Internationalization of Companies – Stages and Challenges in the Global Business Environment

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Abstract

For exponentially increasing managerial value, the third millennium has highlighted a multitude of practices, including cost optimization, outsourcing or business internationalization – a goal which has become the focus of an increasing number of firms. Due to innovative technologies, businesses and economy become global easily.

The dynamic environment of business area is full of opportunities which the entrepreneur has to identify for a successful internationalization.

But, undoubtedly, when a firm decides to internationalize its activity, it will have to elaborate a strategy in order to face countless challenges for succeeding in the global market. Moreover, this strategy should include well-planed stages which the company should pass, based on key factors like innovation and agility.

The main goal of this research is to expose the challenges faced by brand companies which adopt the process of internationalization and to present solutions for overcoming these challenges.

Key words: internalization, globalization, business environment, innovation
J.E.L. classification: F64, F23

1. Introduction

We are living in an era of globalization where the elimination of trade barriers, the emerging markets, the evolution of technology, the business environment dynamics and the evolution of the needs of cosmopolitan consumers led to the appearance of corporations that dominate today's world economy.

Trade, services and products have crossed the national borders, transforming into a global market that can be easily accessed.

With the emergence of globalization, a new and important production factor appeared – knowledge, which represents an inexhaustible and globally distributed resource that leads to continuous development.

It has been created complex knowledge networks for customers, global suppliers, with the aid of high technology. (Axinn *et al*, 2002, p. 6).

Internationalization represents the learning and evolutionary process for global managers, being implemented through stage models, which will be detailed in this research.

We are living in a global world which evolve through innovative technology and in a world where rapid changes take place in the business environment. This is why companies should adapt quickly to these changes and should be agile.

One objective of the article is to present the stages of internationalization for brand companies, analyzing if the classical stages of the process could be applied to this type of companies.

Likewise, it will be detailed the challenges met in the process of internationalization by brand companies and the solutions for dealing with them, considering the global business environment dynamics and accessibility, the evolution of technology, the power of innovation and the global competition.

In fact, there are few strategic assets which one company may use in order to own a competitive advantage for a long time. In the global market is about the values competition, not just about the market share.

2. Literature review

Globalization is the very dynamic process that leads to increased global interdependencies, accompanied and amplified by the growth and the interconnection of systems, firms and individuals (John Wild *et al*, 2002, pg. 6).

Internationalization represents the engagement process of companies in international operation in order to exploit the opportunities of the market or its competitive advantages. A trend specific of the 21st century is to pass from the internationalization of business to globalization.

Internationalization in the business environment context is more about exposing companies to, threats, opportunities offered by the international business influences and less about going on foreign markets. (Jones *et al*, 2001, p.3)

The motivations for internationalization of the firm are presented in the literature in two categories: *reactive* and *proactive*. Among reactive factors are included the pressure of competition, the declining sales on the domestic market, the overcapacity, the overproduction or the approach to customers. (Popa *et al*, 1999, p.81).

The access to resources, the cost reduction, the technological advance, the managerial involvement or the developing of information and telecommunication network are considered proactive factors which motivate the decision of internationalization.

Considering the present dominated by the globalization phenomenon and the power of corporations, more and more economists or business specialists wanted to develop innovative business models as strategies for internationalization, based on the study of successful corporations.

The authors' vision differs, building different business models depending on the company's resources, on the field of activity, identifying different key factors like innovation identified by J & I. Butler.

The role of knowledge and information in the process of internationalization implies the use of the business network. (Chetty *et al*, 2003, p. 4).

It has been identified five dimensions which an international company should consider in order to build an efficient business model. These dimensions are: international leadership, organizational system, management process, values and culture, as well as human resources (Costa *et al*, 2007, p.7).

The most relevant business model is *born global model* which creates value faster than the classic internationalization applied to companies after an active period on the local market. Often, the local market is very narrow. Companies need to internationalize immediately in order to cover their research-development costs, which can not be covered on a local market. (Knight *et al*, 2004, p.125).

The born-global model helps a lot the internationalization of small firms and it is relevant to the globalized world economy, being an aggressive learning strategy required. (Chetty *et al*, 2003, p. 1).

A European survey identified the level of adaptation for the marketing mix of brands, considering the differences between countries, on top being legal differences, competition, consumption habits, the structure of distribution or the brand awareness, factors which represent challenges for the companies which want to apply the strategy of internationalization. They should study each type of difference for the target market and should establish strategies of adapting to these differences.

Table no. 1 Differences between countries and the level of adaptation

Type of difference	(%)Necessary adaptation
Legal differences	55
Competition	47
Consumption habits	41
Distribution structure	39
Brand awarness	38
Brand distibution level	37
Media audience	37
Marketing programme success	34
Consumers' need	33
Media availability	32
Brand images	30,5
Norms for products manufacturing	27,5
Brand history	25,2
Lifestyle differences	25
Cultural differences	25
Subsidiary sales	23
Consumers' buying power	22
Consumers' age differences	12

Source: (J N Kapferer, 2012, p. 420)

3. Research methodology

Considering the top goal of this research to analyse the challenges which companies face applying the strategy of internationalization, the first step was to understand the phenomenon of internationalization, in the context of an agile global environment, the strategies applied for internationalization, through theoretical research of specialized articles, using quantitative analyse. For presenting the steps followed by companies for internationalization, it was used synthesis.

In order to have specific results, it was analysed the option of internationalization applied to brand companies which explore foreign markets, being presented the strategies for succeeding internationally, analyzing if the classical stages of the process of internationalization could be applied to the brand companies.

Then, using the logical research method, it were exposed the challenges which companies face applying the strategy of internationalization, considering the characteristics of the global business environment and were identified solutions for overcoming these challenges and for adopting a success strategy of internationalization.

4. Findings

4.1. Stages of the internationalization

Starting from analyzing the company in the international and multicultural context, it can be distinguished between national firm (initial internationalization, ethnocentrism), international firm (internationalization, polycentrism), multinational firm (centrocentrism) or global firm (globalization, geocentricism) (Popa *et al*, 1999, p.25).

For traditional companies which do not adopt the born global model, the classical stages of company's internationalization are: the answer to the external orders, active export, direct export, branches and subsidiaries, assembling abroad, production abroad and the integration of subsidiaries (Popa *et al*, 1999, p.80).

The company starts from an order of a foreign importer. If this order is profitable, the exports will grow as an answer to new orders from importers, working through intermediaries. Then, after the company' exports evolve, an export manager will check for new opportunities on foreign markets in order to sign export agreements through intermediaries.

In the next stage, the export service will not meet the efficiency criteria and it will be necessary to establish an export department, selling without intermediaries. Extending the network of exports, the company will strategically decide to create branches and subsidiaries for a better process control and for a direct interaction with foreign markets.

After this stage, for creating a valuable supply chain and for cost reduction, the company will decide to assembly and later to product abroad. The last stage from the internationalization strategy involves the integration of the subsidiary, becoming a global company.

Could these classical stages of the process of internationalization be applied to brand companies? Extending brands involves all the elements of the marketing mix: price differentiation, line extension of the product, communication, retail extension in order to client relations with customers.

Usually, companies start building a strong brand in the home market and then expand on the international markets. (Cheng *et al*, 2003, p.1).

One short-term strategy of growth is building the brand on the existing customers. It is very important for a brand company to be close to the customer because attracting new customers may be too costly (J N Kapferer, 2012, p. 195).

On long term, the company should invest for research & development in order to innovate and to be different from competitors.

The strategy of extending brand through the opportunities which existing customers offer may be applied by growing the volume per capita. For example, Bailey's consumption was seasonalized, being sold for winter holidays and they launched a successful campaign which promoted the consumption of Bailey's by groups, from normal-sized glasses and not from liquor glasses, designing the newest Bailey's glass.

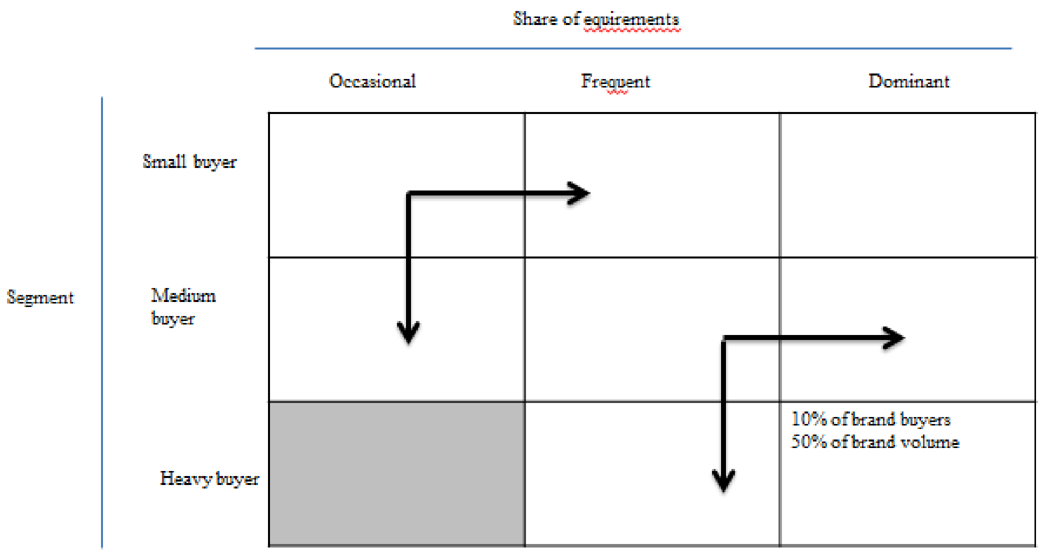
For increasing the volume per capita, Coca-Cola use for research a strategic matrix which segments customers, like in Figure no. 1.

Clients are segmented using two dimensions, coordinated with the customer's behavior: *share of requirements* – how many times clients buy the brand out of 100 occasions of purchasing? and *level of consumption*, buyers being segmented in three layers – small, medium and higher.

Using these dimensions, the strategic matrix has eight cells because the case occasional – heavy buyer is impossible. Each cell from the matrix is the percentage of the number of households and the percentage of the volume sold of the brand.

Bottom right is the key segment represented by high-consumption of the brand. This is why the brand manager should move as many clients as possible in this key segment. For this purpose, he should understand the motivation of consumers in order to segment the by behavior. The main question is why they do not consume more?

Figure no. 1. Strategic matrix – increasing volume per capita



Source: (J N Kapferer, 2012, p. 195)

Another strategy for growing the brand is the line extension by extending:

- the sizes and formats
- the variety of flavors or tastes
- the ingredients – Coca - Cola without sugar,
- the physical forms – Ariel liquid or in powder
- the product add-ons - Basic Homme from Vichy includes a complete line of toiletries products

This is the most used strategy, being faster than creating a new brand. When domestic markets become mature, brands companies should search new markets for internationalization.

On the long term, innovation should be considered the source of competitiveness and growth, being the brand oxygen (J N Kapferer, 2012, p. 202). Companies which innovate assign 3,4% from the total sales for research & development.

Brand's image and sales benefit from innovation through the *spillover effect* because the advertising for one single product influences the sales for another product. Innovation feeds the brand's image with the intangible and tangible characteristics of the new product.

The process of brand globalization has the next key stages (J N Kapferer, 2012, p. 429):

1. Definition of brand identity
2. Selection of regions and countries
3. Access to the market
4. Defining brand architecture
5. Defining the products which will be adapted to the markets
6. Defining global campaigns

First step is the definition of brand identity which is mandatory for globalization and should highlight the difference between competitors, the plus value and the elements of originality offered (high quality, client focused or competence).

For selecting the regions and countries, the brand company should make a strategic analysis including the size of the markets, the indicators of growth – purchasing power of the potential market, the consumer insights, the competition, the distribution channels, the media network, the local commercial partners, the legislation regarding market access or registering the brand name.

The access to the national market should involve the choice of one strategy from the two existing ones – a new category created or the existing category segmented.

The brand architecture should be adapted to the country horizontal by reducing the range of brands in order to choose niche products or vertical by reducing the levels of branding for being more efficient on the potential market.

Moreover, it is important to create products which are relevant for the selected market, adapting to the needs of targeted consumers as prototypes of the image created.

The communication of global brands should be at global level for controlling their global image, establishing rules of promotion based on brand personality. This stage involves marketing structures at international level.

The brand names, the trademark, the features of the product, the packaging, the distribution channels, the after-sales services, the advertising strategy or the sales promotion are some aspects of the brand that should be internationalized.

4.2. Challenges in the global business environment

Companies which follow the born global model are facing the challenge of developing global value. For a new company which has not the organizational structures of a corporation, the use of global networks or international platforms represents the solution for achieving the goals.

The born global model focuses on a global niche and can even represent a challenge for competitors. Internationalization process involves managerial dilemmas of organizations in the changes of structural management, strategic management and human resource (Long Lam et al, 1999, p.1)

Growing a brand is considered to be more difficult than the internationalization of a company which does not have a brand, because supposes building the business and the brand equity for the penetration of target markets. Brand companies should make previous buyers to remain loyal. This is why Customer relationship management (CRM) plays an important role (J N Kapferer, 2012, p. 195).

For the bottom of the pyramid brands, the main challenge is to involve creativity in the product, in the supply chain or for salespeople.

For mature markets, brand management represents a challenge – the way of building the business for consumers who have their needs accomplished a lot of variety, being price-sensitive and also for retailers who expects larger and larger shares.

For line extension of brands, an important challenge is the complexity of the production management and supply chain management which cause the increasing of the selling price.

Another challenge could be the complexity of promoting all products, without explaining the superiority of one product to the detriment of other product from the same range.

For better management of line extension, Quelch and Kenny propose the improvement of the cost system because this extension involves new costs for the value chain. Also, it is recommended that resources should be allocated on high-margin products than on extension for occasional buyers and salespersons should know to summarize each product from the range. Another suggestion is that products which have a low turnover should be gradually withdrawn from the markets.

The name of the brand may represent a really challenge because a success globalization involves using the same name in all the countries, but the name translated in a foreign language in order to send the message to the customers. It is very important how the translated name sounds and how easy is to spell for remaining in the consumer's mind.

An important challenge of the global business environment is the competition because companies innovate in order to face competitors' products. One strategy recommended is *blue ocean innovation*. Considering the *red ocean* a bloody competition, companies should innovate and create new markets without fierce competition.

Blue ocean innovations or value innovation are considered disruptive innovations (J N Kapferer, 2012, p. 207), relying on a set of values different from those of the competitors and involves thinking differently from competitors' innovation.

A successful example of blue ocean methodology is EasyJet, the company which offered low prices and created the low-cost travel market.

Fragmented markets which need customization represent another challenge being limited by cost and profitability. This fragmentation could be transformed in an opportunity, creating coherence among distributors through clear rules, allowing the allocation of specific labels, stores and locations.

Also the fragmentation represents an opportunity for the customers who will feel different using the customized products, increasing the perception of exclusivity.

For the desire of companies to meet different consumer needs, they created multi-brand portfolios, not only through differentiated products, but also through different identities.

They structured their portfolio including global brands which have the largest contribution to portfolio growth, regional brands which have potential to become global, regional brands which have been the market leaders and are still profitable and local brands which have a low growth, but an important contribution for portfolio.

Managing multi-brand portfolio in the global business environment could be considered a real challenge for managers because portfolios involve strong coordination and innovation should be allocated regarding the all brand's positioning.

In a portfolio, each brand should be the reflection of the global strategy for market domination and should focus on different competitors.

It could be tempting to implement the same ideas and the same design for different brands of portfolios, but this is a challenge which should be avoided for a successful extending of brands.

The pricing issue, being a key factor of the brand strategies, should be established in coordination with market positioning because a brand should not have the most expensive price in one market and lower prices on the other market.

This is difficult because international or regional distributors represent a threat for brand price strategy which it is adapted according to their price policy. The price level reflects the prestige and the quality of the brand.

Legal differences represent another challenge for globalization. Even though at regional or international level are trade standards (GATT, Mercosur), laws regarding rights to sell, advertising or products differ significantly.

For local brands, the process of analyzing the internationalization strategy should focus on the necessity of internationalization and on globalization of brands.

Also, it should be established which aspects of the brand should be internationalized and which are the ones that should not be internationalized. The positioning strategy and the identity of brand should be clear defined, alongside the advertising expression and execution, the copy strategy and the global launching.

5. Conclusions

Each company should analyze the decision of internationalization and after this should define the strategy applied, based on a detailed action-plan which should be often adapt in order to keep up with the dynamic global business environment. For succeeding, they should invest in research & development, a vital component for the global competition.

The disruptive innovations, called blue ocean innovations or value innovation should represent the competitive advantage for a company in the global market. Through the spillover effect, the image of the company and the whole sales are positively influenced by this intangible asset.

Moreover, innovation feeds the brand's image with the intangible and tangible characteristics of the new product. Through innovation, companies may be able to adapt to the quick changes of the global business environment.

A part of challenges met in the process of internationalization by companies should be anticipated through the strategy of implementation planned, but if they have not been identified, companies should be ready to overcome them quickly.

For a successful internationalization of the brand, the positioning strategy and the identity of brand are elements which should be clear defined, alongside the advertising expression and execution, the copy strategy and the global launching,

Considering the stages of this process explained, the challenges of the process of company internationalization detailed, some solution proposed for facing it, this research could represent a starting point for future research.

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