

Internationalisation of small companies

International Master Days

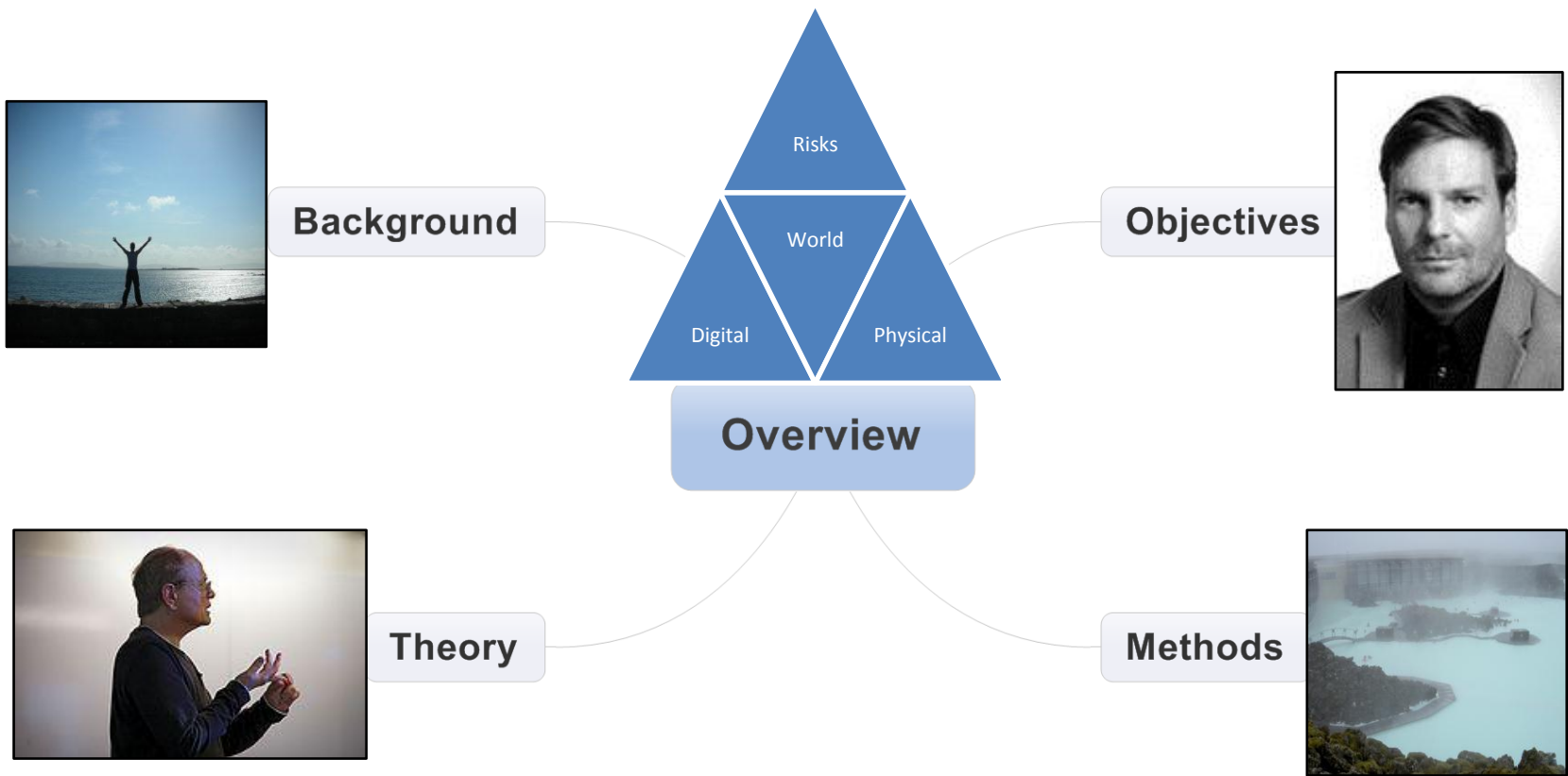
Krems March 30th 2012

Lecture 2

Einar Svansson



What are the risks?



*If you don't know where you are going,
it doesn't matter which route you take*

THE CHESIRE CAT
to Alice in Wonderland

My background

International Master Days
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Lecture 2
Einar Svansson



Who is Einar Svansson?

Background

Family - left wing, labour unions, books, health, sports, environmentalism

Education – seafood production, tourism, strategy, management, marketing, international business

Professional - management, consulting, academic

Research – INNFORM (Pettigrew et.al.), TG4NP, Lead Users (Nordic project) > Exeter Ph.D



IBM®



Education & degrees

Seafood Production Manager (Quality inspector)

BS in Tourism studies & Business Administration

MS in Business Administration and Strategic Management

MS in Marketing and International Business

Ph.D (in progress) in Innovation of Service Industries

The Seafood Industry
Management School



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Aims of my Ph.D research

To explore the role of the user's communities with focus on the virtual innovation communities

To study users and tourism organisations to map up their current innovation network

To explore the relevance of recent trends like sustainable tourism (triangle) and health tourism (wellness, medical) where users can have very strong values or extreme needs

To study the potential lead user role of innovative stakeholders and actors

“How is the service organisation innovating with Lead users?”

Main Research Question

Management Consulting



World's Leading Producer of Aluminum



ParX, business
consulting





My research projects

TG4NP – 2011-2014

Tourist Mobile Guide for the Northern Periphery



Retail in Rural Regions (RRR) - 2010



European Union
European Regional Development Fund

Nordic Innovation Project - 2009-2011

TODAY'S LEAD USERS SHOW TOMORROW'S MAIN STREAM TOURISM OFFERING



INNFORM – 2004-2007
INNOVATIVE FORMS OF ORGANIZING



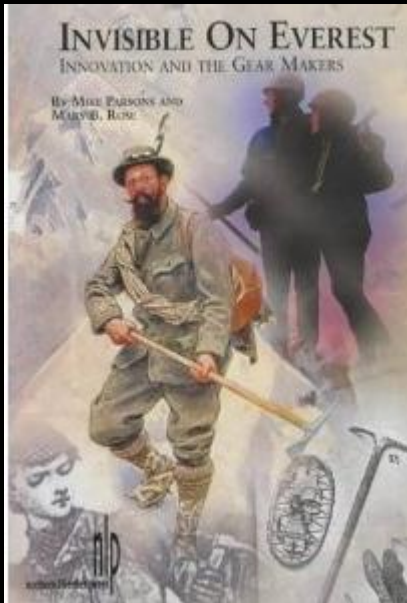
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Where to look?

*Accidental entrepreneur
Intrapreneur*

*B2B
B2C*

Analogous fields



What is a Lead user?

Members of a user population with two characteristics:

- (1) They are at the leading edge of an important market trend(s), and so are currently experiencing needs that will later be experienced by many users in that market.
- (1) They tend to innovate because they anticipate relatively high benefits from obtaining a solution to their needs. Lead-users have tastes or demands that are ahead of the general market. They will most likely be less than 10% of all users. (von Hippel, 1986, 2005)

..... Lead users

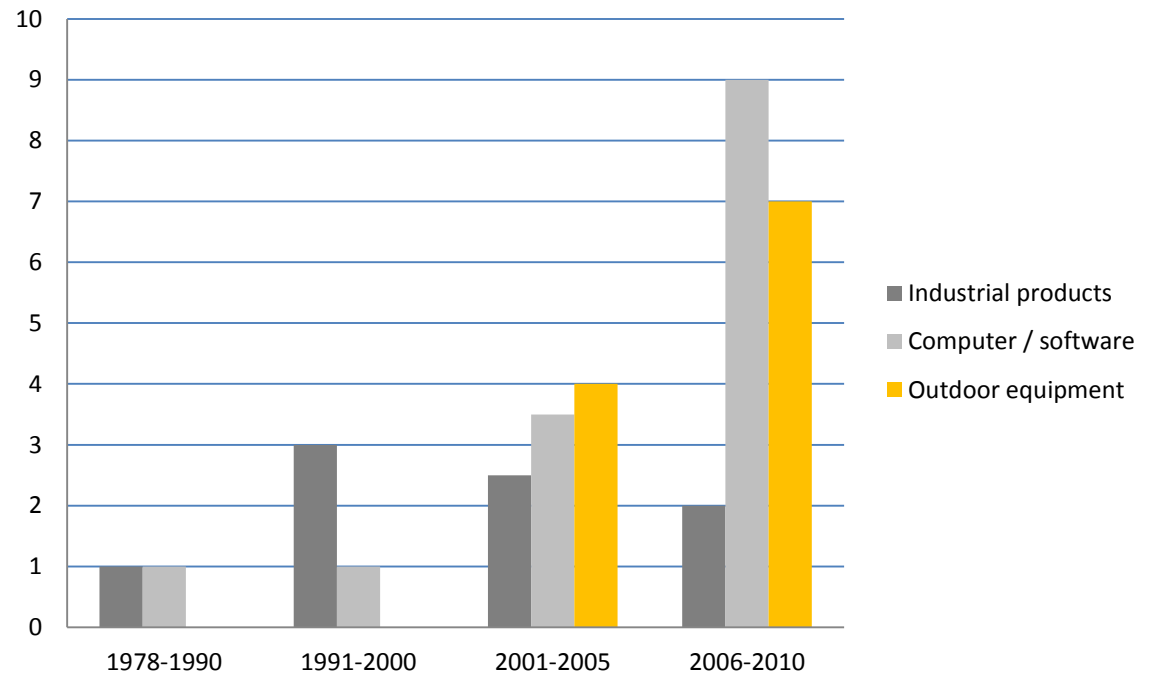
- The Grand tour
- Thomas Cook
- Ray Mears
- Outdoor Companies
(Karrimor, Berghaus, Mountain Equipment)
 - See Parsons and Rose research:
 - Invisible on Everest (2002)
 - British Outdoor Trade 1960-90 (2004)

Lead user research

Skateboarding
Windsurfing
Boardercross
Cycling
Canyoning
Sailplaning
Climbing
Mountaineering
Hiking
Skiing
Mountain-biking
Parasailing
Rodeo-kayaking
Sailing
Snowboarding
Kite-surfing
Diving
Golf

Outdoor sports

Lead user research fields 1978-2010



Possible cases for study

Cross-case comparison

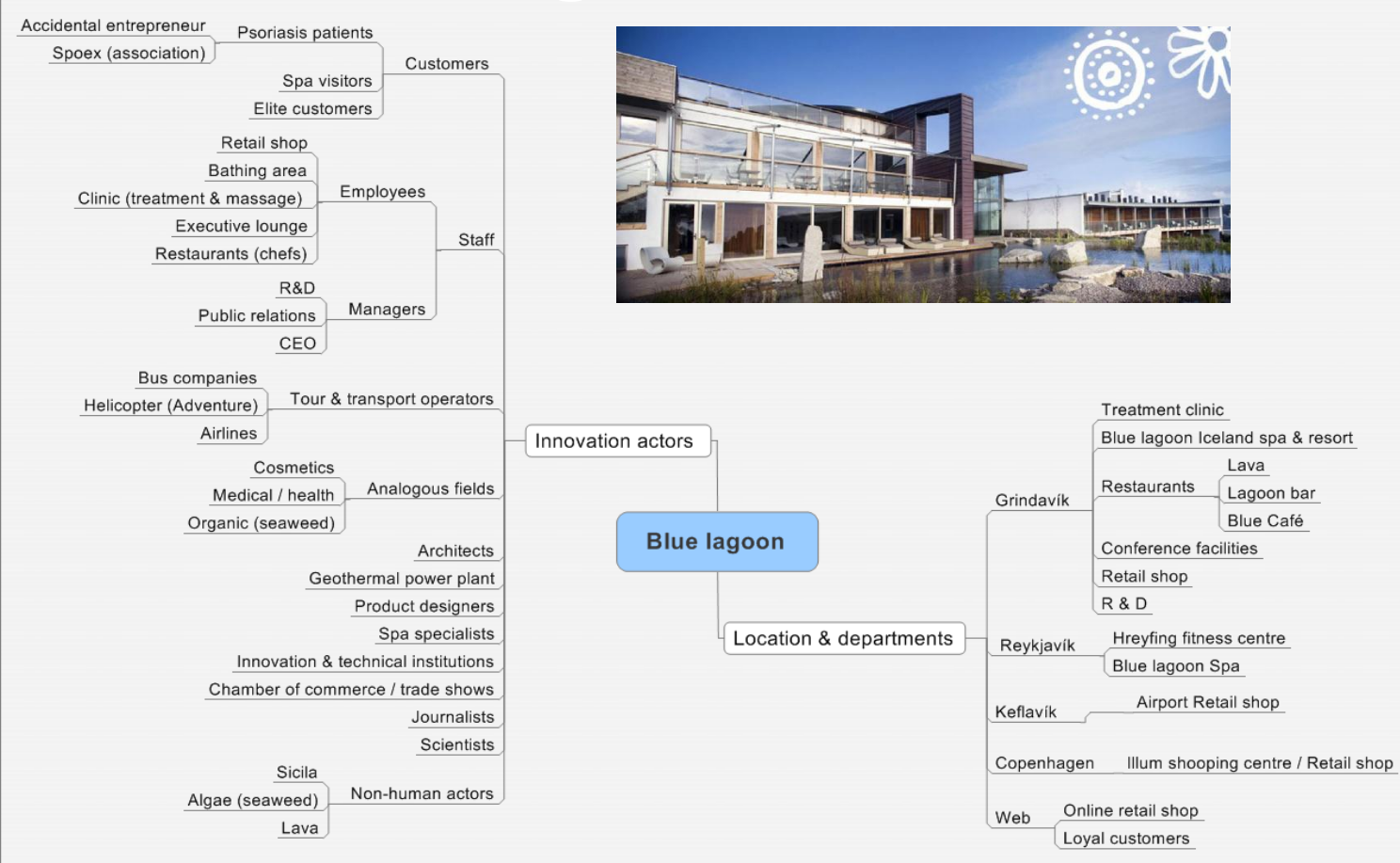
- Blue Lagoon Iceland

- South West England

- Scarlet (Bedruthan steps)
- Hotel & Extreme Academy
 - 15 restaurant
- Whitley Wildlife Conservation Trust
 - Paignton Zoo
 - Living Coasts
 - Newquay Zoo
- Eden Project
- Walkers are Welcome



Blue Lagoon: Actors and activities



“To create energy for life through the forces of nature’”

Blue Lagoon mission



Internationalisation theory & strategic risk factors

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“Every employee and consumer wants to be part of a bigger idea. No brand will be truly loved by anyone it touches unless it shares an inspired, sustainable benefit.”

--- Kevin Roberts,
CEO Worldwide of Saatchi & Saatchi

Main questions?

- What is internationalization?
- Why do companies need to go out of their country)? What country to choose first?
- Is there a difference by size or industry?
- How important is a clear strategy?
- What is the importance of networking?
- What is the importance of the internet?

What is internationalisation?

- Internationalisation is by the definition of Beamish (1990) a *'process where the awareness of a company of its future possibilities international business is awoken and then they create connections to foreign actors and start business abroad'*
- Roth (1995) has a similar view - goes one step further and defines an international organisation (company) as *'interrelated portfolio of resources that is spread geographically with activity in at least two countries'*.

Internationalisation theories

- **Uppsala theory**
 - Step by step, to the **closest** country first
- Transaction cost theory
- Network theories

- **BORN GLOBAL THEORY**
 - Managers look at the whole world as a market early on (from the start-up of the company)

The Uppsala theory is not risky

„Many firms consider internationalization a promising strategy. There are, however, numerous examples of firms which have started international operations without success. We think that the importance of the experience factor is often overlooked.”

(Johanson og Wahlne, 1977)

Step by step

OHT 3.1

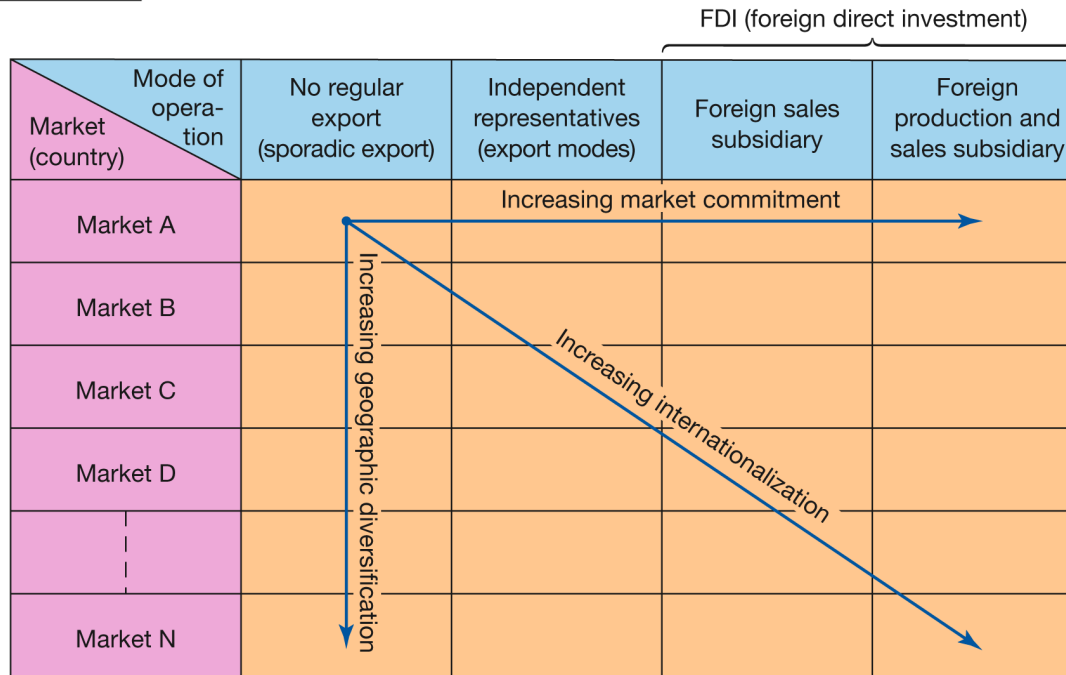


Figure 3.1 Internationalization of the firm: an incremental approach

Source: adapted from Forsgren and Johanson, 1975, p. 16.

Hollensen: *Global Marketing*, 3rd edition © Pearson Education Limited 2003

OHT 12.2

		Number of countries involved	
		<i>Few</i>	<i>Many</i>
Coordination of value chain activities	<i>Few activities coordinated across countries (primarily logistics)</i>	New international market makers Export/import start-up ①	Multinational trader ②
	<i>Many activities coordinated across countries</i>	Geographically focused start-up ③	Global start-up ④

Figure 12.2 Types of international new venture

Source: Oviatt and McDougall, 1994, p. 59. Reprinted with permission by *Journal of International Business Studies (JIBS)*: Georgetown University, Washington DC.

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Born Global

Specific **mindset** from the start

(McDougall ofl., 1994).

Managers (owners) often have an international **background**, education or experience that helps these born global companies to internationalise **very fast**

(Kobrin, 1994; Harveston ofl., 2000).

OHT 1.1

		Industry globalism		
		<i>Local</i>	<i>Potentially global</i>	<i>Global</i>
Preparedness for internationalization	<i>Mature</i>	3. Enter new business	6. Prepare for globalization	9. Strengthen your global position
	<i>Adolescent</i>	2. Consolidate your export markets	5. Consider expansion in international markets	8. Seek global alliances
	<i>Immature</i>	1. Stay at home	4. Seek niches in international markets	7. Prepare for a buyout

Figure 1.1 The nine strategic windows

Source: Solberg, 1997, p. 11. Reprinted with kind permission.

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Considerations in Selecting a Global Service Strategy

Globalization Factors	Global Service Strategies				
	Multicountry Expansion	Importing Customers	Follow Your Customers	Service Offshoring	Beating the Clock
Customer Contact	Train local workers	Develop foreign language and cultural sensitivity skills	Develop foreign customers	Specialize in back-office office service components	Provide extended hours of service
Customization	Usually a standard service	Strategic opportunity	Re-prototype locally	Quality and coordination	More need for reliability and coordination
Complexity	Usually routine	Strategic opportunity	Modify operations	Opportunity for focus	Time compression
Information Intensity	Satellite network	On site advantage	Move experienced managers	Training investments	Exploit opportunity
Cultural Adaptation	Modify service	Accommodate foreign guests	Could be necessary to achieve scale	Cultural understanding	Common language necessary
Labor Intensity	Reduced labor costs	Increased labor costs	Hire local personnel	Reduced labor costs	Reduced labor costs
Other	Government restriction	Logistics management	Inadequate infrastructure	Home office employee morale	Capital investments

Long-term or short-term

OHT 1.3

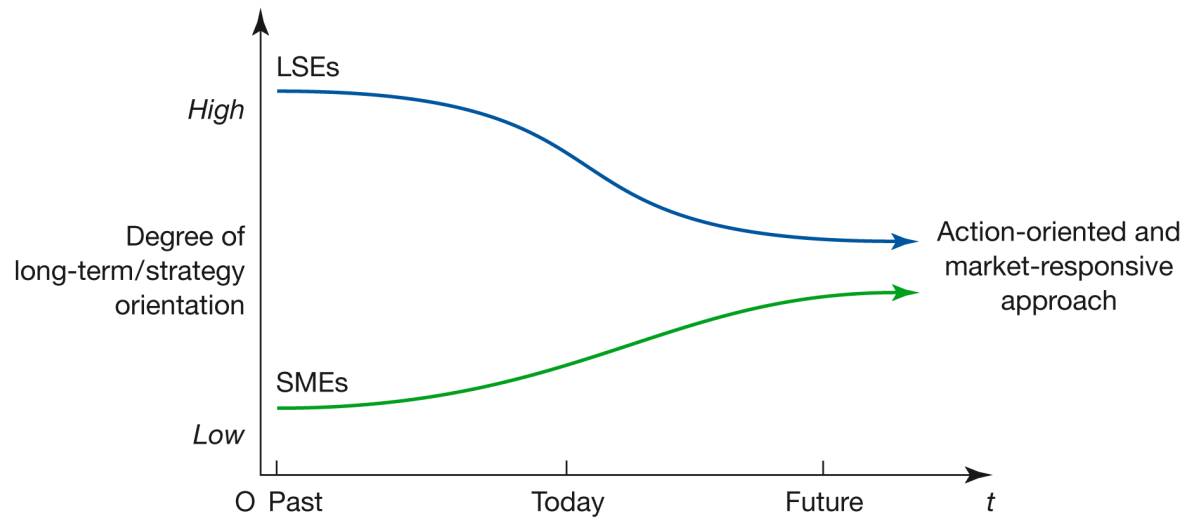


Figure 1.3 The 'convergence of orientation' in LSEs and SMEs

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Big Organizations

Small Organizations

Resources	<p>Many resources</p> <p>Internalisation of resources</p> <p>Coordination of</p> <ul style="list-style-type: none"> - Personnel - Financing - Market knowledge, etc. 	<p>Limited resources</p> <p>Externalization of resources (outsourcing of resources)</p>
Formation of Strategy/decision-making Processes	<p>Deliberate strategy formation</p> <p>Adaptive decision-making mode in small incremental steps</p>	<p>Emergent strategy formation</p> <p>The entrepreneurial decision-making model</p> <p>The owner/manager is directly and personally involved and will dominate all decision making throughout the enterprise</p>
Organization	<p>Formal/hierarchical</p> <p>Independent of one person</p>	<p>Informal</p> <p>The owner/entrepreneur usually has the power/charisma to inspire/control a total organisation</p>
Risk taking	<p>Mainly risk averse</p> <p>Focus on long-term opportunities</p>	<p>Sometimes risk taking/sometimes risk averse.</p> <p>Focus on short-term opportunities</p>
Flexibility	<p>Low</p>	<p>High</p>
Take advantage of economies of scale and economies of scope	<p>Yes</p>	<p>Only limited</p>
Use of information sources	<p>Use of 'advanced' techniques:</p> <ul style="list-style-type: none"> - Databases - External consultancy - Internet 	<p>Information gathering in an informal manner</p>

Profit and Risk During Early Internationalization

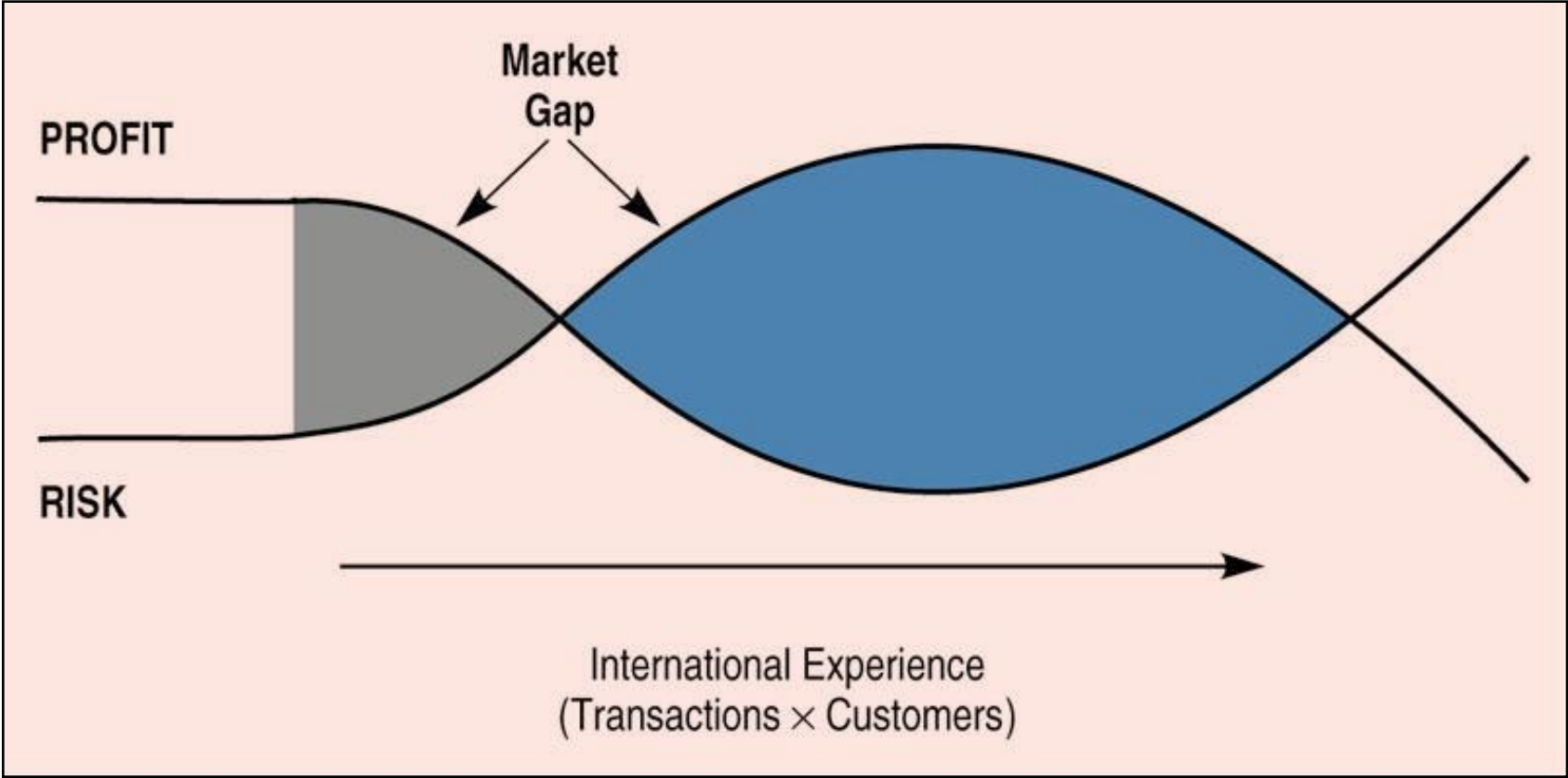


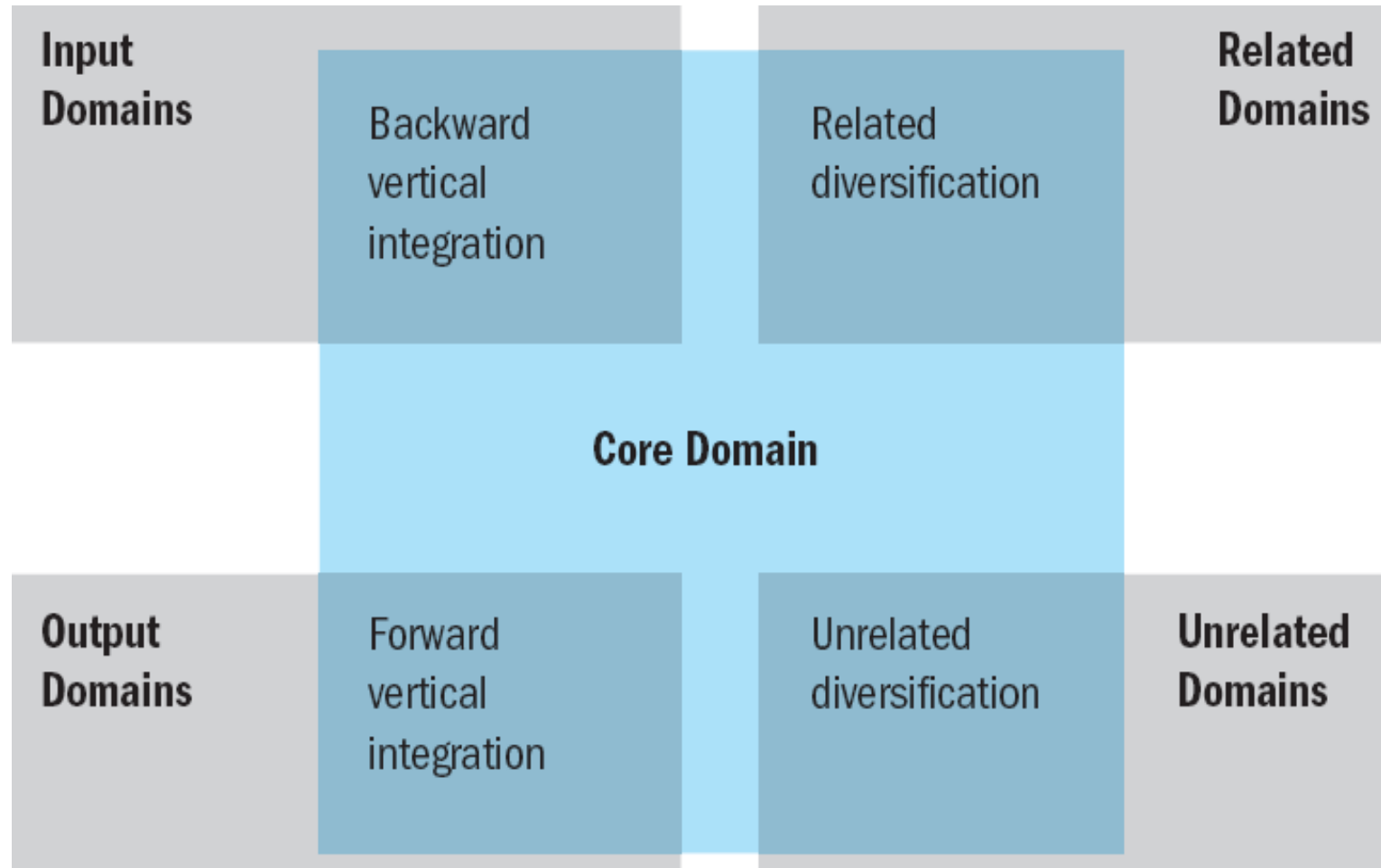
TABLE 8.1

Criteria used by venture capitalists to assess proposals

Criteria	European (n = 195)	American (n = 100)	Asian (n = 53)
Entrepreneur able to evaluate and react to risk	3.6	3.3	3.5
Entrepreneur capable of sustained effort	3.6	3.6	3.7
Entrepreneur familiar with the market	3.5	3.6	3.6
Entrepreneur demonstrated leadership ability*	3.2	3.4	3.0
Entrepreneur has relevant track record*	3.0	3.2	2.9
Product prototype exists and functions*	3.0	2.4	2.9
Product demonstrated market acceptance*	2.9	2.5	2.8
Product proprietary or can be protected*	2.7	3.1	2.6
Product is 'high technology'*	1.5	2.3	1.4
Target market has high growth rate*	3.0	3.3	3.2
Venture will stimulate an existing market	2.4	2.4	2.5
Little threat of competition within 3 years	2.2	2.4	2.4
Venture will create a new market*	1.8	1.8	2.2
Financial return >10 times within 10 years*	2.9	3.4	2.9

(continued)

Corporate-Level Strategies for Entering New Domains



Country evaluation & risk

OHT 8.4

Criteria	Weights	Multiplied with the score (rating) on a scale of 0–4 ^a	Overall BERI index ^b
Political stability	3		
Economic growth	2.5		
Currency convertibility	2.5		
Labour cost/productivity	2		
Short-term credit	2		
Long-term loans/venture capital	2		
Attitude towards the foreign investor and profits	1.5		
Nationalization	1.5		
Monetary inflation	1.5		
Balance of payments	1.5		
Enforceability of contracts	1.5		
Bureaucratic delays	1		
Communications: phone, fax, internet-access	1		
Local management and partner	1		
Professional services and contractors	0.5		
Total	25	× 4 (max.)	= Max. 100

^a 0 = unacceptable; 1 = poor; 2 = average conditions; 3 = above average conditions; 4 = superior conditions.
^b Total points: >80 favourable environment for investors, advanced economy. 70–79 not so favourable, but still an advanced economy. 55–69 an immature economy with investment potential, probably an NIC. 40–54 a high-risk country, probably an LDC. Quality of management has to be superior to realise potential. <40 very high risk. Would only commit capital if some extraordinary justification.

Table 8.1 Criteria included in the overall BERI index

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Grow where you are strong

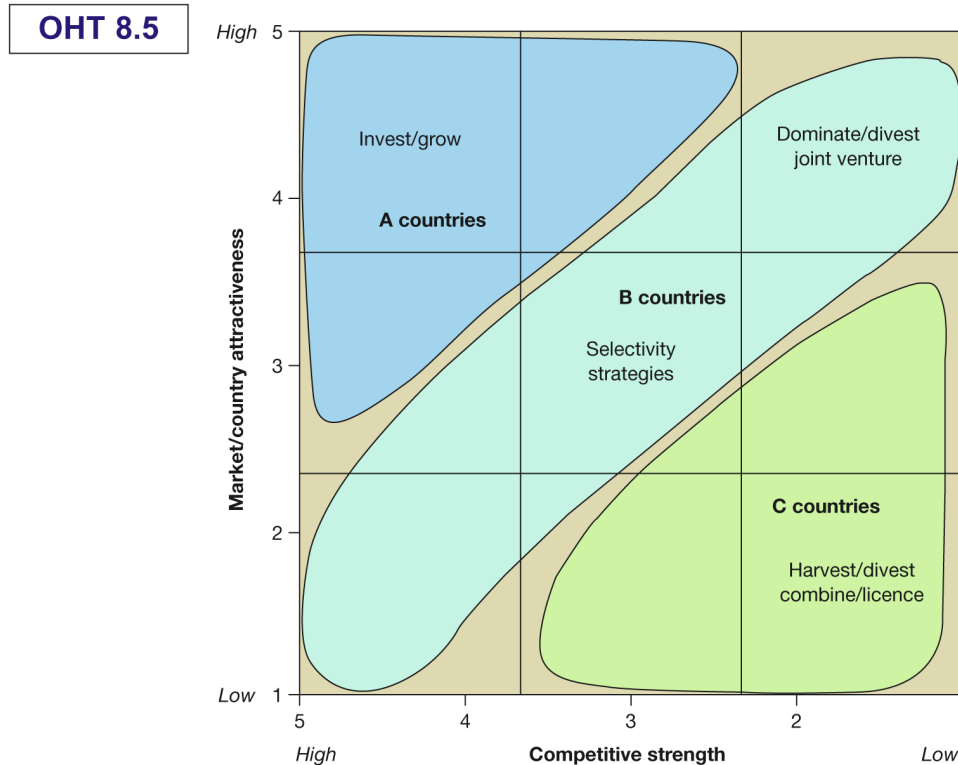


Figure 8.4 The market attractiveness/competitive strength matrix

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Different worlds: Market place or market space

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What are the risks
in the physical and
digital world?

Physical traffic vs. digital traffic

World Air Traffic

WorldAirTraffic0-24h1.wmv

Facebook traffic



Source: Paul Butler, Facebook, 15.Dec 2010

OHT 14.1

Industrial economy

(Marketplace = physical products)

- Manufacturing dominates
- Barrier: physical distribution
- Barrier: lack of capital
- First-mover advantage was years
- Innovative ideas contained internally
- Relationships constrained by human capital

Digital economy

(Marketplace = e-marketing)

- Knowledge and relationships dominate
- E-distribution is the new barrier
- Capital is a commodity
- First-mover advantage is months
- Innovation is the public domain
- Relationships can be established electronically

Figure 14.1 The new business dynamics

OHT 3.7

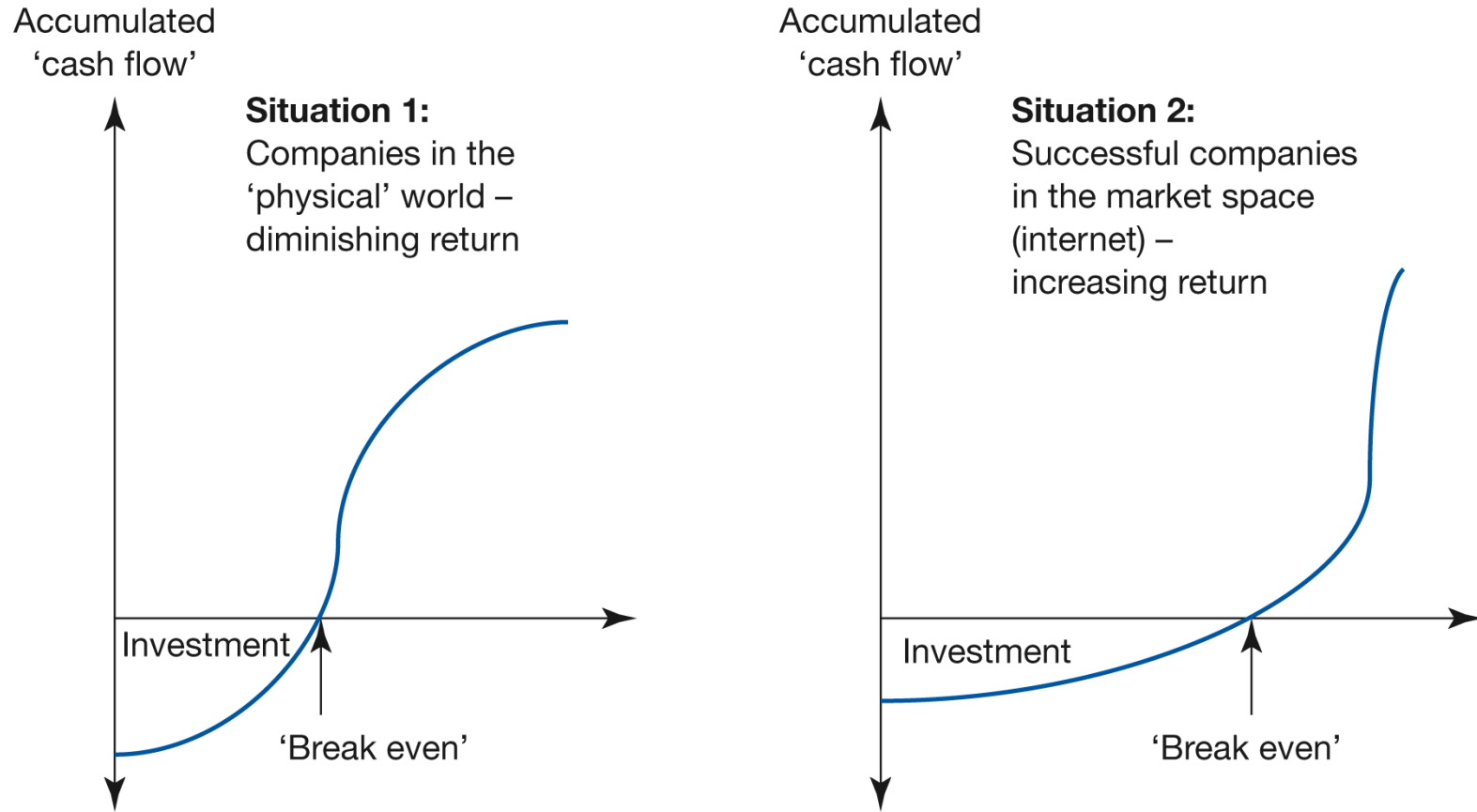


Figure 3.7 Models of economic efficiency

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Economics of E-Scalability

Dimensions	Scalability			
	High			Low
E-commerce continuum	Selling information (E-service)	Selling value-added service	Selling services with goods	Selling goods (E-commerce)
Information vs. Goods Content	Information dominates	Information with some service	Goods with support services	Goods dominate
Degree of Customer Content	Self-service	Call center backup	Call center support	Call center order processing
Standardization vs. Customization	Mass distribution	Some personalization	Limited customization	Fill individual orders
Shipping and Handling Costs	Digital asset	Mailing	Shipping	Shipping, order fulfillment, and warehousing
After-sales service	None	Answer questions	Remote maintenance	Returns possible
Example Service	Used car prices	Online travel agent	Computer support	Online retailer
Example Firm	Kbb.com	Biztravel.com	Everdream.com	Amazon.com

My research

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‘Small companies should be careful
when they internationalise (globalise)’

-EINAR SVANSSON



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The INNFORM research

Global research, many universities:

- Oxford; Warwick; Erasmus; Reading; Jönköping; IESE; St.Gallen, Japan (Hitotsubashi) and American (Duke)

New forms of managing and organizing in Europe,
Japan and USA

Longitudinal process research

Case comparative study

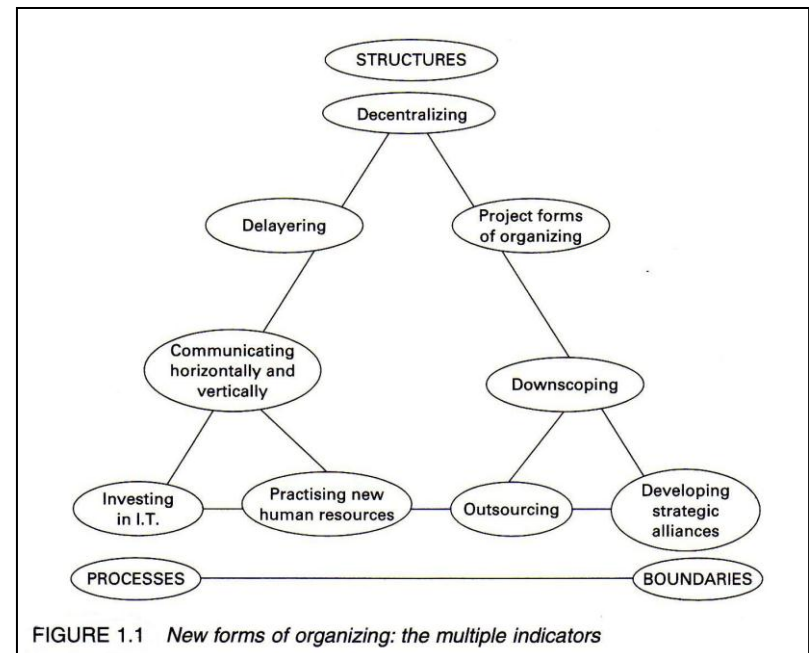


FIGURE 1.1 *New forms of organizing: the multiple indicators*

INNFORM in Iceland

I. Survey 2004-2007

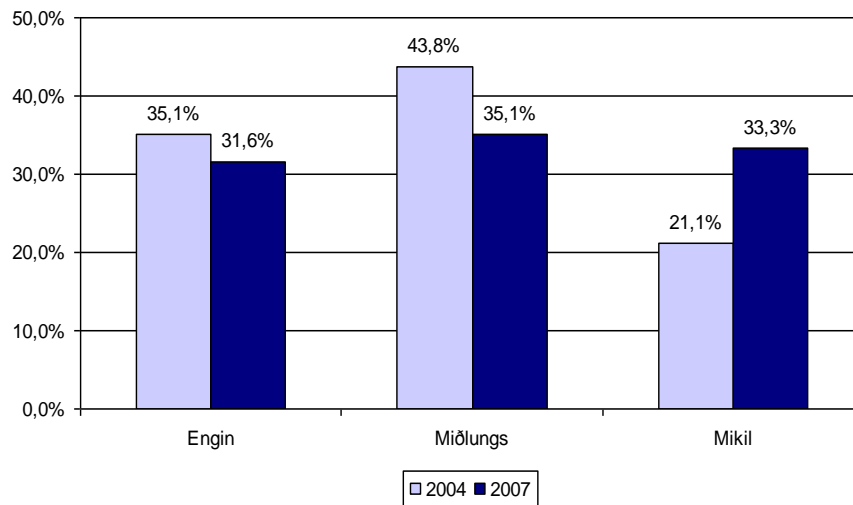
- 192 biggest domestically owned enterprises
- 188 variables from 37 questions
- 84 variables used in the MS thesis

II. Two Icelandic cases analysed from their start and their performance from 2000-2007

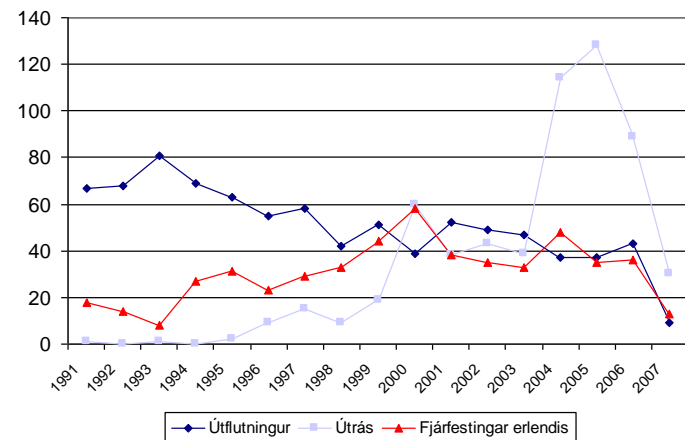
- Two biggest icelandic producers in turnover and number of employees
- Bakkavör UK and strategic alliance with Tesco
- Actavis and mini-case in Malta and comparison with TEVA

How much was the internationalization of the biggest Icelandic companies?

Alþjóðavæðing (útrás) íslenskra fyrirtækja 2004-2007



Árleg tíðni þriggja algengra orða sem tengjast alþjóðavæðingu

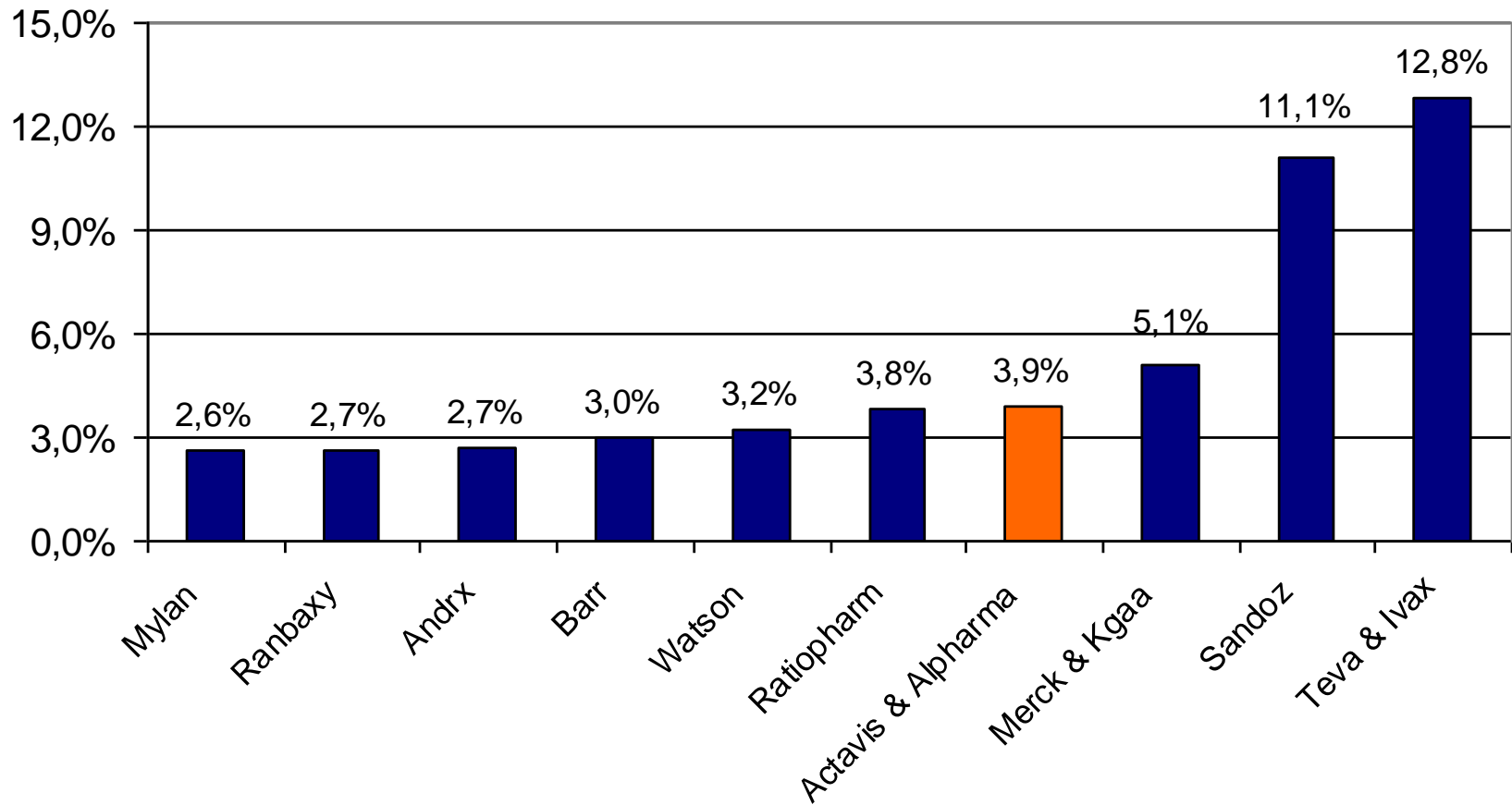


“The INNFORM research in Iceland did not show a big increase in the internationalization intensity of the nations biggest companies. The media discussion was based on very few big organizations”.

INNFORM in Iceland did not show any difference in performance with increased internationalisation

- Small companies should be careful when they internationalise (globalise)
- The international Icelandic companies that have survived the bank collapse are big and leaders in their field (Industry recipe-Spender)

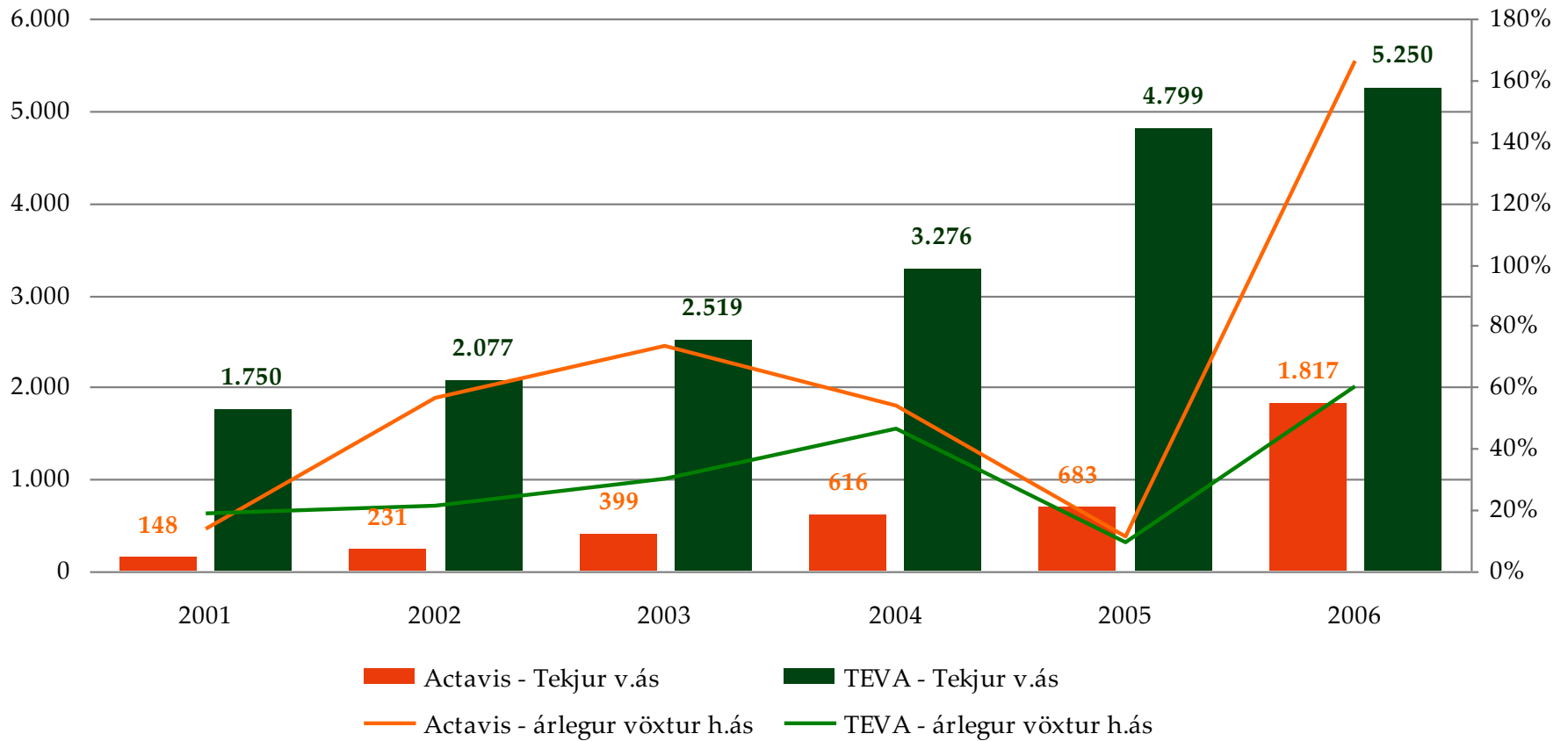
Global market share



Revenues & growth

USD'000'00

Actavis & Teva 2001-2007



The Internationalization Process of Internet Based Companies

- A multiple case study -

Authors:

Brynjar Thor Thorsteinsson
Hulda Júlíana Jónsdóttir

Supervisor: Moshe Yonatany

Copenhagen Business School
Cand. Merc. International Business

Framework of the research

What factors influence the internationalisation of internet based companies (IBC), and how?

- What factors facilitate the speed of internationalization of Internet Based Companies?
- What entry modes do IBC's choose and why?
- What influences the market choice of IBC's?

Multiple case study

- Google
- Facebook
- MySpace
- YouTube!
- eBay
- Yahoo!



Facebook world traffic



Network Effect & Positive Feedback

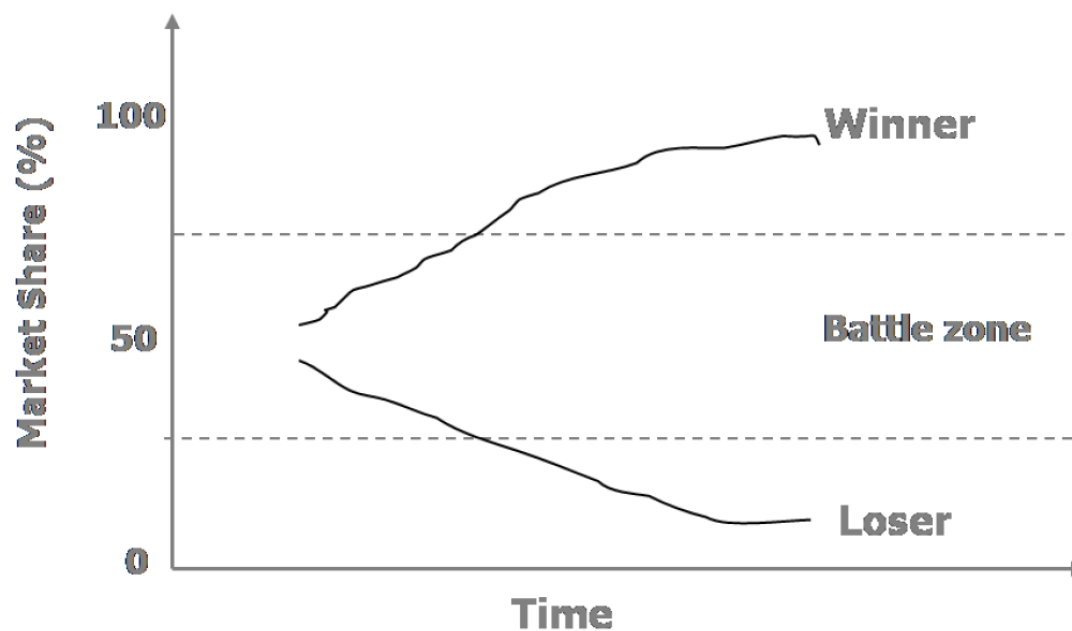


Figure 2 Enhancing positive feedback (Shapiro & Varian, 1999, p. 177)



2. Summary of the Findings

a) Proposition Analysis

Prop 1: IBCs tend to Internationalize faster than physical good companies.

	<i>Google</i>	<i>Facebook</i>	<i>MySpace</i>	<i>YouTube</i>	<i>Yahoo!</i>	<i>eBay</i>
<i>Market entry</i>	123	48	29	22	38	41
<i>Years</i>	10	1,5	2	1,5	8,5	10,5
<i>Average speed</i>	12,3	32	14,5	16	4,5	3,9
<i>Average speed of Physical good firms</i>	0,5	0,5	0,5	0,5	0,5	0,5
<i>Method of internationalization</i>	Language	Language	Country	Language	Country	Country

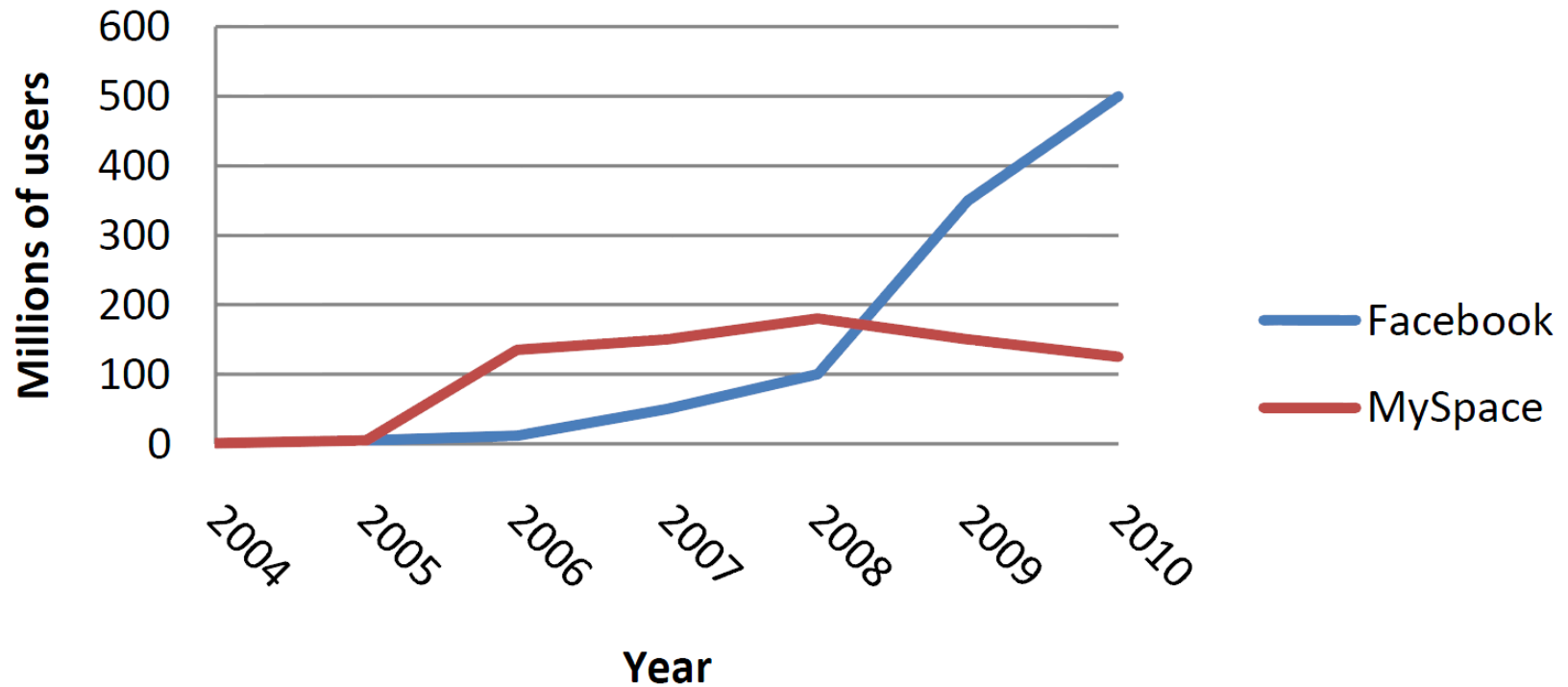
Table 7: Speed of Internationalization

	<i>Google</i>	<i>Facebook</i>	<i>MySpace</i>	<i>YouTube</i>	<i>Yahoo!</i>	<i>eBay</i>
<i>Need for Local content</i>	No	No	Yes	Yes	Yes	No
<i>Use Crowdsourcing</i>	No	Yes	No	Yes	No	No
<i>Method of internationalization</i>	Language	Language	Country	Language	Country	Country
<i>Network Effect</i>	Low	High	High	High	Low	High
<i>Need for physical presence</i>	Low	Low	High	Low	High	High
<i>International Traffic</i>	65%	72,3%	48,7%	77,6%	67,2%	32%
<i>Average speed</i>	12,3	32	14,5	16	4,5	3,9

Table 9: Summary of factors influencing the speed of internationalization

Enhancing Positive Feedback

Facebook vs. MySpace



Prop 2: When expanding across borders, IBCs tend to choose high control entry modes (wholly owned operations) over low control (licensing agreements).

<i>Entry Mode</i>	<i>Google</i>	<i>Facebook</i>	<i>MySpace</i>	<i>YouTube</i>	<i>Yahoo!</i>	<i>eBay</i>	<i>Total</i>
<i>WOS</i>	123	48	27	24	24	18	87%
<i>Acquisition</i>						12	4%
<i>Joint Venture</i>			2		14	3	6,5%
<i>Strategic Alliance</i>						8	2,5%
<i>Licensing</i>	0	0	0	0	0	0	0

Table 10: Entry Modes

Prop 3: IBCs choice of market entry is positively related to technological infrastructure and Internet penetration.

	<i>Group A</i>	<i>Group B</i>	<i>Group C</i>	<i>Group D</i>
<i>Average Technol. Infrastructure 2000</i>	21,15	23,25	27,75	36,67
<i>Average Technol. Infrastructure 2008</i>	21,7	26,25	28,50	42,33
<i>Average no. of internet users 2000</i>	252,03	234,62	102,95	44,35
<i>Average no. of internet users 2008</i>	608,94	585,01	420,20	305,34
<i>Average order of market entry</i>	8,28	12,91	16,38	17,00

Table13: Analysis of the Groups

Prop 4: Network relations of IBCs are positively related to their choice of markets.

- Google – licencing agreement with Yahoo!
- Facebook – no evidence of network relations, driven by crowdsourcing
- MySpace – relationship agreement with Google
- YouTube – agreement with MySpace
- Yahoo! – relationship with Softbank
- eBay – marketing agreement with AOL



3. Discussion

a) Research Implications

- Crowdsourcing; very interesting finding to us, no prior research in the field of International Business
- Network Effect; gap in the literature on how network effect influences internationalization process of IBCs
- Measuring Network Effect; difficult to measure network effect
- Size of the Firm; larger networks (more traffic) more attractive to third parties and users



- First mover advantage; findings not conclusive, evidence of both first and second mover advantage
- Language or Country; should IBCs ignore borders and focus on language instead of country?
- Homogenization of markets; how much localization is needed for IBCs? Cultural distance different on the Internet?



b) Managerial Implications

– Speed of Internationalization

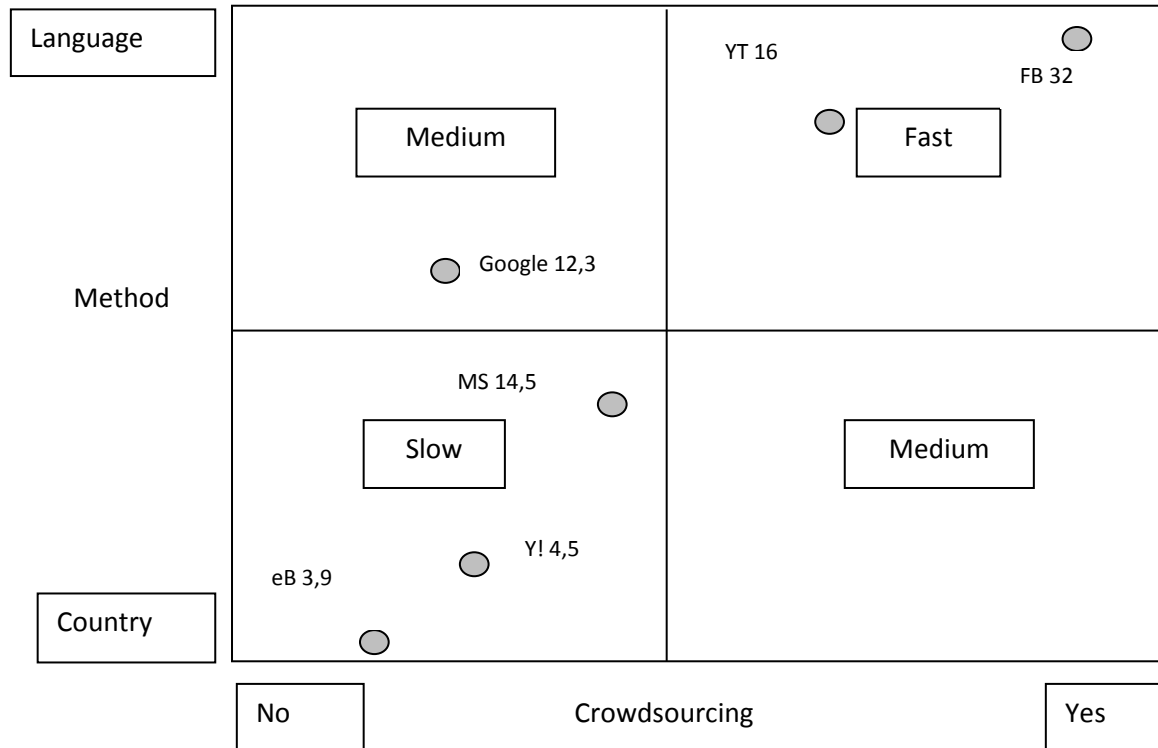


Figure 10: Model for Internationalization for IBCs

- Modes of Entry; Managers of IBCs should choose high control entry modes to protect their assets, have control over their brand, installed base and technology and last but not least to capture the increasing returns
- Choice of Markets; Managers of IBCs should focus on entering markets by language rather than country, choose widely spoken languages
- Localization; Managers of IBCs should try to keep a simple interface, which offers easy localization for users to participate in, when content is needed try to let the users control and supply the content



My final recommendations

- Digital companies should **focus on language** and try to harness the **crowd** (customers) when possible
- All companies need a **clear long-term strategy**
- Measure **key success factors** (KSF) and design a measurement **system that fits** your company
- **Strategic alliances** can increase survival rates
- Focus on the **customer** – measure satisfaction
- Be **careful**, especially in **small** companies
- Look at the **industry recipe**, what are **the best** doing?

Leading Icelandic companies

Leaders in their market

Actavis

Össur

Marel

Icelandic Group

Bakkavör

Promens

Future prospects

InfoMentor

CCP

Clara

Marorka

ENJU

EVE

ONLINE

If you shoot for the stars and hit the moon, it's ok. But you've got to shoot for something. A lot of people don't even shoot.

ROBERT TOWNSEND

Last remarks

**Please shoot with me and at me,
I want to co-create and learn.**

Einar Svansson

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