



INTERNATIONAL TRADE RESEARCH

SAMPLE RESEARCH PLAN

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1. Executive Summary

The following market research report is for Ayogo, a Vancouver-based company that creates social games for social networks and mobile platforms. The report analyzes the market suitability of two potential export markets, Japan and Brazil, based on country, market, and industry characteristics that may have an impact on Ayogo's business entry and operation. The data is analyzed against Ayogo's strategic objectives to pursue an export market in order to diversify its risk, access emerging market opportunities, and develop its experience and brand recognition in overseas markets. This report concludes that Brazil provides the most potential for Ayogo, given its apparent lack of strong industry competition and opportunity for competitive advantage, economic and industry growth potential and ease of market entry compared to Japan. An action plan is outlined at the end of the report, which includes the recommendation for further market research and a fact finding visit to validate research and further profile the competitive landscape and potential partners.

Table of Contents

2. Research Plan	3
2.1 Strategic Objectives.....	3
2.2 Research Topics.....	3
2.3 Research Objectives.....	4
3. Research Methodology	5
3.1 Political, legal & business environment.....	5
3.2 Market description	6
3.3 Mobile & social gaming industries.....	6
3.4 Competitive intelligence.....	7
4. Relevance, Reliability & Currency of Data	8
5. Logic and Analysis of Data	8
5.1 Logic.....	8
5.2 Analysis.....	9
6. Market Intelligence	11
6.1 Political, legal and business environment.....	11
6.2 Market description.....	13
6.3 Product-Specific Market Data: Social and Mobile Game Market Profiles.....	16
7. Competitive Intelligence	19
7.1 Major market players and position.....	19
7.2 Main competitors in content development.....	20
7.3 Market opportunity for competitive advantage.....	21
8. Conclusion and Action Plan	22
8.1 Conclusion.....	22
8.2 Action plan.....	23
Appendix	24
Bibliography	28

2. Research Plan

Ayogo is considering expanding its international presence, given high levels of competition in Canada and the United States. Ayogo has identified Japan and Brazil as two potential markets because of recent intelligence on emerging mobile and social gaming markets and now needs to decide which has the most potential.

2.1 Strategic objectives

Ayogo's strategic objectives for exporting to either Japan or Brazil are the following:

- Expand sales to markets outside of North America for mobile and social games to diversify risk
- Access markets with less competition and emerging opportunity to create an international presence and brand
- Gain experience developing games for culture/ language to develop expertise in-market, develop a "presence" and further expand sales in the region

By achieving the above objectives, Ayogo will be able to continue expansion of its Vancouver-based operations and use revenues from international sales/ service work to develop its own intellectual property. The company will not be affected as strongly by downturns in the North American market and can gain international brand recognition.

2.2 Research topics

Ayogo develops mobile and social games for a variety of clients, including:

- Online content creators that want to build new revenue streams for content
- Organizations that want to reach their target audience through social networks & casual games and motivate them to action
- Video game developers that want to take existing games to different platforms/ networks

In order for Ayogo to be successful in any market, there must be a large population that uses mobile devices and/or social networks for the purposes of gaming. There must also be a demand by the above listed target clients to utilize these platforms to reach target audiences. Markets should also have iPhone and Blackberry penetration, as Ayogo has expertise in developing for these platforms.

2.3 Research Objectives

Based on the above information, main research objectives will be to:

- 1) *To examine the political, legal and business environment of the two countries and develop a market description involving key aspects that may aid or hinder the market entry and growth.*

Purpose: To develop an overview of country characteristics and identify key aspects not in Ayogo's control that may be barriers to entry and/or strategic opportunities.

- 2) *To profile the social and mobile gaming industry in Brazil and Japan*

Purpose: To develop a social and mobile games industry profile for social and mobile games in the two markets and assess the suitability of Ayogo's offerings and required product adaptation (i.e. development for different platforms, in other languages and/or different age groups).

- 3) *To identify key competitors and assess their service offerings, market share and competitive advantage*

Purpose: To identify gaps in the market where Ayogo may be able to gain a competitive advantage

3. Research Methodology

Research will be conducted primarily through use of secondary, online resources. Primary research will be conducted through engaging the Canadian Trade Commissioner Service for intelligence related to industry information and opportunities specific to Ayogo.

Information gathered will include both quantitative and qualitative data. Quantitative data will be used to compare market size and costs between Japan and Brazil. Qualitative data will be used to compare aspects of the two markets, including cultural considerations, issues and trends.

3.1 Analyze the political, legal & business environment

(a) Key information required:

i. Qualitative:

- Political: degree of government intervention, political stability
- Legal: government views toward protection of Intellectual Property and Internet censorship
- Business: currency fluctuation

ii. Quantitative:

- Political: # of years current government has been in office
- Legal: comparison of corporate, sales & import taxes
- Business: inflation levels, historic currency fluctuation data

(b) Sources:

Information regarding the above outlined points, will be gathered through the online resources, including country government websites, the CIA – The World Fact Book, Wikipedia, the Federal Reserve Bank of St. Louis, The Canadian Trade Commissioner Service and reputable news websites.

3.2 Develop a market description

(a) Key Information required:

i. Qualitative:

- Market: language
- Infrastructure: internet and mobile phone usage
- Economic: education levels, R&D commitment, income disparity characteristics
- Trade: Trade characteristics between Canada and Japan/ Brazil, business challenges for importers

ii. Quantitative:

- Market: population, population in urban areas, age distribution
- Infrastructure: internet and mobile phone usage rates
- Economic: education rank and literacy rates, R&D as a percentage of GDP, % of population below poverty line
- Trade: bilateral trade figures between Canada and Japan/ Brazil

(b) Sources:

Information will be gathered through online resources including the CIA World Factbook, the UN Human Development Report, University studies, government websites, the Canadian Trade Commissioner Service, Wikipedia and Google search engine results.

3.3 Profile mobile and social gaming industries

(a) Key Information Required:

i. Qualitative:

- Video game market characteristics, key sub-sectors

- Top social networks & mobile phones/ smartphones

ii. Quantitative

- Video game market size/ statistics
- Social network use statistics
- Blackberry and iPhone penetration statistics

(c) Sources:

Information regarding social network and mobile game market characteristics in Japan and Brazil will be gathered through web research, particularly analyzing industry publications/ associations, news articles, Wikipedia, social media (i.e. blogs, discussion boards) and search engine results,

3.4 Gather competitive intelligence

(a) Key Information Required:

i. Qualitative:

- Competitors in the social and mobile game space
- Competitors' service offering, location and affiliations
- Intelligence on opportunities for Ayogo

ii. Quantitative

- Competitors' staff numbers
- Competitors' user base

(b) Sources:

Information regarding competitors will be gathered through online research, including search engine results, news articles, company websites, government directories and industry publications.

4. Relevance, Reliability & Currency of Data

Qualitative and quantitative data collected for the purposes of this market research were obtained through the most reliable sources possible, including reputable websites such as the CIA World Factbook, the Trade Commissioner Service, the UN Human Development Report and various qualified news sources. Dates of source publications were checked to ensure the information is still relevant. Where possible sources with dates between 2008 and 2010 were used, given how quickly the digital media industry advances. When using Wikipedia, sources cited were checked for reliability and currency.

Data was chosen based on its perceived potential impact on Ayogo's market entry into both countries with key considerations noted for each topic under the market intelligence section.

When comparing data between Japan and Brazil, the same source of information, topic definition and time period were used where possible to ensure the same accuracy. When pulling comparative information from separate sources, values were converted to the same form of measurement (i.e. US dollars) and publications with obvious source biases were avoided.

Information determined from this data will include country and market characteristics that provide opportunity or create barriers to entering Japan or Brazil. Industry characteristics will help identify the customer demographic and competitive landscape and will be used to identify market gaps where Ayogo may have a competitive advantage. Based on data provided, a recommendation will be made regarding which country Ayogo should choose to pursue and areas requiring further market research will be noted.

5. Logic & Analysis of Data

5.1 Logic

The data collected in this report has been transformed into strategic information through the creation of tables and section topics that compare specific data between Japan and Brazil and note the key consideration that the company should note when comparing the two topic areas for each country. Visual aids were used where possible for illustration purposes in the appendix.

5.2 Analysis

Key considerations for Ayogo when considering market entry into both Brazil and Japan that were assessed included the following areas:

(a) Government stability and Economic Situation

Brazil appears to have a more stable political situation than Japan, given the recent turnover of political leadership in Japan compared with Brazil. Economically, Brazil appears to be in a period of growth and has been identified as one of the biggest four emerging 'BRIC' countries (Brazil, Russia, India, China). Alternatively, Japan is in a period of economic decline and facing a deep recession. The stable government and growing economy in Brazil may provide more opportunity and less risk when entering the market for Ayogo. Higher inflation and currency fluctuation in Brazil should be noted, but appears to be on a downward trend. Should Ayogo choose to enter the Brazilian market, invoicing in US dollars is recommended.

(b) Government Involvement in Intellectual Property, Censorship and Research & Development

Compared to Brazil, Japan's government appears to be more involved in the above areas, with stricter policies for both intellectual property and censorship and strong support for research and development in technology. If Ayogo has key IP it wishes to protect, Japan may be a safer market. However, restrictions on the delivery of content to minors through mobile devices should be further researched prior to market entry. Tax credits or grants for R&D in Japan may provide Ayogo with funding toward co-development of new technologies with a Japanese partner.

(c) Market Entry Costs

Tax regimes in both Brazil and Japan appear somewhat complex and will likely require further consultation with tax specialists to determine the total added cost for services delivered and whether Ayogo is required to pay sales or value added taxes for services its provides. Japan's withholding tax for royalties on software/ media should be a concern for Ayogo, as the company will likely need to enter into a partnership arrangement with a Japanese firm.

(d) Population Demographics & Technology Usage Rates

Both countries have large populations with high internet and mobile phone usage. Japan appears to have an aging demographic compared with Brazil, which may lead to higher mobile and social network use in Brazil over the longer term. Although Brazil has a greater income disparity and population below the poverty line, a consumer-focused emerging middle class may provide opportunity for targeted marketing.

(e) Noted Trade Environment and Challenges for Importers

Both countries maintain a positive trading relationship with Canada and recommend that companies use local partners for market entry given the importance placed on relationships and complex business environments. Localization and language barriers may be more of an issue for Japan, given complex translation software and the use of Japanese in business transaction. English language use in large cities is noted for, which may ease the process of finding a local partner.

(f) Market for Mobile and Social Games

Brazil and Japan both have strong mobile and social gaming markets. Japan's industry is more mature with a greater number of dominant players with large market shares in the industry; where as Brazil's industry is still developing, has fewer local players and lacks government support. Ayogo may require further market research to identify dominant local players in Brazil. However a greater need for outside expertise/ knowledge appears to exist, which may provide more partnership opportunities.

In comparing the two market sectors, there appears to be opportunity related to mobile game development in Japan and opportunities for both platforms in Brazil.

(g) Top Brands & Platforms

Ayogo has experience developing for North American social networking platforms and smartphones. Therefore, Brazil's social network platforms allow Ayogo to utilize its existing expertise (Facebook & LinkedIn) and learn only one new platform (Orkut).

Brazil has more carriers providing BlackBerry and iPhone smartphones, which may allow access to a greater user base and more partnership opportunities. However, smartphone

usage rates by brand could not be obtained and therefore cannot be compared with Japan's to make a definitive decision regarding greatest market opportunity.

(h) Competitive Offerings

Japan appears to have a greater number of competitors with market dominance, which may make it difficult to have a competitive advantage. In addition, its brand orientation and tight business networks may pose a key barrier to Ayogo's market entry.

Further research is required to identify major competitors in Brazil, as secondary research on game developers was limited. In analyzing market opportunity information provided by the Trade Commissioner Service, Brazil has more market entry opportunity, given the industry is less developed than Japan and there are less localization and language barriers.

6. Market Intelligence

<u>6.1 Political, Legal & Business Environment</u>		
Topic	Japan	Brazil
Government Stability <i>Consideration: stability of government policy & changes that could affect sales</i>	<ul style="list-style-type: none"> • Stable political system, but political leadership has changed 5 times over the past 4 years, resulting in uncertainty regarding implementation of new policy. 	<ul style="list-style-type: none"> • Stable political system • President Lula da Silva has been in leadership since 2003 and has implemented many successful reforms that have enabled Brazil to rank high in the UN Human Development Index.
Intellectual Property Protection <i>Consideration: protection of IP in-country and chances of piracy</i>	<ul style="list-style-type: none"> • Strong IP laws and enforcement • Under laws, software can be reproduced for personal use 	<ul style="list-style-type: none"> • IP laws exist, but enforcement is weak and piracy is high. • Legal disputes can take years and provide little penalties.

<p>Government involvement in Internet Censorship (see exhibit A)</p> <p><i>Consideration: restrictions on internet use by population</i></p>	<ul style="list-style-type: none"> • Some internet censorship • Filtering policy applied to mobile phones that restrict content available to minors. Criticism has been cited over the wide scope, including a game-download site (Japan Times, 2008). 	<ul style="list-style-type: none"> • Some internet censorship • Legislation restricts freedom of expression, particularly related to publications considered racist
<p>Tax Regime</p> <p><i>Consideration: additional costs associated with export & sale process</i></p>	<ul style="list-style-type: none"> • 20% withholding tax on royalties paid to a non-resident foreign company (by customer or Japanese company to its foreign affiliate). Deducted from the value of the invoice (includes software, media, patent or license rights etc) paid to the Japanese national tax office. • 5% consumption tax on all domestic purchases and imports that companies can reclaim (equivalent to sales tax). • 42% corporate tax rate, including national and local income taxes, paid by companies with a physical presence in Japan. Applicable to income earned in Japan and overseas. <i>Note: a Japanese branch-office (or a 3rd party agent) of a non-resident company is considered a permanent establishment and will be charged corporate taxes.</i> <p>(Venture Japan, 2009)</p>	<ul style="list-style-type: none"> • IPI – a federal excise tax applied to all manufactured products. Rates vary according to type of good. • ICMS – a state-level value added tax applied to products ranging by state between 7% & 25%. Most commonly at 18%. • PIS – a tax between 0.65% & 1.65% levied on monthly gross income of corporate entities • COFINS – levied on imports, assessed on the customs value of goods or price paid for services, including applicable taxes. General rate is 7.6%¹ <p>(The Canadian Trade Commissioner Service, 2010)</p>

<p>Inflation</p> <p>(CIA- The World Factbook, 2010)</p> <p><i>Consideration: rising costs and ability of consumers to pay for goods</i></p>	<ul style="list-style-type: none"> • 1.4% (2009), 1.4% (2008) • 4th lowest worldwide 	<ul style="list-style-type: none"> • 4.2% (2009), 5.9% (2008) • Ranked 133 worldwide
<p>Currency Fluctuation</p> <p><i>Consideration: ability to plan for losses associated with exchange rate fluctuations</i></p>	<ul style="list-style-type: none"> • Japan's exchange rate has fallen to some of its lowest levels in the past two years (Appendix, Exhibit B) due to a dramatic decline in trade volumes. 	<ul style="list-style-type: none"> • Up until 1999, the Brazilian Real was pegged against the US dollar. Over the past ten years, it has floated with an average of \$2.34 (Bank for International Settlements, 2009). • The past 3 years have been fairly steady, with the exception of a slight increase in early 2009. (Appendix, Exhibit C)

6.2 Market Description

<u>6.2.1 Demographic</u>		
Topic	Japan	Brazil
Language	Japanese	Portuguese
Total population	126.8 million (World Factbook, 2010)	201.1 million (World Factbook, 2010)
<p>% of population in urban centres</p> <p><i>Consideration: access to technology & communication infrastructure</i></p>	66% (World Factbook, 2010)	86% (World Factbook, 2010)

Age Distribution <i>Consideration: younger generations tend to play videos on social & mobile networks</i>	0-14 years: 13.3% 15-64 years: 64.1% 65+ 22.6% (World Fact Book, 2010)	0-14 years: 26.5% 15 – 64 years: 66.9% 65+: 6.6% (World Fact Book, 2010)
6.2.2 Infrastructure		
Internet Usage <i>Consideration: access to social & mobile application networks</i>	95, 979,000 users (Sept/09), 75% penetration (see appendix, exhibit D)	<ul style="list-style-type: none"> • 72,027,700 users (Dec/09), 36.2% penetration (see appendix, exhibit E) • 49% of Brazilian cities have broadband infrastructure and government initiatives are in place to increase broadband access in schools (Canadian Trade Commissioner Service, 2009).
Mobile Phone Use <i>Consideration: potential population that can access mobile games</i>	107,490,000 mobile phones in use (Wikipedia, 2009)	185,135,000 mobile phones in use (Wikipedia, 2010)
6.2.3 Economic Development		
Education (United Nations Human Development Report, 2009) <i>Consideration: potential for workforce in this industry and skill level to utilize technology</i>	<ul style="list-style-type: none"> • Ranked 10th for education on the human development index • Very High level of education • Literacy rate for those 15+ is 99% (CIA World Factbook, 2010) 	<ul style="list-style-type: none"> • Ranked 75th for education on the human development index • Regional and racial disparities exist for quality of education • Literacy rate for people 15+ is 88.6% (CIA World Factbook, 2010) • The government fosters research through a number of government grants and university-sponsored research positions

<p>Research & Development</p> <p><i>Consideration: advancements in video game, social network or mobile industries</i></p>	<ul style="list-style-type: none"> • Ranked 4th in total R&D expenditures in 2007 at 3.4% of GDP (Trade Commissioner Service, 2010) 	<ul style="list-style-type: none"> • 0.98% of GDP goes toward innovation. (Wharton University of Pennsylvania, 2008) • The government fosters research through a number of government grants and university-sponsored research. • Majority of patents are coming out of universities rather than industry, hindering innovation in industry.
<p>Income disparity</p> <p><i>Consideration: % of population able to afford electronics and internet access</i></p>	<ul style="list-style-type: none"> • A number of reports suggest the income disparity is growing in Japan, as its middle class shrinks. • 15.7% of population is below the poverty line (New York Times, 2010) 	<ul style="list-style-type: none"> • There is still large income disparity with the richest 10% receiving 42.7% of the nation's income. However, stats show high levels of income growth for poorer populations. • An emerging lower middle class of approx 95.4 million people has recently become key targets for marketers. (Advertising Age, 2010) • 26% of the population is below the poverty line (CIA World Factbook)
<p><u>6.2.4 Trade</u></p>		
<p>Trade & Investment</p> <p><i>Consideration: trade relations with Canada</i></p>	<ul style="list-style-type: none"> • 2009 bilateral trade valued at CAD \$26.4 billion • Japan's foreign direct investment holdings in Canada in 2008 was \$13 billion, where as Canadian direct investment into Japan was only \$3.1 billion. <p>(Canadian Trade Commissioner Service, 2010)</p>	<ul style="list-style-type: none"> • 2009 bilateral trade valued at CAD\$4.2 billion • Two-investment has increased in recent years between Canada and Brazil. In 2009, Brazil's cumulative investment into Canada was CDN \$14.8 billion and Canadian direct investment into Brazil was CDN \$11.4B (2009). <p>(Canadian Trade Commissioner Service, 2010)</p>

<p>Business Challenges for Importers</p> <p><i>Considerations: barriers to market entry and additional resources required</i></p>	<ul style="list-style-type: none"> • Complex market and regulatory environment • Takes time to form relationships within tightly knit Japanese corporate network. More than one trip to market should be expected prior to generating business. • Non-tariff barriers affect trade of some product under information and communications technologies. • Localization is a key success factor and there is substantial complexity and cost to translate software programs into Japanese (requires 'double-byte' programming) • Importance placed on relationships and face-to-face interactions require the use of a local partner 	<ul style="list-style-type: none"> • Market-related information is difficult to obtain, so foreign companies often rely on local partners. • Wages are lower in Brazil than compared with the United States. However, taxes and labour benefits can increase costs greatly. • The importance placed on relationships and face-to-face interactions require the use of a local partner
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6.3 Product-Specific Market Data: Social and Mobile Game Market Profiles

6.3.1 Video Game Market

Japan

The total value of the video game market in Japan in 2008 was 658 billion yen (approx US 7.5 billion), making Japan the second largest video game market². Console games are the main media for Japanese game design, however online, social network and mobile games are becoming increasingly popular.

Game developer education is strong given the size of the industry and number of companies in the sector.

² <http://www.tradecommissioner.gc.ca/eng/market-report-resources.jsp?cid=515&oid=146#592>

Brazil

The value of the video game market in Brazil in 2009 was US \$192 million, with an expected increase to US\$246 million by 2013³. Most of Brazil's industry is focused on non-console video game development, with a strong mobile game market that is separate to other platforms and emerging capability in social network games⁴.

High tax rates and resulting piracy, industry inexperience, poor distribution, lack of investment into the industry and lack of support and funding by government for the industry are listed as key barriers to market entry and development⁵.

Education for game developers is limited with a lack of common program classification between institutions, outdated technology and no industry cluster to support it⁶.

6.3.2 Social Gaming

Japan

Most widely used social networks in Japan are Mixi (15 million users), Mobage Town (11 million users) and Gree (7 million users), with 80% of usage on mobile and the other two not offering a PC version⁷. All three networks have an Open Social standard, which allows for easy market access for game developers. However, the use of development technologies unique to Japan requires foreign developers to partner with Japanese development companies to pursue opportunities.

Brazil

Brazil is the number one country with respect to participation in social networks, with Deloitte estimating that 85% of Brazilian Internet users participate in at least one social network⁸.

Social games are increasing in popularity in Brazil with game applications as a strong factor in joining and continued usage of social networks.

³ <http://www.tradecommissioner.gc.ca/eng/document.jsp?did=102253>

⁴ http://www.gamasutra.com/view/news/26645/Analysis_Inside_Brazils_Video_Game_Ecosystem.php

⁵ http://www.gamasutra.com/view/news/26645/Analysis_Inside_Brazils_Video_Game_Ecosystem.php

⁶ http://www.gamasutra.com/view/news/26645/Analysis_Inside_Brazils_Video_Game_Ecosystem.php

⁷ <http://www.gamezebo.com/news/2010/04/23/social-games-are-booming-japan-you-have-catch-them-go>

⁸ <http://www.tradecommissioner.gc.ca/eng/document.jsp?did=102253>

Most widely used networks in Brazil are Orkut (Google's Social Network), Facebook and LinkedIn. Orkut dominates the market with approximately 50 million users (25% penetration rate). Facebook is projecting Brazilian users to reach 14 million by next year based on an increase of \$2.4 million new users in the first six months of 2010⁹.

6.3.3 Mobile Gaming

Japan

Mobile subscribers in Japan were cited at 111 million in 2009 and the market for mobile game content was \$84.8 billion yen (US \$970 million) in 2008¹⁰.

Major phone operators do not publish themselves, but utilize content providers that can produce for the carrier's platform. Opportunity lies in partnering with Japanese companies to release new mobile content to carriers.

The largest mobile phone companies in Japan are NTT Docomo, KDDI and Softbank Mobile (formerly Vodafone).

Brazil

Mobile subscribers in Brazil were cited at 169.8 million in 2009¹¹. Regulations in the mobile industry require that mobile marketing companies contract with each of the carriers separately. Complexity of contracts requires legal counsel.

The top five mobile phone companies in Brazil are listed in Appendix, Exhibit F.

6.3.4 BlackBerry and iPhone Penetration

Japan

RIM and Apple both currently have only one mobile communication company carrying its product in Japan. However, the iPhone has a 72% market share for smartphones in Japan and Blackberry has a 4.3% market share compared with other major carriers (HTC, Toshiba and Sony Ericsson)¹².

⁹ <http://www.insidefacebook.com/2010/07/14/brazil-facebook-contender-orkut/>

¹⁰ <http://www.tradecommissioner.gc.ca/eng/document.jsp?did=80547>

¹¹ <http://www.tradecommissioner.gc.ca/eng/document.jsp?did=102253>

¹² <http://www.mobilemag.com/2010/04/23/three-quarters-of-japanese-smartphones-are-apple-iphones/>

Brazil

BlackBerry currently has five telecommunication/ wireless companies carrying its product in Brazil. RIM plans to start manufacturing its Smartphones in Brazil to better serve the local market¹³.

Apple has listed four carriers for Brazil on its site. Articles note the creation of mobile applications on the iPhone to reach target customers¹⁴.

Market share percentages for smartphones were not available for Brazil through online research.

7. Competitive Intelligence

7.1 Major Market Players and Position

Japan

There are a large number of mobile game providers in Japan with 80% of games available offered through subsidiaries of large publishers, including Bandai Namco, Sega Sammy, Square-Enix, Hudson, Capcom and Tecmo-Koei (Canadian Trade Commissioner Service, 2010). These large publishers have recently been exploring areas outside of console games for additional revenue streams and to follow market trends. They pose significant barriers to entry for smaller foreign firms, as the Japanese are generally brand oriented.

Brazil

Major developers in Brazil include Microsoft, Nintendo, Sony, Electronic Arts, Disney, Ubisoft, Gameloft, Konamie and Warner Games (Canadian Trade Commissioner Service, 2010).

¹³ <http://www.berryreporter.com/2010/03/11/rim-to-produce-blackberry-smartphones-in-brazil/>

¹⁴ <http://www.mobilebehavior.com/2010/02/11/a-growing-market-for-iphone-branded-apps-in-brazil/>

7.2 Main Competitors in Content Development

Japan

The following companies were identified by the Trade Commissioner Service as key content creators for the video game and mobile game markets in Japan.

Name	Specialty	# of Staff	Reach
Index Corp (Tokyo)	Wireless entertainment applications and content http://www.indexweb.co.jp/index.html	180	Operates approx 110 mobile sites for 7.5 million users. ¹⁵
Cybird co. Ltd (Tokyo)	Content sites for internet-enabled phones http://www.cybird.co.jp/hd/english/top.html	169	Operates 77 websites for four major carriers with 7.34 million users (2002 stats) ¹⁶ .
Dwango Co (Tokyo)	Mobile content, game software & monetization platforms http://info.dwango.co.jp/english/	789	9 subsidiaries, including games companies. Partnership with 3 major carriers ¹⁷
MTI Ltd. (Tokyo)	Mobile content and management of mobile site http://www.mti.co.jp/	489	

¹⁵ http://www.japancorp.net/company_show.asp?compid=2801

¹⁶ http://www.japancorp.net/company_show.asp?compid=2772

¹⁷ <http://info.dwango.co.jp/english/corp/outline.html>

Brazil

The following competitors were noted in blogs, articles and Wikipedia listings.

Name	Specialty	# of staff	Reach
Southlogic (Porto Alegre)	Console games, outsourcing services in art, porting & technology	20	Acquired by Ubisoft in 2009 ¹⁸
Tendi Software (Sao Paulo)	Indie games http://www.tendi.com.br/	5	Small studio
Glumobile (Sao Paulo)	Mobile games http://www.glu.com/	550	Headquartered out of California & offices in London, France, Germany, Spain, Italy, Poland Russia, China, Brazil, Chile, Canada & Mexico
Tec Toy (Manaus)	Console, mobile & PC games http://www.tectoy.com.br/	n/a	Previous relationship with Sega and recently with Zeebo
Continuum Entertainment (Curitiba)	PC and casual games; develops games based on TV shows http://www.continuum.com.br	n/a	Member of development programs at Intel, Nvidia and ATI, etc. which focus on R&D of new technologies
Hoplon Infotainment (Florianopolis)	Middleware, monetization platform for online games & Multiplayer online games http://www.hoplon.com/	n/a	

7.3 Market Opportunity for Competitive Advantage

Japan

Opportunities exist in charged online network games and partnering with Japanese companies to supply new mobile content (Canadian Trade Commissioner Service, 2010).

¹⁸ <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=52345136>

According to the Canadian Embassy in Tokyo, opportunities are emerging for BlackBerry application developers, as DoCommo (carrier of BlackBerry) is looking for competitive application developers who can work with the company to create/ customize interesting applications for Japanese Blackberry users.

Brazil

Given the high mobile phone usage in Brazil, most opportunity exists in mobile game development, followed by casual games and advergaming for the web (Canadian Trade Commissioner Service, 2010).

According to a Trade Commissioner at the Canadian Consulate in Brazil, opportunities exist for mobile and social game developers, particularly if the company is able to find partners in large cities such as Sao Paul or Rio de Janeiro. English language use is widespread and English skills in larger centres should be sufficient to carry on business discussions and transactions.

8. Conclusion & Action Plan

8.1 Conclusion

Based on the above market research and analysis, Ayogo's best target for market entry is Brazil, as it meets the company's strategic objectives to:

- a) *Expand sales to markets outside of North America for mobile and social games to diversify risk*
 - i. Brazil's political stability, economic growth and increased access to infrastructure indicate continued market opportunity for business.
 - ii. Brazil is a strong market for mobile and social games and studies suggest that social network and mobile phone usage is on the rise.
 - iii. Key North American platforms that Ayogo has experience developing applications for are present and widely used in Brazil.
 - iv. Compared with Japan, taxes and business costs appear to be less.
- b) Access markets with less competition and emerging opportunity to create an international presence and brand
 - i. Compared with Japan, Brazil has a less developed social and mobile gaming market, which presents Ayogo with a possible competitive advantage when developing games for Facebook, iPhone and Blackberry.

- ii. Opportunities to partner with local studios to penetrate the market are present and language barriers and localization requirements are less difficult when compared with Japan.
 - iii. Opportunity to develop a brand with a local player are greater in Brazil, where as Japan already has strong competitive brands.
- c) Gain experience developing games for culture/ language to develop expertise in-market, develop a “presence” and further expand sales in the region
- i. English language use in business transactions will allow Ayogo to identify partners and foster relationships to learn what is required in the local game community.
 - ii. Costs of operating in Brazil compared with Japan are significantly less, particularly when compared with Tokyo where many gaming companies are located.
 - iii. Developing Social & mobile games in Brazil may also present future opportunities in other Latin American countries through relationships developed and/or in Portugal due to ability to produce content in Portuguese.

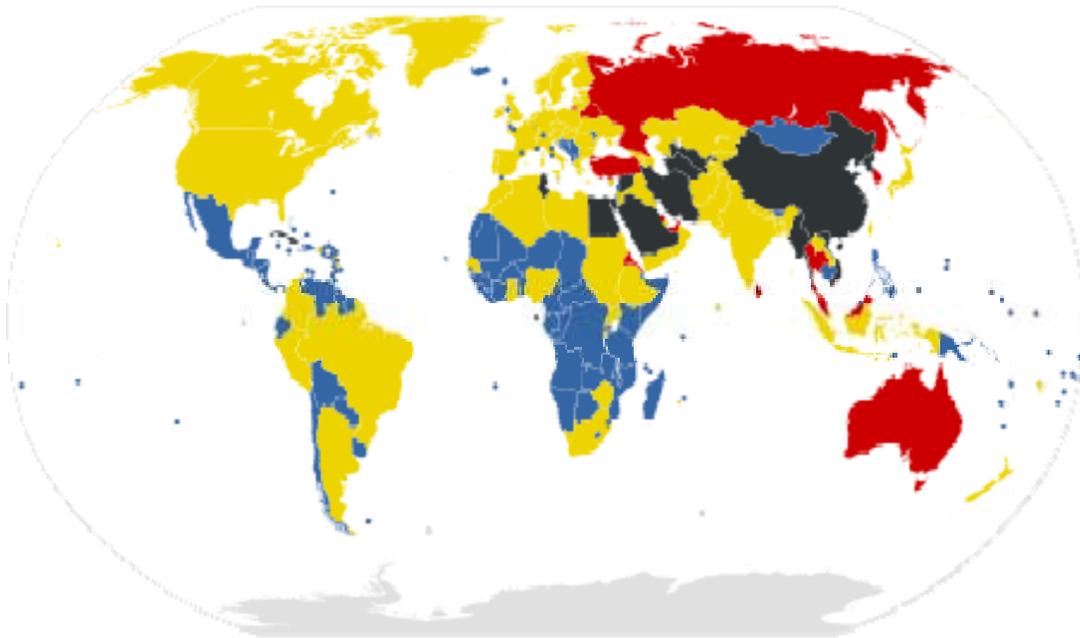
8.2 Action Plan

In order for Ayogo to pursue Brazil for market entry, it is recommended that the company first:

- Utilize paid market research resources to identify smartphone usage rates by brand and profile existing competitors in-market.
- Approach the Trade Commissioner Service to identify potential partners and primary city targets for game development companies and potential clients.
- Visit the market to verify report findings, validate potential partners, foster relationships and visit any applicable trade shows to gather further competitive intelligence.
- Consult a lawyer with business experience in Brazil to discuss liability, contract, labour and other issues that may arise while conducting business in Brazil.
- Consult a tax specialist to determine costs associated with doing business in Brazil.
- Choose a partner based on pre-established criteria and due diligence and proceed with fostering the relationship and identifying initial client targets.

Appendix

Exhibit A – Internet Censorship Worldwide

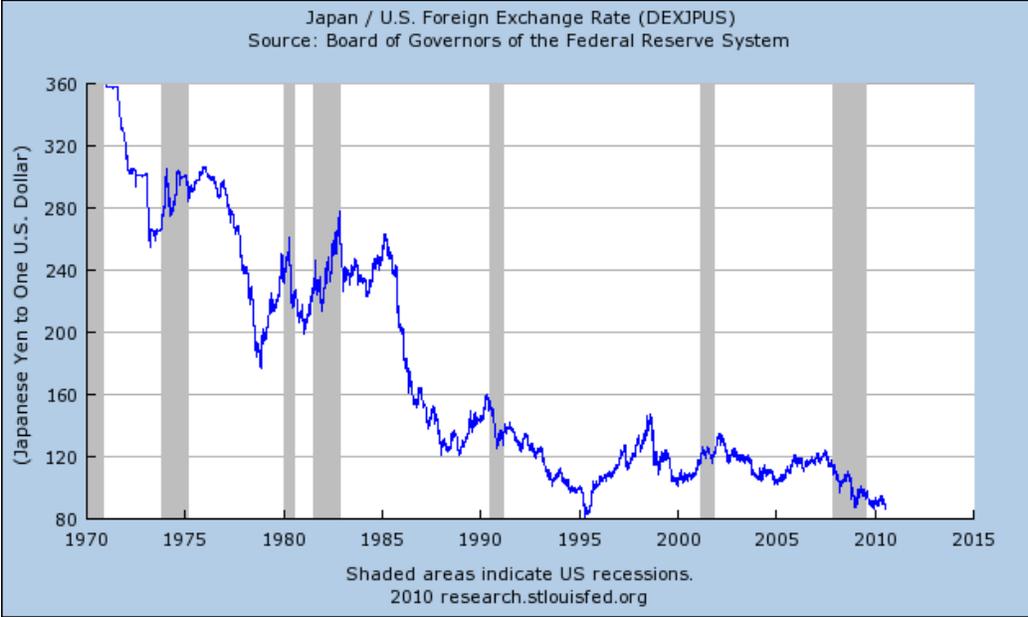


[Reporters Without Borders](#) Internet censorship ratings.

- No censorship
- Some censorship
- Country under surveillance from Reporters Without Borders
- Internet black holes (most heavily censored nations)

Source: http://en.wikipedia.org/wiki/Internet_censorship

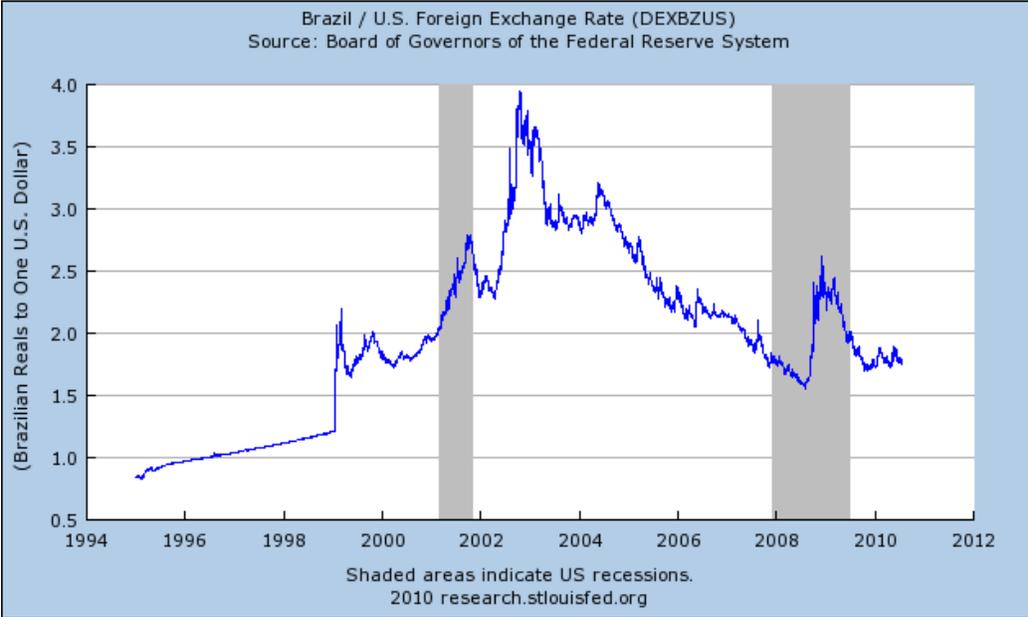
Exhibit B – Japan/ U.S. Foreign Exchange Rate (1970 – 2010)



Source: The Federal Reserve Bank of St. Louis -

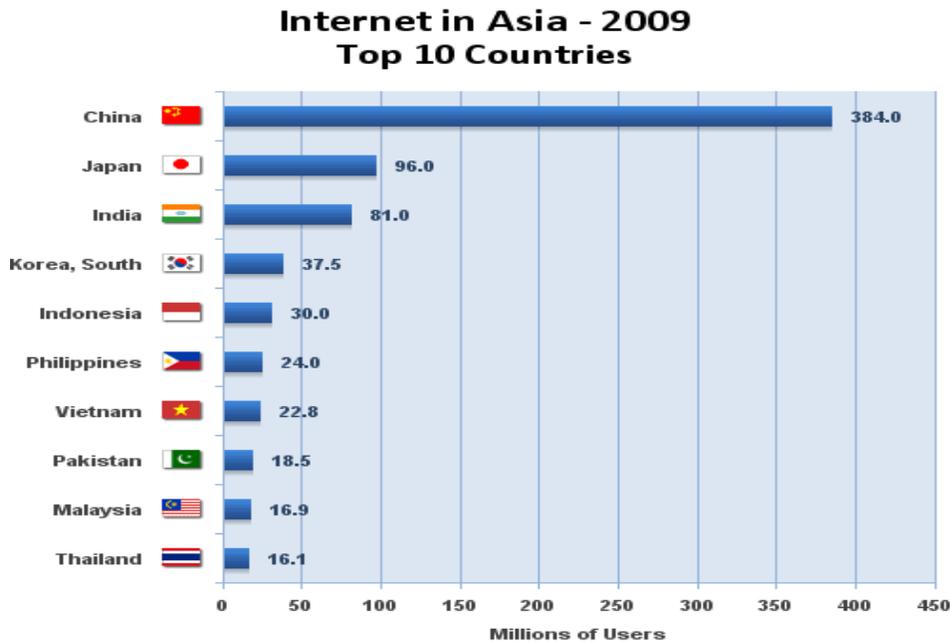
<http://research.stlouisfed.org/fred2/series/DEXJPUS/>

Exhibit C – Brazil/ U.S. Foreign Exchange Rate (1995 – 2010)



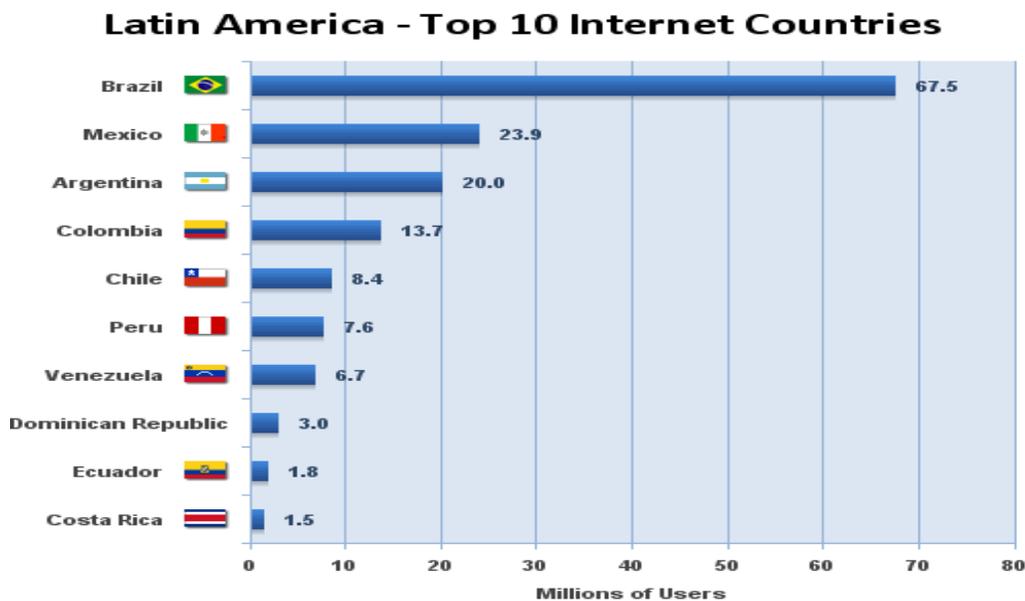
Source: Federal Reserve Bank of St. Louis - <http://research.stlouisfed.org/fred2/series/DEXBZUS/15>

Exhibit D – Internet Usage Rates (Asia)



Source: www.internetworldstats.com/stats3.htm
 Estimated Internet users in Asia 764,435,900 for 2009
 Copyright © 2010, Miniwatts Marketing Group

Exhibit E – Internet Usage Rates (Latin America)



Source: Internet World Stats - www.internetworldstats.com
 162,466,535 estimated Internet Users in Latin America for Dec. 2008
 Copyright © 2009, Miniwatts Marketing Group

Exhibit F – Mobile Phone Companies in Brazil

Rank	Operator	Technology	Subscribers (in millions)	Ownership
1	Vivo	D-AMPS (discontinued) CDMA2000 1xRTT , EV-DO (discontinued) GSM UMTS , HSPA+	51.74 [18] (December 2009)	Telefónica (50%) and Portugal Telecom (50%)
2	Claro	D-AMPS (discontinued) GSM UMTS , HSDPA	44.40 [19] (December 2009)	América Móvil (100%)
3	TIM	D-AMPS (discontinued) GSM UMTS , HSDPA	41.11 [20] (December 2009)	Telecom Italia and Telefonica
4	Oi •Includes Brasil Telecom	GSM UMTS , HSDPA	36.05 [21] (December 2009)	Oi and Telemar Participações
5	NEXTEL	iDEN	1.9389 [22] (March 2009)	NII Holdings

Source: http://en.wikipedia.org/wiki/List_of_mobile_network_operators_of_the_Americas#Brazil

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