FACULTY OF ECONOMICS TUL

Master Thesis

Assessment of Target EU Countries for IT Start-up Expansion

Study programme: N0413A050030 International Management
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Department of Economics

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FACULTY OF ECONOMICS TUL

Master Thesis Assignment Form

Assessment of Target EU Countries for IT Start-up Expansion

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Hodnocení cílových zemí EU pro expanzi IT startupů

Anotace

Tato práce hodnotí potenciál IT startupu Tanganica pro expanzi do zemí Evropské unie pomocí duální analytického rámce, který kombinuje PEST analýzu a Porterův model pěti sil. Studie pečlivě posuzuje makroekonomické faktory a konkrétní konkurenční síly na různých trzích EU, aby určila nejvhodnější prostředí pro expanzi startupu. Integrací teoretických poznatků s empirickými daty si práce klade za cíl poskytnout strategická doporučení pro Tanganicu, zaměřující se na strategie vstupu na trh a inovační postupy, které jsou v souladu s jedinečnými charakteristikami cílových trhů. Analýza zdůrazňuje důležitost digitální připravenosti, konkurenčního prostředí a socioekonomických faktorů v těchto trzích a poskytuje strategický plán pro úspěšnou mezinárodní expanzi. Tato výzkumná práce přináší cenné perspektivy do diskuse o strategiích internacionalizace v rámci evropského jednotného trhu.

Klíčová slova

Analýza, Digitální trh, Evropská unie, Expanze, Inovace, Internacionalizace, IT, Trh, Vstup na trh, Online obchody, PEST analýza, Porterovy pět sil, Startup, Tanganika, Technologie

Assessment of Target EU Countries for IT Start-up Expansion

Annotation

This thesis evaluates the potential of IT startup Tanganica for expansion into European Union countries using a dual analytical framework that combines PEST analysis and Porter's five forces model. The study carefully assesses macroeconomic factors and specific competitive forces in different EU markets to determine the most suitable environment for startup expansion. By integrating theoretical insights with empirical data, the paper aims to provide strategic recommendations for Tanganica, focusing on market entry strategies and innovation practices that are consistent with the unique characteristics of the target markets. The analysis highlights the importance of digital readiness, competitive landscape, and socio-economic factors in these markets, providing a strategic plan for successful international expansion. This research paper brings valuable perspectives to the discussion of internationalization strategies within the European single market.

Key Words

Analysis, Digital market, EU, Expansion, Innovation, Internationalisation, IT, Market, Market entry, Online shops, PEST analysis, Porter's Five Forces, Startup, Tanganica, Technology

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Content

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List of Abbreviations

EU	European Union
TFEU	Treaty on the functioning of the European Union
EEC	European Economic Community
TEC	Treaty Establishing the European Community
SEA	Single European Act
GATS	General Agreement on Trade in Services
ICT	Information and Communication Technologies
FDI	Foreign Direct Investment
IT	Information Technology
CSS	Comparison Shopping Services
R&D	Research and Development

Introduction

This thesis aims to systematically evaluate potential European Union countries for the expansion of IT startup Tanganica through a dual analytical framework that combines PEST analysis and Porter's five forces model and to answer the research question "Which European Union country offers the most suitable market environment for the expansion of IT startup Tanganica?". The theoretical part of this thesis explores the complexities of internationalisation by examining different strategies and export modes that can help businesses like Tanganica navigate and thrive in diverse market environments. The relevance of this section also lies in understanding the European single market and its four freedoms.

This paper is structured to provide a comprehensive analysis for Tanganica in identifying the most suitable European Union country for its operations using nine indicators. In doing so, it considers not only the external market environment but also the company's strategic objectives and capabilities. By integrating theoretical knowledge with empirical data, this paper aims to evaluate the most suitable market environment in European union for Tanganica's expansion and thus contribute valuable recommendations that could significantly influence Tanganica's strategic decisions in its expansion.

I have also used artificial intelligence tools in writing this thesis. I used Deepl.com to translate some words and sentences more accurately. GPT4 chat helped me to edit some sentences and understand some context. And scite.ai with perplexity.ai made it easier for me to find some relevant resources related to the researched topic.

1 Enterprise internationalization

There are many definitions to the concept of internationalization of an enterprise. In general, however, internationalization can be understood as a process whereby a company expands its activities beyond the borders of a given country and penetrates a foreign market. The motives and drivers of foreign business for companies are innumerable, in any case they can be classified into two basic forms, defensive and offensive. Defensive motives include high competition in the domestic market and hence preventing effective market penetration, political risk, diversification of risks associated with the domestic market, etc. Offensive motives, on the other hand, include access to added resources, gaining a competitive advantage, or increasing profits. The main difference between defensive and offensive styles could be said to be that defensive motives focus on mitigating risks whereas offensive motives are more about increasing profits and opportunities. (LEASK, 2015) Forms of entry are then divided into three basic groups: *(i) export and import operations,* which include, for example piggybacking, direct exports or export alliances, *(ii) non-capital investment firms* such as license deals, *and (iii) capital entry by firms into foreign markets*, where among the most famous types are acquisitions, mergers or joint ventures. (BusinessInfo.cz, 2014)

1.1 Forms of entry of the enterprise into the foreign market

Export and import operations are among the oldest and most traditional forms of market entry. To choose the most appropriate type of expansion, it is necessary to undertake research and analysis of the chosen market. Consequently, companies should implement strategies concerning the setting up and establishment of distribution channels, pricing, and communication. In these operations, an enterprise can choose from several business methods, which depend on factors such as *trade policy conditions, the nature of products and services or the efficiency of foreign trade operations*. According to Machková (2021), the business methods in these operations include:

1. **Intermediary relations:** *The broker trades at their own risk and account*, where their reward is the price margin (*the difference between the purchasing price and the selling price*). The advantage lies primarily with companies that want to limit the risk of foreign expansion and reduce the costs associated with it. This form is most often used by manufacturing companies or companies for which foreign trade is only a marginal issue.

2. **Exclusive representation agreements:** This type of contract obliges the supplier to deliver the goods only to client who is named in the contract as the exclusive seller in the specific market. The advantages of this form of entry are mainly in the quick access to the market, thanks to the already established distribution. Many companies choose this type to test the market., If the entry is successful, the company will expand its activities in the market after the initial contract expires.
3. **Commercial representation:** In this case, the agent undertakes to enter the contracts and transactions specified in the contract for the account and on behalf of the principal. The commission for the agent is dependent on the performance of the contract.
4. **Commission and mandate relationships:** In commission contracts, the commission agent undertakes to conclude a certain contract on his own behalf on behalf of the principal in return for payment of consideration. The advantage of using a commission agent lies primarily *in the possibility of using his goodwill, contacts, and distribution channels*. Unlike a commission contract, a mandate contract instructs the mandator to handle the business matter in question by legal action on behalf of and for the account of the principal. In this contract, the principal undertakes to pay a fee. The biggest difference between these two types of contracts is on whose behalf the contract is entered into. Another difference is the deletion of business matters by the principal in a mandate contract, which she/he is to duly execute and to be paid for later, regardless of whether it has produced the expected result or not.
5. **Piggyback:** The term piggyback refers to the cooperation of several companies operating in the same industry in the context of foreign trade. A firm that is already abroad provides its distribution channels to other smaller firms for a fee. The advantage in piggybacking for small companies is primarily the possibility of using the name of the company together with marketing and logistics services. On the other hand, the provider of the distribution route, usually a larger enterprise, can provide a larger range of products to customers and receives a fee. The risk for the intermediary firm is usually the damage to its image if other firms to which it provides a distribution route become unreliable in supplying goods or providing services. Conversely, smaller firms that are intermediated face downward pressure on prices, quality, or logistics. A form of piggybacking is also the possibility of simply exchanging goods with other partners who enter the market under their own brand name and retain control over their strategy.
6. **Direct export:** This type of foreign market expansion is mainly used in the industrial sector, such as the export of machinery, production equipment and investment units. The direct export is really demanding, which requires the presence of professional services related to the

export. The use of this method requires perfect knowledge of technical and commercial specifics. The main advantage, as the description suggests, is the control of one's strategy in foreign trade together with a deeper establishment of relations with the client. Usually, the cost of exporting by direct export is higher due to the difficulty of implementation and the risks involved.

7. **Export alliance:** Export associations are mainly used by companies in the same sector that lack experience or resources to export their products directly. By forming an association, they can gain an advantage in easier market accessibility by sharing risks, expenses, experience or even complementing each other's offer and attaining overall stronger bargaining position in the foreign market. On the other hand, there may be a loss of autonomy or equality across firms in this type of export. (Machková, 2021)

1.1.1 Non-capital investment-intensive forms of entry into foreign markets

This route abroad is chosen by companies *that want to highlight the presence of their products or services in each market in another way than just through export operations or investment.*

1. **License**: A license is a type of commitment where a firm (licensor) provides its intangible assets such as know-how, technology, etc. to a given firm (licensee) for a given consideration specified by the contract. Typically, the fees in question are divided into monetary (one-time payment, payment based on sales) and non-monetary (delivery of goods, knowledge exchange). Internationally, this type of expansion is mainly used by firms that lack capital, experience or find FDI with direct exports too risky or not profitable enough in terms of market entry of company. (Mariadoss, 2017)
2. **Franchising:** In this contractual relationship, franchisees use the franchisor's name or trademark and thus acquire the right to use the business object. Thus, the franchisor provides his know-how and assistance in business, such as training or logistics. The franchisee is obliged to pay the remuneration and to comply with the commercial policy of the franchisor. Franchising enables rapid internationalization of companies together with reduced financial and risk requirements. Smaller companies use franchising mainly because of the reduced risk in business, as they are provided with the given logistics network of the franchisor and her/his know-how. Franchising is mainly used in the field of refreshments, retail and gas stations. (Preuss, 2023)

3. **Management contracts:** A management contract is a legal agreement between a company and a management company or manager that outlines the roles and responsibilities of both parties. The contract details the specific functions and services that the management company will provide, such as day-to-day business management, accounting, and hiring. The purpose of a management contract is to provide the client with access to a team of experts, specialized skills, and cost savings. Management contracts can be task-specific and focused on the work itself and not on established outcomes. Management contracts are used in various industries and sectors, such as construction, entertainment, and hospitality. Mostly, this type of expansion is used in less developed markets when companies do not have sufficient experience or the knowledge in the given business or market. However, management contracts can also have disadvantages, such as becoming overly complicated or too restrictive for the manager. (Ahmed, 2024)
4. **Production cooperation:** Production cooperation refers to the joint actions and collaboration between companies in manufacturing or production of goods. It involves partnering with other entities within the supply chain to carry out various stages of the production process. This collaborative approach is typically based on the principles of cost efficiency, revenue sharing, and the utilization of each partner's strengths and capabilities. Production cooperation can encompass a range of activities, such as outsourcing specific stages of production to partner companies or engaging in mutually beneficial arrangements to optimize the overall manufacturing process. This collaborative model is aimed at enhancing efficiency, flexibility, and competitiveness within the production network. (Machková, 2021)

1.1.2 Capital entry by firms into foreign market.

Simply put, this entry into a foreign market means investing in equipment in that market. Either by setting up a new business or by acquiring an existing one. Foreign direct investment (FDI) is generally capital intensive for a business as it needs to cover a large number of costs arising from employees, premises or technology. Therefore, it is especially important to rigorously evaluate their options to choose the mode of market entry that best suits their strategy and objectives. Before entering a foreign market, companies must research the foreign market thoroughly, understand the business and regulatory relationships that affect their industry and become familiar with the business culture in that particular market. (Mariadoss, 2017)

1. **Acquisition:** An acquisition refers to the process of one company purchasing another company or a portion of its assets. This can be done through various means, such as buying a controlling stake in the target company or acquiring all its assets. Acquisitions are often pursued to achieve strategic objectives, such as gaining access to new markets or new technology, expanding product range, or realizing operational synergies. The acquired company may continue to operate independently or be integrated into the acquiring company, depending on the nature of the acquisition. Acquisitions are a common strategy for corporate growth and expansion. (Kenton, 2023)
2. **Greenfield investment:** Greenfield investment is a form of market entry in which a parent company establishes an operation in a foreign country and builds it from the ground up. With this type of investment, the company gains the highest degree of control, together with a better possibility of establishing partnerships in the market, thus contributing to an easier adaptation to the foreign market. This investment includes the construction of facilities such as offices, distribution centres, production plants, etc. This type of expansion is mainly used in the technology or manufacturing sectors. (CFI team, 2024)
3. **Joint venture:** A joint venture is a business arrangement between several parties who, according to the agreement, pool their resources to accomplish a specific task or goal. It may be the creation of a new business entity, with each party contributing capital, skills, knowledge, or other resources. Joint ventures are characterised by common ownership, shared revenues, and risks with common management. The main reasons for choosing this type of expansion are to use common resources together with knowledge, to reduce costs and to expand faster and strengthen the position in a given market. On the other hand, the company loses full control along with lower revenues and there is a risk of inter-firm conflicts. The use of this form of foreign expansion can be found mainly in sectors such as automotive or technology in general. (Hargrave, 2023)
4. **Strategic alliance:** A strategic alliance is an agreement between two or more independent entities to pursue a set of agreed-upon objectives while remaining independent organizations. This type of alliance allows the parties to share assets, strengths, risks, rewards, and control. Strategic alliances are formed to obtain mutual benefits, such as access to new technology, intellectual property rights, and new markets. They can take the form of joint ventures, equity strategic alliances, or non-equity strategic alliances. However, strategic alliances also have disadvantages, such as the risk of creating a competitor and the opportunity costs associated with focusing on the alliance to the exclusion of other opportunities. (CFI Team, 2024)

1.2 Internationalization strategies

According to Pokorny (2023), there exist four main internationalization strategies, distinguished by:

1. **International strategy:** This strategy, also known as an exporting strategy, focuses on exporting products and services to foreign markets while maintaining production at home. This approach is often used by companies that have a unique product or service that is in demand in foreign markets but lack the resources or desire to establish a physical presence in those markets. By exporting products and services, companies can expand their customer base and increase revenues without incurring the costs associated with establishing a physical presence in foreign markets.
2. **Multidomestic strategy:** This approach emphasizes responsiveness to local conditions within each of its markets, often by delegating significant autonomy to each country manager. Companies that adopt a multidomestic strategy typically tailor their products and marketing strategies to meet the specific needs of each market. This approach can be effective in markets where cultural differences and local regulations require a high degree of customization.
3. **Global strategy:** A global strategy involves standardizing products and marketing strategies across different countries. It focuses on efficiency and cost reduction through economies of scale. Companies that adopt a global strategy typically have a centralized management structure and standardized processes and procedures. This approach can be effective in markets where there is a high degree of product standardization and where customers have similar needs and preferences.
4. **Transnational strategy:** This strategy aims to combine the benefits of a global scale efficiency with the benefits of satisfying local tastes. It seeks to achieve both global integration and local responsiveness. Companies that adopt a transnational strategy typically have a decentralized management structure and a high degree of coordination between various parts of the organization. This approach can be effective in markets where there is a high degree of cultural diversity and where customers have unique needs and preferences.

1.3 Models of internationalization

Internationalization models are primarily used to map the internationalization of firms and provide strategies for firms deciding how to expand into foreign markets. These models provide a comprehensive framework for understanding and implementing enterprise internationalization.

According to Danciu (2012), they can be divided into three distinguished groups: progressive, contingent, and interactive models of internationalization.

1.3.1 Progressive model

A progressive model such as the Uppsala model depicts internationalisation as *a gradual learning process that involves various stages, including sporadic exporting, establishing foreign sales offices, and setting up production units in foreign markets.* (Danciu, 2012)

Uppsala model of internationalization was first presented by Johanson and Vahln in 1977. In this model, the process of a company's expansion into the international market is described, assuming that companies go through several stages of a given internationalization. The company always starts without major international activities and exports goods very sporadically. In the second step, companies export products to the international market through independent intermediaries, thereby gaining first knowledge and experience with the foreign market. The next step is the establishment of a subsidiary for sales and finally foreign production. The last two mentioned levels can also be included in foreign direct investments.

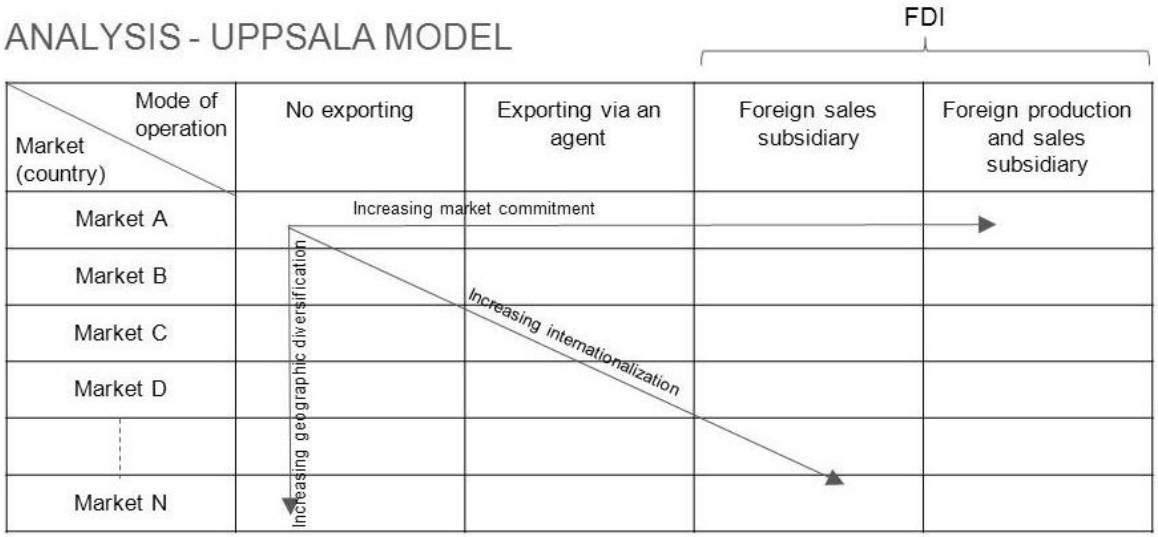

Figure 1 - Uppsala model.
Source: (Fresh Essays, 2022)

In this model, Johanson and Vahlne build on the assumption that firms begin expansion in countries that are close culturally, geographically, politically, etc. and then, based on experience and knowledge, enter more distant markets. Another and often criticized assumption is that company managers make decisions purely based on rationality and not emotionality. In other words,

according to the Uppsala model, it can be said that companies deepen their international activities based on experience and knowledge. Nowadays, however, there are increased companies that skip the first individual steps and start doing business on foreign markets right from the beginning. These companies are called born global. (Arvidsson, 2019)

1.3.2 Contingent model

Contingency models highlight the influence of factors such as reasons for internationalisation, environmental conditions, and entry modes. They suggest that the internationalisation process may differ for each company due to differences in current and future environmental conditions. (Danciu, 2012)

One of examples of contingent models is the **eclectic paradigm**, also known as the **OLI model**. This model was proposed by John Dunning, who incorporated a three-tiered framework consisting of ownership, location, and internalization to guide a company in evaluating the profitability of FDI. In fact, by eliminating alternatives using this model, a company can determine the best option based on their resources and capabilities. For ownership, the company answers the question of whether it can create a competitive advantage in the foreign market through its proprietary rights. Localisation refers to the advantages that a particular foreign location offers for the company's operations as labour costs, market size or infrastructure. The last stage is internalization if the ownership and location of the company can create a competitive advantage, so it is advantageous for the company to maintain control over its assets because of higher sales and market share.

1.3.3 Interactive model

Interactive models emphasise the value of relationships between companies and business networks and highlights the importance of long-term business relationships and interactions in the internationalisation process. (Danciu, 2012) One good example of this theoretical approach to internationalization is the **network model**.

Fonfara (2012) explains that the network model of internationalisation emphasises the importance of long-term interactions with foreign actors. He then defines a company's overall degree of internationalization by its importance and position in foreign markets. This model also emphasizes the increasing level of internationalization relative to the number and strength of relationships with

international entities and emphasizes the need to develop relationships in the target market of expansion. The degree of internationalization in this model is divided into four parts determined by the degree of market internationalization and the internationalization of the firm.

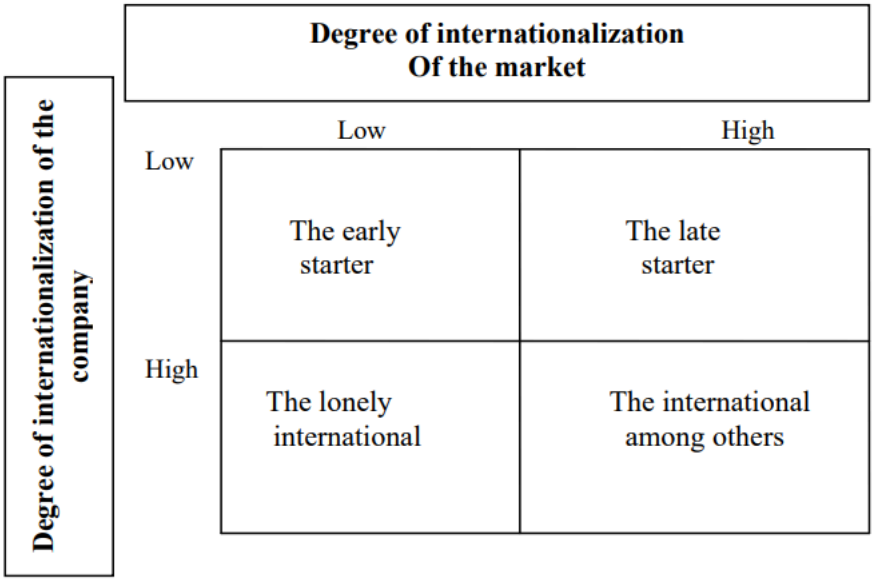

Figure 2 - Network model.
Source: (DANCIU, 2012)

1. **Early starter**: Early starter is the lowest level of internationalisation in this matrix, where the firm has a low level of internationalisation in terms of the company and the market. Due to the lack of knowledge and linkages abroad, it is recommended to use an intermediary in a similar market to the domestic one to increase knowledge and resources.
2. **Late starter**: At this stage there is no direct relationship with foreign markets, but external environments have a high degree of internationalization. The company can take advantage of this fact to set up a foreign branch according to the requirements of its clients.
3. **Lonely international**: The next level of internationalisation is lonely international, where the company has already had the opportunity to acquire the necessary knowledge and experience to operate in foreign markets with different conditions.
4. **International among others**: This level is the highest in terms of internationalization when a company at this level can only deepen relations and market penetration. This degree is primarily very demanding on the coordination of the company's activities. (Fonfara, 2012)

1.4 The modes of service provision in international trade

International trade in services is an increasingly important part of global commerce. The General Agreement on Trade in Services (GATS) defines four modes of supply for services in international trade. These modes of supply include cross-border supply, consumption abroad, commercial presence, and presence of natural persons. These modes of supply are used in trade negotiations and for monitoring how trade commitments are implemented. Statistics on services supplied through all four modes are also used for economic analysis and economic policy, as they provide a more complete picture of how businesses supply and purchase services internationally, by combining services traded across the border. (WTO, 2024)

- Mode 1 – **Cross-border supply:** The initial mode of service provision operates through the transnational exchange of services, wherein both the service provider and the recipient maintain their presence within their respective national borders. This can be exemplified by a scenario where a consultancy firm based in one country offers its expertise via digital platforms to a client located in a different country.
- Mode 2 – **Consumption abroad:** The recipients of the services journey to the service provider's country to access the services directly. This is commonly seen in sectors such as tourism, where visitors travel to experience the attractions and culture of another country; educational services, where students go abroad for higher studies; medical tourism, where individuals seek medical treatments or procedures in foreign country.
- Mode 3 – **Commercial presence:** In this approach to service provision, service providers expand their operations internationally by setting up businesses, subsidiaries, or branches in a foreign country, aiming to offer their services directly to the local population. This could manifest in various forms, such as a financial institution opening a branch overseas, a healthcare provider establishing a hospital in another country, or a consulting firm launching an office abroad to cater to the local market's needs.
- Mode 4 – **Presence of natural persons:** This mode is characterized by individuals traveling from their home country abroad to render services, often on a temporary basis. Such scenarios typically involve professionals like consultants, engineers, or educators embarking on short-term projects or assignments in another country, where their specialized skills and expertise are required. (WTO, 2024)

2 Characteristics of European single market

The European single market, also known as the European common market, is a fundamental aspect of the European Union (EU) and serves as a unified space where economic factors can move almost freely and without barriers. This freedom of movement is defined to the “Four Freedoms “: free movement of goods, capital, services, and people (Mylokanis, 2022). The European single market is defined by Maastricht Treaty and the Treaty on the functioning of the European Union (TFEU). (Loktionova et al., 2022). This market enables people to get a wider range of choices of services and goods as well as bigger employment options. The benefits are also for enterprises as it makes the cross-border business much easier and more hassle-free for them (Mylokanis, 2022).

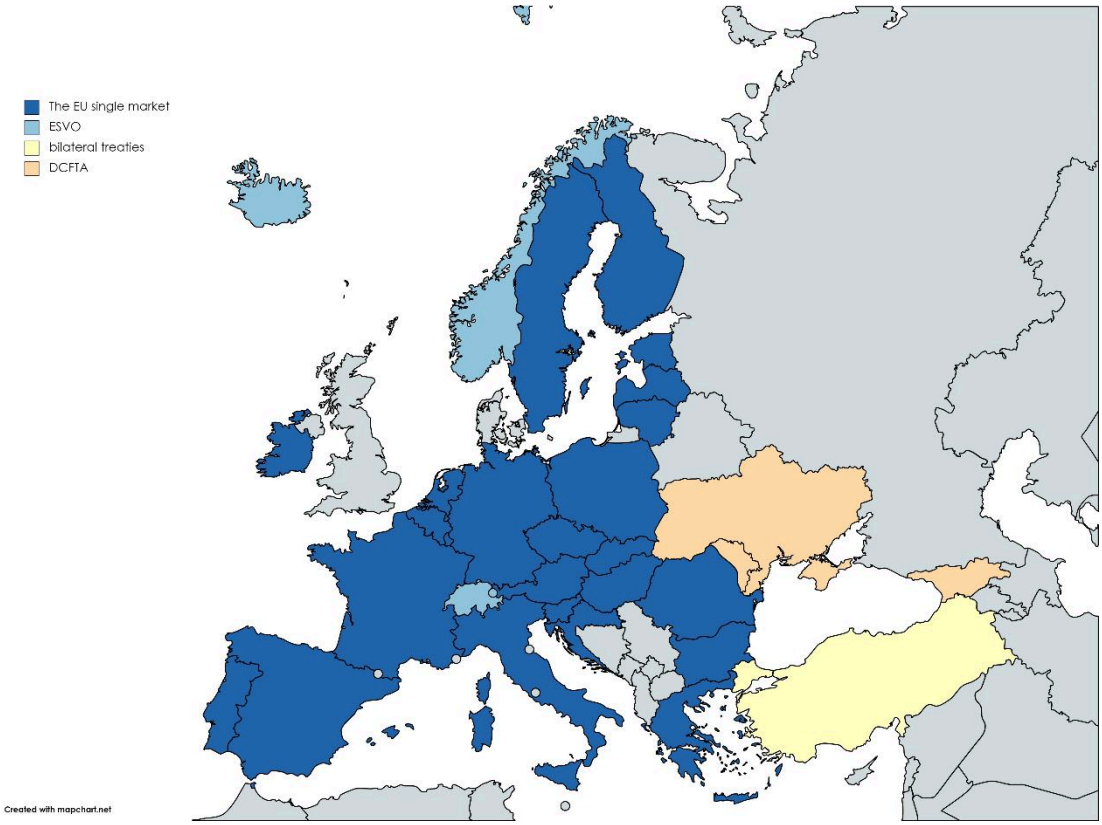

Figure 3 - Map of European Union
Source: (Loktionova et al., 2022)

2.1 History overview of European single market

Nowadays, there are twenty seven member countries in the European single market. They have to meet specific conditions and obligations, such as the adoption and implementation of EU laws and regulations, adherence to the principles of the EU’s four freedoms and compliance with EU

competition rules. Also, there are treaties and agreements with third parties about cooperation, such as the Agreement on the European Economic Area, bilateral treaty with Switzerland and Türkiye or Deep and Comprehensive Free Trade Area, etc., which are legally binding for all members of the EU (Loktionova et al., 2022). However currently the European single market is still not fully developed according to Mylokanis (2022) *due to incomplete integration and implementation of European legislation in the national legal order.* Therefore, the member countries are (or should be) working on initiatives to deepen and strengthen the European single market, but also to secure the resilience and continuity of its policies.

1. **Treaty of Rome:** The idea of a common market was put into practice in 1957 with the creation of the European Economic Community in the Treaty of Rome. This treaty also defined for the first time the four basic freedoms - free movement of goods, free movement of capital, freedom to establish and provide services and free movement of people - which were planned to be fully free of any obstacles by 1968. Initial efforts focused primarily on reducing tariffs and quotas, which were perceived to be the primary issue at creating a common market at that period of time. (Mylokanis, 2022)
2. **1960s to 1980s:** In the 1960s, the European Economic Community (EEC) began to address the negative effects of different national rules on trade and, after the elimination of tariffs in 1968, sought "full" harmonisation. However, after the first enlargement of United Kingdom, Ireland, and Denmark in 1973, the EU adopted a more pragmatic approach to harmonisation, focusing only on specific areas. The Treaty Establishing the European Community (TEC) directives became the main instrument for enforcing the four freedoms, while divergent national approaches and pressures led to delays. Further delays have been caused by unanimity in the EU Council allowing for vetoes of harmonisation, which, together with the Commission's over-emphasis on detail, has led to slow progress. As an example, only 270 directives were adopted between 1969 and 1985, which did not meet the needs of the market. European Court of Justice decision such as Dassonville and Cassis de Dijon provided a new basis for removing technical barriers. In any case, the economic crisis of the 1980s increased the need for more effective harmonisation. The Commission and the business community were frustrated by the slow pace of integration and the uncertainty of the Court's case-by-case decision. In response, the Commission proposed a "new approach" to harmonisation which limited legislative harmonisation to essential requirements. (WALLACE, 2020)
3. **Single European Act:** This approach was formally adopted in 1985 by the Single European Act (SEA) and became part of the drive to "complete the single market" by the end of 1992 (which

was the goal of SEA). The SEA sought to evaluate the Treaty Establishing the European Economic Community and the process of creating the single market, which had been inadequate until then. To speed up the single market process and simplify decision-making, unanimity was no longer required in single market laws and qualified majority voting was introduced. There were exceptions in relation to *taxation, the free movement of persons and the interests of employed persons*. The powers of the European Parliament to participate in law-making were also extended. (EUR-LEX, 2018)

4. **Treaty on European Union:** The completion of the European single market was indeed officially achieved in 1992, although in reality only around 90% of the problems defined by the White Paper have been solved. In the same year, the Maastricht Treaty, officially known as the Treaty on European Union, was signed. The Treaty had three main pillars: the European Community, the strengthening of cooperation in the field of home affairs and justice, and the common foreign and security policy. The adoption of the single currency, the euro, was among the most significant changes, which laid the foundations for economic and monetary union. With the single currency, the EU wanted to promote trade between countries by speeding it up and reducing exchange rate risk. The European Economic Community was renamed to the European Community and the European Union was created, alongside with another strengthening of the powers of the European Parliament. Unlike the previous communities, the European Union is not only an economic, but also a political union. Last, but not least, European citizenship was introduced, giving all residents of the European Union greater rights to travel and live freely anywhere in the EU or to stand for election in the country where they live. (EUR-Lex, 2018)
5. **Amsterdam Treaty:** The Amsterdam Treaty, signed in 1997 and effective from 1999, introduced significant amendments to the Maastricht Treaty to enhance the EU's functionality and democratic legitimacy. It involved institutional reforms, strengthened the European Parliament's role, and expanded EU powers in foreign and security policy. The treaty established an area of freedom, security, and justice, focusing on crime prevention and judicial cooperation. It incorporated the Schengen acquis into the EU framework, facilitating free movement and improving cooperation on visa, asylum, and immigration policies. The treaty introduced "enhanced cooperation," allowing member states to collaborate more closely in specific areas. Measures for greater transparency and citizen engagement were implemented, emphasizing the importance of human rights and fundamental freedoms within the EU. (EUR-Lex, 2018)
6. **Lisbon strategy:** The strategy, launched in 2000, aimed to turn the European Union into the most competitive and dynamic knowledge-based economy in the world. One of the main

objectives was to create better policies for the information society by promoting research and development. This included accelerating the process of structural reforms for competitiveness and innovation and completing the internal market, especially in the digital area.

As part of this, the Lisbon Strategy stressed the importance of developing an internal market for services, which included digital services. The reforms proposed to improve and simplify the regulatory framework in which business operates, thereby promoting the growth of digital industries and services. (European parliament, 2009)

7. **Current situation:** Recognising the importance of the digital economy, the European Union announced its "Digital Single Market" strategy in 2015, which sought to harmonise the digital environment and facilitate cross-border online services and e-commerce overall. (EUR-Lex, 2015) In 2016, there was also a referendum in the United Kingdom to leave the European Union, which resulted in the United Kingdom leaving the European Union in 2020, reducing the number of members to twenty-seven. (EUR-Lex, 2023) The most current topics of the European Union in conjunction with the European Single Market are to support economies and mitigate the impact caused by the COVID-19 pandemic and the transition to a sustainable economy.

   The Next Generation EU programme is an initiative to support the recovery of the European Union's economies after the COVID-19 pandemic. €806.9 billion has been earmarked for this programme to support six key areas - sustainable mobility and the use of renewable energies, accelerating the digital transformation of services, strengthening social infrastructure, improving access to advanced education, supporting research and development together with ensuring modern and accessible health services. (European Union, 2024)

   European Green Deal is a comprehensive strategy to make Europe the first climate-neutral continent by 2050. In order to achieve this goal, several points have been set out. For example, reducing greenhouse gas emissions by 55% by 2030, investing in green technologies, promoting renewable sources, or encouraging a reduction in dependence on fossil fuels and increasing renewable energy. (European Commission, 2023)

2.2 Four freedoms

The four freedoms – the free movement of people, goods, services, and capital – are referred to as the four pillars of the single European market to make it easier and cheaper to do business across borders.

1. **Free movement of goods:** This freedom allows for the unrestricted movement of goods within the EU. It eliminates trade barriers such as tariffs, quotas, and technical barriers to trade, enabling businesses to sell their products freely across member states (Loktionova et al., 2022). Free movement of goods was initially included in the customs union, where the main objective was the *abolition of tariffs, quantitative restrictions on trade and equivalent measures, and the introduction of a common external tariff for the Union*. The abolition of tariffs and quotas came in 1968. Thereafter, the main objective to achieve free movement of goods became *the elimination of measures having equivalent effect and the harmonisation of relevant national legislation*. The exceptions where EU members are allowed to adopt measures with equivalent effect are for reasons of public interest (*morality, order, health, or safety*), but the measures must also comply with the principle of proportionality. In addition, reasons such as fairness of transactions, tax supervision or consumer protection fall within the exceptions. The harmonisation of national rules and the process to achieve it is set out in the Commission White Paper. This paper limits harmonisation to national rules that cannot be considered equivalent and constitute restrictions. This freedom has a legal basis in Articles 26 and 28-38 of the TFEU. (Ratcliff, 2023)
2. **Free movement of services:** This freedom allows for the provision of services across borders within the EU. It enables service providers, such as professionals, to offer their services in any member state without facing discriminatory barriers or restrictions (Loktionova et al., 2022). The aim of this freedom is to eliminate discrimination due to nationality and to make easier to exercise them by measures. Also, it is important to harmonise the national access rules and its mutual recognition. Legal basis is also in TFEU, specifically in articles 26, 49 to 55 and 56 to 62. By TFEU from this freedom are excluded *activities connected with the exercise of official authority, which imply the exercise of authority.* Member states could also exclude the production of war material or trade with war material. Member states could even *retain the rules for non-nationals in respect of public policy, public security, or public health.* According to the European Union, the full implementation could support trade in commercial services by 45 % and foreign direct investment by 25 %. (Ratcliff, 2023)
3. **Free movement of capital:** This freedom is the most recent one and aim of this free movement is to remove all the restrictions between member states and third countries on capital movements to support economic growth of the member states and whole EU. It ensures that individuals and businesses can invest and operate across member states without adding unnecessary restrictions. *The Maastricht Treaty introduced the free movement of capital as a Treaty freedom* and TFEU in article 63 prohibits barriers and restrictions on the movement of

capital. Despite that there are few exceptions defined in TFEU in article 65. As (i) *measures to prevent infringements of national law, (ii) procedures for the declaration of capital movements for administrative or statistical purposes and (iii) measures justified on the grounds of public policy or public security.* The most recent used article was 215 (*financial sanctions based on decisions adopted within the framework of the common foreign and security policy*). This was used against Russia in 2022 due to invasion of Ukraine. (Scheinert, 2023)

4. **Free movement of citizens:** This freedom allows for the free movement of EU citizens within the EU. It enables individuals to live, work, study, and retire in any member state of their choice. It also includes the right to family reunification and the recognition of professional qualifications (Loktionova et al., 2022). This freedom was also established by the Maastricht treaty in 1992 and nowadays its defined in article 21 of the TFEU. Also, member states have right to *refuse, terminate or withdraw any right conferred in the event of abuse of rights or fraud, such as marriages of convenience.* (Kennedy, 2023)

2.3 European digital market

In 2010, the European Commission issued its Digital Agenda, highlighting the EU's lag in digitalisation compared to countries such as the US and Japan, where, for example, EU spending on ICT R&D was only 40% of that of the US. It highlights the lack of funding for R&D in important areas of the EU economy, such as the automotive industry, which threatens its future competitiveness. It also sees the lack of ICT professionals as another threat to the EU economy. (European Commission, 2010)

That is why in 2015 the European Commission adopted the Digital Single Market Strategy to help remove existing trade barriers and get countries to work together in the digital economy, thereby improving the current state of the European single market along with its global competitiveness. The strategy is composed of three main pillars:

- better access for consumers and businesses to digital goods and services across the EU,
- creating an appropriate and level playing field for the development of digital networks and innovative services, and
- maximising the growth potential of the digital economy. (EUR-Lex, 2015)

The Digital Single Market Strategy has resulted in, for example, the abolition of roaming charges, the introduction of a single digital gateway, a ban on content blocking based on geographical location, etc. This is also why the digital single market has become one of the pillars of the EU's post-COVID-19 economic recovery strategy. This strategy has focused on investment in better connectivity, a stronger industrial and technological presence in strategic parts of the supply chain, a real data-driven economy and European dataspaces, and a fairer and simpler business environment. (Ratcliff et al., 2023)

3 Analysis of EU countries for startup expansion

The primary objective of this research is to compare the European Union countries to identify the most favourable destination for business expansion from Czech Republic, focusing on the e-commerce sector. This comparison will be conducted using comprehensive PEST (Political, Economic, Social, Technological) analysis and Porter´s Five Forces model, integrating specific indicators relevant to the business environment and the e-commerce industry.

The evaluation of EU countries suitable for expansion is based on the scores of individual indicators with a comparison with the Czech Republic.

1. A score within a 10% radius of the Czech Republic - the country gets zero points as the indicator indicates similar market conditions to those in the home country.
2. A score indicating better market conditions than the Czech Republic by more than 10% - the country gets one point as the indicator indicates better market conditions than in Czech Republic.
3. A score indicating worse market conditions than the Czech Republic by more than 10% - the country will be deducted one point due to worse conditions than in the Czech Republic.

This scoring system was chosen because of the search for the most promising market for international expansion compared to the Czech Republic, where the startup Tanganica, for which the analysis is done, is based.

3.1 Startup Tanganica

Tanganica is an IT startup founded in 2020 as a service that facilitates the management and setup of Google and Meta campaigns for small and medium-sized businesses operating on the internet through advanced technologies using algorithms and data collected. The original idea was a tool that would run campaigns for any client in a few clicks. Thus, the client would not need any marketing know-how or a large amount of funds. Therefore, from the very beginning, the focus was on an intuitive and clear interface that would be completely understandable. This is why Tanganica has become a largely automated tool that needs the bare minimum from the client to function, such as selecting the formats through which it wants to run campaigns, sharing an XML feed with the products it wants to advertise, and last but not least, inserting an ad credit and measurement

code to get data to optimize the campaigns in question. As the number of clients, and therefore the data, grows, Tanganica is able to use this data for advanced optimization, and therefore great efficiency for client campaigns as a whole. It is this simplicity and efficiency that has allowed Tanganica to grow rapidly. In 2022, the company has seen a 400% increase from last year. In 2023, large online stores and agencies themselves have increasingly started to use Tanganica as a supplement to increase sales, and Tanganica has also started to serve as a platform for agencies to easily increase overall sales for clients. As a result, Tanganica has seen another 300% growth. Growth has been seen not only in the financial area and by number of clients but also geographically. The service is now available to clients in six countries in the European Union, and therefore hundreds of clients are now actively using Tanganica. In 2024, Tanganica plans to expand its service to the entire European Union and therefore all online shops will be able to use Tanganica. However, in order to actively acquire clients and promote Tanganica overall, a comprehensive analysis will be chosen, and one market will be selected to which sales representatives will be sent and an additional office will be set up.

3.1.1 Innovations

It is especially important for IT startups in general to innovate to keep up with the tech giants. That is why Tanganica has developed very advanced campaign optimization in its three years of existence, which has also earned it a Google CSS partnership. This year, it developed a new app interface that fits into the overall strategy of the service's development. Tanganica's main goal for 2024 in terms of innovation is to expand its services not only in campaign management, but also to hand over detailed statistics that will give clients more insight into the performance of not only its campaigns, but its online store overall.

Thus, Tanganica will not only be used as a campaign management tool, but also as a tool to analyse individual online stores, which will also give the client an overview of where their business should improve in the online environment. Another innovation for Tanganica's overall growth will be the integration of additional advertising formats for a more comprehensive service offering and thus the ability to reach a wider range of clients. This also corresponds with the further planned expansion of the service to all European Union markets this year.

3.1.2 Price model

The company's pricing model is based on the performance of Tanganica's managed campaigns. Thus, the fee for Tanganica is variable and is calculated on the size of the sales generated for a given online store through Tanganica campaigns. The fee amount is then divided into three groups based on the amount of turnover generated:

- Most online shops belong to the group with a 3% fee.
- If a client has a monthly turnover of more than 200,000 euros through Tanganica, the fee is reduced by 33% to 2%.
- The last group are customers who have generated a turnover of more than 400,000 euros through campaigns, they are only charged 1%.

This model is based on the overall philosophy of Tanganica, which believes that customers should only pay if tangible results are achieved, which also gives online advertisers additional financial security. Tanganica does not want to change anything about its philosophy and pricing model. Anyway, with the addition of services such as detailed analysis or statistics in Tanganica, there will also be a subscription option, giving Tanganica additional resources for more financial stability and overall growth.

3.1.3 Expansion strategy

Tanganica's international expansion strategy has reflected its vision since the service's inception - to become the leading campaign management tool across the European Union. All planning is done with an international focus and all innovations and developments are designed to overcome the specificities and needs of the local market. In other words, standardisation of service functions is prioritised so that each innovation has a primarily global positive effect and has the potential to succeed in regions where Tanganica is not yet operating and is only planning to enter.

The negative side of standardisation is the failure to consider to some extent the wishes and specificities in each market, which may contribute to the fact that in some regions a change or novelty in the application may not bring the expected result. In any case, however, the main goal for Tanganica is to maximize overall customer satisfaction globally. Tanganica's advantage in terms of expansion is mainly that it can provide its services in European Union countries without any major financial risk in case of failure due to its digital form and inexpensive financial preparation

for managing services abroad. With this opportunity, it can proactively test individual markets and gain valuable insights into which markets are interesting for Tanganica to expand into.

However, Tanganica's main objective for 2024 in terms of expansion is to enter the foreign market with a sales representative and the establishment of a branch office, which will allow active client acquisition and a stronger presence in the region. In this way, Tanganica aims to maximize its reach and growth in new markets.

3.2 Porter's Five Forces model

Porter's Five Forces Model, introduced by Michael Porter in 1979, is a fundamental tool for analysing the competitive environment in an industry. Porter assumes that strategy and market selection are subject to an independent market structure that he believes indirectly influences the success of the firm and therefore in this model he assesses the five most influential forces: the competitive rivalry, the threat of new entrants, the threat of substitutes, the bargaining power of customers, and the bargaining power of suppliers. The model therefore helps firms to understand the intensity of competition and potential profitability in their market. This analysis helps businesses make informed decisions and plan strategically. (Bruijl, 2018)

However, the model also faces several criticisms. Many criticized the clear separation of individual sectors and denied any collaboration between companies from different industries or engaging in multiple industries simultaneously. Thus, the competitive advantages of a company may be greater than it initially appears. (Kunc, 2018) Overall, cooperation between competitors is considered by many to be neglected and not adequately accounted for its importance. (Bruijl, 2018) Another criticism concerns the generic view of markets, where individual specificities are not emphasized enough. (Gratton, 2024))

By using Porter's Five Forces Model to analyse markets for expansion, Tanganica gains information and insight into the competitive forces operating in the analysed markets. This information can help the company to identify potential barriers to entry for new competitors as well as the level of competition or bargaining power of customers. For Tanganica, the supplier analysis does not make much sense as it does not use any suppliers (Tanganica operates as a service provider). By conducting such analysis and based on its conclusions, the company can then make strategic decisions for expansion and gain a comprehensive view of the forces acting on the company.

3.2.1 Competition rivalry

The first Porter's force of Competition Rivalry emphasizes the level of competition among existing enterprises, highlighting how an increase in the number of competing businesses can intensify competitive forces, affect pricing, and profit margins, and subsequently change strategic approaches. Additionally, the availability of a wide range of high-quality products on the market leads to direct competition, allowing consumers to easily select their preferred products from different companies without any effort. (Goyal, 2020) These competitive pressures can escalate into price wars associated with increased corporate expenses on product development or marketing, which could provide a competitive edge. Such measures can lead and motivate companies to enhance the quality of their products or services, yet often this results in reduced profits and decreased stability in the market. Factors falling under this force include the number of competitors, industry growth, similarities in what´s offered, etc. (Gratton, 2024)

To analyse the competition in the e-commerce sector in each market, indicators highlighting technological maturity and providing an overview of the country's innovation dynamics were selected. Specifically, Value added for the ICT sector (% relative to GDP), Share of persons in ICT and Innovation Index.

1. **Value added for the ICT sector (% relative to GDP):** An indicator measuring the total economic contribution of the ICT sector to the overall market. The level of value added in ICT indicates the degree of development of the technological infrastructure, which can determine the intensity of the competitive struggle in the analysed market and the magnitude of innovation dynamism. Thus, a higher value added in ICT also indicates a more developed market at the technological level and therefore a greater competitive struggle and pressure to innovate. (Eurostat, 2022)
2. **Share of persons in ICT:** The proportion of people in ICT shows the availability of technical talent and experts that can lead to innovation and efficiency in terms of e-commerce. By analysing this indicator, a business can gain information providing insight into the rate of progress and competitive pressures in the market being analysed. Thus, a higher value indicates higher dynamism in innovation and higher competitive pressures on the enterprise. Conversely, a lower value indicates lower pressures from competitors and slower technological developments in the market. (Eurostat, 2023)
3. **Innovation Index:** This indicator reflects the overall innovation capacity in the EU country analysed, including technological advances and the level of investment in innovation. Thus, an

enterprise can use the score in this index to determine the level of innovation together with the competitive pressures on the enterprise. A higher value indicates higher competitive pressures together with the need for a higher level of investment in R&D. (WIPO, 2022)

3.2.2 Threat of New Competitors

This force is considered by many to be the most influential on companies in each market. Due to low or non-existent barriers to entry, existing firms in the market are forced to reduce margins and product prices to compete with new entrants and maintain a competitive advantage. Other barriers to market entry from existing firms may include loyalty to the company or significant costs associated with switching suppliers. (Goyal, 2020) Factors falling under this force include *product differentiation, capital requirements, regulations*, etc. (Gratton, 2024)

To assess the threat of new competitors, indicators were selected that primarily assess the size and quantity of clients, which may attract other competitors to Tanganica's market. Thus, the same indicators were used to assess the bargaining power of customers - the number of people shopping online, the number of online shops in the market and the percentage of online revenue of total revenue.

1. **Number of people shopping online:** The number of people shopping online can indicate the level of people's acculturation to the digital environment and therefore the number of stores doing business online and the level of market openness to e-commerce. Higher numbers may therefore attract new competitors looking to take advantage of the existing and growing base of online stores. Conversely, a smaller number may signal less pressure on Tanganica from new entrants due to the lower potential of the market. (Lone et al., 2023)
2. **Share of internet revenues on total revenues:** This indicator gives an overview of the size of the digital market of the analysed country and the overall importance of the e-commerce sector within it. Thus, a higher share indicates a more developed market in the online environment, which increases the attractiveness of the market due to a larger number of clients and a higher potential profit for online shops services. On the other hand, a higher share may also indicate a more competitive environment, whereby new entrant services may have higher costs of entry and penetration of a given market and hence increases barriers to new competitors. In any case, for Tanganica, profitability and the number of given clients is key and hence despite the

higher risk of newcomer competition, markets with a higher share will be more attractive to the company. (Lone et al., 2023)

3. **Number of online shops:** The number of online shops provides an overview of the overall saturation of the market by clients. Thus, a larger number indicates a larger number of clients, but also a higher likelihood of competition and therefore a harder time acquiring new clients and more costly market penetration. Thus, such barriers may discourage new entrants. Conversely, markets with fewer online shops may indicate easier entry along with a higher potential for success. Therefore, here too, the firm may face pressure in the form of new entrants. Due to the uniqueness of Tanganica's service and its strategy of gradual penetration, it is more profitable for it to do business in markets with a higher number of online stores due to greater adoption of new e-commerce innovations. (Storeleads, 2024)

3.2.3 Suppliers

The essence of this force lies primarily in a substitute product that can offer similar utility to the buyer, thus leading the buyer to prefer the substitute over the company's product. The danger of substitutes is especially pronounced if they are cost-effective compared to the company's original product. (Goyal, 2020) Factors falling under this force include *relative price performance, customer willingness to go elsewhere, the sense that products are similar*, etc. (Gratton, 2024)

This force will be omitted in the overall analysis due to the incentive of Tanganica, which offers a service to online shops and does not use any suppliers.

3.2.4 Bargaining Power of Buyers

This force is most significant for businesses in a homogeneous industry where it is easy for buyers to switch to competitors without incurring higher costs, or where customers purchase in large volumes. Sellers can primarily counter these factors by increasing customer loyalty to their brand, differentiating their product, or raising the costs associated with switching suppliers. (Goyal, 2020) Factors falling under this force include *the number of buyers, purchase size, switching costs*, etc. (Gratton, 2024)

To analyse the bargaining power of buyers in each EU country, three important indicators were used to indicate the size, influence, and number of clients - share of internet revenues on total revenues, number of people shopping online and number of online shops.

1. **The share of internet revenues on total revenues:** The share of Internet revenues in total revenues gives an idea of the overall size and importance of the Internet market in the countries analysed. A higher share of internet revenues indicates a higher level of online business activity, which also suggests a larger number of online shops and thus a more competitive environment between them. Therefore, online shops are more likely to seek competitive advantages that are also cost-effective. Thus, for Tanganica, which offers its services to online stores to increase their visibility and add additional sales, such a competitive environment is ideal. Otherwise, merchants see less relevance in digital business and hence a smaller share of online sales indicates fewer online stores in each market and thus online stores gain more bargaining power. (Lone et al., 2023)
2. **Number of people shopping on the internet:** The number of people shopping on the internet directly reflects the market size targeted by online shops. A larger number of online shoppers indicates a larger potential customer base for these shops, suggesting a thriving market environment. This can lead to increased competition among online shops to attract and retain customers, thereby reducing their bargaining power as they vie for the attention of a broad customer base. For Tanganica, an environment with a higher number of people shopping online will also mean a more suitable environment for expansion as it reduces the bargaining power of clients.
3. **Number of online shops:** The number of online shops serves as an indicator of the level of competition among clients. A larger number intensifies the rivalry between clients, creating another suitable environment, as in the case of a larger share of online revenue, for Tanganica to enter, which may provide an additional competitive advantage for online shops to do business in the online environment. (Storeleads, 2024)

3.2.5 Threat of Substitutes

The essence of this force lies primarily in a substitute product that can offer similar utility to the buyer, thus leading the buyer to prefer the substitute over the company's product. The danger of substitutes is especially pronounced if they are cost-effective compared to the company's original

product. (Goyal, 2020) Factors falling under this force include *relative price performance, customer willingness to go elsewhere, the sense that products are similar*, etc. (Gratton, 2024)

In analysing the threat of substitutes in the digital environment, two indicators were used to provide information on the potential of the analysed market for new technologies and innovations that could replace the Tanganica tool. The Innovation Index and the share of people operating in ICT in the market were chosen to provide the most accurate information and identify substitutes.

1. **Innovation index:** This indicator measures the overall level of technological progress and innovation activities in a country. A high score for a given market in the index indicates higher investment in R&D and therefore faster innovation dynamics in the country under study. Thus, a higher level may indicate the emergence of alternative tools and services that may have completely replaced outdated technologies. This situation therefore puts a lot of pressure on Tanganica for market penetration to be successful and the tool to catch on. A lower index score indicates a slower pace of innovation and therefore less risk of losing clients and the total number of substitutes that could represent an alternative to Tanganica. From the perspective of this indicator, it is more advantageous for Tanganica to expand into markets with less risk of substitutes and hence a lower index score. (WIPO, 2022)
2. **Share of persons in ICT:** The availability and concentration of skilled ICT workers directly affects the ability of firms to innovate and adapt to technological change. The high proportion of people working in ICT suggests the ability to rapidly develop and deploy innovative technologies, which could also lead to an increased threat in the form of substitutes. Conversely, a lower share and availability of ICT workers indicates a lower capacity of firms to R&D and innovate overall. Thus, the threat of substitutes decreases here, and Tanganica is better off expanding into markets with a smaller share of workers from this perspective. (Eurostat, 2022)

3.3 Introduction to PEST analysis

The first such analysis of the external environment was presented in 1967 by Professor Francis J. Aguilar under the name ETPS, which consisted of the same factors as the PEST analysis, i.e. economic, technological, political, and social. Since then, this analysis of the external environment has been modified many times and nowadays many variants are used, such as PESTLE, STEEPLE or SLEPT analysis. These analyses are management methods that help to evaluate the external factors

(political, economic, social, and technological) that affect a given enterprise and therefore help the organization to better plan and adapt a given strategy. (KENTON, 2023)

3.3.1 Elements of PEST analysis

As already mentioned, PEST is an acronym for the researched factors of the external environment that influence the performance of the company. So political (P), economic (E), social (S) and technological (T). (FAIRLIE, 2023)

- **Political environment (P):** For the policy environment, PEST analysis focuses on assessing the impact of policy factors on the business and market environment. Such factors include political stability, tax policy, property rights, employment regulations, etc.
- **Economic environment (E):** For the economic environment, PEST analysis analyses and examines the economic factors that affect the firm's market position, demand, and overall business. Through this analysis, organizations can better prepare and develop a given strategy that considers both economic challenges and opportunities.
- **Social environment (S):** Analysing the social environment helps organizations identify and understand social trends and changes in consumer behaviour, which is crucial for successful product planning, communication, and market development. Understanding these factors, such as demographic and lifestyle changes or consumer behaviour, allows organizations to better tailor their products or services to meet future customer needs and expectations.
- **Technology environment (T):** Understanding the technology environment helps companies identify technology trends and innovations that can improve process efficiency and business competitiveness, as well as suggest which technologies to invest in and which processes to adapt to increase productivity and improve product and service quality. Technological factors can include developments in artificial intelligence, automation, or innovation. (FAIRLIE, 2023)

3.3.2 Variations of PEST analysis

RASTOGI (2016) puts together a list of varieties of the classical PEST analysis framework that are currently used to provide a more comprehensive view of the macroeconomic environment that affects organizations. These varieties are extended by other dimensions such as legal or ecological factors:

1. **SLEPT analysis:** The SLEPT analysis is another variant of the basic framework of legal factor analysis (consumer protection laws, intellectual property rights).
2. **PESTEL or PESTLE analysis:** PESTLE analysis is an extension of the basic PEST analysis to include Environmental (environmental regulations, waste management, renewable energy adoption, etc.) and legal factors (employment law, health, and safety regulations, etc.) for a more comprehensive view and more accurate evaluation of external factors.
3. **PESTEL analysis:** One of the most recent well-known extensions to environmental (environmental regulations, etc.) and labour factors (labor market conditions, workforce equity, etc.) is the PESTEL analysis.
4. **PESTLIED analysis:** PESTLIED analysis is the largest extension of the basic PEST analysis with four factors. Thus, by adding legal (industry-specific regulations), international (cultural differences, cross-border relations, international economic trends, etc.), environmental (environmental regulations, attitudes towards environmental issues, etc.) and demographic factors (age distribution, educational levels, population growth, etc.), it is the most comprehensive analysis. (RASTOGI, 2016)

3.4 PEST analysis

To assess the external environment of the analysed European Union markets for Tanganica's expansion, a PEST analysis was chosen, which is able to provide a comprehensive overview of the external environment by examining the four environments listed above - political, economic, social and technological. Through this analysis, we can informatively identify the potential markets for expansion that would be most suitable for Tanganica and also identify the important influences on the business in those markets, thereby maximising the chances of expansion success.

3.4.1 Political environment

Incorporating the political environment into company analysis is essential for businesses considering expansion because it directly affects market entry strategies, operational risks, and the legal framework governing business activities in new regions. The political climate of a target market can determine the ease of doing business, the level of governmental support or interference companies might face, and the stability of economic policies that influence business operations. For instance, countries with stable political environments and favourable policies towards foreign

investment tend to offer a more predictable and secure context for expansion, facilitating long-term planning and investment. Conversely, regions characterized by political instability or unfriendly policies towards businesses can pose significant risks, including sudden changes in regulations, expropriation, and other forms of political risk that could jeopardize investments. Therefore, understanding the political landscape is crucial for companies to accurately assess potential risks and rewards, tailor their strategies to navigate these challenges, and make informed decisions that align with their growth objectives and risk tolerance levels.

Two indicators were used to evaluate the political environment. Political stability, which indicates the degree of political stability in individual countries, and Taxes on Goods and Services (% of Revenue), which tracks the tax burden on businesses in individual countries.

1. **Political stability index:** Political stability is measured annually by the World Bank's "Political Stability and Absence of Violence/Terrorism" indicator. It provides data on the stability and likelihood of political instability for more than two hundred countries, including the EU analysed. This indicator is based on a wide range of sources tracked by the World Bank, such as the Intensity of internal conflict, Political terror scale, External conflict, and many others. WB uses a rating from 2.5 (most stable environment) to -2.5 (least stable). This index indicates the likelihood that a government will be overthrown or destabilized. Thus, it provides businesses with valuable information and insight that reflects not only the current state, but also trends and potential future developments. Thus, businesses can better understand the political risk in individual countries and compare them. In doing so, they can make more informed strategic planning and identify individual political risks and uncertainties.

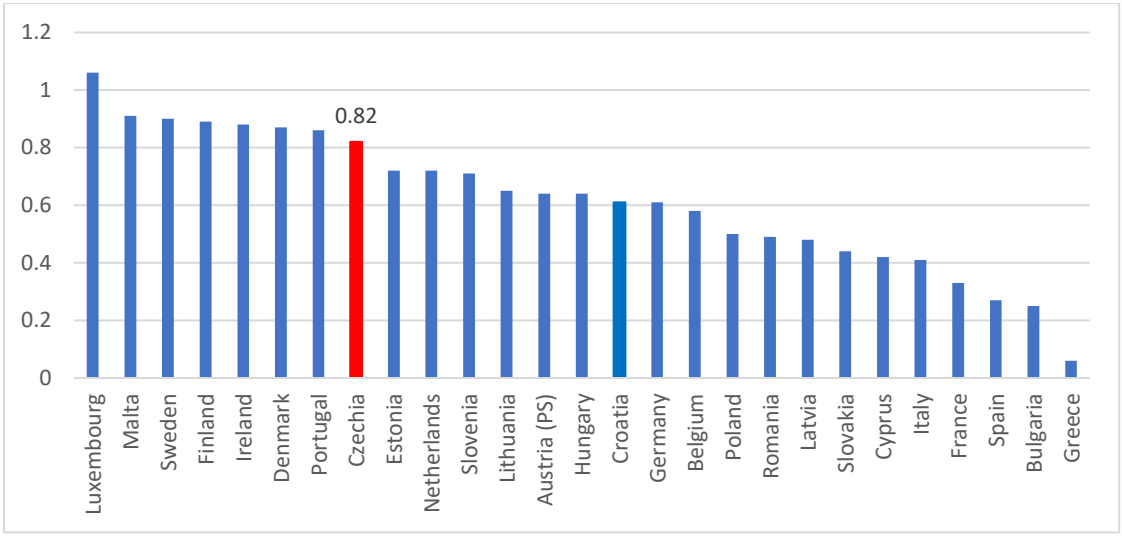

Figure 4 - Political stability
Source: (WB, 2023)

Since 2003, the European Union has seen a long-term decline in political stability across most EU countries by an average of 0.25 points. This implies a drop in the average score from 0.88 points in 2003 to 0.62 points in 2022. Only six countries (Germany, Bulgaria, Spain, France, Romania, and Croatia) have seen an improvement of 0.13 points on average compared to 2003. Here, Spain is the frontrunner, having improved by 0.32 points. However, it is still the third least stable country in the EU in 2022 with 0.27 points and even the worst on average since 2003 with a score of 0.068. In 2022, only Bulgaria (0.25) is on a par with Greece (0.06). On the other hand, Finland recorded the biggest drop in its score, weakening by 0.8 points. Even so, it remains the long-term leader in political stability (with a score of 0.89 in 2022), and only Sweden (0.9), Malta (0.91) and Luxembourg (1.06) are better off. Even so, these countries saw an average deterioration of nearly 0.5 points, double the overall EU average. Overall, however, despite the decline, political stability in the EU is above the global average (0.0002) by more than 0.6 points.

For startups in general, political stability can be particularly important, as the political environment influences many factors such as the legislative framework for innovation and undertaking, opportunities to attract investment and mainly the level of risk of losing the investment due to radical political change.

2. **Taxes on Goods and Services (% of Revenue):** The indicator "Tax on goods and services (% of income)" from WB is an important indicator for assessing and comparing the tax burden of individual countries. It also provides insight into a country's fiscal policy and the tax strategies of individual governments. The tax burden has broad implications for businesses and consumer purchasing power. Thus, obtaining information about the tax burden and understanding it is

key for businesses to plan their overall pricing strategy. Thus, it follows from this information that a stable or favourable tax regime for goods and services can increase the attractiveness of a country for business and investment. When comparing markets for expansion, this indicator makes it possible to evaluate and compare the tax policies of individual countries and to identify markets with lower costs. Monitoring changes over time will also allow businesses to gain information for policy predictability and stability and can therefore also create a long-term strategy.

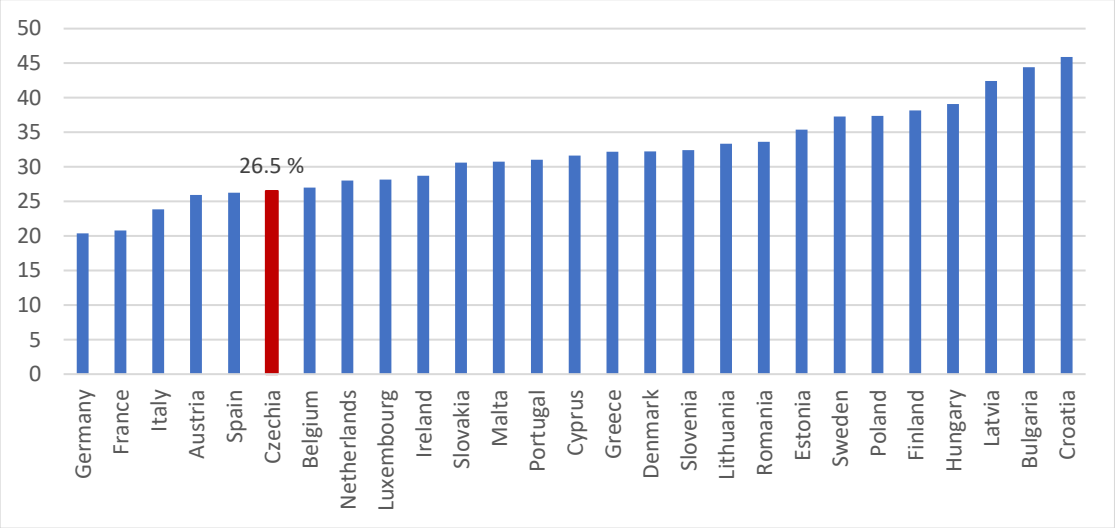

Figure 5 - Taxes on Goods and Services (% of Revenue)
Source: (WB, 2024)

The tax burden on EU businesses, according to the WB, has long been at the world average of 33.2% of revenue. Specifically, in 2021, the average tax burden in the EU was 31.97% of revenue, a difference of only 0.8% from the 2003 average of 32.78%. Thus, overall, no major change in the approach of countries towards business taxes can be observed here. Even so, in some countries there have been major changes in the tax burden, as in Ireland and Denmark, where it has fallen by more than 9% over the last 19 years. On the other hand, the largest tax increases have been recorded in Poland (4.33%), Hungary (3.09%) and the Czech Republic (2.83%). The three largest economies in the EU, Germany (20.35%), France (20.81%) and Italy (23.84%), have the lowest long-term tax burdens.

For startups, this indicator is particularly important when expanding into markets for several factors. Tax levels directly affect the cost of doing business and can make it difficult for startups to be price competitive with their competitors in the market. Another negative effect of higher taxes is the possibility of reduced demand and more challenging financing for their growth.

Thus, markets with a lower tax burden for businesses than the Czech Republic (26.5%) will be given a point and those with a higher tax burden will have a point deducted.

3.4.2 Assessment of the political environment

The market with the most suitable political environment for the expansion of a company from the Czech Republic is Luxembourg, which has the most stable political environment of all the countries of the European Union and the tax burden on businesses is at a similar level to that of the Czech Republic at 28.14%. Sweden and Malta have the same political environment in terms of the sum of points obtained, which, despite a higher tax burden than companies doing business in the Czech Republic, are the only countries that are politically more stable. Markets with the same conditions are also France, Italy, and Germany, which, despite lower political stability, offer companies a lower tax burden than in the Czech Republic. The only country with remarkably similar conditions in the political environment in both indicators is Ireland with a political stability of 0.88 points, which is a difference of only 0.06 points compared to the Czech Republic and a tax burden on businesses of 28.69%. On the contrary, most countries of the European Union have worse conditions in terms of the political environment according to the information obtained from the selected indices, such as Greece with the lowest political stability of 0.06 points or Bulgaria, which has the second lowest political stability in the European Union at 0.25 points, and companies on this market also face the second largest tax burden of 44.42%. Only Croatia has a higher tax burden.

Table 1 - Assessment of political environment

Country	Political stability	Taxes (% of revenue)	Total
Luxembourg	1.06	28.14	1
Malta	0.91	30.74	0
Sweden	0.9	37.29	0
Ireland	0.88	28.69	0
Germany	0.61	20.35	0
Italy	0.41	23.84	0
France	0.33	20.81	0
Finland	0.89	38.15	-1
Denmark	0.87	32.21	-1
Portugal	0.86	31.04	-1
Netherlands	0.72	28.01	-1
Austria	0.64	25.94	-1
Belgium	0.58	27.01	-1
Spain	0.27	26.25	-1
Estonia	0.72	35.37	-2
Slovenia	0.71	32.4	-2
Lithuania	0.65	33.36	-2
Hungary	0.64	39.1	-2
Croatia	0.61	45.92	-2
Poland	0.5	37.37	-2
Romania	0.49	33.63	-2
Latvia	0.48	42.4	-2
Slovakia	0.44	30.6	-2
Cyprus	0.42	31.65	-2
Bulgaria	0.25	44.42	-2
Greece	0.06	32.19	-2

Source: own processing

3.4.3 Economic environment

Incorporating the economic environment into the overall analysis for expansion is important as it directly affects individual strategies and the viability of the company. Thus, understanding individual factors such as inflation, the rate of economic growth, the strength of the currency, etc. makes it possible to effectively determine individual strategies and decisions. Market analysis also gives companies the opportunity to obtain information from which they can then evaluate the stable economic environment together with the risks of individual markets. By doing so, they can determine the total cost of expansion and pricing in given markets.

To assess the economic environment for an IT startup, two indicators were included - Share of internet revenues in total revenues and the value added in ICT. With the first indicator, the company is able to get information about the size and growth potential of the digital market. This can reveal markets ready for digital services and identify opportunities for a startup focused on e-commerce. The amount of value added in ICT can then help the company determine the maturity of the market in terms of digitalisation as well as the level of competition.

1. **Share of internet revenues on total revenues:** The share of internet revenues in total revenues is a key indicator for a startup whose clients are online stores when analysing the economic environment. The amount of the share of internet revenues in total revenues can also determine the degree of consumer habit of shopping online, which also leads companies to adapt their strategies and product offerings online, thus expanding the number of our potential customers. Thus, a higher share of online sales means a stronger digital infrastructure and a larger number of clients. In any case, a higher share of internet sales also means a more mature market and thus a more competitive environment, which puts pressure on the company to innovate more often.

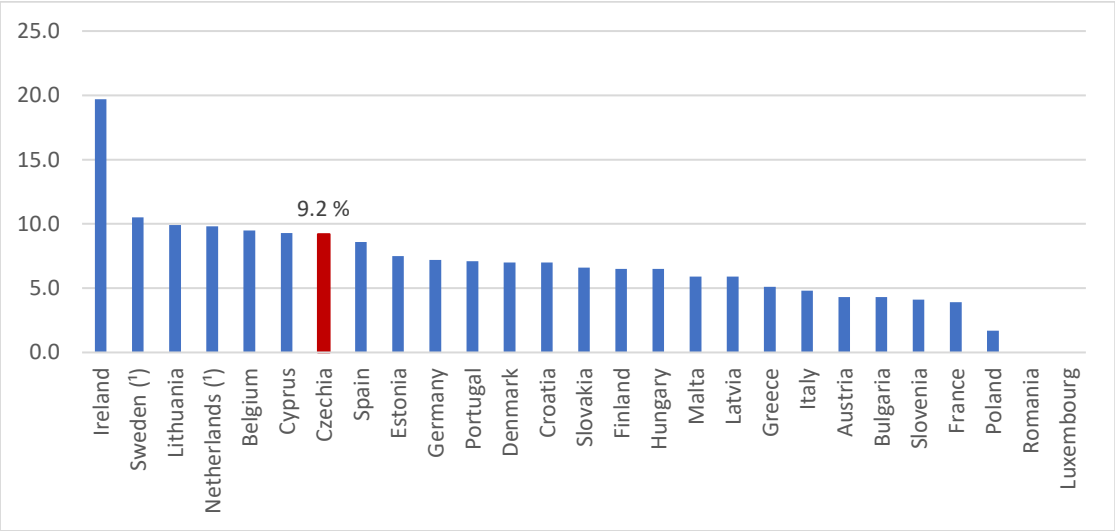

Figure 6 - Share of internet revenues on total revenues
Source: (Lone et. Al, 2023)

The share of internet sales could not be measured in Romania due to unreliable sources and in Luxembourg, where information is confidential. Anyway, the country where businesses have the highest share of turnover from internet sales, at 19.7%, is Ireland. Countries such as Sweden, Lithuania, the Netherlands, and Belgium also have very developed markets, with businesses here having shares ranging from 9.5% to 10.5%, which also shows the habituation of the population to online shopping and overall strong e-commerce in terms of turnover. In contrast, firms in France (3.9%) or Poland (1.7%) register the lowest share of internet sales in total turnover. This may reflect a less developed e-commerce infrastructure or lower consumer confidence in terms of online purchases. The average ratio of internet sales to total turnover in the EU was 7.3% in 2022.

It is important for Tanganica to expand into countries with a higher score than the Czech Republic as the score also indicates the development of the digital market along with the level

of adoption of online shopping through the population and the population's online shopping habits. Thus, countries with higher scores and therefore suitable for expansion are Belgium, the Netherlands, Lithuania, Sweden, and Ireland. (Lone et al., 2023)

Value added for the ICT sector (% relative to GDP): The analysis of value added in the ICT sector as a percentage of GDP provides an overview of the size of the technology market in each country for a company doing business in IT. A higher share of GDP often indicates a greater maturity of the ICT market under analysis, along with a developed digital infrastructure, a key element for a start-up doing business on the Internet. The size of the share can depict the level of adoption of digital technologies and therefore how easily consumers and businesses adopt each new technology. Thus, this also makes it easier for businesses to penetrate the market with a new product or service. The value added of the ICT sector also conveys information about the willingness of consumers to adopt new market innovations and engage with digital platforms - hence, for a business operating on the Internet, this is one of the key factors.

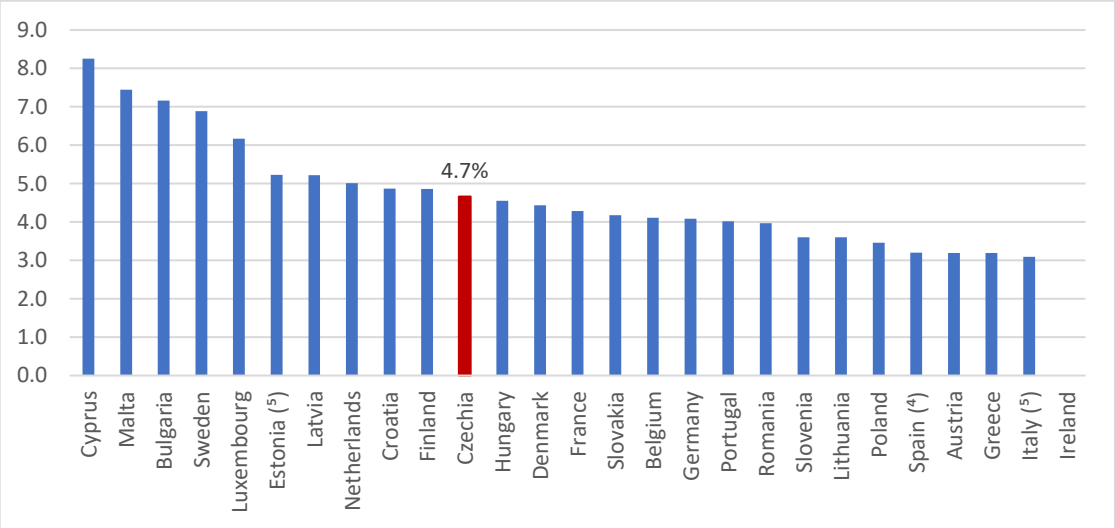

Figure 7 - Value added for the ICT sector (% relative to GDP)
Source: (Eurostat, 2022)

This indicator does not show data for Ireland, which has confidential. In any case, the most developed markets in terms of Value added for the ICT sector (% relative to GDP) in 2020 were Malta (7.4%) with Bulgaria (7.2%), together with countries such as Sweden and Luxembourg, which also had a strong ICT sector with a share close to 7%. In any case, the most developed ICT sector in terms of share of GDP was Cyprus with 8.3%. At the other end of the spectrum, there are countries where ICT is not as important to their GDP ratio, such as Lithuania, Slovenia, or Poland, which have a share below 4%. Spain, Austria, and Greece have a share as low as

3.2%. The country with the smallest share of the ICT sector in total GDP in 2020 was Italy with a share of 3.1%. (Eurostat, 2022)

2. **Number of online shops:** Including the number of online shops in the analysis of the economic environment can provide us with information about the number of potential clients of an expanding company whose service is campaign management for online shops in a given market. Thus, the enterprise can determine the level of competition among online stores, and thus can determine the bargaining power of customers and their need to gain further competitive advantage as online campaign management can be. By this indicator, the company can also gain insight into the likely competition and competitive pressures on the business, where a greater number of online stores also indicates a greater level of risk and threat from the enterprise's competitors. Conversely, a smaller number of online stores indicates a less developed online market in a given country and a risk of less market adaptation by the business.

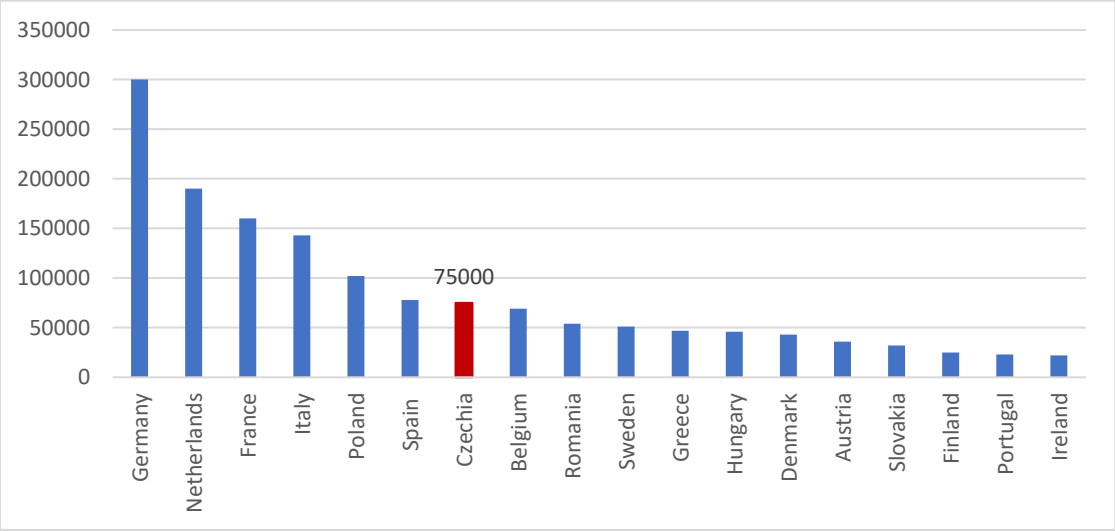

Figure 8 - Number of online shops
Source: (Storeleads, 2024)

Only seventeen foreign markets were assessed for the number of online shops due to the lack of information on the number of online shops in other countries.

Germany leads in the number of online shops with around 300,000 online shops, indicating a highly developed e-commerce market, which is underlined by the highest number of people shopping online. Other economies that have developed e-commerce in terms of the number of online shops are Grants, Italy and Poland, markets where more than 100,000 businesses operate online. The market with the highest share of online shops per capita is the Netherlands with 190,000 shops. On the other hand, countries such as Slovakia, Finland or Portugal and

Ireland have the lowest number of online shops, with between 22,000 and 32,000 online shops. This fact may indicate a less developed e-commerce market, but also simply due to a smaller population size.

For Tanganica, it is more appropriate to expand into markets with a higher number of online stores than the Czech Republic due to the higher demand for the service and potentially higher profits. (Storeleads, 2024)

3.4.4 Assessment of the economic environment

The most suitable country for entry and expansion is Sweden, according to an analysis of the economic environment and using the three indicators mentioned above. Although this country has a smaller number of online shops on the market, the added value of ICT is 1.5 % higher than in the Czech Republic, which also indicates the technological maturity of the market and the ability to better adopt innovation. Thus, it is also important for an IT startup that there is a higher percentage of market adoption of its service despite the higher risk of more mature competition. Technological maturity is also indicated by the high share of online sales, which is 10.5 %, the second highest after Ireland, which has a share of 19.7 %. The same suitability of the environment according to the score as Sweden is in the Netherlands, where this market in particular has the potential in the second largest number of online shops in Europe, over 190,000, which is reflected in the fact on the share of sales from the Internet of 9.7 %. At the other end of the spectrum of the table are the least suitable markets for expansion, such as Poland with the smallest share of 1.7 % of internet sales or Greece and Austria, which have one of the lowest values of value added in ICT - 3.2 %.

Table 2 - Assessment of economic environment

Country	Turnover from Web Sales (%)	Value Added (%)	Number of online shops	Total
Sweden	10.5	6.9	51000	1
Netherlands	9.8	5	190000	1
Cyprus	9.3	8.3	DATA NOT PROVIDED	0
France	3.9	4.3	160000	0
Ireland	19.7	0	22000	-1
Spain	8.6	3.2	78000	-1
Estonia	7.5	5.2	DATA NOT PROVIDED	-1
Germany	7.2	4.1	300000	-1
Portugal	7.1	4	23000	-1
Latvia	5.9	5.2	DATA NOT PROVIDED	-1
Italy	4.8	3.1	143000	-1
Bulgaria	4.3	7.2	DATA NOT PROVIDED	-1
Luxembourg	DATA NOT PROVIDED	6.2	DATA NOT PROVIDED	-1
Lithuania	9.9	3.6	DATA NOT PROVIDED	-2
Belgium	9.5	4.1	69000	-2
Denmark	7	4.4	43000	-2
Croatia	7	4.9	DATA NOT PROVIDED	-2
Finland	6.5	4.9	25000	-2
Hungary	6.5	4.6	46000	-2
Malta	5.9	7.4	DATA NOT PROVIDED	-2
Slovakia	6.6	4.2	32000	-3
Greece	5.1	3.2	47000	-3
Austria	4.3	3.2	36000	-3
Slovenia	4.1	3.6	DATA NOT PROVIDED	-3
Poland	1.7	3.5	102000	-3
Romania	DATA NOT PROVIDED	4	54000	-3

Source: Own processing

3.4.5 Social environment

The social environment is important for businesses to analyse as the information obtained is important to determine factors such as consumer behaviour, market demand and the overall potential success of the product or service offered. Thus, this pillar can include cultural norms, demographics, population size, etc. Informed businesses can then develop an effective marketing strategy with respect to the specifics and preferences of the target market. For a business, social environment analysis is also important to determine the size of the target market and the purchasing power of the population, which is crucial for many businesses when deciding where to expand. Uninformed decision making can result in the choice of ineffective marketing and therefore a poor understanding of the target audience's preferences.

As part of the analysis of the social environment in the European Union countries for the expansion of IT startups from the Czech Republic, four demographic indicators were identified. Population size, which will determine the size of the population and therefore the size of the overall market. The second indicator, the number of people shopping on the internet, is used to provide information on the size of the demand for Tanganica's services by potential clients, which can

provide an assumption about the size of the demand for Tanganica's services. The last two indicators Age distribution of the population and Number of ICT workers convey information about the size of the workforce in the analysed markets.

1. **Population:** Population size is one of the key factors for many companies when analysing countries, determining the size and potential of the market being analysed. Thus, a larger population can indicate a larger overall market and hence a wider demand for the enterprise's products and services. In any case, for effective communication through marketing channels and overall market segmentation, it is important to obtain information on demographic factors such as the age composition or income of the population. For a startup like Tanganica, factors such as the number of people shopping on the internet to determine the demand of Tanganica's clients or the number of people working in ICT and the age composition of the population are particularly important to give businesses a measure of the availability of talent and skilled labour.

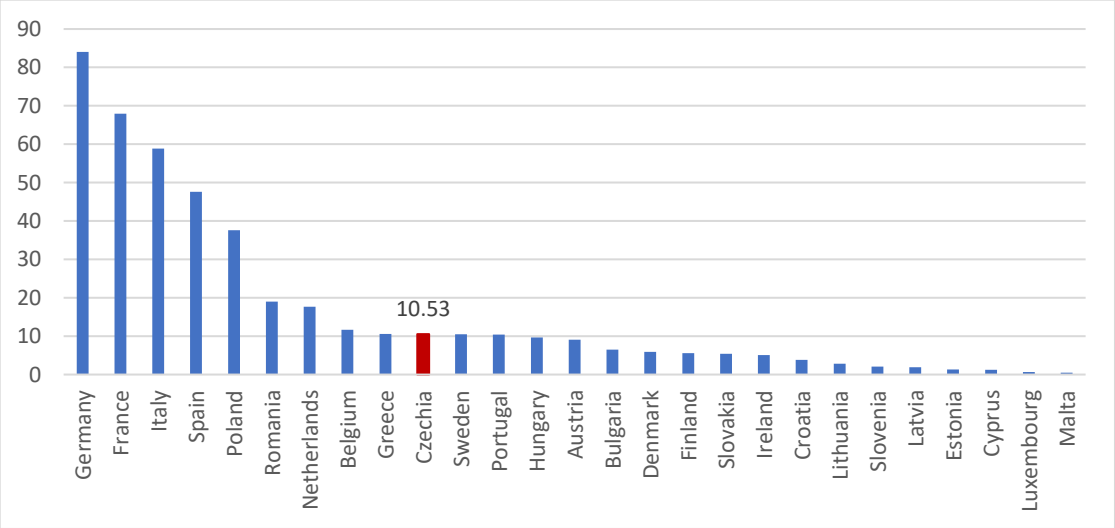

Figure 9 - Population
Source: (WB, 2024)

The largest markets in terms of population have long been Germany, France, Italy, and Spain, where over 57% of the total EU population of 447 million will reside in 2022. Germany was the largest market with 84.08 million inhabitants in 2022. In contrast, the smallest markets are Malta, Luxembourg, and Cyprus. (WB, 2024)

2. **The number of people shopping on the internet:** The analysis of the total number of people in the EU who shop online is important for startup Tanganica, especially for assessing market potential and obtaining information about online demand in individual countries. This indicator not only conveys information about the size of e-commerce in the analysed countries, but also

indicates the level of implementation of digital infrastructure, which is essential for online business. Thanks to this information, the company can then better assess the competitive environment and identify opportunities.

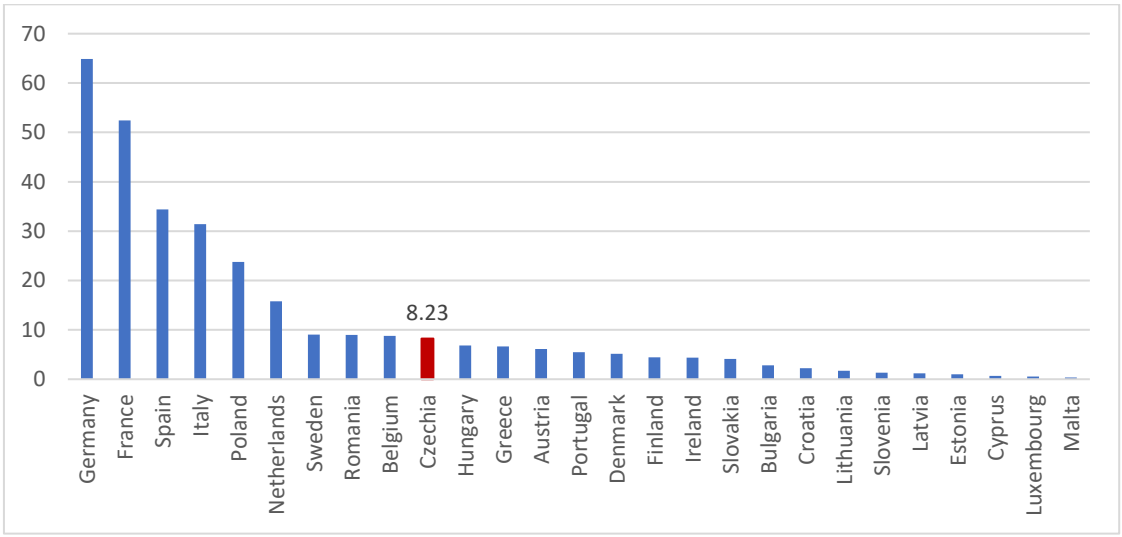

Figure 10 - Number of people shopping on the internet
Source: (Lone et al., 2023)

The total number of people in the EU shopping online in 2022 was 336 million. Western Europe accounts for the largest percentage (42%) of the total population with 146.7 million people shopping online, accounting for 67% of the total turnover of 899 million euros. Germany has also with France the largest e-commerce market with 64.9 and 52.4 million people shopping online, which indicates attractive markets with a large number of potential clients together with a developed digital infrastructure. Netherlands (89%), Denmark (87%) and Ireland (86%) have the highest percentage of residents who shop online, which demonstrates the high adoption of digital transactions and the overall elevated level of the digital economy and propensity for digital consumption together with a prominent level of adoption of digital technologies. On the other hand, the smallest proportion of the population shopping online is in Eastern Europe with 48%, which may reflect less developed digitization in these markets and less adoption of online shopping. In this part of Europe, Romania (47%) and Bulgaria (44%) are the countries with the lowest proportion of people shopping online. In absolute numbers, they are the markets of Malta (0.65 million inhabitants) together with Luxembourg (0.52 million inhabitants)

It is important for startup Tanganica to expand into countries with a higher number of people shopping online than Czech Republic, which signals a broader base of online stores in that market. Also, this fact indicates greater consumer confidence in online transactions, which also

leads to higher conversion rates and easier market entry. These conditions are met by the countries Germany, France, Spain, Italy, Poland, the Netherlands, Sweden, Romania, and Belgium. (Lone et al., 2023)

3.4.6 Assessment of the social environment

The suitability of the social environment for expansion was assessed by two indicators - population and the number of people shopping online. The most suitable environment in terms of both indicators is in Germany, where 84.08 million people live and 77% of them use the Internet to shop, namely 64.9 million. However, countries such as Italy, France or Spain and Poland, markets where tens of millions of people shop online every year, also show a suitable social environment for businesses. It is also worth mentioning markets such as the Netherlands and Sweden, which also have a large online purchasing power due to the considerable proportion of the population shopping online. On the other hand, the countries with the least online purchasing power and population, and therefore the least suitable social environment, are Luxembourg, Malta, Cyprus and 14 other countries, which include Ireland and Denmark, which are the markets with the highest proportions of people shopping online - namely Denmark with 87% and Ireland with 86%.

Table 3 - Assessment of social environment

country	Population	People shopping online	Total
Germany	84.08	64.9	2
France	67.94	52.44	2
Spain	47.62	34.38	2
Italy	58.86	31.38	2
Poland	37.56	23.75	2
Netherlands	17.7	15.08	2
Sweden	10.49	9.05	1
Romania	18.96	8.97	1
Belgium	11.67	8.76	1
Hungary	9.68	6.84	-1
Greece	10.57	6.65	-1
Portugal	10.38	5.47	-1
Austria	9.04	6.19	-2
Denmark	5.9	5.15	-2
Finland	5.56	4.41	-2
Ireland	5.09	4.4	-2
Slovakia	5.43	4.13	-2
Bulgaria	6.47	2.85	-2
Croatia	3.85	2.24	-2
Lithuania	2.83	1.74	-2
Slovenia	2.11	1.34	-2
Latvia	1.88	1.19	-2
Estonia	1.34	0.97	-2
Cyprus	1.25	0.65	-2
Luxembourg	0.65	0.52	-2
Malta	0.52	0.36	-2

Source: Own processing

3.4.7 Technological environment

Analysing the technology environment is crucial for expanding IT companies as it provides information about the quality of digital infrastructure, the size of technology investments in the market being analysed, the technology education of the population, or the strength of the competition. A mature technology environment encourages innovation and better adoption of technological innovations. Operating in high-tech markets brings a number of advantages to a company, such as the opportunity to partner with leading technology companies and thus gain valuable know-how. Customers are also more receptive to technological innovations, making it easier for companies to implement innovations in the market. However, the firm is subject to greater competitive pressures in the market for innovation and overall pricing, which can have negative consequences for the profitability of the firm.

To assess the technological environment in the PEST analysis, the Innovation Index indicators will be used to assess the overall technological maturity of the analysed markets and the share of people working in ICT to provide information on the level of concentration of technological talent and overall people with technological experience.

1. **Innovation index:** The Innovation Index, by its comprehensiveness of the company in analysing the technological environment, can convey an overall view of the maturity of the market under study. For a company, this index can serve as an indicator that a given country actively supports companies in the field of innovation. The score can also indicate the degree of concentration of universities and research institutions along with the level of R&D support. Thus, companies can also get an overview of the availability of people with technological expertise. Overall, markets with higher scores indicate a readiness to adopt new technologies, thus allowing customers to more quickly adopt the product or service of a newcomer firm.

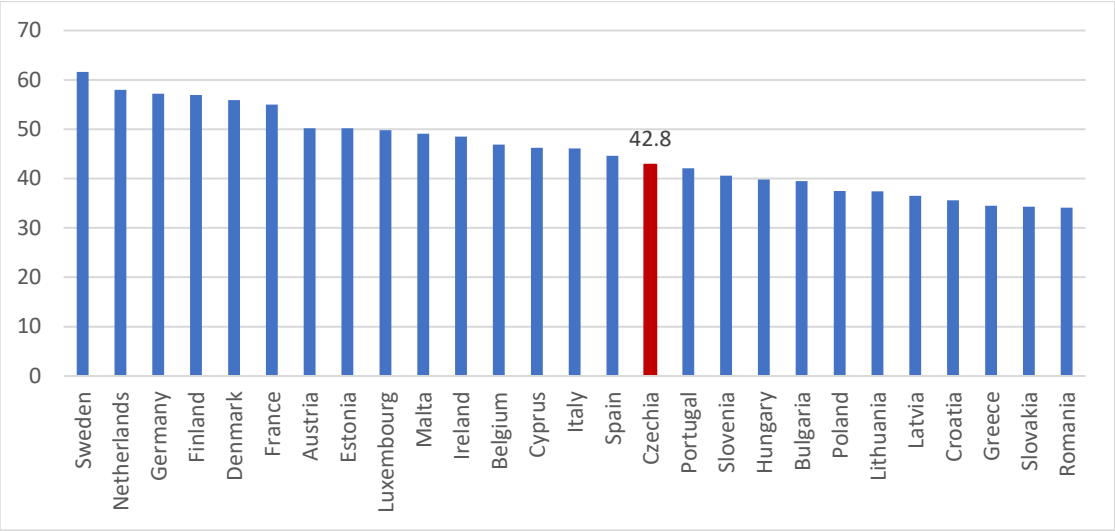

Figure 11 - Innovation index
Source: (WIPO, 2022)

The most successful countries in the EU in the long term according to the Innovation Index are the Nordic countries with an eleven-year average of 59.97 points, which indicates the maturity of the markets in terms of innovation and technological growth. Of these countries, Sweden in particular stands out with a long-term average of 62.8 points and 61.6 points in 2022. Thus, Sweden is a country that has long been among the top performers not only in the EU but also globally, especially in the pillars of Human capital and research, Infrastructure and Business sophistication. Other countries whose results in the Innovation Index signal advanced economies that support innovation include the Netherlands (58 points), Germany (57.2 points) and Finland with 56.9 points. The most significant improvement in 2022 compared to 2011 is recorded by France (by 5.7 points) together with Italy (by 5.3 points). Conversely, the most significant declines were recorded by countries such as Hungary (by 8.3 points) and Malta (by 7.9 points), but here Malta has seen a visible rise in scores in recent years, which also signifies the emerging digital ecosystems and technology in general. Conversely, Slovakia (34.3 points), Croatia (35.6 points) or Romania (34.1 points) show scores that are below the EU average, suggesting issues of underdevelopment of the market in terms of R&D or technology and slower uptake, which could complicate business expansion. The EU average itself in 2022 (45.5 points) shows a slight fluctuation with a drop in 2020, likely reflecting the impact of the COVID-19 pandemic, with an overall drop of 3 points compared to the EU in 2019.For Tanganica, the question of evaluating countries for expansion according to the Innovation index is very complex. Overall competitive and sustained development pressures for higher scoring countries may be risk factors for a startup that could contribute to unsuccessful entry and overall market performance. In any case, a higher probability of adapting the offered service

together with an increase in goodwill and an increase in market share, which could lead to the attraction of investors and clients and thus the acquisition of additional capital, are key points for Tanganica. From the point of view of the overall strategy of expansion that Tanganica has, it cannot be threatened existentially. Conversely, the expected benefits outweigh the potential risks, and therefore countries with higher indicator values are identified as suitable markets. (WIPO, 2022)

2. **Share of people working in ICT:** This indicator shows the availability of skilled labour in the technology sector. The high share of ICT workers indicates greater availability of workers and talent. So, businesses should have an easier time recruiting workers and talent with technical knowledge. On the other hand, a high concentration of workers and talents in ICT also indicates an environment with stronger competition and the risk of the emergence of new competitors, but also an environment suitable for partnerships and knowledge exchange. The size of the ICT workforce also indicates the market's openness to technological innovation.

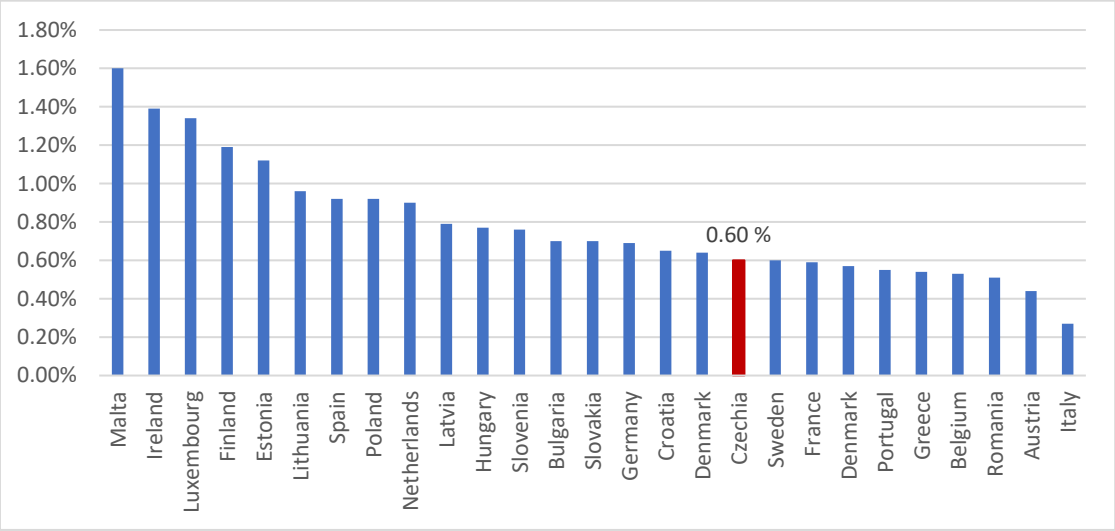

Figure 12 - Share of people working in ICT
Source: (Eurostat, 2023)

The country with the highest share of people employed in ICT has long been Malta with an average share of 1.45% despite a slight stagnation in recent years and in 2022 with a share of 1.6% of people employed in the ICT sector, it was the winner in this metric, showing long-term favourable conditions in this market for business in the technology sector. Other countries with a high share are Estonia and Finland with results of 1.12% and 1.19% respectively, reflecting their emphasis on digitization and ICT education, placing them as leaders in ICT and innovation. (WIPO, 2022) Countries such as Luxembourg, the Netherlands and Sweden also show strong signs of ICT development with a share of around 1%, indicating well-developed

digital economies. Ireland also shows remarkable growth here, which increased the share of employed people in the ICT field by almost 0.7% to 1.39% in nine years, i.e. almost twice. This increase can probably be attributed to the influence of multinational technology companies that are based in Ireland. Conversely, Italy with a value of 0.27% or Austria with 0.44% lag behind the EU average (0.79%) in 2022, showing signs of either a slower growth of the ICT sector in this market or a different focus of the economy. Anyway, the EU saw an overall growth in the share of people working in ICT by 0.32%. (Eurostat, 2023)

3.4.8 Assessment of the technological environment

By analysing the technology environment with the Innovation Index and the share of people working in ICT in a given market, we gained an overview of the market's suitability for expansion. While for the Innovation Index a higher score for a firm indicates a more suitable environment for expansion due to the greater technological maturity of the digital market and thus potentially faster adoption of a new service, a higher concentration of people in ICT indicates a greater risk of substitutes or new competition, which is a negative aspect.

Table 4 - Assessment of technological environment

Country	Innovation index	Share of persons in ICT	Total
Austria	50.2	0.44	2
Sweden	61.6	0.6	1
Denmark	55.9	0.57	1
France	55	0.59	1
Belgium	46.9	0.53	1
Italy	46.1	0.27	1
Netherlands	58	0.9	0
Germany	57.2	0.69	0
Finland	56.9	1.19	0
Estonia	50.2	1.12	0
Luxembourg	49.8	1.34	0
Malta	49.1	1.6	0
Ireland	48.5	1.39	0
Cyprus	46.2	0.64	0
Portugal	42.1	0.55	0
Romania	34.1	0.51	0
Slovenia	40.6	0.76	-1
Hungary	39.8	0.77	-1
Bulgaria	39.5	0.7	-1
Croatia	35.6	0.65	-1
Greece	34.5	0.54	-1
Spain	44.6	0.92	-1
Poland	37.5	0.92	-2
Lithuania	37.4	0.96	-2
Latvia	36.5	0.79	-2
Slovakia	34.3	0.7	-2

Source: Own processing

Thus, a more suitable technological environment for an expanding firm, without the intention of acquiring people with technological experience in the market, is with a lower concentration of people in ICT. Thus, the most suitable market in terms of technological environment to expand for Tanganica is Austria, which is a more suitable market in both indicators than the Czech Republic. Other countries with more suitable conditions in terms of the technological environment are Denmark, France or Belgium with Sweden, which is the most advanced country in the European Union in the Innovation Index with a score of 61.6, and Italy, which on the contrary has the lowest concentration of people working in ICT, which reduces the risk in the form of threats of substitutes or new competition. On the other hand, the worst markets for expansion in this environment are Poland, Lithuania, Latvia or, for example, Slovakia with a score of 34.3 points, which is worse than only Romania with 34.1 points. Conversely, markets with a high concentration of ICT workers are, for example, Malta with the highest share of 1.60% or Ireland and Luxembourg, which probably reflects the overall service orientation of their economies.

3.5 Overall assessment of the EU countries

A PEST analysis consisting of nine individual indicators divided into different environments helped us to compare European Union countries in terms of the suitability of their markets for the expansion of the IT startup Tanganica. In each indicator, the country was given a rating according to the suitability of the market for the company's expansion. A point was given to a country if the conditions for doing business were better by more than 10% compared to the Czech Republic. Zero if the result was the same within a 10% perimeter and a point was deducted if conditions were worse by more than 10%. Thus, a higher overall market score in the PEST analysis indicates a more favourable environment for business and expansion for Tanganica.

Overall, the least suitable country for IT startup expansion according to the PEST analysis is Slovakia, which did not show at least similar conditions to businesses in the Czech Republic in any of the indicators. Slovakia was closest to the Czech Republic in the indicator of value added in ICT. Overall, Eastern Europe is the least suitable region for expansion with an average of -6.4 points from our PEST analysis. In Eastern Europe, the most suitable country for expansion is still Romania, which is more suitable in the population and share of people working in ICT indicators.

The most suitable countries for expansion are in the Western Europe region. The most suitable countries for expansion are Germany, the Netherlands or Italy, which in particular have a lower tax

burden on businesses and are also more technologically advanced, which is underlined by the fact of the large number of online businesses operating in the market and people shopping online. Even so, the countries with the highest scores are France and Sweden.

Table 5 - Overall assessment of the EU countries

	POLITICAL		ECONOMICAL			SOCIAL		TECHNOLOGICAL		TOTAL
	Political stability	Taxes (%of Revenue)	% of internet Revenues	Number of eshops	Value added in ICT	Population	People shopping online	Persons in ICT	Innovation Index	
Sweden	1	-1	1	-1	1	0	1	0	1	3
France	-1	1	-1	1	0	1	1	0	1	3
Italy	-1	1	-1	1	-1	1	1	1	0	2
Netherlands	-1	0	0	1	0	1	1	-1	1	2
Germany	-1	1	-1	1	-1	1	1	-1	1	1
Belgium	-1	0	0	-1	-1	1	0	1	0	-1
Spain	-1	0	0	0	-1	1	1	-1	0	-1
Luxembourg	1	0	-1	-1	1	-1	-1	-1	1	-2
Ireland	0	0	1	-1	-1	-1	-1	-1	1	-3
Malta	1	-1	-1	-1	1	-1	-1	-1	1	-3
Portugal	0	-1	-1	1	-1	0	-1	0	0	-3
Denmark	0	-1	-1	-1	0	-1	-1	0	1	-4
Austria	-1	0	-1	-1	-1	-1	-1	1	1	-4
Romania	-1	-1	-1	-1	-1	1	0	1	-1	-4
Cyprus	-1	-1	0	-1	1	-1	-1	0	0	-4
Finland	0	-1	-1	-1	0	-1	-1	-1	1	-5
Estonia	-1	-1	-1	-1	1	-1	-1	-1	1	-5
Poland	-1	-1	-1	-1	-1	1	1	-1	-1	-5
Bulgaria	-1	-1	-1	-1	1	-1	-1	-1	0	-6
Hungary	-1	-1	-1	-1	0	0	-1	-1	0	-6
Greece	-1	-1	-1	-1	-1	0	-1	0	-1	-7
Croatia	-1	-1	-1	-1	0	-1	-1	0	-1	-7
Latvia	-1	-1	-1	-1	1	-1	-1	-1	-1	-7
Lithuania	-1	-1	0	-1	-1	-1	-1	-1	-1	-8
Slovenia	-1	-1	-1	-1	-1	-1	-1	-1	0	-8
Slovak Republic	-1	-1	-1	-1	-1	-1	-1	-1	-1	-9

Source: Own processing

France, despite having the second lowest share of online sales of the European Union at 3.7%, has a very developed technological environment together with the third highest number of online shops in the European Union, serving the second highest number of people online at over 52.4 million. The environment is also the second lowest in terms of tax burden at 20.81%.

In contrast, Sweden has a high tax burden on businesses, with 37.29% of sales subject to tax. The advantage for Tanganica is mainly the high proportion of 86.4% of people shopping on the internet and the second highest proportion of internet sales of 10.5 in the European Union. Overall, the indicators chosen to indicate the digital and technological maturity of this market, which is desirable for Tanganica.

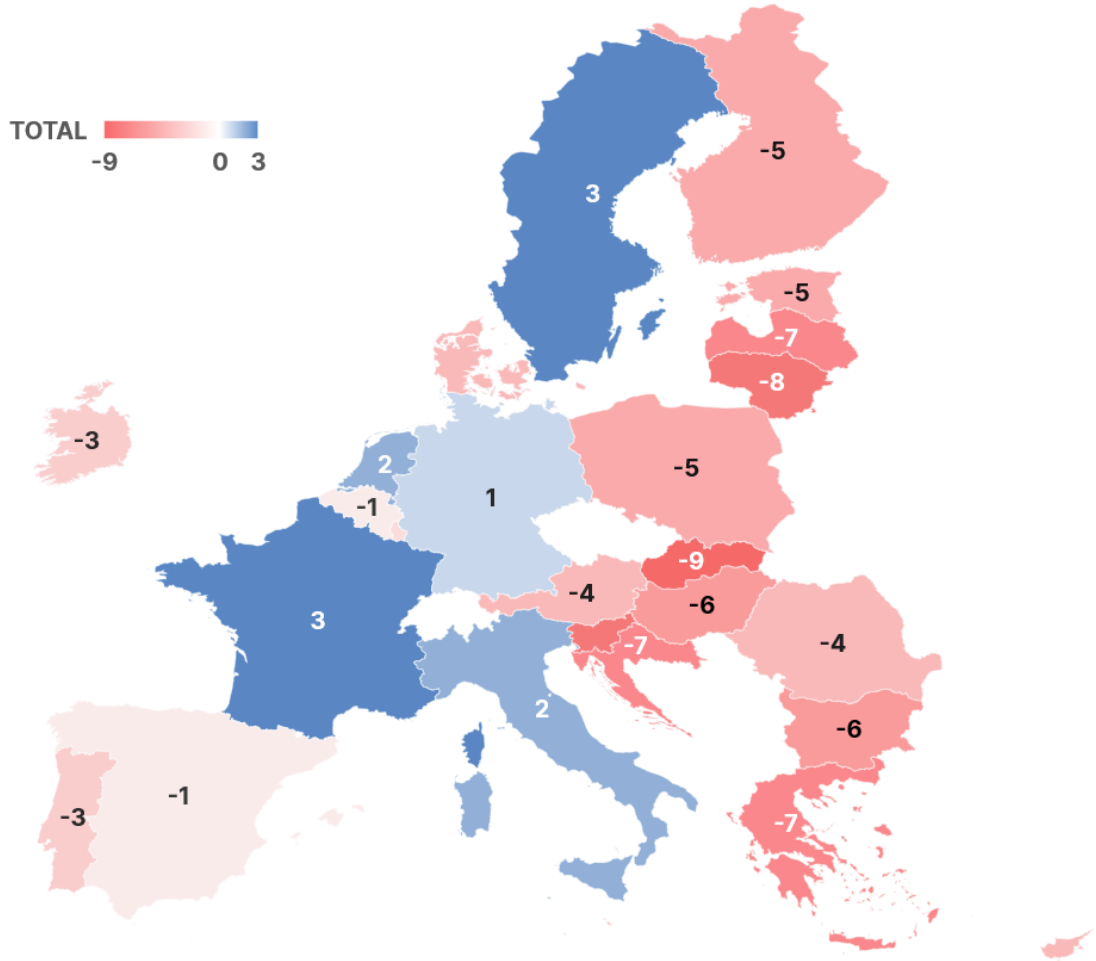

Figure 13 - Map of overall assessment of EU countries
Source: Own processing

3.6 Recommendations

For startup Tanganica, according to the conducted research, the most suitable conditions for expansion are in Sweden and France. Therefore, Tanganica should try to expand to these countries in the first phase of growing international.

It is a strategic decision whether to choose Sweden first. Swedish market is typical with a high tax burden on companies, which reduces the overall profitability of the company, but it also means an obstacle to new competition entering the market and thus reduces the risk of new competition on the market. On the contrary, the data in this market indicate a high potential for the adaptation of the new tool by clients and thus a better penetration of the Tanganica tool into the market.

France, on the other hand, offers opportunities in a higher number of online shops - potential clients of Tanganica, which also indicates less bargaining power of clients than in Sweden. Also, the tax burden here for businesses is the second lowest in the European Union, making Tanganica less expensive in this regard. But here the risk of emerging competition also increases. The negatives of the French market for Tanganica are also a decidedly lower share of Internet sales together with the online shopping population, which indicates the possibility of a harder market penetration and a worse or slower adaptation of the tool in this market.

Thus, both markets offer opportunities, but also risks for the company, and it is up to Tanganica management to decide whether to go the French route of a lower tax burden and a high number of clients, but probably slower penetration, or to expand to Sweden - a more technologically advanced market with a higher tax burden, but with a higher probability easier tool adaptation.

Conclusion

This thesis posed the question "Which EU country offers the most suitable market environment for the expansion of IT startup Tanganica?", aiming to identify the most promising market environment in the European Union for the expansion of the company Tanganica.

The theoretical part introduced the issue of internationalization and various forms of business entry into foreign markets, which were divided into non-capital investment-intensive forms of entry, capital entry by firms, and direct export and import. Additionally, four forms of internationalization strategies were presented along with various models of internationalization. Regarding services, the modes of service provision in international trade were also highlighted.

In the second half of the theoretical part, the European Single Market was described and defined along with an outline of its history. Subsequently, its four main freedoms, on which the single market is based overall, were described together with the European Digital Market, and highlighting its importance in terms of technological growth and innovation in the European Union. The practical part of this thesis dealt with answering the posed question and fulfilling the goal to find the most suitable market environment for the expansion of the IT startup.

The practical part was divided into three sections, where the first described the startup itself and its history along with its approach to innovation, expansion, and overall pricing model. The other two parts of the practical section were focused on the analysis and research of individual markets according to Porter's Five Forces model and PEST analysis. Porter's model of five forces determined the various forces that can influence a business's success in the market using indicators such as the Innovation Index, the number of people shopping online, or the share of internet sales in total sales. To understand the external environment affecting the business, a PEST analysis was chosen, composed of nine indicators regarding the findings in Porter's Five Forces model. Thanks to this analysis and its evaluation, it was concluded, and the question was answered that the most suitable environments for the expansion of the IT startup Tanganica are the countries of France and Sweden. Thus, this result also fulfilled the goal of the thesis to evaluate the most suitable market environment for expansion in the European Union.

The thesis acknowledges that despite the comprehensive approach to market analysis, there may exist external factors not included that could influence the success of the expansion. Another limitation could certainly be the reliance on data that may no longer be current.

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