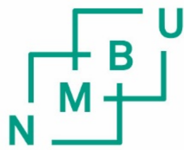

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Developing a Business Strategy to Support the International Expansion of a European Business Firm: Facts, Trends and Considerations

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Abstract

The purpose of this research paper is to explore the business strategy development and implementation process behind a firm's international expansion, and to identify the core components that need to be considered in order for the expansion process to be successful over time. The study particularly focuses on European businesses and their motivations for wishing to expand globally, driven by the recent declining growth and fading competitiveness of the European markets. Through analysis of established literature and recent case studies, the research paper will explore the following five factors, proposed to be of vital importance to the expansion process: business climate; developing a global marketing strategy; regionalization; social entrepreneurship and product diversification. At its end, the study discusses three main activities of importance for the expansion process: to analyze the competitive environment, to clearly define the firm's position, and to develop their competitive and corporate advantages. It also concludes in a series of basic questions that a firm's expansion team will have to ask itself, emphasizing the need for planning and research in order to ensure the greatest chance of success in international expansion processes.

Preface

This master thesis represents the end of my Master of Science degree in Business Administration at the University of Life Sciences (NMBU). With its completion, an unexpectedly lengthy and frustrating process finally comes to a close. I would like to thank Glenn Kristiansen at NMBU for taking the role as my supervisor in this work.

Oslo, December 2016

Kim Brede Ellefsen

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1. Introduction

1.1 Purpose of research

The purpose of this research paper is to demonstrate how a European business can successfully move from its domestic home market and on to the international marketplace. Through the exploration of established literature and recent case studies, this research paper aims to identify which strategic considerations a firm has to make on its way to expansion beyond borders, that ensures longevity of the business on a global scale. Most importantly the core components of a successful business strategy to expand internationally, and the components of implementation will be investigated.

In order to understand why this problem is of interest, and how it can be approached; we will first provide a historical view of the European markets' decline in recent years, and why this situation makes international expansion so desirable, yet difficult to successfully achieve. The subsequent chapters will then propose what we believe to be the most important factors of this process, and analyze them separately, before also examining the potential negative effects of expansion. Finally, we discuss the activities that are necessary in order to approach these factors successfully.

1.2 Background of study

Many businesses are struggling on the home front, and seek to take their business to a new market territory. Some reasons that businesses look to new territories are to reduce dependence on a solitary market, exploitation of corporate technology and knowledge, fluctuations based on seasonal cycles and to extend the life of a current product line or services offered (Entrepreneur, 2016; Ofili, 2016). This is especially true amongst European firms, as the economy as a whole has experienced struggle for some time now.

According to the European Commission, "Europe has been suffering the effects of the most severe economic crisis it has seen in 50 years," with over 25 million people unemployed and an inability of small- to medium-sized businesses to regain their pre-downturn performance (2012). Even prior to the economic crisis, the European economy was less competitive and was growing more slowly than other areas, which created additional challenges to boosting entrepreneurship (European Commission, 2012). In 2016, only seven of the fifty most valuable firms in the world are located in Europe (The Economist, 2016). Just ten years prior in 2006, seventeen of the top fifty companies were located in Europe, demonstrating a drop of fifty-nine percent in ranked firms (The Economist, 2016). In the twenty-four global sectors, European

company Nestle is the only company to occupy a leading spot, specifically within the food sector (The Economist, 2016). In the area of research and development, only thirteen of the top fifty spenders in sector are European (The Economist, 2016).

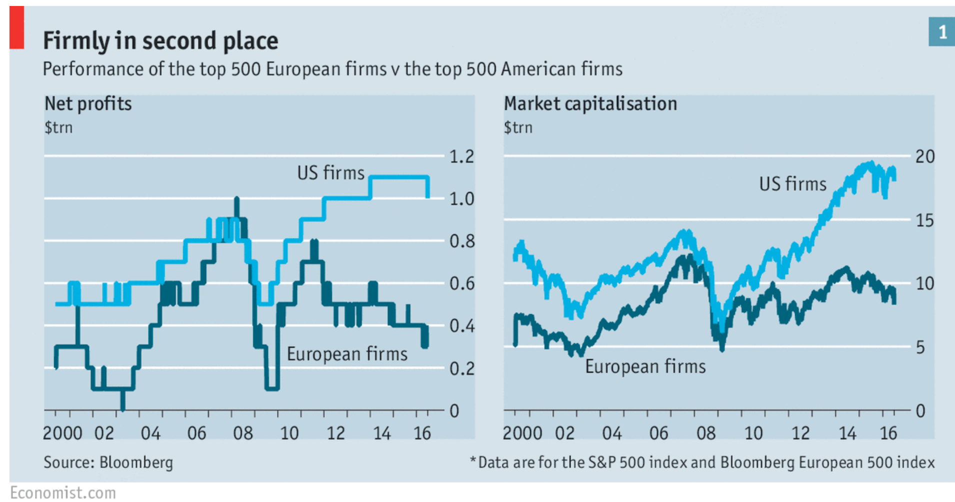
Although the issue of lagging European competitiveness had been building for decades, the problem was exacerbated beginning in the 1980s. National regulations stifled corporate Europe in the early eighties, but the late eighties saw a push to combat this through privatization and globalization of industries (The Economist, 2016). This strategy was successful for a while in the nineties and early two thousands, with European companies sitting as leaders or heavy competitors in pharmaceuticals, foods, and mobile technology, among other industries (The Economist, 2016).

However, mistakes were made that caused this success to be only a temporary circumstance. The first mistake was concentrating on industries that demonstrated success in the past, rather than new ones, which stunted European competitiveness, especially in the technology sector (The Economist, 2016). Second, European industries placed over one-third of their investments in emerging markets, which is a high percentage compared to other industrialized areas. Emerging markets are highly unreliable, with unpredictable and unlikely success rates (The Economist, 2016). A third downfall was that European companies came to a near stop in doing global deals, ranking in at fifth in international acquisition after the global financial crisis (The Economist, 2016). A fourth and final reason for Europe's lack of growth is smaller

return given to shareholders as a result of lower returns on equity (The Economist, 2016). As a result of these four poor economic choices, Europe essentially weakened its own economy, causing the economic downturn on the home front, creating a poor business environment for starting up a business, and making it more favorable to import goods from foreign countries rather than utilize the resources available in European markets.

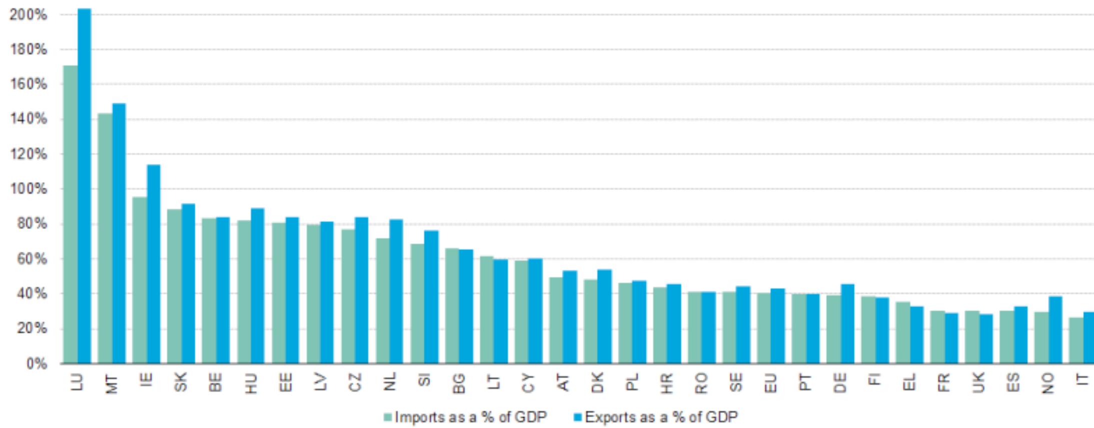
The European Commission believes that encouraging entrepreneurship and expansion of existing businesses is the key to strengthening the European economy (2012). The global financial crisis has actually been seen as a channel for companies to launch globally, as lethargic domestic growth can cause businesses to seek more active markets elsewhere (The Economist, 2015; Ofili, 2016). Brian Pallas, founder and chief officer of Opportunity Network, emphasizes that expansion to foreign markets is the overwhelming trend amongst the companies in his member network (The Economist, 2015). This is especially necessary, since the performance of European firms is lagging behind their brethren from the United States:

Figure 1: Performance of top 500 European firms v top 500 American firms



According to a survey conducted by the TMF Group in March 2015, approximately seventy-four percent of European companies were exploring international expansion options. These respondents were seeking to access new markets, and seventy percent of these also hoped to increase their market shares (TMF Group, 2015). Onyeka Uche Ofili (2016) found that another common reason that firm seeks expansion is to find an area where both production costs and labor costs are cheaper. This is not surprising, considering that the European Commission reported in 2014 that most European countries thrive off of exportation practices:

Figure 2: EU imports and exports as a % of GDP



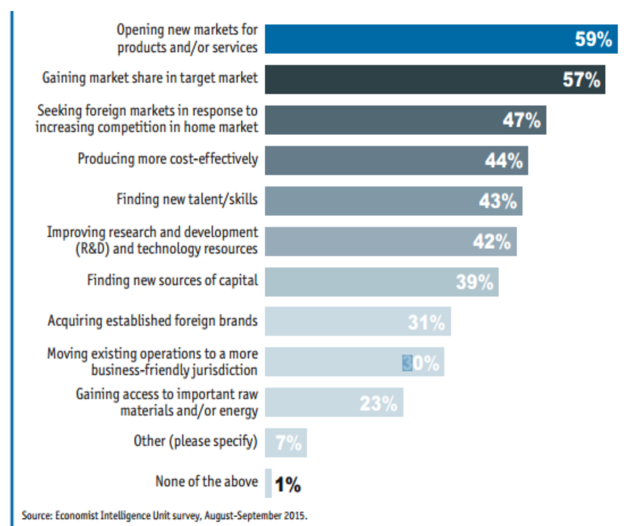
However, this lag in performance, paired with the new status of a degraded of the European economy presents additional challenges to those willing to take the risks involved in starting a business. When an entrepreneur starts a business, the first goal is to establish and maintain a strong domestic customer base. In a study conducted by Rugman and Collinson (2005), they found that European companies are dominantly regional with over sixty-two percent of sales occurring in their home region. Even further regionalizing the area, most companies of qualifying size for their study were from Germany, Great Britain, or France. Out of their sample, only three companies were considered global, and sixteen were bi-regional (Rugman and Collinson, 2005).

After this goal has been reached, a natural progression is to expand on a cross-border, international, or global scale. There are many motivations for international expansion, including portraying a greater corporate health status, increasing

confidence in investors by using cash reserves and growing market shares, foster an emerging market in a previously untapped territory, and getting ahead of a market competitor (The Economist, 2015).

Among European companies surveyed in a special report by The Economist (2015), seventy five percent of respondents named “opening new markets for products and services” as the greatest motivating factor for international expansion, based on the promise of stronger overseas returns. Other motivating factors that stand out amongst European companies looking to expand globally are gaining shares in a target market and responding to increased competition in domestic markets (The Economist, 2015; Ofili, 2016).

Figure 3: Motivating factors for international expansion



However, this is not a simple task, and many businesses fail in their attempt at global expansion. The choice to expand business operations into foreign territory is one of the most serious and involved decisions that the owner or manager of a company can make (Markides, 1997; Arregle, et al, 2013; Ofili, 2016). Nataly Kelly of the Harvard Business Review lists the most common mistakes made by businesses when going global as: not being specific enough in terms of expansion territory; a lack of in-depth market research; not adapting sales and market channels; not adapting product offerings; micromanaging local teams; and a lack of planning for global logistics (2015). In addition to these challenges, recent economic crises have "forced organizations to rethink their strategy and many unresolved issues around the regional and global debate suggest that it is timely to broaden the perspectives with which these issues are examined by adding organizational and social issues lenses to the dominant economic and strategy lenses" (Ghobadian, et al, 51, 2014). With all of these issues present, it seems as though launching and expanding a business to a global scale is nearly impossible.

Yet, research shows, and businesses have proven, that longevity is possible, even in a turbulent economy. Businesses that expand on an international scale have access to a greater customer base and more global information, leave a wider brand footprint, and build a better understanding of diverse markets (Twarowska and Kakol, 2013; The Economist, 2015). Global expansion has benefits for the economy as a whole as well.

These benefits include steering revenue growth, an improved reinvestment rate and return on capital, greater financial security as a result of more diversified portfolios and revenue streams, and quicker growth as is usually demonstrated in international markets (Twarowska and Kakol, 2013; The Economist, 2015).

1.3 Considerations before expansion

There are many factors about international business that must be considered in order for this transition to be a successful one. These include making considerations for the five factors, listed by Kelly, that cause businesses to fail during the global expansion process: not being specific enough in terms of expansion territory; a lack of in-depth market research; not adapting sales and market channels; not adapting product offerings; micromanaging local teams; and a lack of planning for global logistics (2015).

Competition amongst market competitors is another factor, which must be given important consideration by firm leadership. According to a variety of researchers, the main objective of the general strategies of any firm, along with its marketing strategy, is to create a long-lasting competitive lead (Viswanathan and Dickson, 2006; Ofili, 2016). Firm leadership must examine its current strategy in tandem with the trends that exist in the potential new foreign market territory to

decide if current strategies and tactics will keep the firm competitive, or if a new, adapted set of strategies and tactics must be employed to make the expansion profitable and worth the time and effort.

With this in mind, the first step that an entrepreneur must take if he or she wishes to take a domestic business to the global marketplace is to formulate a business strategy to take the business global. Top academics in the business sector tout that if a firm hopes to be in any way profitable in its cross-border expansion efforts, a business strategy must be developed (Casadesus-Masanell and Ricart, 2009). Then, the focus must shift to implementing that business strategy to ensure a successful and profitable transition to the global marketplace. As Viswathan and Dickson point out, one of the primary objectives of any firm is to “create sustainable competitive advantage” (49, 2006).

2. Five major factors of expansion

With the facts and data detailing the current state of the European economy in mind, this research paper will propose that there are five major considerations firm leadership must consider while planning its cross-border, international, or global expansion: business climate; developing a global marketing strategy; regionalization; social entrepreneurship and product diversification.

2.1 Business Climate

Expanding globally is beneficial to a business itself, as well as the economy, as it is an important strategy for business growth, job creation, and economic development (Hoffman et al, 2, 2014). However, expanding a business into a new, unknown territory creates an air of uncertainty for corporations and firms because it is not known what type of climate will be encountered in the territory. The risk associated with international expansion, and well as the safety of homogenization, was demonstrated in research conducted by Rugman and Collinson (2005), showing that the majority of companies in Europe, North America, and Asia are home-region based, with each continent only having three truly global companies. The research required when exploring expansion into a new territory, however, can be costly itself, even before a firm makes the decision to break into a new territory, as there are many administrative and processing costs associated with business research, as well as potential tax implications (Hoffman, et al, 2014). In order for globalization to be effective, the business climate of the potential locations for expansion must be heavily researched and scrutinized (Arregle, et al., 2013; Hoffman et al, 2, 2014). According to Hoffman et al, "countries differ widely with respect to how attractive their business environments are for new business development," and their regulation of business practices has an incredible impact on the growth of a business, as well as the economic

development of the country itself (2, 2014). Arregle and his team of researchers had similar findings, stating that "political regimes can create significant uncertainty and potential costs" for businesses expanding into a new territory (2013).

A widely accepted definition of business climate is "the broad economic, political/regulatory, technological, and socio-cultural sectors/institutions that characterize a national market" (Hoffman et al, 3, 2014). To examine the business climate of a country and how it affects business growth, experts often rely on transaction costs theory to conduct their analysis (Hoffman et al, 3, 2014). Transaction costs theory states that "firms seek to expand in a cost effective manner to insure profitability" (Hoffman et al, 3, 2014). However, the successes of expansion efforts are unknown, this increases the transaction costs of a business (Hoffman et al, 5, 2014). With so many unknown variables, it is essential that a business seeking to launch expansion efforts is able and willing to dedicate time and resources to research into the potential new market. Although this may push back the actual entrance of the firm into the new market, it will prevent bottom-line crisis and limit unanticipated expenses or issues once the firm is functioning in the new territory.

Economic certainty or uncertainty should be one of the first aspects of a potential new market's business climate that should be examined by an entrepreneur. Economic uncertainty has a variety of contributing factors, including high or growing interest rates, inflation, charges in aggregate demand, recession, and financial crises

(Hoffman, et al, 2014). When a country displays a high level of economic uncertainty, this conveys a greater amount of potential risk to business owners and operators, making it less favorable to expand into that territory (Hoffman, et al., 2014). A country with questionable economic strength means profit margins are also questionable, due to a potential lack of interest in the product or service provided, or higher expenses and taxes which will lead to lower profits.

However, when a country or new territory exhibits economic growth, this is beneficial to an expanding business (Hoffman, et al., 2014). For example, when the economy began to bounce back from the economic crisis of 2008 - 2009, foreign markets continued to grow, especially those still considered to be emerging markets. Two examples of these markets are China, which grew 8%, and India, which grew 4% (Hoffman, et al, 2014). As a result of these markets continuing to show growth in spite of a serious economic crisis, they remain attractive to potential foreign businesses because the market is active and expanding.

Another important aspect of a country's business climate that must be considered is the amount of technological resources available. Three technology-focused areas that are important for entrepreneurs to investigate when considering foreign expansion are communication, transportation, and banking technologies (Hoffman, et al, 2014). Advances in technology over the last three decades, particularly those in the area of telecommunication, have greatly improved the accessibility of

businesses to their customers, suppliers, and distributors (Brush, Edelman, and Manolova, 2002; Casadesus-Masanell and Ricart, 2009). With accessibility to more advanced technology, it may not be worth expanding into a new territory that has been lax in keeping up with technology advances or is not able to implement or support advanced technology, as reaching customers, suppliers, and distributors will be extremely difficult.

Of the three technological sub-sectors listed above, communication will be the most important for a business to research, particularly related to the accessibility of media (Hoffman, et al, 2014). Media outlets include television, radio, newspapers, and internet-based forms of media. Hoffman, et al (2014), emphasize the importance of media outlets when expanding a business on an international scale because branding the business will be crucial to attracting customers in the new territory, especially since research shows that people rely on various forms of media to get information about new products and businesses. Using similar media approaches across territories is also beneficial to expanding companies because it creates brand equity and a more efficient marketing approach (Hoffman, et al, 2014). When marketing strategies are common, an advertised brand becomes recognizable, which increases the depth of penetration of the advertisements (Hoffman, et al, 2014).

With technology being such an important factor in business expansion, a company must dedicate time to researching data protection and privacy laws in target

expansion countries. Data protection and privacy laws tend to vary greatly from country to country, posing challenges to business expansion, specifically within the area of confidentiality (The Economist, 2015). Here, the idea of *acting local while thinking global* becomes extremely important. A business new to the area must adapt to local regulations and customs if it wants to be successful, and this includes protecting the privacy of its new customer base. This approach will also allow for easier customization of business materials, especially involving contracts, billing, and human resources materials, and they will need to be tailored to meet the requirements of the new territory.

An entrepreneur should also consider how welcoming the government of the potential new location is to international business. Many countries are highly in favor of new, international business and markets, and even offer assistance programs that offer "coaching" in the areas of foreign trade law, international finance issues, and will even help new businesses identify potential customers in their country (Brush, Edelman, and Manalova, 2002). One company that experienced a great welcoming to a new market was Brazilian bus manufacturer Marcopolo. The international expansion of Marcopolo into Europe and Asia was successful in part due to the fact that the countries into which they were establishing territories held more positive dispositions toward emerging market firms (Rocha, Arkader, and Barreto de Goes, 2014). Similarly, expanding businesses should also consider if there are partnerships or alliances

available to assist with the expansion process, as this can help ease the process of expansion as well as navigating the waters within a new territory (Brush, Edelman, and Manalova, 2002). One measure of a country's openness to new business is the Open Markets Index put out by the International Chamber of Commerce. This document measures how truly open the economy of a country is. In 2015, no G7 country was in the top ten of the Open Markets Index, but Germany did make the top twenty at number nineteen (The Economist, 2015). This means that even though the abovementioned resources may be available in some of these countries, they may be untapped, or may require some extra research and networking to acquire. It could also mean that these resources are unavailable, and an expanding business will need to depend on its own research and development to break into some of these new markets.

Furthermore, owners and managers of businesses looking to expand into a new country should examine the stability of government policies in relation to business and finance, as instability can increase administrative costs because of the challenges instability poses when hoping to monitor a new business (Hoffman, et al., 2014). On the other hand, a stable government with consistent business and finance policies in place have a more positive effect on expansion into new territories, as well as lower administrative costs (in comparison with a business venture started in a territory with an unstable government and policies) (Hoffman, et al., 2014).

There are two specific areas of government that can have an effect on a

business's ability to function in new regions: political democracy and the regulatory environment (Arregle, et al., 2013). Political democracy is characterized by the freedoms afforded to the people living within a country, such as freedom of speech and media, or voting rights, while the regulatory environment of a government reflects on the creation and execution of laws and rules (Arregle, et al., 2013). This is important to consider when expanding a business into a foreign territory, as political democracy reflects the level of choice afforded to the citizens within the country, which can have a direct effect on business markets and buying power. Additionally, the regulatory environment establishes how easily and efficiently a business can be established and will operate in a new region. Specific to the regulatory environment, having consistent business regulations is actually a benefit for companies seeking to enter a new foreign territory, as transparency in these regulations helps lessen the time and cost associated with searching for this information, and also places all potential new companies at the same starting point (Hoffman, et al, 2014). However, business regulations are a double-edged sword, as having too many of them can increase the cost of doing business in a new territory, therefore making the potential new country unattractive to new corporations and firms (Hoffman, et al, 2014). Similar results occur with business tax policy. Too many taxes will dissuade businesses from entering a new territory; the taxation must be not too excessive that it becomes an unattractive attribute of a country's regulatory framework.

More specifically, the ability to manage daily operations in a new territory in what helps regulate and control administrative costs (Hoffman, et al., 2014). One reason for lowered costs is that a country with greater capital investments, meaning more money to purchase assets, demonstrates that an economy is strong and liquid, and capable of supporting and promoting new businesses, and potentially new markets, within its borders (Arregle, et al., 2013). A country with weak capital investments might encourage new businesses to begin operating within its territory, as this means increased revenue and more available jobs; however, the country may lack the financial ability to support such changes in its economy.

The home government is also important to consider when expanding internationally, as home governments can provide a lot of support to businesses that was to enlarge their territories. Home governments generally find supporting expanding businesses as beneficial because this provides increased tax revenue. Additionally, Chris Southworth, director of the International Chamber of Commerce in the United Kingdom, said he finds that many big companies do not actually have international export experience, so government support is beneficial to both parties (The Economist, 2015). Not only does the firm learn the ins and outs of exportation, the government can ensure that the firm follows the regulations that are set in place and that the firm understands its obligations to its home government and economy. Amongst companies surveyed by The Economist (2015), about fifty percent of

respondents stated that resources provided by their local government played a key role in their ability to expand internationally. Some specific areas in which resources provided by local government were crucial included the chamber of commerce, legal matters, compliance, human resources and tax administration (The Economist, 2015). Specific information and services provided by local governments to survey respondents included country reports, training for in-house employees, invitations to overseas trade missions or the grant funding to attend such missions, and international networking opportunities (The Economist, 2015). Involving the home government in a firm's expansion, based on the areas of support described above, lessens, or even eliminates, some of the research a firm would normally conduct on its own, saving both time and money in the expansion process.

Also related to regulatory business climate is the method of expansion which a business would like to execute in its quest to become a global entity. There are four common international expansion methods:

1) Direct entry: A parent company can simply enter and begin operating in a foreign territory on its own through importing and exporting. The advantages of this approach are a low initial cost of investment, direct and quick contact with customers, complete control over many aspects of foreign operations, and learning how to effectively and efficiently expand if future opportunities for

expansion should arise (Twarowska and Kakol, 2013; Aguilera, 2016). Disadvantages of the direct entry method include potentially high costs of trade barriers such as tariffs, transportation, and quotas, potential difficulties in responding to customers, and the forgoing of potential location economies (Aguilera, 2016).

2) Acquisition: In an acquisition, the parent company makes an investment (i.e. purchases) a foreign firm and therefore gains any profits brought in by the newly acquired firm (Aguilera, 2016). The advantages of expanding through acquisition include access to local knowledge, control over foreign operations and technology, high absorptive capacity, entering a market that has already been adapted to corporate control, and high synergy (Aguilera, 2016). The negatives aspects of foreign acquisition include the potential for encountering an underdeveloped corporate atmosphere, questions about the target's actual value, and in the actual acquisition of assets (Aguilera, 2016).

3) Joint Venture: A joint venture is when a foreign subsidiary controlled by both the parent company and a foreign partner (Wach, 2012; Twarowska and Kakol, 2013). Benefits to companies that choose to expand via joint venture are the combining of

expertise of the parent company and the foreign partner, a sharing of risk between the parent company and the foreign partner, and more easily building a politically acceptable image (Wach, 2012; Twarowska and Kakol, 2013). The risks of joint ventures include high costs and risks, a potential for the interests of the parent company and the foreign partner to conflict, and complicated paperwork (Wach, 2012; Twarowska and Kakol, 2013).

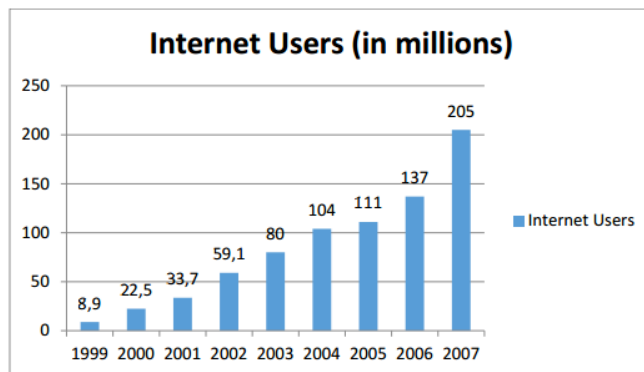
4) Strategic Alliance: A strategic alliance is a cooperative agreement between two or more firms (Twarowska and Kakol, 2013). Most modern strategic alliances are between companies in highly industrialized countries, have a focus of creating new products and technologies, and usually only last for a short period of time (Twarowska and Kakol, 2013). Technology exchange is the biggest benefit of entering a strategic alliance, yet companies that choose this route must beware the threat of competitive collaboration, lest their partner or partners use their alliance to take advantage of them (Twarowska and Kakol, 2013).

There are a variety of rewards and risks to every method of international business expansion. Benefits include combining partner resources as a way to reduce investment costs or begin a new business altogether, lessen or eliminate risks, learning

(about a variety of topics or sectors), and to increase competitiveness within a specific market (Twarowska and Kakol, 2013). The risks of entering the world of international business include a lack of experience, unmanageable pace of expansion, and unanticipated costs or legal issues, among others (Rocha, Arkader, and Barreto de Goes, 2014).

One company that took a risk to expand its territory and failed is Ebay. Ebay's failure can serve as a lesson to any firm considering market expansion, as Ebay's failure was choosing the wrong entry mode for their expansion. Ebay, in its efforts to expand into China, decided to take the route of acquisition by acquiring one hundred percent of EachNet (Ofili, 2016). On the surface, this decision makes sense, as China's internet usage had grown exponentially through 2007:

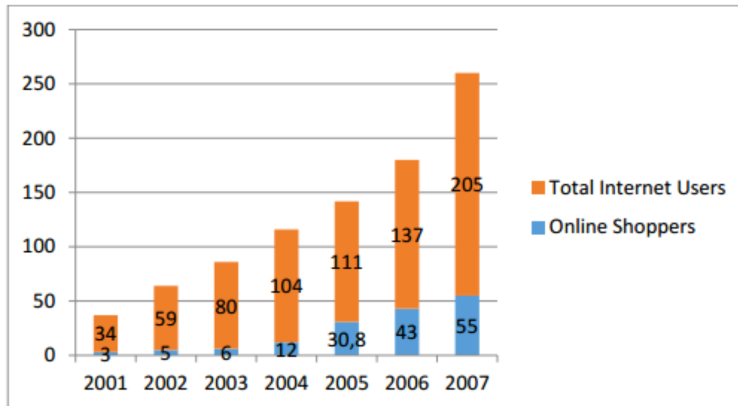
Figure 4: Internet usage growth 1999-2007



Ofili, 2016

However, Ebay failed to consider that even though internet usage was climbing, online shopping amongst Chinese consumers was not:

Figure 5: Online shoppers v total Internet users in China



Ofili, 2016

This was the downfall of Ebay's venture into the Chinese market: they failed to consider how consumers were actually shopping. A better option, according to Ofili (1997), would have been to enter the Chinese market in a joint venture or to become a minority shareholder, rather than a majority shareholder. Ebay would have experienced less risk, and would have had more time to work out the "kinks" in its expansion plan. However, if Ebay would have conducted more thorough research prior to acquiring all of EachNet, the entire situation may have been avoided.

To minimize the risks of international expansion while amplifying the benefits,

a firm must dedicate time to creating and executing a global marketing strategy. It is important to keep in mind, however, that there is surmounting evidence that it is extremely challenging to predict disruptive events in the world of business, even when extensive research is conducted (Rocha, Arkader, and Barreto de Goes, 2014). Although unknown variables and unanticipated events will always present themselves in a business venture, taking the time to develop a strategy that is based upon country and market research can help a firm prepare turn potential unknown variables into known variables, allowing for a smoother, more successful transition into its new market.

2.2 Developing a Global Marketing Strategy

The integration of major economies across the world emphasizes the importance of expanding globally (Viswanathan and Dickson, 49, 2006; Casadesus-Masanell and Ricart, 2009). This means that the development, implementation, and execution of a marketing strategy are more important than ever. In general, the expansion of a business overseas requires a team that is dedicated to seeing the process through to the end (The Economist, 2015). It also requires that the expansion team have a strong leader with solid project-management skills, and that team members are able to collaborate effectively and efficiently (The Economist, 2015). This team can be

made up of in-house personnel or be outsourced. Most companies, approximately forty-five percent surveyed by The Economist (2015), stated that their expansion efforts were led by an in-house team of leader-experts and project managers, and that it is important that the composition of the team be flexible, as the project may change as it advances and develops.

Casadesus-Masanell and Ricart (2009) created a "generic two-stage competitive process framework" which outlines the basic path, which businesses follow in developing their model, strategy, and tactics:

Figure 6: The generic two-stage competitive process framework

This linear framework shows that first a firm selects a business model during the strategic planning phase. Then, based upon their model selection, the firm develops tactics that will help them reach their goals. These tactics are usually centered on whether a firm will compete against or collaborate with other competitors in the same market, and the end goal is most likely focused on how to best serve shareholders to maximize profits (Casadesus-Masanell and Ricart, 2009).

According to Amit and Zott (2001), a business model describes "the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities" (Casadesus-Masanell and Ricart, 2009). Casadesus-Masanell and Ricart (2009) argue that business models have two main elements: the choices made at the managerial level regarding organizational operations; and the outcomes of those choices. There are three main types of choices that can be made when determining the type of business model that will be used to guide an expansion:

- Policies: the courses of action that the firm adopts for all aspects of operations
- Assets: concrete resources
- Governance: the structure of contractual agreements that grant decision-making rights for policies and/or assets

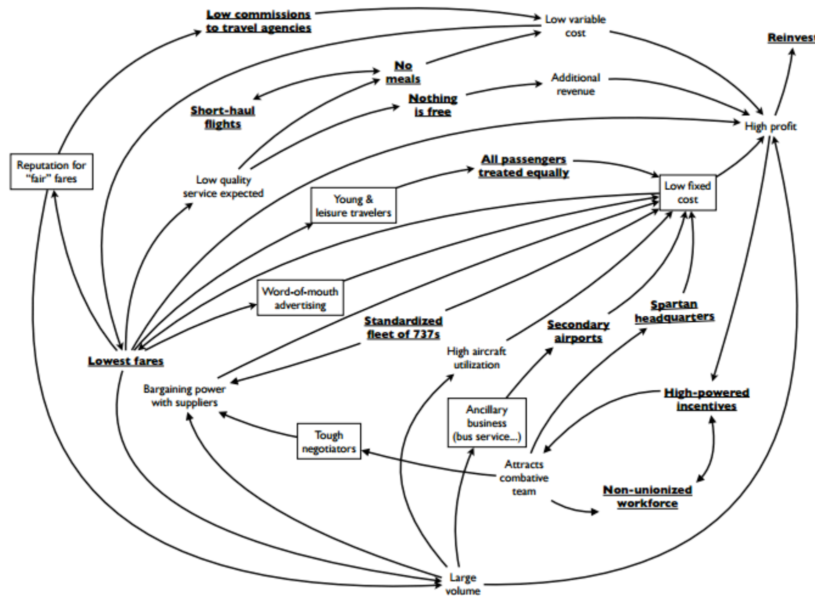
Casadesus-Masanell and Ricart, 2009

The consequences related to these choices can be either flexible or rigid. A consequence is flexible if it is directly and quickly affected by the choices that cause the consequence (Casadesus-Masanell and Ricart, 2009). A rigid consequence is a consequence that is not quickly affected by the choices that cause the consequence (Casadesus-Masanell and Ricart, 2009). A firm must consider as many outcomes, or

consequences, of the potential choices it can make as possible. This will ensure that overarching business goals are met, and also that potential consequences are more flexible or more rigid as appropriate. Too many flexible consequences can make for unstable operations, even if it does allow for immediate adjustments that may change the business model. Too many rigid consequences could cause delays in adjusting operations to the market, and too great of a delay leaves the potential for it to be impossible to recover from a hard hit.

An example that demonstrates the interrelatedness of these choices and consequences is the flight company Ryanair. The loop diagram below depicts the choices and consequences made by the company:

Figure 7: Choices and consequences loop diagram by Ryanair



Casadesus-Masanell and Ricart, 2009

Choices made regarding the business model are in bold, underlined text, while consequences are in regular font. Consequences in boxes are of the rigid variety, while non-boxed consequences are flexible. This type of loop model allows firms to see the consequences related to the business model choices made, and how they can affect the longevity and success of their business. It also allows for the revamping of the model if the resulting consequences of the initial plan are not as firm leaders imagined them to be.

With this in mind, the loop model also allows managers and decision-makers of

a potentially expanding firm to see what virtuous cycles are created by the choices made for the business model. A visual path from choice to consequence back to original choice is created, allowing managers to see how their choices and consequences are not only interconnected, but how the choices and consequences affect the strength of the business over time, since the loops of the virtuous cycle adapt each time a loop is completed. For example, the three virtuous cycles below are based on Ryanair's choice of offering the lowest fares:

Figure 8: Virtuous cycles by Ryanair

- Virtuous cycle 1: lowest fares → large volume → bargaining power with suppliers → [low fixed cost] → lowest fares → ...
- Virtuous cycle 2: lowest fares → large volume → high aircraft utilization → [low fixed cost/passenger] → lowest fares → ...
- Virtuous cycle 3: lowest fares → low quality service expected → no meals → low variable cost → lowest fares → ...

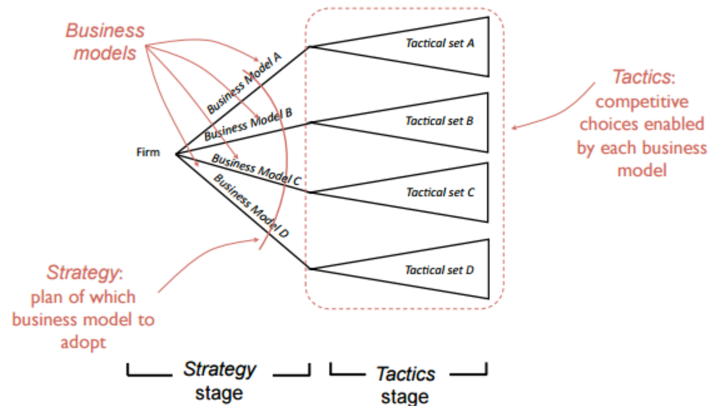
Casadesus-Masanell and Ricart, 2009

There are slight adjustments made in the consequences resulting from the choices after each cycle, demonstrating that rigid consequences become larger as the cycles repeat themselves (Casadesus-Masanell and Ricart, 2009). This growth can determine the strength or weakness of a business model. If the rigid consequences are of value, the cycle will show the development of important assets and capabilities. If

the rigid consequences lack value, there is a risk of struggle for the company. Rigid consequences that lack value have the potential to mask overarching problem in the business model choices and/or financial stability of the organization. Since rigid consequences are not quick to change, the firm cannot quickly adjust its tactics, opening itself up to potential long-term negative consequences that could lead to overwhelming losses, and ultimately, the end of the business.

Once a company has decided upon a business model to utilize, it opens itself up to a number of tactics to employ. Tactics are the "residual choices open to a firm by virtue of the business model that it employs" (Casadesus-Masanell and Ricart, 2009). Since tactics are a result of the chosen business model of a firm, it can be said that the business model dictates what tactics are available to a firm for either competition or collaboration with other firms. Casadesus-Masanell and Ricart (2009) expanded their linear model (displayed earlier) to show greater fluidity between the strategy and tactics stages, showing how the business model influence the tactics

Figure 9: Business model influencing tactics



Tactics are highly important because they are critical in establishing how much value a firm can create and capture (Casadesus-Masanell and Ricart, 2009). An example of how a business model dictates the tactics available to a firm, as well as how tactics influence the value of the firm, was demonstrated by Casadesus-Masanell and Ricart (2009) with Metro, the world's largest newspaper. Metro is a free, ad-sponsored newspaper sold in over 100 cities and 18 countries. Since its business model is that it is a no-cost newspaper, Metro cannot charge for its paper without saying it has changed its business model. However, the variables that Metro can control are the tactics it can utilize to increase value. Some tactics that Metro can utilize to maintain its no-cost newspaper business model include the following choices:

- The number of pages in each edition of Metro

- The number of ads in each edition of Metro
- The types of articles printed
- The cost of advertisement space
- The advertisers to which it sells advertising space

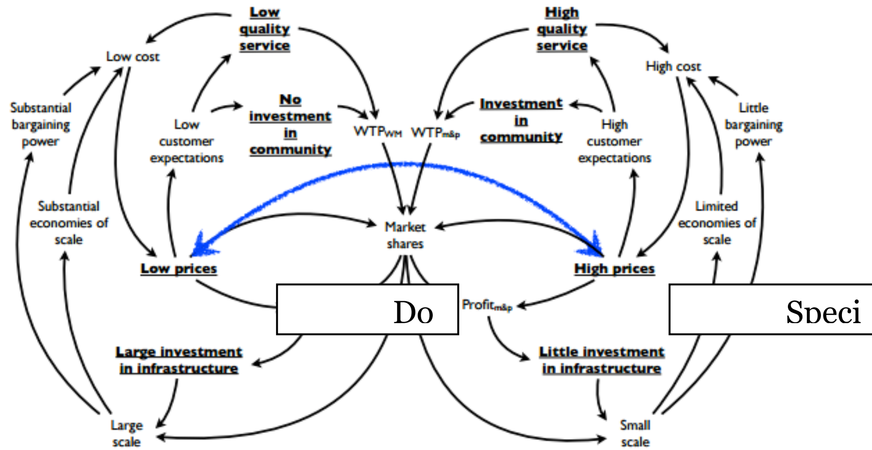
Here, the tactics Metro chooses are important to consider because they will directly affect readership, based on the types of articles printed and the numbers of ads on each page, and revenue, based on the number of ads on each page and the rates for advertising in the newspaper. The types of advertisements featured in the magazine are a consequence of the types of articles printed, as the advertisements should feature products and services that cater to the needs of the audience toward which the magazine is geared.

Similar to how Metro must base its tactics on the business model of being a free magazine, other businesses must plan their tactics around their business models in a similar fashion. For example, if a construction company bases its business model on building new homes, it would not be wise to advertise in areas urban areas that are already fully developed. It would be in the firm's best interest to advertise in area that is just beginning to develop upon farmland or green space, or in an area where there is a new influx of white collar workers but a shortage of suburban housing. When

expanding on a cross-border, international, or global scale, a firm must keep in mind its original business model so that its tactic are supportive of that model, rather than change the business model to fit the tactics employed. These are all considerations that must be made in the strategic planning phase of planning an international expansion.

Tactics, however, do not only affect the business employing them. They also have an effect on market competitors. The choices, or tactics, that each firm employs make consumers choose between their services or goods, based on a variety of factors. Therefore, the tactics of companies that exist within the same market interact, and affect the value creation and capture of each other. An example that demonstrates this interaction is the competition between dollar stores and a specialty store. For this example, we will use a kitchen specialty store. Dollar stores are known for selling merchandise at extremely low prices, however, the quality of the goods may not be that high. On the other hand, the quality of the goods at a kitchen specialty store is high, but so is the price. If a consumer is shopping for a new can opener, they will look at both of these businesses to decide from which he or she should purchase the product. The low-cost, low-quality tactic of the dollar store will appeal to a consumer that is interested in saving money, while the high-quality, high-cost tactic of the specialty store will appeal to a consumer that has the money to spend on a pricey kitchen accessory, or maybe is a culinary professional. There are other appeal factors of discount stores and specialty stores, as shown in the diagram below:

Figure 10: Dollar Store v Specialty Retailer diagram



The business model and tactics chosen as a result of that model must also keep the target consumer audience in mind. The goal of any business is to make a profit through the sale of goods or services, but this is only possible if the goods or services are needed by consumers located in that market. If a business model is selected with the intention of catering to a specific consumer subset, such as a dollar store catering to the needs of thrifty shoppers, then all tactics must also cater to those shoppers. If a firm is seeking expansion into a foreign territory, it would be wise to research the market to ensure that the consumer base that is targeted by their business model is available. If it is not, then this may be an indication that this potential new territory will not be a profitable area for a business expansion.

An important decision to be made by any company looking to expand across borders is if it plans on being an international company or a global company. This decision will directly impact the business model and tactics, and will drive the international or cross-border expansion. The element of choice is highly important to consider when choosing a business model during the strategic phase, as this choice is what determines how a firm will compete in the market amongst its same market peers (Casadesus-Masanell and Ricart, 2009). As Casadesus-Masanell and Riacrt (2009) point out, "choosing a particular business model means choosing a particulary way to compete, a particular logic of the firm, a particular way to operate and to create value for the firm's stakeholders." In other words, the decision to either create or alter a business model to include an international or global audience is not a decision that is to be taken lightly.

With this in mind, there are important differences between an international strategy and a global strategy that firm leadership should consider when strategizing which business model will become the crux of their expansion. Twarowska and Kakol (2013) define an international strategy as one in which a company has "internationally scattered subsidiaries [that] act independently and operate as if they were local companies, with minimum coordination from the parent company." Utilizing an international strategy does not require a lot of coordination from the parent company, assumes that the subsidiaries are responsible for addressing local business needs, and

allows subsidiaries the independence to plan and execute competitive strategy based on local competition (Twarowska and Kakol, 2013).

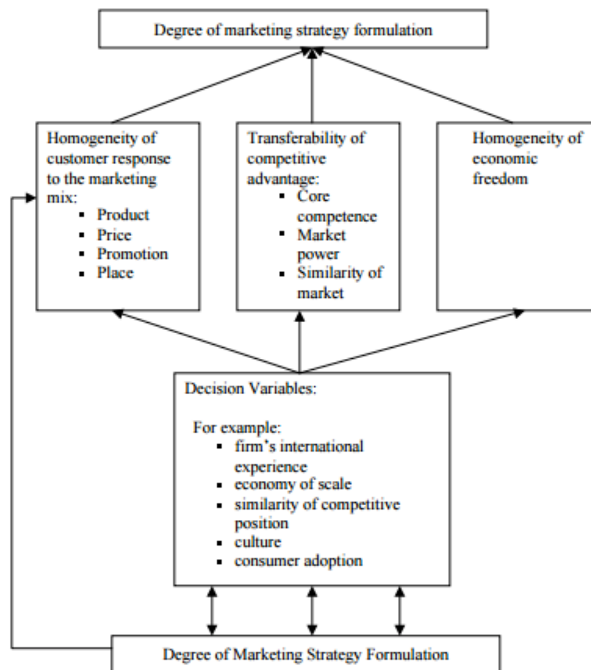
In comparison, Twarowska and Kakol (2013) define global strategy as the development of a single strategy that is utilized and applied by subsidiaries and partners across the world, adapting the strategy to the local economic environments only as absolutely necessary. A global strategy requires a lot of involvement and coordination from the parent company in regards to the activity of its subsidiaries (Twarowska and Kakol, 2013). Operations and products are standardized across countries in a global strategy, as is the competitive approach to rivals within the market, even though they are located in a diverse array of countries (Twarowska and Kakol, 2013).

There exist three main perspectives on global marketing strategies: standardization, configuration-coordination, and integration (Viswanathan and Dickson, 49, 2006). The configuration-coordination perspective is most focused on competitiveness, stating that "the coordination and configuration of the value chain activities globally" creates an advantage over competitors because of increased efficiency (Vinwanathan and Dickson, 49, 2006). The integration perspective states that effective strategies are created through the global integration of competitive moves (Viswanathan and Dickson, 49, 2006).

Many researchers have found that businesses that create and execute a standard business format have better international expansion experiences than those that do not plan ahead (Vinwanathan and Dickson, 2006; Hoffman, et al., 2014). Establishing a standard business format and incorporating knowledge of the new business local has been found to streamline the decision-making processes that are used to work around the unknowns presented when expanding a business into a previously untapped territory (Hoffman, et al., 2014). Costs are also reduced in a variety of areas, including purchasing, products and services offered, branding and marketing, and administrative operations (Hoffman, et al, 2014).

Viswanathan and Dickson (2006) found that the degree to which a firm decides to standardize its business format is dependent on three things: the homogeneity of customer response to the marketing mix; the transferability of competitive advantage; and the homogeneity of economic freedom. The framework below shows these constructs in more detail:

Figure 11: Standardizing of business format



Vinwanathan and Dickson, 2006

This model uses the three constructs listed above as a base for standardizing a business format, but also makes some assumptions, the main assumptions being that important factors such as product and price, are knowns (Vinwanathan and Dickson, 2006). Essentially, this framework creates a spectrum of business strategy that ranges between complete standardization and complete adaptation. When there is a high level of homogeneity and/or transferability amongst all three constructs, standardization is the best choice for formulating and

implementing a business strategy. In contrast, low levels in all three constructs indicate that it would be illogical to standardize, as this could have a negative impact on returns and shareholder value (Viswanathan and Dickson, 2006).

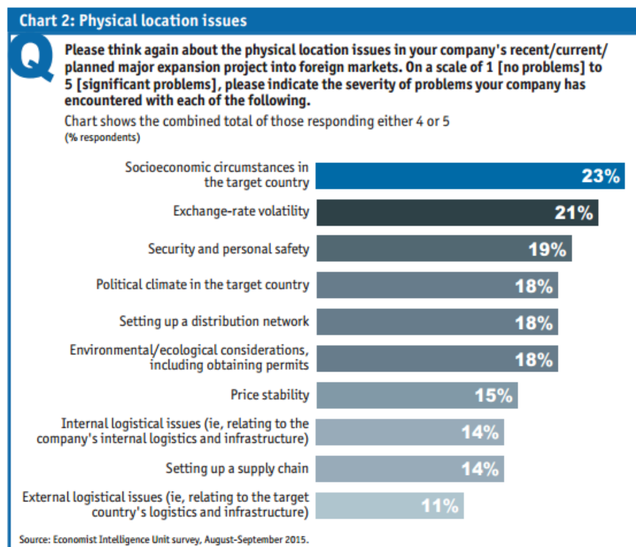
However, there is some research supporting "international expansion by chance," rather than laying out a step-by-step business plan. Almodovar and Rugman, in their paper "The M curve and the performance of Spanish international new ventures," found that Spanish international new ventures all begin as regional businesses (2014). These regionally based businesses seemed to expand by accident or chance, after encountering an opportunity such as an unsolicited order from another country within the European Union (Almodovar and Rugman, 2014). Here, without any initial intent or strategy to expand globally, companies were forced onto the global stage by a positive international outcome and to find ways to continue these positive outcomes in foreign markets.

2.3 Regionalization

Determining geographic scope is an important concern for all multi-national corporations (Banalieva and Dhanaraj, 2013; Twarowska and Kakol, 2013). Geographic scope exists on both a literal and abstract scale. When looking to expand, a corporation must consider the physical locations into which they could possibly move.

When surveyed by The Economist, participants listed their most pressing location concern as any and all things related to the socioeconomic situations within their target country (2015).

Figure 12: Physical location issues



The socioeconomic state of a potential expansion location is a valid concern, as this is directly tied to supply and demand cycles, and supply and demand feeds the main goals of expansion: accessing new markets and/or gaining new market shares (The Economist, 2015). If new markets or market shares are unavailable in a potential expansion territory, there is little chance of successfully operating a business in that area, as there is no profit to be earned.

The second most frequent response, exchange rate volatility, is also an

important concern for those looking to expand into a foreign territory. When exchange rates are unstable or experience drastic changes, businesses can experience greater-than-anticipated fixed costs, like those associated with property, utilities, and staffing (The Economist, 2015). Simultaneously, as a result of increased costs, exchange rate volatility can lower anticipated profits and revenue (The Economist, 2015). This also makes expansion into a territory questionable, as profits may be eaten up by constantly fluctuating or increasing expenses, making it pointless to expand into this foreign market.

The more abstract idea of expansion involves how the move actually happens. There are two main theories as to how firms expand beyond their home country borders. The first, the Uppsala internalization process model, states that multi-national corporations expand internationally slowly, from familiar territory, to territory in close proximity, and finally to new and more distant areas (Banalieva and Dhanaraj, 2013). This slow expansion is allows firms to slowly commit to new foreign locations, affording them time to learn about their new markets and the business culture in the area (Banalieva and Dhanaraj, 2013). The Penrosian perspective parallels the Upsalla model, but focuses on managerial resources. The Penrosian model posits that as a company expands, managerial resources grow ever scarcer, forcing companies to focus their attention on more familiar regional pursuits, which also minimizes the costs and risks related to adjusting to a new market (Banalieva and

Dharanaj, 2013). Both of these views make it reasonable for multi-national corporations to favor a regional strategy.

Other researchers have made observations that support regionalization theory. Rugman's book "The End of Globalization: Why Global Strategy Is a Myth & How to Profit from the Realities of Regional Markets," presents data on geographic distribution of sales that demonstrates the regional focus of multi-national corporations (Banalieva and Dharanaj, 2013; Rugman and Collinson, 2004). This pattern holds true in other sectors across the globe. For example, French and Poterba and Tesar and Werner showed in their research that both American and Japanese investors hold more than ninety percent of their investments in domestic assets (1991; 1998). Similarly, research by Rugman, Yip, and Jayaratne (2008) shows that there is a very strong regional focus in Europe, with 64% of sales of British firms occurring within the European Union (Ghobadian, Rugman, and Tung, 2014). Rugman and Collinson (2004) also found that in Europe, amongst the top 500 companies for which regional sales data is available, 118 of those companies compete principally in European regions, with over sixty percent of those only competing in home market territory. Multiple pieces of research focusing on strategic management found that the complexities related to company globalization forced companies to take a regional focus approach (Douglas & Wind, 1987; Morrison, Ricks, & Roth, 1991; Roth & Morrison, 1992). Research on international trade patterns found that there are

significantly more instances of intra-regional trade than inter-regional trade (Hejazi, 2005; McCallum, 1995).

Regionalization can also be more advantageous in certain sectors than in other sectors. For example, Kolk, Lindequq, and van den Buuse (2013) explored the expansion paths of the seven major electric utilities providers in the European Union. They found that, consistent with internalization theory, that even though there was significant home-region expansion in electricity generation, only one sector of business operations, renewable energy, demonstrated significant global expansion (Kolk, Lindeque, and van den Buuse, 2013). Further analysis revealed that the strong regionalization of the electricity generation portion of the business played an important role in the expansion of the renewable energy sector, as the relationships formed through the electricity generation operations are upon which the renewable energy international expansion efforts was built (Kolk, Lindeque, and van den Buuse, 2013). Therefore, regionalization also holds the benefit of strong networking, which can support future expansion efforts.

Similar support for regionalization and its positive effects on global expansion were found by Mohr, Fastoso, and Wang. Their research focused on international retail companies and the relationship between regional focus and the success of international expansion ventures. The analysis showed that multinational retail companies with strong home region orientation were more successful in their

efforts to expand internationally, and also that the international expansion actually strengthened home region performance as well (Mohr, Fastoso, and Wang, 2014). They also found that those corporations that chose to move sooner, rather than later, put themselves in an advantageous position (Mohr, Fastoso, and Wang, 2014).

Rugman and Collinson (2004) created four categories to define the regionalization of any firm. These categories are Home Region, Bi-Regional, Region, and Global. Below, a definition and examples of each is provided:

- Home region (>50% of sales in the home region)
    - Carrefour is a French retailer that has over six thousand stores in twenty nine countries (Rugman and Collinson, 2004). However, it is considered a regional company because just slightly over ten percent of its sales occur outside of its home region.
    - TotalFinaElf is one of the top five largest oil companies in the world. However, with over fifty percent of its sales and seventy five percent of its workforce located in its home region, it is considered a home region company (Rugman and Collinson, 2004).
- Bi-regional (<50% of sales in the home region, but >20% in another region)
    - GlaxoSmithKline has over thirty five billion dollars in sales and more

than one hundred thousand employees, making it one of the world's largest pharmaceutical companies. Although it is a European company, more than half of its sales occur in North America, and nearly thirty percent occur in Europe (Rugman and Collinson, 2004).

  - L'Oreal Paris is a bi-regional company with half of its sales in Western Europe and another thirty percent of sales occurring in North America (Rugman and Collinson, 2004).

- Host region (>50% of sales in another region of the triad)
  - AstraZeneca is the third largest pharmaceutical company in the world. Over fifty five percent of its sales occur in North America, with nearly thirty two percent of its sales occurring in its home region of Europe (Rugman and Collinson, 2004).

- Global (<50% of sales in the home region and >20% in each region of the triad).
  - Nokia is a company that provides consumers with network equipment and mobile handsets. As demands for these products grew, so did the company. Nokia is considered a global company because it employs tens of thousands of people around the world, and has different company sectors, such as research and development, located in multiple countries

around the world (Rugman and Collinson, 2004).

- Philips is a global company based on both sales and employee location. Forty three percent of Philips' sales occur in Europe, with nearly twenty nine percent occurring in North America and twenty one percent occurring in Asia. Philips has over 160,000 employees in sixty countries (Rugman and Collinson, YEAR).

Regionalization, however, does not come without its challenges and logistical implications. Many bodies of research have shown that even when global-level and country-level activity is replaced by regional-level activity, metrics must be adapted on economic, political, and cultural levels to match the new regional approach (Ghobadian, Rugman, and Tung, 2014). This means that research into new territories is still necessary even though a firm may adopt a regionally-based business model.

Researchers such as Buckley and Casson and Rugman have delved deeper into internalization theory to outline the manner in which it provides benefits to multi-national corporations. Their research supports the idea that imperfections in the markets increase transaction costs associated with crossing borders, and therefore internalization becomes a more attractive option to firms (Hennart, 2007). Internalization becomes a positive option for multi-national corporations because haggling costs and buyer insecurity are eradicated, government involvement is kept at

a minimum, and enables the establishment of pricing based on actual market conditions (Banalieva and Dharanaj, 2013). Research shows that these benefits are greater than the administrative and managerial costs of operating on an internal strategy, and is accepted as a common theory that explains patterns in multi-national corporatations' expansion into foreign markets (Banalieva and Dharanaj, 2013).

Maintaining a regional focus also provides firms with technological advantages. According to Caves and Dunning, it is the most valuable asset to any multi-national corporation (1996; 1980). Technology is a non-location bound firm-specific advantage, and it is upon these non-location bound advantages that corporations must build because they are fully transferable to any environment (Banalieva and Dharanaj, 2013). There is evidence that technological advantage promotes and strengthens internalization, and in combination with increasing returns, it can be said that "as the technological advantage grows, it has an increasingly larger impact on the competitive advantage of the firm" (Banalieva and Dharanaj, 2013). Banalieva and Dharanaj (2013) found that technology allows multi-national corporations greater access to international markets and decreases the challenges presented in working across long distances.

2.4 Social Entrepreneurship

Researchers are finding that social entrepreneurship is a key component

of international business ventures. Zahra, Newey, and Li define social entrepreneurship as the "recognition, formation, evaluation, and exploitation of opportunities to create new businesses, models, and solutions with a focus on achieving blended value" (2014). This means that entrepreneurship begins with a social need that also happens to be profitable, and organizes the venture around finding a solution to a social issue while also turning a profit (Zahra, Newey, and Li, 2014). Marcopolo, the Brazilian bus manufacturer, used its personal relationships, political connections, and networking leads to help launch its success in new European and Asian territories.

Brush, Edelman, and Manolova found in their research comparing internationalized and non-internationalized firms that there are five types of resources – social, organizational, financial, physical, and human- that were considered of high importance in firms that successfully expanded on an international scale (2002). The greatest difference in resources noted between internationalized and non-internationalized companies was between financial and social resources (Brush, Edelman, and Manolova, 2002). They found specifically that the social and financial capital of the owner or founder of the company were extremely important if a firm wants to successfully expand into foreign territory, as networking will grow of increased importance as boundaries are crossed (Brush, Edelman, and Manolova, 2002). Social and financial aspects of international expansion are directly connected,

as the financial resources of a company must be able to support the networking necessary to begin the process of internationalization (Brush, Edelman, and Manolova, 2002).

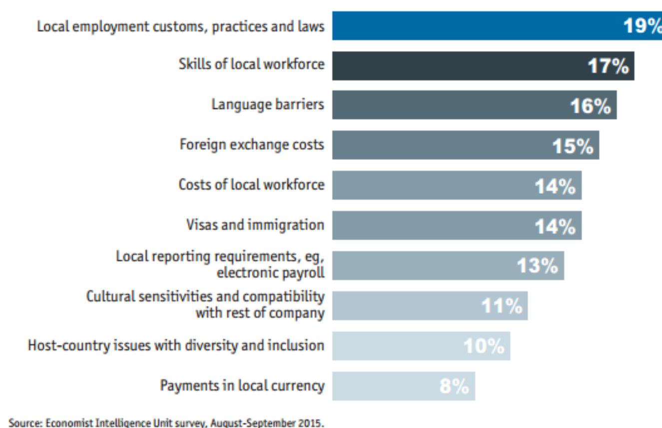
When a firm chooses to expand on a global scale, it must consider both the social and financial implications of expansion through economic and social cost/benefit analyses (Brush, Endelman, and Manolova, 2002; Zahra, Newey, and Li, 2014). Companies working on a blended value system operate under the notion that financial, social, and environmental values are inseparable (Zahra, Newey, and Li, 2014). Three reasons supporting this train of thought are that placing a narrow emphasis on one of the three types of value can have extreme social costs (Zahra, Newey, and Li, 2014). For example, a focus on housing loans can cause economic recession and large scale bankruptcy, among other issues (Zahra, Newey, and Li, 2014).

An entrepreneur's business expansion strategy must also consider the costs and benefits of moving into a specific territory. As Zahra, Newey, and Li point out, large social and environmental costs tend to exhibit a reciprocal linear relationship with economic costs (2014). When an area is known to experience disastrous natural phenomenon such as earthquakes and flooding, it is important to consider how this will affect crop yields, because undersupply can cause prices to be increased, as well as the potential material assets lost as a result of such events (Zahra,

Newey, and Li, 2014). These losses can lead to increased reliance on government support, stress in a variety of aspects of life, and reduced tax-related income; these social costs lead to higher economic costs overall (Zahra, Newey, and Li, 2014).

The culture and social customs of a new territory play an integral part in determining if a business will experience success in the new market. These "soft skills," are a focus for many expanding companies, with the most intense attention being paid to local employment customs, practices, and laws (The Economist, 2015).

Figure 13: Success factors in international expansion



Cultural sensitivities are a focus, as these can lead to potential law suits and litigation (Rocha, Arkader, and Barreto de Goes, 2014; The Economist, 2015). Chief financial offers tend to focus on the availability of skilled laborers in a new territory, with specific concerns regarding cost of the workforce and visa and immigration regulations (The Economist, 2015). Financial sectors of expanding companies must

also concern themselves with local reporting requirements, as these vary from country to country and state to state (The Economist, 2015). The rules that can have an effect on the daily duties of payroll administrators include regulations on the repatriation of profits, transfer pricing, various types of taxes, and social security and retirement contributions (The Economist, 2015). Companies that successfully expand on the international level strive to maintain their own culture while also demonstrating respect for local customs and cultural differences.

Cultural sensitivity can also be extended to include consumer trends. Consumer trends in a potential new business territory are also a social aspect that must be given serious consideration when developing an expansion plan. Many researchers have found consumer cultural trends to be important indicators of business success in European and Asian territories. In a study of Chinese student in Great Britain, Cappellini and Yen (2013) analyzed how social ties affected the food consumption of Chinese students. They uncovered three patterns of acculturation that had direct effects on students' food consumption, and therefore, buying habits. First, they found that Chinese students with strong cultural ties ate traditional Chinese foods to help maintain their ethnic identities, and also resisted host culture (i.e. British) foods as part of this cultural maintenance (Cappellini and Yen, 2013). The second identified pattern also resisted the host culture foods and ate Chinese foods, but had weak connections to their ethnic background (Cappellini and Yen, 2013). Their consumption

of Chinese foods helped them to build connections not just to their personal ethnicity, but also the global community (Cappellini and Yen, 2013). The third pattern came from a group with strong non-ethnic ties. The pattern demonstrated by this group was that they had a greater knowledge of host culture foods, but did not consume them more than any other particular group (Cappellini and Yen, 2013). This example shows the importance of considering the layers of cultural dimensions within a new territory. Without extensive cultural background research, a firm risks excluding entire sectors of the population from its market, lessening its potential profits before it even begins operating in the new territory.

A study of Eastern European consumer trends, specifically in the Czech Republic and Bulgaria, revealed a preference for well-known brands and that consumers tend to remain loyal to brands in this area of Europe (Millan, De Pelsmacker, and Wright, 2013). Millan, De Palsmacker, and Wright (2013) found this to be particularly prevalent amongst clothing choices made by Czech and Bulgarian citizens, as clothing is an important means of self-expression in these areas. Just like the Chinese cultural connectivity example previously showed, consumer buying trends in the Czech Republic and Bulgaria highlight the importance of conducting cultural research in a potential new market. If a firm is not offering good and products that would appeal to the highly selective tastes of Czech and Bulgarian citizens, there is little chance the firm will experience success. In any market, consumer buying trends

based on the cultural populations within a territory will provide key information to help a firm successfully launch its business in a new territory.

Consumer culture is more than just what people buy. It also encompasses how people feel about companies and the business they do. Therefore, it is highly important that companies portray an image that will be favorable in the eyes of the consumers located in their potential new territory. This can be done by studying consumer satisfaction trends. In a study of German consumers, Walsh and Bartikowski (2014) investigated the relationship between corporate ability and corporate social responsibility and consumer loyalty. They found that German customers expressed greater satisfaction with and loyalty to corporations that were viewed to exhibit greater social responsibility (Walsh and Bartikowski, 2014). Here, German preference of socially responsible corporations shows the need for firms to represent the values of the people and culture within a new territory; that offering a product to the market is not enough to attract and maintain consumers.

Similarly, Zhou and Whitla (2013) studied moral perception of corporations by customers based on negative celebrity publicity. They found that a negative appraisal of the moral reputation of the celebrity endorser transfers to the corporation, therefore causing consumers to have a negative view of the corporation (Zhou and Whitla, 2013). Similar to the Germans' preference to support socially responsible companies, the research by Zhou and Whitla shows that the moral value

held by the consumers in a new, foreign market territory play a significant role in consumer buying choices. If a firm does not share or support the same values as the consumer, this places the firm in a negative light, there is a risk for harm to the reputation, profits, and success of the firm.

Negative perceptions are also formed when corporations, even those with no negative publicity, are linked or connected to a corporation that has had some type of blemish on its record. This was demonstrated in a study of Chinese consumers after the 2008 milk contamination crisis, conducted by Gao, Knight, Zhan, and Mather. They found that shared brand identity and connections on managerial or investment levels automatically result in consumers having a negative view of an importing brand that had no actual tie to the milk crisis (Gao, Knight, Zhan, and Mather). This example demonstrates the importance of also researching partners in a potential expansion, especially if the extension will be executed as a joint venture. Any instance of guilt by association has the potential to harm the reputation, success, and profitability of an expansion into a foreign territory, even if the expanding firm itself did no wrongdoing in the first place.

Effects on natural resources must also be considered when interested in expanding a business, as failure to consider the social and environmental costs of a project have the potential to cause distorted pricing of natural resources across the globe (Zahra, Newey, and Li, 2014). A lack of consideration of natural resources and

the social effects of their use can lead to wastefulness and unsustainable practices. This means that a global business expansion plan must truly consider the global marketplace in which the business will function.

One important aspect of natural resources that must be considered when expanding internationally is consumer views toward the environmental standards held by a firm. A firm's treatment of the environment can fit under the umbrella of corporate and social responsibility, as many consumers feel that environmental mindfulness is a moral obligation, as is the case amongst German consumers (Bauer, Heinrich, and Schafer, 2013). Bauer, Heinrich, and Schafer (2013) interviewed German consumers to identify how much of an effect the utilization of an organic food label had on consumer food purchasing choices. The study showed that the use of organic food labels affects consumer perception of businesses on all scales: global; local; and private (Bauer, Heinrich, and Schafer, 2013). It also found that consumers were willing to pay higher prices to pay for organic food, and that private brands benefitted the most, in terms of purchase choices and positive evaluations, from the use of organic food labels (Bauer, Heinrich, and Schafer, 2013). As shown in previous examples, the responsibility and values exuded by a firm must match those of the consumer culture into which the firm is expanding if it hopes for the expansion to be a successful venture.

Hilda Klinkenberg, the founder of Etiquette International, states that less than

twenty five percent of business expansion efforts are successful (Entrepreneur, 2016). The main reason for this, says Klinkenberg, is a lack of knowledge and sensitivity for the culture of the new market region. Klinkenberg emphasizes the importance of collaboration with business leaders and government officials in the new territory, and believes that firms should take the following steps, at a minimum, to improve their chances of success when they decide to expand their territory onto foreign soil:

- Build a relationship before talking about business
    - Make small talk before discussing business matters. This adds a personal connection to the relationship.
- Do not place time limits on meetings or discussions
    - Keeping the meeting open increases a firm's strength when it is time to negotiate. Additionally, not all cultures manage or view time in the same way, even if business matters are the focus of a meeting.
- Conduct research
    - A firm can increase the comfort level of their potential new partners and show respect by learning basic facts about the new territory as well as learning some introductory greetings and

phrases.

- Hire your own interpreter
    - Hiring an interpreter ensures that he or she is working for the firm that hired him or her.
- Understand nuances in body language
    - Body language is interpreted differently in different cultures. Learning the body language of the potential new culture will help conduct professional meetings without accidentally offending a potential new business partner.
- Dress professionally
    - A firm's representatives should always dress professionally for meetings. This includes wearing traditionally or legally required wear in a foreign culture, such as women donning a hijab in Muslim cultures.

Entrepreneur, 2016

Entrepreneurship has an important social aspect that must be paid its due

diligence if a firm expects to be successful in a new market territory. From respecting local customs to reading body language to researching local consumer trends, it is highly important for a firm to pay heed to the people of the potential new territory, not just how much money they have to spend.

2.5 Product Diversification

Deciding to diversify a product line is one of the most difficult decisions a company can make, according to Constantinos C. Markides, of the Harvard Business Review (1997). Product diversification is defined as

> the process of expanding business opportunities through additional market potential of an existing product. Diversification may be achieved by entering into additional markets and/or pricing strategies. Often the product may be improved, altered or changed, or new marketing activities are developed. The planning process includes market research, product adaptation analysis and legal review (businessdictionary.com, 2016).

By definition, simply expanding into a new territory could be considered product diversification. This makes it seem, however, that product diversification is not very difficult to achieve. According to Markides, product diversification is made to be a difficult decision because the choice or idea to diversify is not usually

made under the most conducive circumstances (1997). For example, a successful company may suddenly express interest in collaborating with your firm in a foreign territory, or board members may begin to push firm leaders to expand the territory of the business (Markides, 1997). In both of these situations, as well as others that can lead to product diversification, a lot of data must be analyzed and processed in a short period of time, including return calculations, market forecasts, and competitive assessments (Markide, 1997). Such a rapid fire decision is highly stressful, as it can greatly increase a firm's value or could potentially cause great harm to its value, not to mention the shareholders. The decision to diversify cannot be taken lightly in any circumstance, because both the business and shareholders are at stake.

With this in mind, his paper will explore the other elements of product diversification, specifically the improvement and/or alteration of products and new marketing activities, as these require time and money additional to that required for successful expansion to ensure that a company's product offerings are palatable to the new market territory.

Kling, Ghobadian, Hitt, Weitzel, and O'Regan (2014) tested the relationship between product and geographic diversification amongst the various regional classifications of European multi-regional corporations. They found what they expected initially, that global companies have greater product diversification than do home-region firms (Kling, Ghobadian, Hitt, Weitzel, and O'Reagan, 2014). However,

they also made discoveries about the effects that cross-border expansion and contraction had on both of these types of firms. While they found that both global and home-region firms create value with cross-border expansions, they also found that global companies lose value when they leave foreign markets and that cross-industry expansion is only value-adding for home-region companies (Kling, Ghobadian, Hitt, Weitzel, and O'Reagan, 2014). This means that a company seeking global expansion must have staying power in order to build value within the new territory, as leaving a new territory hurts the firm as a whole. Additionally, the fact that home-region companies add value when they expand cross-industry speaks to the importance of knowing the local consumer culture. Familiarity with local culture and consumer trends allows home-region companies to tailor their offerings in new industries to consumers in the locale, giving them a stark advantage over firms that are new to both the region and the industry.

Kumar, Gaur, and Pattnaik have also conducted extensive research on product diversification, specifically related to international business expansion. Their study lasted for a period of 8 years, from 2001-2008, and analyzed the relationship between product diversification and international expansion (Kumar, Gaur, and Pattnaik, 2012). They found that the "ratio of foreign sales to total sales and FDI experience positively moderates relationship between product diversification and internationalization such that the negative effect of product diversification on

internationalization is smaller if groups have a higher level of international orientation" (Kumar, Gaur, and Pattaik, 2012). In simpler terms, this means that product diversification has the least negative effect on a business if they already have an international presence. Their data also suggests that a company's lower initial product diversification eases the process of internationalization for companies that are just beginning to extend their reach into a new territory or territories (Kumar, Gaur, and Pattaik, 2012). The advice that can be given to businesses seeking cross-border or international expansion is to tread lightly. Trying to take on too much by offering a lot of new product in a new territory would most likely be detrimental to success, according to the research conducted by Kumar, Gaur, and Pattaik. Similarly, some notoriety within the industry is also helpful, but it is perfectly acceptable to build that notoriety slowly, as it most likely will mean steady success in the future.

Overall, the research of Kumar, Gaur, and Pattaik (2012) finds that product diversification actually has a negative effect on the international expansion of a corporation. The businesses followed by their study over the eight year period all aimed to increase market coverage and increase advantage over their competitors (Kumar, Gaur, and Pattaik, 2012). Although they found that many benefits came to the businesses studied as they internationalized, product diversification specifically had a constraining effect on expansion efforts (Kumar, Gaur, and Pattaik, 2012). Researchers attributed this finding to the fact that external markets do not provide the same

support for business exchanges as do home-based markets, which diminishes the benefits as the markets expand outwardly from the home territory (Kumar, Gaur, and Pattaik, 2012). This means that strategies that are successful in a home region or territory are not guaranteed to be successful in a new market, emphasizing the need for research into a new territory before a business decides to expand there.

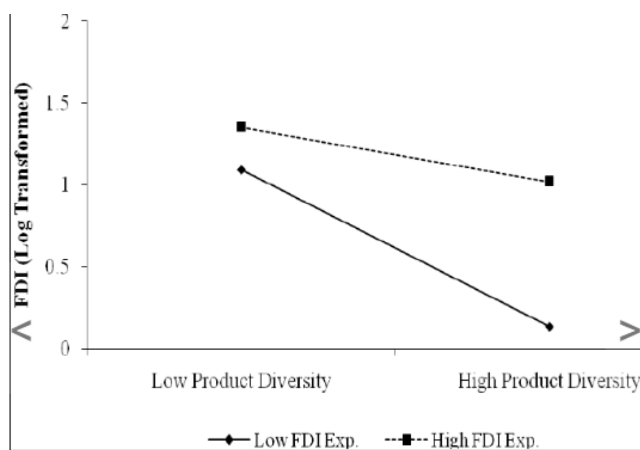
3. Potential Negative Effects of Expansion

International expansion does have its downfalls, as does any business venture. Oh and Contractor, in "A regional perspective on multinational expansion strategies: reconsidering the three-stage paradigm," found that companies can be overzealous in their international expansion efforts (2013; Entrepreneur, 2016). Even when controlling for product diversification and basic performance, they found that in the first two stages of the S-curve, performance of multinational corporations showed improvements or increases (Oh and Contractor, 2013). However, many saw a decline in performance in the third stage (Oh and Contractor, 2013). Oh and Contractor, in a deeper analysis of the third stage declines, found that the downturn occurred as a result of overexpansion into foreign markets and a simultaneously lessened focus on regional markets (2013). This research highlights the importance of strategic expansion planning while also maintaining a strong home region base.

Kling, Ghobadian, Hitt, Weitzel, and O'Reagan (2014) found that overzealous or unsuccessful expansion efforts can cause damage to global companies if they decide to retract their expansion. Retraction of expansion efforts does not just affect the firm's new foreign territory. Retraction is viewed by consumers as overall company weakness, and has a negative effect on all branches and subsidiaries related to a firm. It is in the best interest of a firm that wishes to expand its territories to be sure that it has the strength to maintain the expansion, and has committed itself to meeting the needs of the consumer population in the new territory.

Kumar, Gaur, and Pattaik (2012) found that diversifying products too greatly can actually have a negative effect on international expansion, the opposite intent of what product diversification should seem to do, which is to break in to a new market territory or to expand presence within a market.

Figure 14: Product diversity graph



Kumar, Gaur, and Pattaik, 2012

They found that the strategies used to successfully launch products in a home territory do not necessarily transfer to a new, foreign territory, especially if a business does not have the appropriate support in place to see them through the expansion (Kumar, Gaur, and Pattaik, 2012).

One resource that Kumar, Gaur, and Pattaik (2012) found to be especially vital to a successful internationalization plan that involves product diversification is technology. They found that firms with a greater level of technological resources are more successful in expansion efforts (Kumar, Gaur, and Pattaik, 2012). They also found that firms seeking expansion that lack extensive technological resources are more likely to be successful in their expansion efforts if they leverage the technological resources of business partners and allies.

John E. Cleek, Program Director at the Bloch School of Business Administration at the University of Missouri in Kansas City has additional advice to offer to business leaders that are seeking to expand their territory. He emphasizes that just because a firm is being courted to expand, that does not mean it is actually ready to expand (Entrepreneur, 2016). Cleek says, “It takes discipline to respond to an inquiry from a country about which you know very little,” (Entrepreneur, 2016). Here, the importance of research rears its head. In order to properly respond to an inquiry, a

firm must research the territory before giving an answer. This will prevent an outright failed attempt at expansion.

With so much negative data regarding product diversification and its effect on firm strength, what steps can a firm take to appropriately and thoroughly consider the possibility of expansion? Markides suggests that, "When facing the decision to diversify… managers need to think not about what their company does but what their company *does better* than its competitors" (1997). This market-driven approach suggested by Markides forces a firm to consider how it can add value in a diversification situation with talents it already has in place that happen to stand out above same-market competitors. This changes diversification from a broad tactic to a narrow one. For example, if a software company has an extremely efficient packaging system, this might be how it adds value to a collaborative effort with another firm in a foreign market territory, rather than focusing on the fact that it is a software firm.

A British company that was able to experience success while narrowing its diversification efforts is Boddington Group (Markides, 1997). In 1989, firm leadership performed a competitive assessment of Boddington's offerings: beer brewing; beer wholesaling; and pubs across the United Kingdom (Markides, 1997). The company was struggling due to consolidation across the beer industry, but firm leadership realized that its strength lied in the retailing and hospitality aspects of the business model, specifically with its pubs (Markides, 1997). Firm leadership took this

strength and used it as a base for diversification. It stopped brewing beer, and instead, bought resort hotels, nursing homes, restaurants, and health and fitness clubs (Markide, 1997). This move created enormous firm and shareholder value for Boddington, demonstrating that a paring down of diversification efforts, based on a thorough analysis of firm strengths and assets, can be an enormously successful effort.

4. Implications and conclusion

Recent economic crises have left the European economy in a state of struggle for an extended period of time. As a result, many European businesses are seeking new market territories beyond their homelands. A growing faction of European businesses are exploring international expansion as a way to break into new markets, increase customer bases, earn greater revenue, and attract new talent. However, the process of expanding into new territories – whether across a border or across the globe- comes with high costs of both time and money. And, even once a company establishes itself in a new territory, it will face a new set of trials and tribulations that it must manage and overcome through adapting to the customs and practices of the new territory.

In order to overcome these challenges, firms must learn to do three important things in order to create a successful strategy to guide their international expansion:

analyze their competitive environment; define their position; and develop competitive and corporate advantages.

4.1 Analyze the Competitive Environment

Researching a potential new market and the competition that will be faced in the new market is a key initial step when a firm is seeking expansion across borders. In order to measure potential success in a new territory, a firm must know what competition it will face in the market. The market may already be flooded with similar products, making an expansion into that territory unlikely to bring success and profit. On the other hand, the market may be completely void of competition. This could mean that the firm will be able to completely infiltrate the market and will benefit in terms of profit and success, or it could mean that there is not a demand for what the firm has to offer. In this case, the firm should look for a new territory. To keep the process of expansion as efficient and cost-effective as possible, research into market competition will be highly valuable to any firm seeking to expand its territory.

Another key to analyzing market competition is to study the culture of the potential new territory. Building an understanding of the role of culture in its various forms, culture change on the decisions made by consumers, and the emerging global consumer culture will be one of the keys to success when a firm is forming its

expansion strategy. As part of the study of these areas within global and international consumerism, a potentially expanding firm should utilize a tool to measure consumer trends in purchasing and decision-making. This will allow for a better understanding of the new territory market and how this should shape the business strategy that will be executed within the new territory. Businesses seeking expansion should focus special attention on consumer culture of the foreign region in which they hope to extend their territory. Consumer culture, especially in the areas of values and importance of corporate responsibility, has been demonstrated to be key determinants in whether a business experiences a positive reception from the consumer culture in the new territory. This, ultimately, determines if a company will be successful in the new market or if the expansion will be deemed a failed effort.

Another important part of execution of a firm's expansion strategy is to *not* focus on the desire to become an international company. As the case studies by Rugman and Collinson show, most European firms are home region based. This implies a few things. First, the competitive advantage that they experience in their home market does not necessarily transfer to external markets. It also shows that the specialization of assets, resources, products, and services to the home region and its customers are what drive the success of such large companies such as GlaxoSmithKline and Carrefour, among others. In other words, maintaining regional strength seems to help ensure success on an expansive level when a firm decides it would like to become

international or global. Developing regional strength builds brand notoriety, enabling the firm to have a positive self-image in the new territory before it even begins operating there. This positive image is more likely to be followed by success than would expansion efforts by a completely unknown company. Additionally, a positive reception and success via branding also lessens the possibility of a retraction of the expansion, which has been shown to have detrimental effects on all subsidiaries and branches of a firm, not just those newly established in foreign markets.

One of the issues that a business may encounter in the process of expansion is the effect that product diversification may have on the expansion process. Kumar, Gaur, and Pattaik (2012) found that businesses that are unprepared for expansion into a new territory due to lack of research and garnering support will actually experience a negative effect from product expansion. This is not to say that internationalization with product diversification is impossible. It does mean, however, that a business that is looking to expand on an international front must dedicate human and financial resources to thoroughly study the foreign market into which they are looking to expand, as well as previous attempts by other firms that launched expansion efforts into this territory. This research will enable a potentially internationalizing firm to create a strategy that will be successful within the new territory, rather than relying on home-market strategies, which may not transfer well to the new territory.

4.2 Define Their Position

It is imperative that businesses seeking expansion into new territories clearly define their strategy through the selection of a business model and tactics that support the chosen business model and strive to meet the overall goals of the firm. Having a clearly defined strategy will help a foreign launch be more likely to be successful for a variety of reasons. First, having a definitive business model keeps all members of the expansion team working toward the same goal. It also helps the team select tactics that continuously support the overall goal of the business: to make a profit.

A second way in which clearly defining a business model during the strategic planning phase of an expansion is beneficial is to ensure that the business model and its resulting consequences, or tactics, are culturally appropriate and relevant to the consumer base in the potential new territory. The business model utilized in a new territory and the tactics chosen to support the goals of that model must be acceptable to consumers if a firm expects consumers to purchase the goods and/or services it has to offer. A firm that uses a business model and tactics that is somehow culturally offensive to consumers in a specific territory, or simply to not match current consumer trends, will be less likely to experience success in the new

market territory. Not only will profit be unlikely in this situation, but also a potential retraction of an expansion, as research has shown, is harmful to the firm or brand name as a whole, and could cause a negative perception of the business on a global scale.

4.3 Develop Competitive and Corporate Advantages

Executing a business model and its related strategies based upon market research and consumer trends is done with the end goal of developing competitive and corporate advantages. If the time and effort is put into the research it will take to develop a successful, market- and consumer-sensitive expansion strategy, then the execution will run much more smoothly and is more likely to be successful than if the expansion was hastily executed without background research.

Not only will extensive research allow the formulation of a business strategy and tactics that match consumer trends, it will also create advantages for the firm in the market. A firm that is seeking to expand into a new territory should research its market competitors, both ones that have experienced success, ones that have or are struggling, and those that have failed. This will provide the firm with an idea of what strategies and tactics will lead to success, and which will not.

Research into competition will also provide the firm with insider information to help form collaborative alliance with market competition. Some products or services, although related, may help boost success for firms that decide to form a partnership, rather than just compete with each other. Additionally, same-market firms may be able to offer assistance with technology or other operational aspects that will help foster a collaborative relationship with a firm that is new to the area.

The biggest advantage, however, that a firm can form in a new area is with the government of the territory. Governments want to boost their economies, bringing revenue and jobs to their regions. In order to do this, they need new businesses to enter local markets. Many governments will provide a variety of forms of assistance to businesses seeking to operate in their territory. A governmental alliance can help lessen the burden of preparation and planning that is involved in entering a new market territory.

4.4 Final considerations

As stated in the initial purpose of research for this paper, the aim of this study has been to identify the strategic considerations of importance to a European business, in order successfully expand in the international market in a manner that ensures longevity on a global scale. We have proposed five main factors of interest in

this process and through analysis of successful examples of expansion such as Carrefour and GlaxoSmith Kline, and failed efforts like those of Ebay, we see that businesses can adapt approaches to expansion that fit the goals and business model of their company. This research further led us to discuss three main activities we believe are of vital importance in the creation of a successful business strategy for international expansion.

Finally, based on our findings, we believe that the best advice any business seeking to expand into foreign territory can heed is to research and plan. To help mold an expansion strategy based on our research and expansion trends, some basic starter questions that firm leadership or the expansion team must ask, are:

- Will the product sell well in the potential new territory? Will the product sell well in the potential new culture?
- Is the potential target market familiar with the brand or product?
- What is our level of comfort in the potential territory and culture?
- What infrastructure does the potential territory offer?

These are very basic versions of some of the tough questions that will need to be answered by the expansion team. Having the idea to expanding or to be willing to take the risk is not enough. In order for an expansion to be successful, a firm must complete

the hard and tedious behind-the-scenes work before it even sets foot on the soil of a new market territory.

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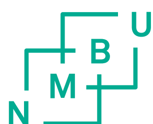

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