

THE INTERNET-ENABLED INTERNATIONALIZATION PROCESS: A FOCUS ON STAGES AND SEQUENCES

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ABSTRACT

The internationalization process literature has traditionally focused on evolutionary paths firms pass through when developing international market service capabilities. The introduction of Internet as a new channel for international market development has altered some of the basic assumptions of these traditional approaches. Although recent studies have contributed with normative and anecdotal findings concerning the influence of Internet on international marketing practices, few explore the actual stages firms go through when developing foreign market service capabilities through the Internet, as well as their sequences. This paper contributes to the Internet-enabled internationalization literature by proposing two developmental paths, representing Internet-based versus Internet-enabled firms. And it does so while refocusing the attention to the process dimension of internationalization. Seven propositions are outlined, and future research avenues are suggested.

INTRODUCTION

Literature addressing issues of online international business development usually focuses on the influences of Internet on international marketing practices (Hamill, 1997; Hamill & Gregory, 1997; Karavdic & Gregory, 2005; Prasad, Ramamurthy, & Naidu, 2001; Quelch & Klein, 1996; Rosson, 2004; Samiee, 1998), the tensions between global standardization and local adaptation needs (Chen, 2007; Grant & Bakhru, 2004; Guillén, 2002), and the new challenges to channel relationships (Houghton & Winklhofer, 2004; Javalgi & Ramsey, 2001; Klein & Quelch, 1997).

However, a critical dimension of internationalization, which has been overlooked, is the strategic process dimension, which is more in tune with critical concerns of classical approaches to the internationalization process of firms. Studies either involving predictions of an incremental sequential process, as suggested by the Uppsala School (Johanson & Vahlne, 1977, 1990) and the Innovation Adoption School (Cavusgil, 1980; Czinkota, 1982; Reid, 1983), or non sequential process theories of stage leapfrogging or market withdrawal (Hedlund & Kverneland, 1985; Turnbull, 1993), recently climaxing with the emergence of the fast internationalizing firm in the image of the 'born global' enterprise (G. Knight, Madsen, & Servais, 2004; G. A. Knight & Cavusgil, 1996; Madsen, Rasmussen, & Servais, 2000; Moen, 2002).

This paper re-captures the process dimension of internationalization, and analyzes it in the case of firms using the Internet to develop international operations. Such an effort is undertaken by conceptually developing the stage sequences of Internet-enabled internationalization.

SUGGESTING THE INTERNET-ENABLED INTERNATIONALIZATION PROCESS

As a point of departure we distinct between Internet-based firms (otherwise known as 'pure clicks') which use the Internet platform as their only service channel, and Internet-enabled firms (otherwise known as 'click & mortars') which use the Internet platform as an extended channel of service, usually in addition to offline service channels. It is believed that every company should fall into one of these definitions regardless of whether it is a born global or not, multinational or an exporter. The reason for creating this basic classification is the very different Internet dependency levels exhibited by the two groups, which, in turn, requires an inherently different approach to online service, information provision, interactive communication, and transactional facilitation.

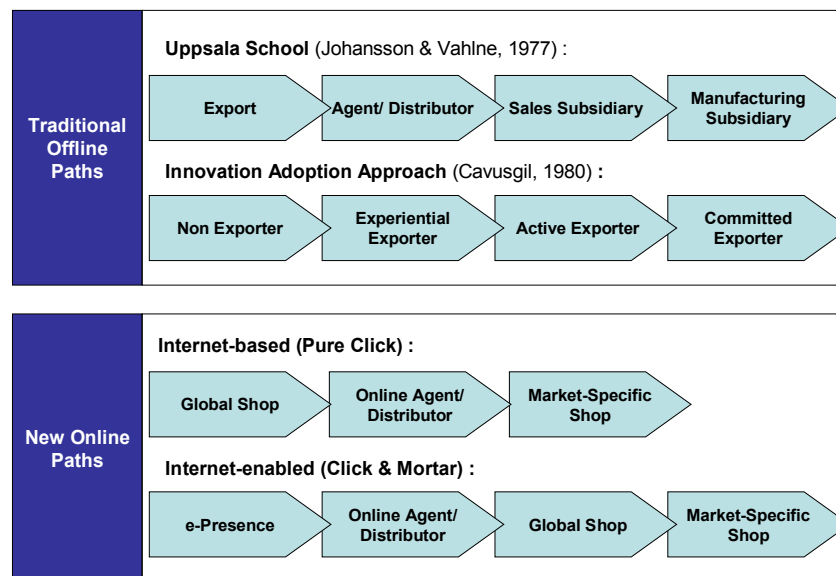
The second challenge is in adding a functional focus. Different authors have suggested a number of main functions Internet can fulfill in support of the firm's international marketing and export development efforts (Hamill, 1997; Morgan-Thomas & Paton, 2007; Prasad et al., 2001; Rosson, 2004), including – informational, communicational, transactional, and distributional functions. Here, again, complexity is reduced by focusing on two functional dimensions - differentiating between web-presence, indicating the firm has launched a commercial website facilitating basic online information provision and communications including e-mails; and transactors or 'online shops', which support online payments and/or ordering.

The next differentiating element used for the Internet-enabled internationalization stages conceptualization, is the mode of service – direct or indirect. Direct service is provided via a ‘global shop’ serving a world market indiscriminately, or ‘market-specific shops’, serving markets based on idiosyncratic adaptations to local language, content, format, and style preferences, etc; and indirect service is provided by using intermediaries for sales and marketing promotions (including both Internet-based and Internet-enabled agents and distributors).

Integrating these concerns together, one can define four core strategic modes of online market service, including – web presence, alliances with online agents and distributors, global shop, and market-specific shop. *Web-presence* is defined as a promotional website, aimed at providing information about the firm and its offerings, serving as an online catalogue, promotional tool, and source for initial online and offline contacts. Web-presence type websites may take two forms, either globally oriented with information for all potential customers worldwide, or a multi-domestic approach, built on a series of different websites adjusted linguistically and content-wise to specific foreign markets. *Alliances with online agents and distributors* are defined as commercial arrangements with online intermediaries including market makers, which provide various agency, distribution, reselling, retail and wholesale services. These as well, may be defined along mandates involving either a global market or niche-specific/ territory-specific responsibilities. *Global Shop* is defined as a transaction facilitating website which serves a global audience of clients indiscriminately. *Market-Specific Shop* is defined as a transaction facilitating website which serves a national market specific audience of clients, incorporating various cultural, linguistic and environmental adaptations.

Once the strategic modes of an international online market service have been defined, the next concern revolves around the dimension of sequence. Sequence of stages is hereby suggested to differentiate between firms that are Internet-based and Internet-enabled. Both of these paths are based on an accumulative progression, where each stage incorporates earlier stages and extends them (see figure 1).

FIGURE 1: Traditional and Online Internationalization Paths



An Internet-based firm is expected to launch an online global shop from its inception, as it wishes to serve the largest target audience possible via its only service channel – the Internet. As international operations develop and as interaction with potential clients intensifies the firm recognizes that it may be able to further extend its market reach through reliance on intermediaries, serving both as trust facilitators (tapping into circles of more suspicious clients), and content filtering, translation and dissemination mechanisms (tapping into circles of information overloaded and culturally sensitive clients). Finally, certain national markets are identified as more promising either based actual on sales volumes and growth, or their perceived potential. At this stage the firm further diversifies its shop front to cater these markets specifically, while adjusting content, language, offerings, format, style, currency, payment methods, and other elements to better suit the specific market needs, which eventually materializes into a market-specific shop.

Internet-enabled firms are expected to first launch an informative website which enables basic web-based communications, and usually serves as a supporting promotional tool, rather than as a main revenue generating mechanism. Therefore, firms are first expected to make use of a web-presence, which is supposed to support offline marketing and sales efforts, rather than replace them. As web-based international inquiries and contacts pile up, and interaction with potential clients abroad intensifies the firm recognizes that it is able to extend its market reach through reliance on intermediaries, serving both as trust facilitators and content filtering, translation and dissemination mechanisms. Once sales volumes via online intermediaries grow to a critical level, the firm then explores the option of facilitating direct transactions via its own website, catering loyal customers as well as new ones, through a one stop global shop. Finally, as certain national markets seem to be more promising than others, the global shop is extended to cater different markets in a more specific manner, locally adjusting content, language, offerings, format, style, currency, payment methods, and other elements.

However, it is important to stress that the paths described above are more normative suggestions rather than empirically confirmed findings. To the best knowledge of the author no earlier study has proposed such sequences of Internet-enabled internationalization stages, let alone confirmed them empirically. In the following section a list of propositions related to the conceptualized Internet-enabled internationalization paths will be suggested as a guiding framework for related research.

PROPOSITIONS

Quelch & Klein (1996) suggested that Internet-based start ups are likely to develop their websites along a transaction-to-information path, as they are resource limited and heavily dependent on revenues generated only through Internet-based service. Therefore, they will launch a transaction facilitating website first and only later re-invest some of their revenues into better information provision formats, such as more advanced promotional tools and diversification into market specific-websites with unique content and local adaptations. Moreover, being new to the market, Internet-based firms are likely to seek promotional assistance from intermediaries, but since identifying suitable intermediaries and holding commercial negotiations with them takes time, it is likely that they will have fully operational web shops before having their offerings promoted and sold by online intermediaries. For these reasons, the following proposition is made:

P1: Internet-based firms start online international market service through the establishment of a global shop, rather than through indirect sales, or a series of market-specific dedicated websites.

Several earlier studies have suggested that export-oriented firms, may they be SMEs or multinationals, have launched an informative or promotional website before launching a transaction facilitating web shop (Houghton & Winklhofer, 2004; Morgan-Thomas & Paton, 2007; Quelch & Klein, 1996). These firms are gradually adopting Internet into their existing business models, by extending promotional and sales efforts to Internet-based channels. This indicates that physical infrastructure in various international markets exists, either in the form of the firm's own sales subsidiaries or through a network of agents and distributors located in these markets. Therefore, such firms are not quick to challenge existing relationships with performing export intermediaries, and are more likely to first develop an informative promotional support tool, rather than a direct sales platform undermining intermediaries' sales efforts and the existing relationships with them. For these reasons, the following proposition is made:

P2: Internet-enabled firms start online international market service through the establishment of an informative, basic-communication facilitating website, rather than through indirect sales via online intermediaries, or through the launching of an online web shop.

Once launched, the promotional website may generate increased inquiries and contacts from various clients and new intermediaries in various parts of the world. Firms at this stage develop an interest into serving extended markets made available through online service. Still, cautious about going it their own way, these firms may now be will willing to explore relationships with online intermediaries. And by not pursuing disintermediation per se, they may maintain good relationships with existing intermediary partners, but at the same time may extend market reach through employment of online intermediaries, as well as creating competition between intermediaries for better performance. For these reasons, the following proposition is made:

P3: Internet-enabled firms serve international markets online through indirect sales via online intermediaries, before transforming their website into an online shop serving either global or local markets.

Once having global shops launched, Internet-based firms are exploring cost-efficient ways to increase sales volumes as well as to gain the trust of international online buyers. Their immediate effort at this stage is directed at creating relations with online intermediaries and market makers, which serve as trust assurance seal as well as a point of access to a pool of potential customers (Prashantham & Young, 2004). Various flexible incentive mechanisms which underlie commercial arrangements with online intermediaries make it easier for firms to expand market reach, learn about competition, gain the trust of customers, learn about customer preferences and price sensitivities, as well as compete fairly for potential projects and supply deals. Only after this learning process takes place, and in parallel revenues were generated, can Internet-based firm invest in launching websites tailored to serve specific national markets. For these reasons, the following proposition is made:

P4: Internet-based firms serve international markets online through indirect sales via online intermediaries, before launching a series of market-specific shopping websites.

Once experiencing growing intermediary- volumes facilitated sales, and a sufficient client pool exhibits repetitive purchase buying patterns, Internet-enabled firms are encouraged to serve clients directly. Moving towards direct sales through the establishment of an online shop serves both for more intimate interaction with loyal customers, as well as for reducing the intermediation costs. Moreover, more intimate and direct relations with customers enable firms to analyze preferences, price flexibilities, periodic demand, and purchase patterns with greater ease and confidentiality, which in turn provides insights into product development and customer service improvement efforts. Still, launching a web shop may cause some friction with intermediaries, and therefore firms opt to limit this friction through not competing with their intermediaries in their own home markets (by launching market-specific sites), as well as through continuing to pay commissions to intermediaries that will now also facilitate orders online. For these reasons, the following proposition is made:

P5: Internet-enabled firms serve international markets online through a global shop, before launching a series of market-specific shopping websites.

As an online global shop shows satisfactory performance and certain national markets emerge as characterized by higher demand, firms consider the option of launching a market-specific websites to serve better their existing and potential new clients in these markets. However, while Internet serves as the main channel of commerce for Internet-based firms, it can play a lesser role for Internet-enabled firms, often serving as a complementary channel rather than as a main channel. Therefore, Internet-based firms may choose to serve high performing and growth-potential markets online (also in accordance with anecdotal findings in: Borsheim & Solberg, 2004; Forsgren & Hagström, 2001), while Internet-enabled firms may choose to serve performing markets where physical infrastructure is available, and a website could be a valuable support tool. For these reasons, the following propositions are made:

P6 (a): The main motivation for Internet-based firms to serve a foreign market through a market-specific website is based on market potential considerations.

P6 (b): The main motivation for Internet-enabled firms to serve a foreign market through a market-specific website is based on the existence of physical sales infrastructure in these markets (e.g. where having sales subsidiary), to support online efforts.

When launching a market-specific shop site that doesn't generate sufficient revenues, both types of firms (Internet-based and Internet-enabled) will withdraw from serving the market via an especially dedicated website, and will rather use a general global shop supported by sales via intermediaries. Such a development might be expected when local intermediaries carry special meaning to customers in the local market, either as trust facilitators, attractive one-stop shopping solution for various shopping needs, or when its brand is striking cords with nationalistic driven purchase patterns. In these cases, even linguistically and culturally adapted local shop websites might find it hard to compete with strong local intermediaries and market makers. For these reasons, the following proposition is made:

P7: When either an Internet-based or Internet-enabled firm fails to tap into certain national markets by launching a market-specific shop website; it will withdraw to serving these markets through a global shop website, supported by global and local intermediaries.

In summary, seven propositions have been suggested with respect to the relatively new and un-chartered phenomenon of Internet-enabled internationalization process. These propositions serve as valuable guidelines for much needed research into identifying Internet-enabled internationalization developmental paths. Once

identified, such paths may serve as guidelines for firms aspiring to develop internationally by using the Internet channel for promoting their products and services. For the time being, in many industries firms often regard launching a website to be novel enough, while not fully aware of the available options to develop it further as an international service platform, as well as of existing industrial trends, practices and benchmarks.

CONCLUSION

While rich literature exists about export development, internationalization, and the influence of Internet on internationalization efforts, research examining the actual Internet-enabled internationalization stages of development and their sequences, have been left unexplored. This may be due to limited experiences and the relative newness of the medium. But as e-commerce will soon celebrate its 15th anniversary since the first online transaction took place, some firms' experiences may be ripe for analysis and examination.

The main contribution of the current paper is in suggesting a conceptual framework for Internet-enabled internationalization stages, sequences and paths. This is done based on an analysis and refinement of ideas as they are emerging from traditional approaches to internationalization and a growing body of literature on e-commerce and e-business adoption in general. The conceptualizations suggested here serve as infrastructure for current research undertaken by the author, but are also presented as a general invitation to research into the area of Internet-enabled internationalization. Here scholars are encouraged to analyze implementation and tailoring of Internet-based international strategies in firms in various industries and from different home markets. Valuable insights may also be harnessed from analysis of drivers and obstacles for moving between stages along the process, as well as in potential identification of alternative stages and sequences.

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