

Svend Hollensen

GLOBAL MARKETING

5th Edition

Chapter 3 Internationalization theories

Learning objectives

- Analyse and compare the three theories explaining a firm's internationalization process:
 - the Uppsala internationalization model,
 - the transaction cost theory, and
 - the network model.

- Explain the most important determinants for the internationalization process of SMEs

Learning objectives (2)

- Discuss the different factors which influence internationalization of services
- Explain and discuss the relevance of the network model for an SME serving as a subcontractor
- Explain the term 'Born Global' and its connection to Internet marketing

Historic development of internationalization

- Traditional marketing approach
- 'Life cycle' concept for international trade
- The Uppsala internationalization model
- Internationalization/ transaction cost approach
- Dunning's eclectic approach
- The network approach

The Uppsala internationalization model

- Stage 1: no regular export activities (sporadic export)
- Stage 2: Export via independent representatives (export modes)
- Stage 3: Establishment of a foreign sales subsidiary
- Stage 4: Foreign production/manufacturing units

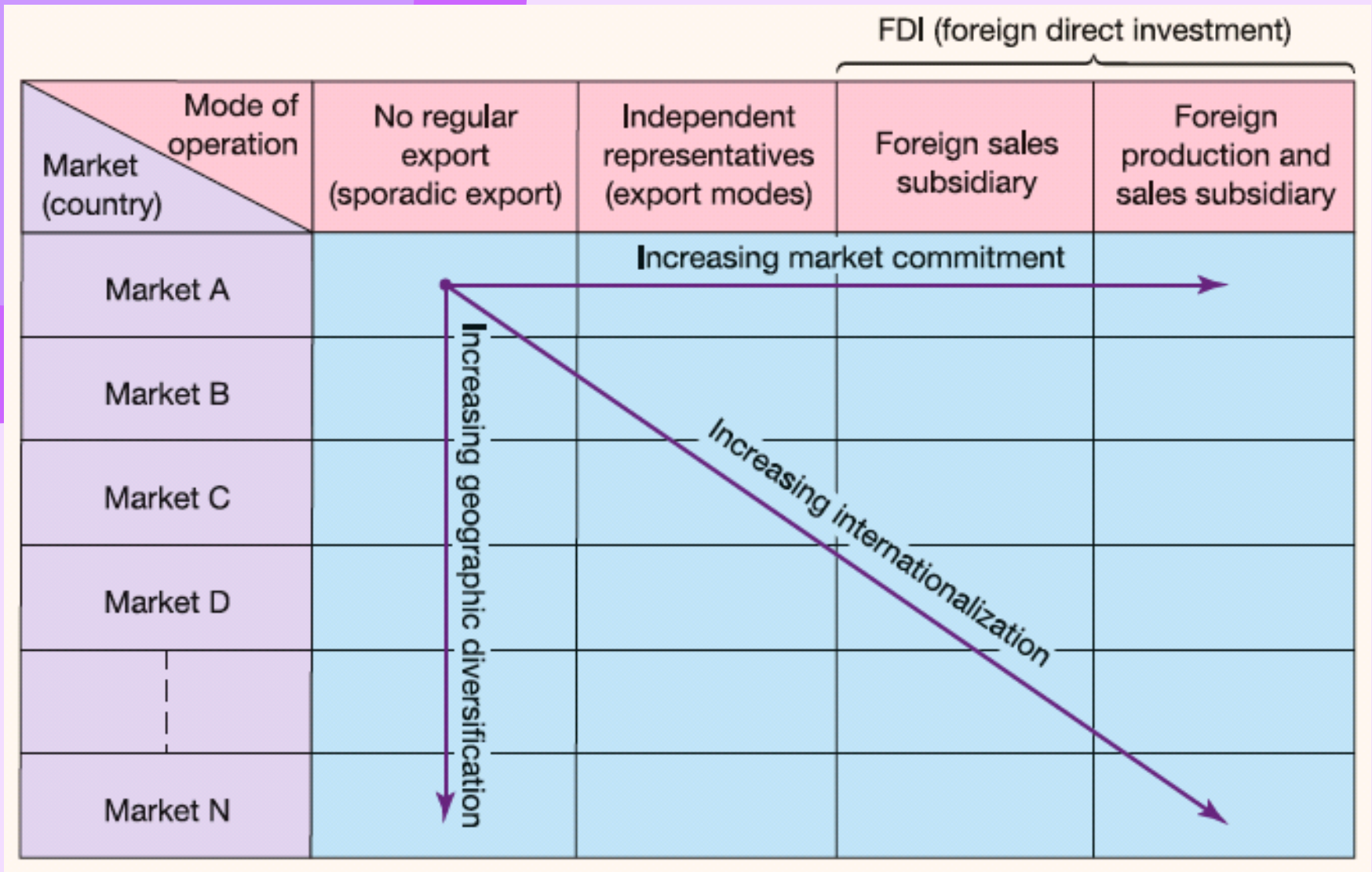


Figure 3.1 Internationalization of the firm: an incremental (organic) approach

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

Exceptions to the use of incremental steps towards market commitment

- Firms with large resources can take larger internationalization steps
- When market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than experience
- When the firm has considerable experience from markets with similar conditions, it may be able to generalize this experience to any market

What is this?

What term refers to differences in language, culture and political system, which disturb the flow between the firm and the market?

Psychic distance

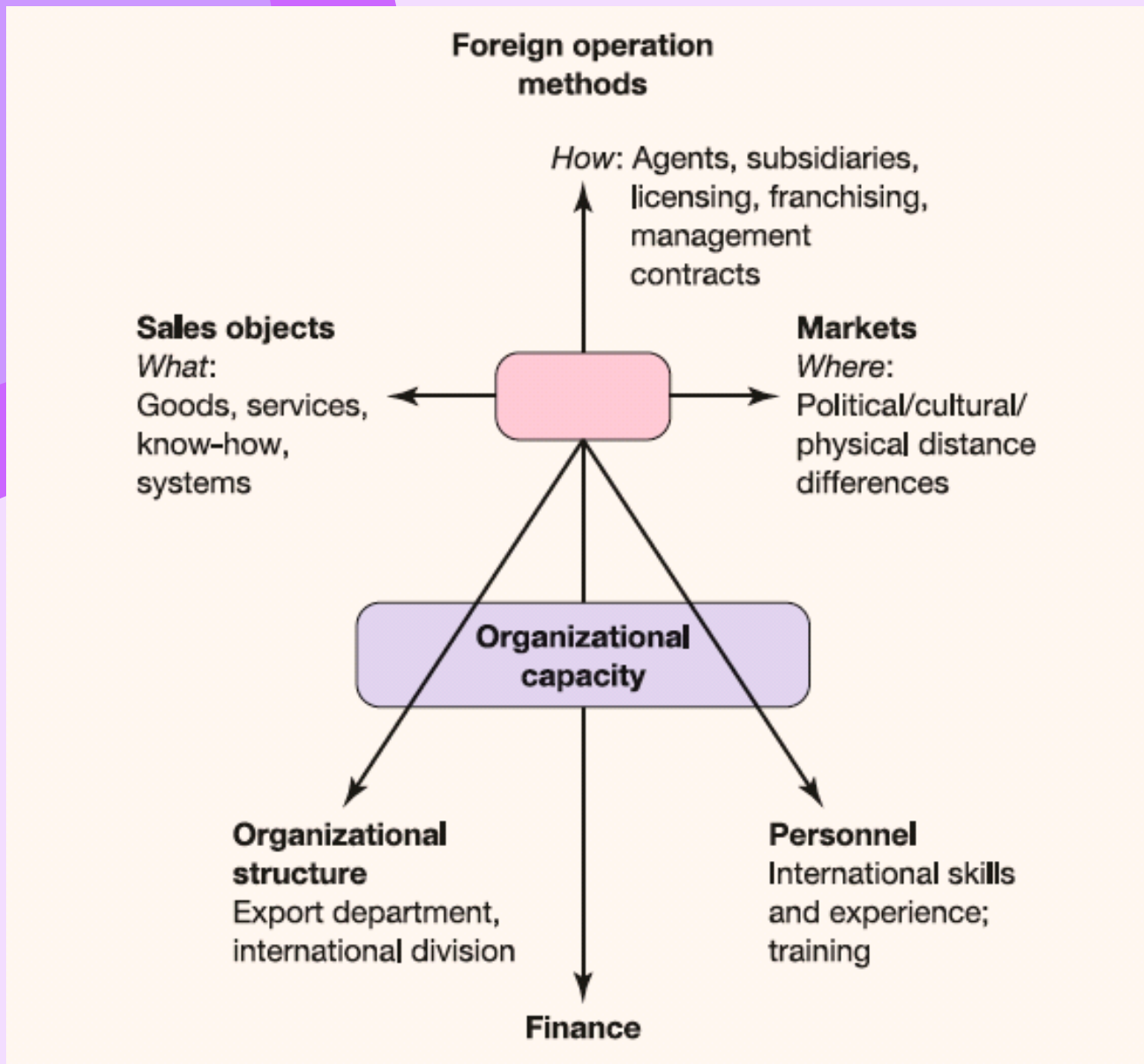


Figure 3.2 Dimensions of internationalization

Source: Welch and Loustarinen (1988). Reproduced with permission from The Braybrooke Press Ltd.

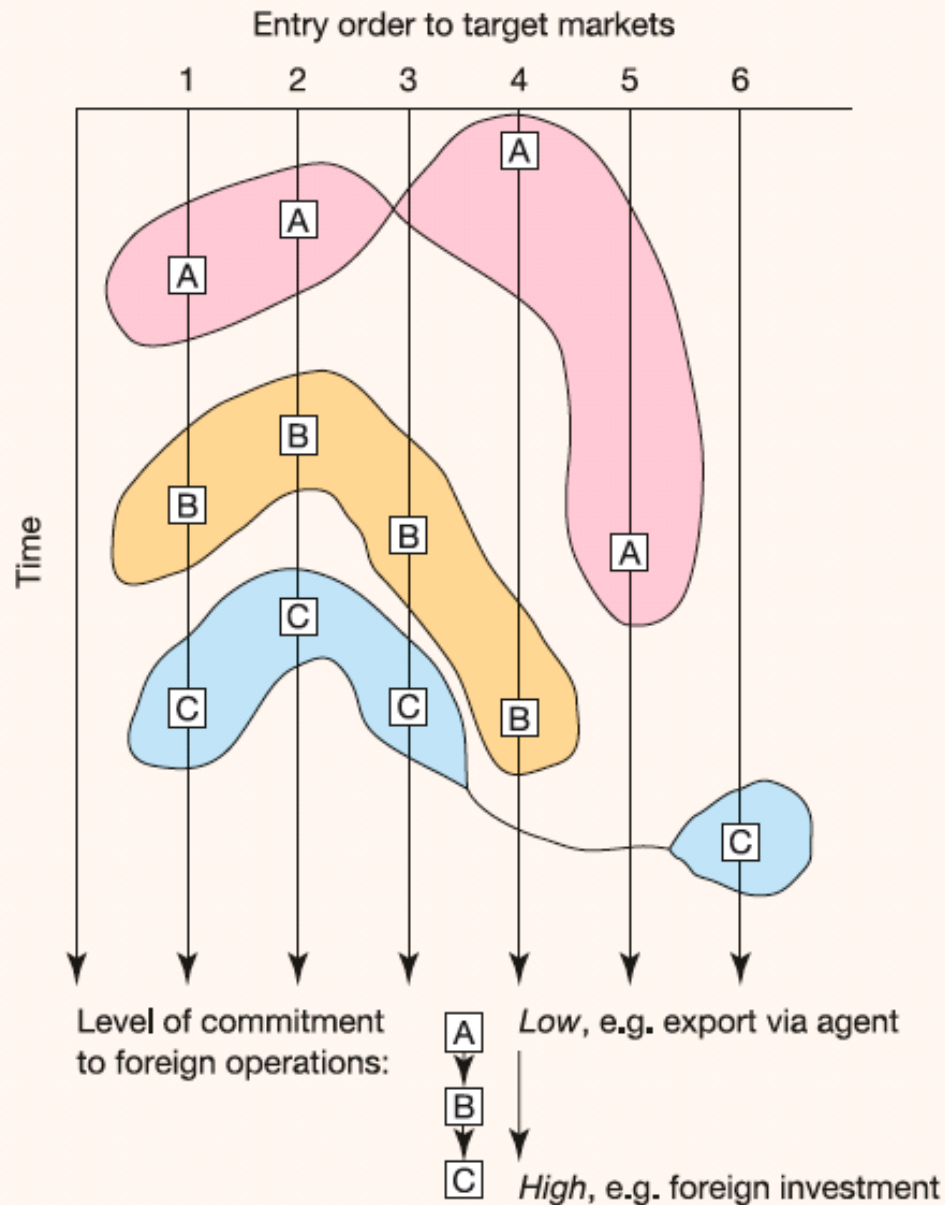


Figure 3.3 Internationalization pattern of the firm as a sum of target country patterns

Source: Welch and Loustarinen (1988). Reproduced with permission from The Braybrooke Press Ltd.

The transaction cost analysis (TCA) model

- Firm will tend to expand until the cost of organizing an extra transaction within the firm will become equal to the cost of carrying out the same transaction by means of an exchange on the open market

What is this?

The friction between buyer and seller, which is explained by opportunistic behaviour is called _____.

Transaction costs

What is this?

What term is used to describe behaviour that is characterized by self-interest with guile and includes methods of misleading, distortion, disguise and confusion?

Opportunistic behaviour

Transaction cost analysis framework

- Cost minimization explains structural decisions
- Firms internalize (vertically integrate) to reduce transaction costs

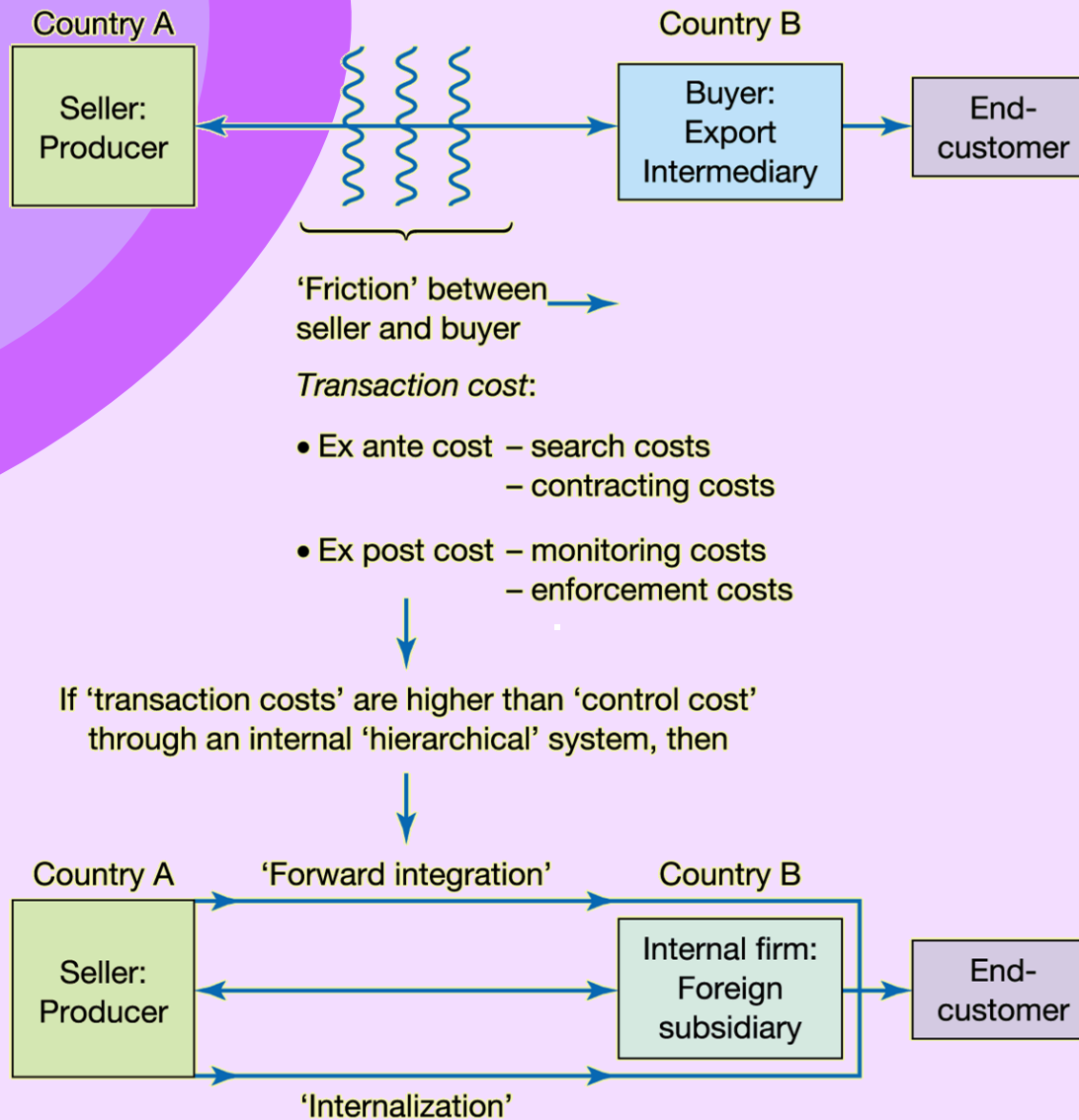


Figure 3.4 Principles of the TCA Model

Cost elements of the TCA model

Ex ante costs

- Search costs
- Contracting costs

Ex post costs

- Monitoring costs
- Enforcement costs

Transaction costs = ex ante costs (search + contracting costs)
+ ex post costs (monitoring + enforcement costs)

What is this?

When firms do business using an importer, agent or distributor it is called _____.

Externalization

What is this?

When firms implement a global marketing strategy using their own subsidiaries, it is called _____.

Internalization

Limitations of the TCA framework

- Narrow assumptions of human nature
- Excluding 'internal' transaction costs
- Relevance of 'intermediate forms' for SMEs
- Importance of 'production cost' is understated

The network model

- The relationships of a firm in a domestic network can be used as bridges to other networks in other countries

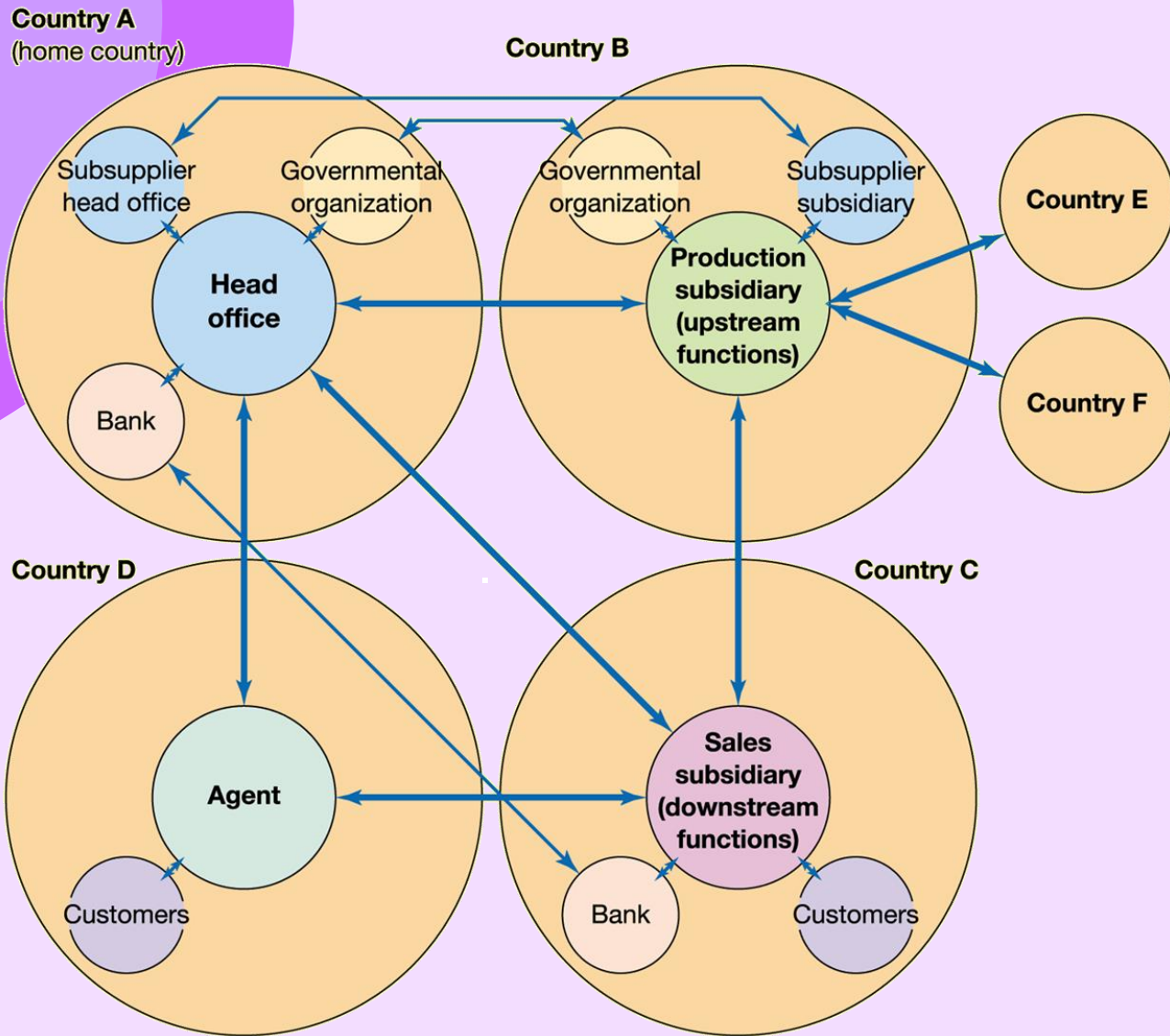


Figure 3.5 An example of an international network

		Degree of internationalization of the market	
		<i>Low</i>	<i>High</i>
Degree of internationalization of the firm	<i>Low</i>	The early starter	The late starter
	<i>High</i>	The lonely international	The international among others

Figure 3.6 Four cases of internationalization of a firm

Source: Johanson and Mattson (1988, p. 298). Reprinted by permission of Taylor & Francis

Importance of personal factors

- Positive perceptions of global environment
- Entrepreneurial orientation
- Innovativeness

Internationalization preparation

Conducting international market research

Committing resources to support venture

Adapting products to target foreign markets

Table 3.1**SMEs inward–outward cross-border business activities**

	Inward	Outward
R&D	Contract-in R&D License-in technology from overseas-based firms	License-out technology to overseas-based firm Contract-out R&D to overseas-based firm
Production	Technical service or consultancy performed in the home country for overseas-based clients Contract-in manufacture for overseas-based firms	Contract-out manufacture to overseas-based firm Technical service or consultancy performed overseas Minority investment in overseas production Majority investment in overseas production
Marketing and distribution	Import from overseas-based supplier Import with distribution in the home country Management or marketing service or consultancy performed in the home country for overseas-based clients	Exporting through home country-based intermediary Exporting through foreign-based agent/distributor Exporting through overseas-based sales representative or branch Management or marketing services or consultancy performed overseas

Source: adapted from Jones (2001, p. 197).

What is this?

What term refers to a firm that from its 'birth' globalizes rapidly without any preceding long-term internationalization period?

Born global

Characteristics of born globals

- SMEs with less than 500 employees
- Annual sales under \$100million
- Reliance on cutting-edge technology
- Managed by entrepreneurial visionaries

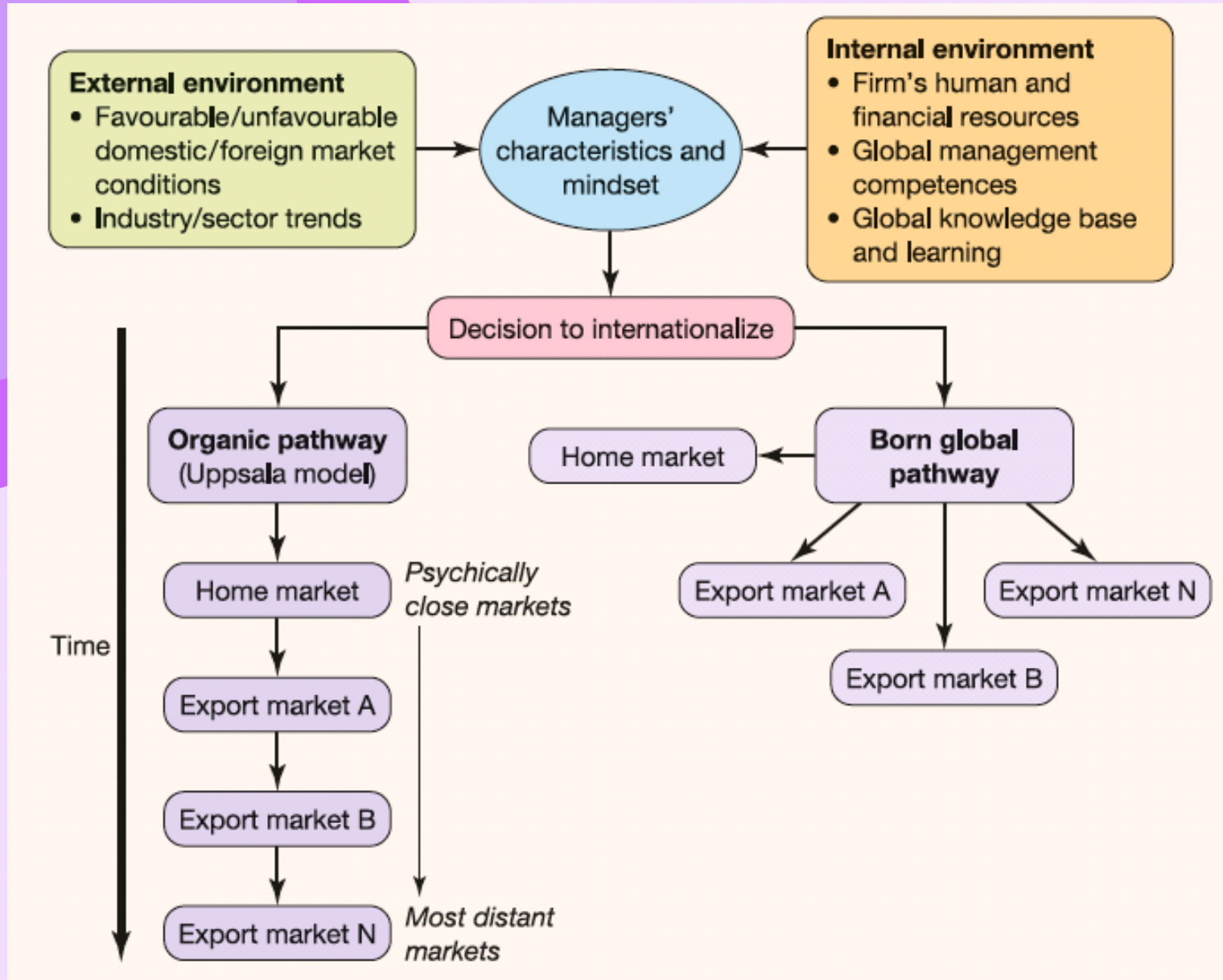


Figure 3.7 Two extreme pathways of internationalization: the organic versus born global

Source: adapted from Åijö et al. (2005, p. 6)

Factors supporting born globals

- Role of niche markets
- Advances in process/technology production
- Flexibility of SMEs/born globals
- Global networks
- Advances and speed in information technology

Internationalization of services

1. Simultaneous production and consumption
2. Customer participation in production process
3. Services as series of activities/processes

Factors to consider in the internationalization of services

Information technologies

Cultural issues

Geographic locations

Standardization versus
customization

Strategies for internationalizing services

1. Direct export

2. Systems export

3. Direct entry

4. Indirect entry

5. Electronic marketing

Table 3.2

Summary of the three models explaining the internationalization process of the firm

	Uppsala internationalization model	Transaction cost analysis model	Network model
<i>Unit of analysis</i>	The firm	The transaction or set of transactions	Multiple inter-organizational relationships between firms Relationships between one group of firms and other groups of firms
<i>Basic assumptions about firms' behaviour</i>	The model is based on behavioural theories and an incremental decision-making process with little influence from competitive market factors. A gradual learning-by-doing process	In the real world there is friction/transactional difficulties between buyer and seller. This friction is mainly caused by opportunistic behaviour: the self-conscious attention of the single manager (i.e. seeking of self-interest with guile)	The 'glue' that keeps the network (relationships) together is based on technical, economic, legal and especially personal ties. Managers' personal influence on relationships is strongest in the early phases of the establishment of relationships. Later in the process routines and systems will become more important
<i>Explanatory variables affecting the development process</i>	The firm's knowledge/market commitment Psychic distance between home country and the firm's international markets	Transactional difficulties and transaction costs increase when transactions are characterized by asset specificity, uncertainty, frequency of transaction	The individual firms are autonomous. The individual firm is dependent on resources controlled by other firms Business networks will emerge in fields where there is frequent coordination between specific actors and where conditions are changing rapidly
<i>Normative implications for international marketers</i>	Additional market commitments should be made in small incremental steps: choose new geographic markets with small psychic distances from existing markets Choose an entry mode with few marginal risks	Under the above-mentioned conditions (i.e. prohibitively high transaction costs), firms should seek internalization of activities (i.e. implement the global marketing strategy in wholly owned subsidiaries)	The relationships of a firm in a domestic network can be used as bridges to other networks in other countries. Such direct or indirect bridges to different country networks can be important in the initial steps abroad and in the subsequent entry of new markets. Sometimes an SME can be forced to enter foreign networks: for example, if a customer requires that the sub-supplier (an SME) follows it abroad. As an example see Case Study 13.2 on LM Glasfiber

CASE STUDY 3.1

Cryos: they keep the stork busy around the world

Cryos | International

HOME ABOUT US FRANCHISE DONOR SEMEN PRODUCTS DISTRIBUTORS SITE MAP

Worldwide network of sperm banks

Cryos International is a worldwide network of sperm banks and distributors of clinical sperm related products.

- Denmark
- India
- New York

Supply of high quality frozen tested donor semen to more than 60 countries all over the world.

- 15883 pregnancies since 1991
- Anonymous and Non-anonymous donors
- Extended profiles

The Cryos International sperm bank network offer a selection of nearly 500 donors of different races and ethnicities.

Click on the yellow dots to visit our departments around the world.

- WE KEEP THE STORK BUSY...!

Products

SpermFilter

SpermFilter® is a silane-silica based density gradient medium used in ART for separation and purification of highly motile human spermatozoa.

SpermWash

SpermWash® culture medium is used for semen preparation by "swim-up" for IUI or IVF, for washing of spermatozoa and/or for diluting stock solution of density-gradients.

SpermCryo All-round

SpermCryo™ is a highly concentrated cryoprotective medium used for freezing of human semen.

COA Request

Downloads of certificate of analysis for the above media.

IUI catheters

IUI catheters for insemination of purified spermatozoa into the uterine cavity.

Counting Chambers

Counting chambers for clinical or scientific semen analysis.

Incubator

Incubators for incubation of media and for "swim-up" preparation.

CBS high security straws

Accessories that have been developed especially for the freezing of human embryos and semen.



QUESTIONS

1. Would you characterize Cryos as a 'born global'? Why/why not?
2. What do you think about Ole Schou's ideas of a 'global franchising system'?
3. What ethical and moral issues are involved for Cryos in selling sperm worldwide?

CASE STUDY 3.2

Classic media: internationalization of Postman Pat



© J.F.T.L Images/Alamy.

QUESTIONS

1. List the criteria that you should use for choosing new international markets.
2. If you were to advise CM would you recommend them to use the 'organic' or 'born global' pathway for the internationalization of Postman Pat?
3. What values/benefits can CM transfer to the license partners for consumer products apart from using the Postman Pat characters?

VIDEO CASE STUDY 3.3 Reebok

Questions

1. Which of the internationalization theories is best for explaining the Adidas acquisition of Reebok?
2. What could be the motives behind Adidas' acquisition of Reebok?
3. Which of the three internationalization theories is best for explaining whether Reebok follows the establishment of its retailers, for example Foot Locker, in international markets?
4. Is Reebok able to copy its US marketing approach (connecting to the youth segment through famous rappers, like 50 Cent) in other international markets?

Question for discussion

- Explain why internationalization is an ongoing process in constant need of evaluation.
- Explain the main differences between the three theories of internationalization: the Uppsala model, the transaction cost theory and the network model.
- What is meant by the concept of ‘psychological’ or ‘psychic distance’?