SMEs internal weaknesses can become their internal strengths and has therefore an internal focus. The strategic opportunities were pointed out for further exploration by the Advisory board.

Partner up with other SMEs

Knowledge sharing is essential for companies that want to expand, and the Advisory board saw great opportunities to gather in partnerships on



internationalization. As an example, sparring groups across countries and sectors will enable the different SMEs to share knowledge about internationalization in the light of current and future markets.

Depending on the companies' sales strategy, there was encouragement among the Advisory board for creating joint tradeshows or showrooms (5-6 companies), where companies can invite specially selected key accounts, investors, and distributors, to see, feel, and try the products/services. This will also solve the issue that lies in getting the distributors to understand the products/services and values behind them. In this way, partnerships could be created around matchmaking of distributor collaborations that could strengthen the companies' overall internationalization strategies.

During the corona pandemic, there are seen new opportunities for internationalization, as the

rulebook for transnational trade is gone and there is room to think in innovative ways for international trade. This could open up for new partnerships.

The Advisory board mentions the opportunity to visit new markets together with a mixture of different products. Companies that have already expanded to certain countries outside the EU have been successful in taking products to retailers abroad to test them. There is great encouragement for market-interested SMEs to jointly arrange tours and support each other in internationalization. In particular smaller companies that often look at close markets first may benefit from this, as they will be standing on the shoulders of more experienced companies. All in all, partnerships for internationalization will help to strengthen the overall EU Kids brand and emphasize the values that the SMEs can offer abroad.

Explore new ways of doing partnerships

The advisory board also came across new ways to get in touch with the market. Among other things,

visits to embassies are mentioned as an obvious opportunity to gain market insights and be partnered up with potential distributors of products/services.

Also partnering with innovation centers, universities or municipalities was found as a way to back up the internationalization strategy. By collaborating with institutions, companies can gain guidance to develop the right market strategy, find relevant partners in the market, explore sales channels and lower their risk when facing a new international market.

At the same time, these partnerships can get the SMEs connected with the establishment of child-friendly cities and communities in terms of green areas, schools, playgrounds, etc. which is seen as a rising market, especially in China. In terms of wider spaces for children, there may also be opportunities in partnering with companies outside the children's sector to experience new markets and ways of doing business.



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Year of publication: 2022

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Published in collaboration with: KID'S Cluster, CEIV, Nova Child,
and Cluster Empresas Innovadoras del Valle del Juguete