



Erasmus+

Hi! I am Peter!
Let's continue our course.
This is the second chapter!



Welcome to Chapter 2

Curious about how to go internationally?

BGame
Strategic Management
Virtual Game for SMEs



Hi, I'm Mary and I am also your coach! Welcome to the BGame Training Course! This is the Internationalisation chapter.



Welcome to the BGame Training Course!
We are delighted to have you here, with us, today!

In this training course there are 5 chapters: Strategic Management, Internationalisation, Human Resources, Sales and Finances and finally, Marketing and Advertisement. In this course, you are free to explore these chapters as you please. They are intended to provide you with a simple overview of each area in which you will have to take decisions while playing our Virtual Game.

These resources are part of BGame Virtual Game and have been prepared by a partnership of seven institutions expert in education and training. Should you wish to obtain any further information about BGame project, please do not hesitate to contact us on www.bgame-project.eu

We hope you enjoy!

BGame Partners

In this chapter, we will learn the following contents



Content of the Chapter

1. What does it mean to “go international”?
2. How should I “go international”?
3. Let’s find out about international product strategies
4. Some success stories to inspire you.

Goals of this chapter

You will be able to ...

- explain the definition of strategic management,
- identify the importance of strategic management to your business,
- list the key tasks for strategic management,
- explain how to grow your business,
- identify the differences between planned and unplanned growth, as well as managed and unmanaged growth.



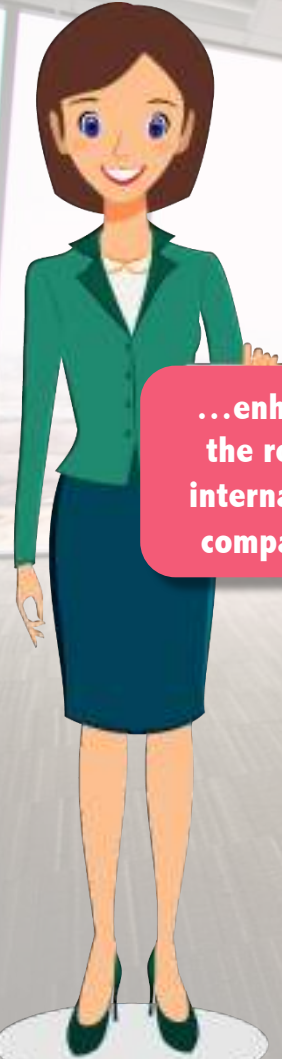


Globalisation

The **globalisation** phenomenon has enabled:

- ongoing economic integration and growing interdependency of countries worldwide by enlargement of the international division of labour;
- growing differentiation of the high-technology and intermediate products;
- the development of the international transport infrastructure;
- revolution of the information and telecommunications;
- the development of the transnational business.

This interdependency across borders has created the need to go international.



...enhanced
the role of
international
companies!

Reasons for internationalization:

- o Market factors, e.g. size of the domestic market, etc.,
- o HR factors, e.g. access to new knowledge, etc.,
- o Efficiency factors, e.g. avoid trade barriers, etc.

Internationalisation has increasingly deeper involvement in international operations, such as faster development of the world trade and capital flows, intensification of the relocation of other factors of production, and increase of the role of international organizations.

But... what is internationalisation?

1. What does it mean to “go international”?



**What can be internationalised?
How can you internationalise anything?
What are the benefits of following this trend?
And the disadvantages?**



Internationalisation is nowadays part of many organisations' strategy.

But what does it exactly mean?
What entails going international?

- The concept of internationalisation is widely spread around the world. However, in many cases, there is not a proper explanation of what is actually the meaning of internationalizing something.
- The first point of this chapter will clearly explain some of these questions, so that next time you hear about going international, you will actually know what are they talking about.

Well, the meaning of internationalisation is not strict.

*“**The internationalisation** can be seen as a process in which is developed several businesses’ networks through extension, penetration and integration in other countries.”*

(Lehtinen & Penttinen, 1999).

Some theories and approaches help to explain the internationalisation process:

- The Theory of the Firm (Cyert and March, 1963);
- Uppsala internationalisation process model (U-M Johanson and Vahlne, 1977);
- Cavusgil’s Stage Theory (1980);
- The Heckscher and Ohlin Theory (H-O – 1949);
- Kojima’s hypothesis (Kojima, 1978; Kojima, 1982);
- The Ownership Location Internalisation (OLI) Model. Dunning (1977, 2001)



But be careful... internationalisation is NOT globalisation!



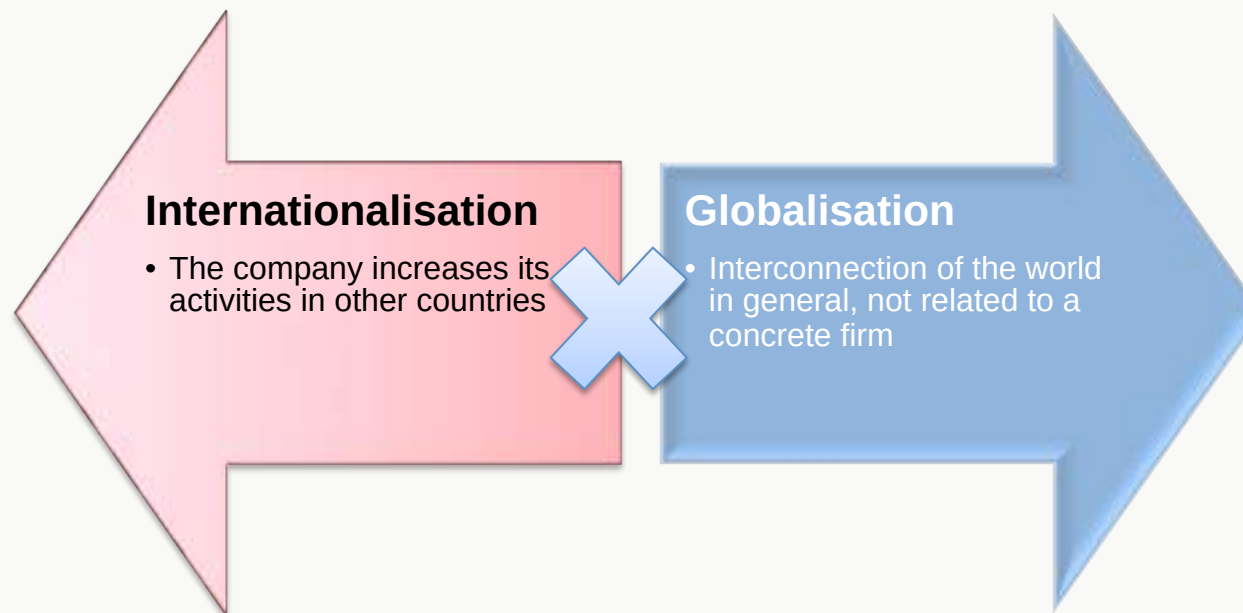
There is not a widely-accepted definition of the concept of **internationalisation**.

We can say it is a process by which companies increase their activities in a different country from its home location, which allows them to participate in international markets.

Do not mistake internationalisation with globalisation.

Globalisation refers to the increasing interconnection of the world due to the social, economic, technological and political transformation; it is referred to the world in general, not to companies in particular.

**But be careful... internationalisation is
NOT globalisation!**





Why go abroad?

- The reasons for a company to decide to internationalise its business are to either increase its revenues or decrease its costs.
- A fair approximate of the beginning of this trend might be the XIX century when the developed countries started to take over the raw materials available in other countries instead of buying them from local companies in order to decrease costs.
- Nowadays internationalisation also implies to outsource companies' production to other countries because the labour of raw materials are cheaper, while others start selling their products in other countries because they are higher considered and provide more benefits.

Going international requires a lot of preparation, planning and taking risks.



- It seems that **going international** is a piece of cake, as if the company just needed to take a plane, find consumers in a market where they probably will not even speak your language and start selling your products in other countries.
- But in fact, **going international** requires a lot of preparation, and in many cases it ends up in failure.
- However, if the company works hard on learning the market and figures out the differences and how to overcome them, the profits can be very interesting.

If you succeed, these are some of the benefits that you will reap.

→ Access to new markets and consumers:

When a product has been in a market for a long time, as it ceases to be a novelty, consumers stop buying it and look for new attractions. However, when internationalizing this product to another country, it becomes a novelty again and new consumers feel attracted to it. Summing up the home loyal consumers to the new ones, we obtain higher benefits for the company.

→ Access to cheaper materials, production processes and labour:

In many cases the reason for travelling to another country is not to sell but to produce. Many companies have outsourced their factories to countries such as Bangladesh or Taiwan during the last years because workers are paid lower salaries.



Seeking for new markets, higher efficiency or low internationalisation degree are advantages to go international.



→ Development of key competences:

Sometimes the outsourcing of production has nothing to do with decreasing costs but to find the most suitable employees. Many tech companies prefer to locate in places such as Silicon Valley or Japan because they know the quality of engineers related to the topic is a lot higher.

→ Looking for a market with lower (international) competence:

There are obviously some countries with more international markets than others.

Sometimes, home companies from those international markets decide to go into another country looking for a market with fewer international competitors and more margin for revenues.

In other cases, we find markets where there are enormous amounts of home companies from the same sector, and they are not running from international competition but from national one.

Wow... Transnational synergies!



→ **Finding collaborations and interaction with other companies:**

- *Sometimes companies travel to another country in order to collaborate with a local company in a certain project. The interaction allows both sides to learn and increase their possibilities of earning revenues by providing an improved good or service.*
- These are just some of the general benefits that a company can find from internationalizing; each situation is unique and probably each company will have benefits of its own.
- Going international hides many risks that any company should be aware of before taking that decision.

**Going abroad also requires to be prepared
to take risks and fail.
Be aware of the Psychic Distance Paradox!**



→ Not knowing enough about the market:

It is extremely important to make a thorough research of the market and the consumers before deciding to enter; otherwise, you will probably end failing.

→ Not taking into account the amount of financing needed:

If you succeed, you are going to obtain high benefits from the new market; however, you need to bear in mind that these benefits are going to come at the end of the process.

You have to take into account the amount of financing needed and not count on profits too soon.

In addition to market features and budget gaps, political and legal risks play as crucial when deciding whether to internationalise or not.



→ **Not taking into account the possible cost increases:**

Going international may mean sometimes increasing costs of production and delivery because of the transnational trips the goods have to make.

In some cases, this increase in costs is compensated by a higher increase in revenues, but in other cases, it just takes away all profits.

Political and legal risks:

Not everything has to do with supply in demand in the market. Political and legal forces have a strategic role.

Not having an accurate knowledge of the legal requirements of the new market can turn into failure and lawsuits.

McDonalds, for instance, has succeeded in so many markets, except some Latin American ones. See what happened!



McDonald's

Carrying in mind these dangers is essential for any firm - even the most successful one can find itself losing money when approaching a market without having previously prepared accordingly.

An example of how failure can happen to the most successful, international firm is McDonalds. The American fast-food chain is one of the best-known brands in the world, yet it failed when approaching some Latin American countries.

In the following article you will see how easy it is to make a mistake when you do not know the market well enough:

[Why McDonald's Failed to Win Over Bolivians and Closed its Stores.](#)
(Messenger, 2011)

**Everybody is going international!
Let's go!**



2. How should I “Go International”?

Now that we have a clearer understanding on what going international actually means, and what possible benefits would we obtain from doing it, new questions arise:

How? When? Where?





Where do you want to go?

- Companies can decide their future on two bases: proactive and reactive approaches.
- In the **reactive approach**, a company enters an international market as a reaction to what competitors are doing or because of an opportunity that has appeared in front of it, not because it is the best suit for the company.
- On a proactive approach, the company actively looks for the best market to enter.
- In order to choose the right market for a company to internationalise, we can follow a series of steps.

Distance(s)

Before choosing the market, we need to bear in mind the distance between the two countries. This concept does not only refer to the geographical amount of kilometres between the two countries but also to different types of distance: cultural, in which the company has to look at the similitudes and differences among both cultures, religions, languages...

E.g. Some religions forbid certain types of food; administrative distance, including legal systems or regulations; or economic distance, such as the difference in consumption among buyers in the two countries.

Distances:



Geographical



Cultural



Administrative



Economic

Look at the
distance

Then, put the NO countries away! It will simplify your task, before moving into complex factors.



- ✓ Once established this concept, we can start making a list of the suitable countries.
- ✓ First, it should be decided which markets are not going to be part of the suitor's list. This would make it easier to get a list of countries to start with.
- ✓ After that, decide on which of the countries from the list already own a market related to the product, consumers theoretically willing to consumer, or more or less competition.
- ✓ With this first list ready, it is time to look at more “complex” factors: the macroeconomic situation of each country will play a relevant role as it can differentiate victory from loss.
- ✓ Variables such as the political situation, the risk of the economy and the stability of the currency should be taken into account when deciding which countries from the list will continue being on it.

Macroeconomic situation as well as microeconomic environment should be on the spotlight of your location decision. Check what other companies did.



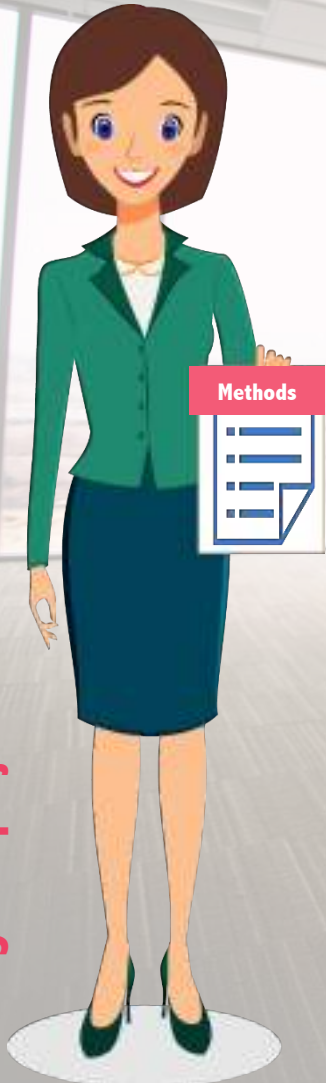
- ✓ Following the **macroeconomic level** comes the **microeconomic level** as well as the local situation, the target availability or how much the offer needs to be adapted. In many cases, in order to be successful in a market, it is necessary to modify the product so much that it is more expensive than not selling it at all.
- ✓ Finally, the company needs to go over the list of countries left and decide which one is better based on the previous steps but also looking at the previous experience of similar companies going into the market, the amount of competition...

Methods to implement your internationalisation process.



Methodologies

- ✓ Once all the research has been made about the markets where we would like to internationalise our company, it is time to decide the best plan to follow.
- ✓ As any other tool available to a company, we have different methods when deciding to go international. Choosing the right one depends on many variables such as the type of company, the market addressed...
- ✓ There is a wide variety of methods available to companies that offer different paths to follow when going international.



The export mode

- This is the method most typically used when deciding to go international for the first time.
- In this mode, the product is produced in the local market and then sent to the international market.
- Depending on how the product is delivered internationally, we find different types of export modes:
  1. **Indirect export mode**: the company does not direct the exporting activity, but hires a third party to deal with it. We can find several types of third parties, such as brokers or export agents.

2. Direct export mode: the company is the one that deals with the exportation and has contact with the foreign client. The company needs to work on understanding better the market, making marketing plans, etc.

The two types of the direct export mode are the distributors, which are independent companies taking the product and selling it as if it was its own, in exchange for a payment of the difference between the buying and selling price, and the agents, who sell the product in the name of the manufacturer, without adding their name or keeping the product, in exchange for a commission.



Methods



One strategy to go international is exporting directly, indirectly, or even cooperatively!



→ **Cooperative mode:** this is a not very common mode in which different companies (usually SMEs) join internationalisation in order to achieve economies of scale and better benefits. However, most companies do not want to use it because of how easy can a collaboration turn into a fight, considering the easiness of having different opinions.

You can find an example of a company using a direct export mode in the following link:

[Lighting up a growing market - Premier Hazard Ltd](#) (International)

Intermediate mode is another interesting option...



- **Intermediate Mode:** The second general group of internationalisation modes could be considered as the step to take if we want to go deeper in the internationalisation. In this type of contracts, the work is “split” amongst the company from the domestic market and another from the foreign market. The contract is long and allows the exchange of knowledge between the parties. As in the previous modes, however, we find different ways to take profit of an intermediate internationalisation:
- **Contract Manufacturing:** the company outsources the production of a part of the process to a company from the country to enter, so that the firm will have more resources to use on strategy, marketing or management while production is taken care of by the home company.

That can happen through outsourcing, licensing, franchising, strategic alliances and management contracts.

→ **License**: through license the company allows another company to use a product, service, process, name... which is legally protected in return for a payment. It is a very common type of intermediate agreement, and it usually has a long duration, among 20 years (very similar to patents).

→ **Franchise**: it is a strategic alliance in which the franchisor provides the franchisee with a complete way of doing business in exchange of a regular fee. It is very important not to think that the franchisee is “buying” the franchise; he is not the owner of the company, he is an “investor” who profits of the success of having a store which is popular and gets complete help during the process. And most importantly, as the franchisee does not own the franchise, he will not see other franchisees as competitors but as partners who are looking for the same thing: making the franchise as popular and successful as possible.

Management contracts are used in case of local hostile situations.



→ **Strategic Alliances:** this type of internationalisation is actually something that can be done domestically as well, not only to go international. In this case, two or more parts joint to create a company, so that the inputs and knowledge of all parts can be profited into making a new product or service.

→ **Management Contract:** it is an agreement that lends the management of the company to a third party in exchange of a payment. It does not only include saying how to do things, but actually doing them. This method is usually used when there is no local ability to manage the company.

Management contracts are used in case of local hostile situations.

Marriott

An example of a company that always uses an intermediate mode is the chain Marriott Hotels. The only method of internationalisation employed by the company is **Management Contract**.



Did you know about hierarchical mode?



It is also called investment mode, as in this mode the company totally owns the foreign organisation, production and delivery. The most important part of this mode is to be able to know how much the subsidiary is able to assume and how much needs to be done by the headquarters. This mode includes an enormous investment, but it also provides more control over the actions taken around the product and the company itself. There are many types of internationalising through a hierarchical mode. Some of them are:

- **Domestic sales representative:** this type of representative lives in the home country of the company, and travels to the foreign country periodically to oversee the business.
- **Resident sales representative:** in this case the representative lives in the foreign country where the company is internationalised.

And these are just a few types of hierarchical internationalisation!

- **Foreign sales subsidiary**: the home company owns and controls a local company from the foreign country instead of creating their own from scratch.
- **Regional Headquarters**: it is created in order to control and run over the businesses from different parts of the region.
- **Transnational organisation**: involves a total coordination among local and foreign in order to achieve global synergies. It involves the exchange of knowledge and R&D.
- **Subsidiary Acquisition**: a company merges with a local firm or buys it in order to acquire total control and enter the market.
- **Own Subsidiary**: the company creates from zero its own subsidiary in a foreign market. It is the most risky and investing type of internationalisation.

And these are just a few types of hierarchical internationalisation!



A good example of this method is Disney.

The company used an intermediate mode when constructing its first theme parks, but when they decided to open a new one in Europe they changed their Strategy to direct investment.

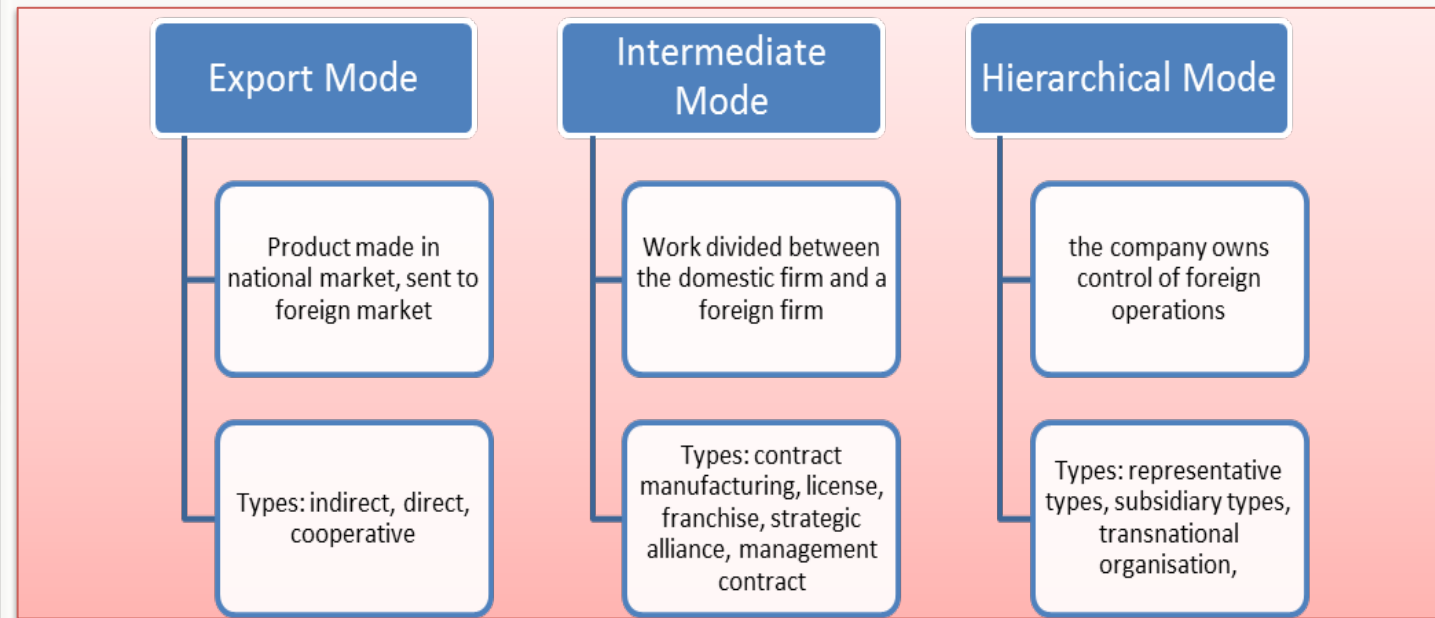
You can read more about this case at the end of the following article: [The case of EuroDisney](#) (QuickMBA, 2010)



Check this summary to help you to decide on how to internationalise!

There are many **ways to go international**; it just depends on which one adapts better to the needs and features of each company.

As a brief summary, here you have the most important ones:



Ready?

3. International Products Strategy



Each country has its own tastes, taboos and traditions.



Should I just internationalise my product, or adapt it to the new market?

- We have understood the meaning of going international, the reason for doing it, the steps to select the market and even the possible ways to enter another country's market.
- This controversy opens a new world of methods and theories.
- It is fair to say that there are not two equal people; and the same happens with countries and markets.
- Each one of them has its own tastes, taboos and traditions, so it is very important to bear in mind all the differences before launching a product.

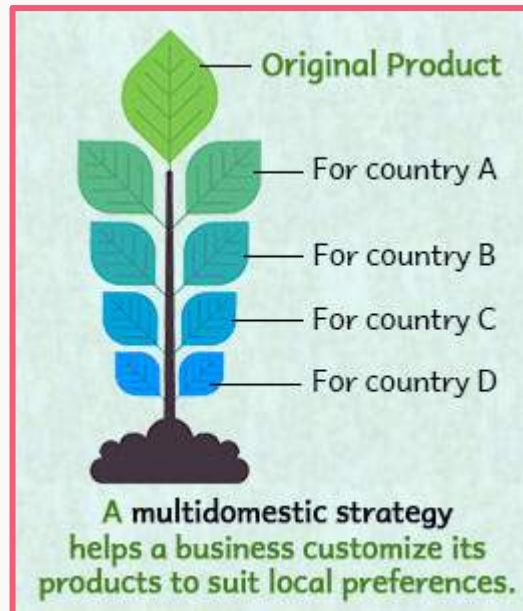
But doesn't mean that you have to adapt your product to all your markets!

Adapt or not Adapt?

- The difference between two country markets is called distance.
- In many cases, the launching of a product fails even if the company has done the research on the market, due to the lack of adaptation of the product to the market.
- It does not necessarily have to do with the good itself; for example, soap will probably be used in both a country speaking English or Arabic; however, if you use drawings of dirty laundry, the soap, and clean laundry, placed equally in both countries, you will likely fail on one of them; why is that? Because Arabic is read on the opposite as English, which means they will read clean laundry, soap, dirty laundry.
- Do we have to adapt each product to every single market we go to? Not necessarily. **Let's look at different theories.**



The **multi-domestic approach** is based on the idea that each country is an independent market with independent needs and desires. It is necessary for the company to adapt the product to each of the markets entered.



- o Companies using a **multi-domestic approach** usually do it in order to be able to differentiate from competitors by giving a unique product adapted to the consumer specific needs instead of a standardized one.
- o However, this approach comes with **higher costs which turn into higher prices**, so it is necessary to be sure that the consumers will be willing to pay for this differentiation.

Nevertheless, you can always standardize the product.



- On the other side of the road, we have the **transnational approach**, companies prefer to think of the world as a unique market with the same needs and desires which, due to it, will require a unique product.
- By standardizing the product the company manages to **decrease their costs** because of the effective use of **economies of scale**, and saves in the adaptation of product, marketing strategies and management strategies.
- However, companies should consider that not every product can be standardized; the higher the distance between the countries, the easier it will be for the standardized product to fail in one of the markets.
- For this reason, sometimes companies do use a **Global Approach**, but add a little bit of adaptation in order to get to the public: for example McDonalds includes different specialties in each country to satisfy the specific taste of their population.

Product development is the next big thing!



Trends

- Recently, a new trend is appearing in which products are developed from the beginning having a global market in mind.
- This means that the main features of the product become the same for every market, and only certain things are adapted to the specific needs of each country.
- This allows to minimise the expenses from this adaptation as the main part of the product is going to be the same everywhere.



Ready?

4. Going International: Success stories

**It's time to see real-life examples on
how to go international!
Are you ready?**



Success stories

- Reading the theory is fine, but it is only when we actually see a successful, real-life example when we actually believe in it.
- Here there are some stories of companies that decided to go international and succeeded in the process in very different ways.



The first story is about Alibaba and its international suppliers.

Alibaba

- Alibaba is the most well-known Chinese virtual retailer nowadays. The wide offer at a very competitive price turns the company into a very successful one;

How does it exactly fit in our topic?

- The company does not sell their own products; they act as an intermediary for suppliers to offer their goods to consumers all around the world.
- Consumers can acquire products that in many cases would be a lot more expensive, or not even sold, in their country, while suppliers can reach an international market without having to face the risks of entering a market by themselves, not to mention that joining the page is completely free both for consumers and sellers.



Check the links for additional information about Alibaba's internationalisation strategy!

Alibaba

- If you want to know more about this real-life international success story, you can visit the following page:

[Alibaba: what exactly does it do?](#) (Broad, 2014)

- You can also watch the following video, where one of the Alibaba's suppliers talks about his personal experience:

[Alibaba.com Consumer Success Story](#) (HK, 2014)

Did you know about Coca-Cola mixed strategy?



Coca-Cola

- An example of international success, although its technique is mainly opposite to the previous example.
- Instead of manufacturing in the home country and shipping the products when they are demanded, Coca-Cola makes use of diverse types of internationalisation methods depending on what it would be better to the company in each market.
- In Europe, they open their own factories in different countries to reduce the costs of shipping the product to the consumer and to produce at a lower cost product, while in Turkey franchises are given.
- Additionally, the company follows a multi-domestic approach and provides each country according to their tastes; that's why in some countries you can find Vanilla Coke while in others there is Cherry Coke.

View more in: [International Business Strategy Coca-Cola](#) (Vaid, 2015)

Stay tuned for Chapter 3

