PREPARATIONS FOR INTERNATIONALIZATION THROUGH BUSINESS MODEL

CASE STUDY

SAMUEL SORONEN

Master Thesis

Department of Management and International Business

3/2013
Globalization has had an effect on the operational environment of enterprises. Enterprises are increasingly working at markets that do not recognize national borders. A lot of studies have been made to international business. Enterprises are interested in and ready to invest in finding ways to new markets, to understand their own relationships and chances in internationalization.

The aim of my Pro Gradu-thesis is to understand how small Finnish companies acting in game industry to get ready for becoming international from the point of view business model. The company is operating in both electronic and traditional business which makes it as an interesting case to study. In my case study I concentrated on research on how the company prepares for the internationalization and how it affects the business model. The study was executed as a work shop. Chief executive officer and development manager of the case company were invited to the workshop and they brought up their understanding of what will happen in international process and how it will affect the business model.

A business model simply describes how a company lures customers, preserves their customer relationships in a faithful manner and transfers money from customers to the company. Observing internationalization theories from the point of view business model brought out a new perspective on how to prepare for the internationalization. Combining these two tools answer the question of what is the right path of internationalization and how companies should prepare for it from the point of view business model.

According to this Pro Gradu Thesis, when a company makes a decision to reach international markets their business model will change. Different dimensions of the business model shed light on the challenges and bring out new perspectives for internationalization process. While analyzing the business model of the case company it became clear that most of the dimensions of the business model will be changed during the internationalization process. I would recommend the case company to edit their business model totally to better encounter the demands of internationalization. Changing the business model totally will, however, require more research.
PREFACE

I want to thank the Case Company, which has enabled my Master’s Thesis award. Without important support and information that was collected the work could not have been done.

Special thanks to my inspector Professor Petri Ahokangas who gave me important feedback and instructions that guided my work in the right direction. I want to mention my sister Anna and thank her for very significant support during my writing process.

Oulu 26.3.2013

Samuel Soronen
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1. INTRODUCTION

This is a Master’s Thesis that will be discussing internationalization of a company through business model. In the introduction chapter I will determine the emergence of my research problems from theoretical and practical foundations. The research problems will be analysed and the background outlined. Most important terms utilized during the work will be introduced to make readers clearly understand what this is about. The introduction will briefly exhibit methodology employed in making sense of the conclusions of research. Case company has been briefly described and manifested.

1.1 Subject of the study

During the last decades one of the most discussed topics in Finnish business life has been internationalization. Finnish companies have risen to the wave of international business by Nokia and other big businesses of it-business. According to the Saarenketo (2002), increasing number of small companies are getting involved in international business and are connected to the global markets, which means for the Finnish entrepreneur that even the smallest firms in Finland will face the challenges of internationalization. The Finnish government has encouraged entrepreneurs to start expanding to new markets. In August 2011 Finnish government set up a working group to investigate and enhance factors that will help companies to take a step over the border of Finland.

My own interest has been on the internationalization of small Finnish companies. The cornerstone of my Master’s Thesis -project has been to find new information about how to reach new markets abroad. I started by searching for theoretical framework from books and articles written about internationalization of Finnish companies. There are plenty of studies existing around the subject and trying to find a spot that I could further fill with my research was difficult. I also set my study a requirement that I would like to have a case company which could complement the theoretical analysis. I wanted to see how the theory and analysis talk to each other.
While getting involved in internationalizing theories I found a totally interesting point of view for studying internationalization processes of Finnish companies. As a part of my study I chose to approach internationalization theories from many famous researchers. There are numerous different paths and strategies and the field is really widely studied. I got acquainted with common internationalization theories and after that started to make me more familiar with theories of e-business by applying theories of born global and internationalization processes in e-business.

Oviatt & McDougall (1994) argue that not only large multinational corporations are in key positions while talking about international business. A person in possession of capital is able to operate wherever in the world via telephone, internet banks and new technology. With today’s communication technology you can travel through the world in one day. This enables small businesses with moderate resources to search for business opportunities outside of their domestic countries.

Explaining internationalization nowadays is impossible, say Axinn & Matthyssens (2002). The number of the companies internationalizing today is bigger and the speed of their internationalization is relatively faster than before. Companies become international in many ways and employ various strategies. Hi-tech and services are being sold around the globe every day. Liberalization of markets has made companies expand to neighbouring countries and thus moved them on multinational markets. Internationalization is not a rarity nowadays but a daily part of business routines in most industries.

A newer swing on the markets has been brought by e-business. Revolution in information technologies makes traditional tenets of theories of marketing, leadership and internationalization under revision. Internet allows international marketers to operate, penetrate markets and develop and transfer products and services faster and with less cost. Information about customers is more easily acquired through internet and availability of partners and encounters with them are also made easier. Small and middle-sized companies that have no large existing networks are much assisted. Even though a company does not have an existing network on new markets, the network can be created and these contacts handled with internet. On the other hand, the internet offers the buyer a chance to select a supplier from a relatively larger group of people. Even if a purchase was not completed via
internet, a potential supplier may have been selected with it. This stirs relationships between suppliers. Even though markets are opening and contacting of new customers is being made easier, competition is simultaneously increasing. For a company it is easier to externalize operations now than before, because the supplier is able to operate in a foreign country, where, for example, salary costs are relatively lower. Signs of this are companies choosing software developers from India as suppliers (Axinn & Matthys sens 2002). Nowadays the more challenging operations can also be externalized into countries of cheaper manpower with the direction and steering of them performed with internet.

Davis & Harveston (2000) also point out what Axinn & Matthysens (2002) have said, for years it is been thought that multinational corporation dominate international business. However, during the last years also smaller corporations, family businesses and enterprises have become active operators in the field of international business. Technological development and adoption of internet have increased internationalization and organizational growth.

Fillis & Wagner (2005) have perceived in their studies that small companies are relatively slower in adopting e-business. Small companies have usually been selling high technology products and services, markets of which have been small and strictly defined, referred to as niche-markets. These items have usually been sold to end customers directly. The writers state that it is a challenge that small companies are regarded as one homogeneous group and generalizations are being made too easily. Depending on the industry and orientation of the company, the rate of adoption of e-business varies through companies. Fillis & Wagner see that e-business brings completely new opportunities for small companies. The daily routines of a company are being made easier with diminished transaction costs, more effective marketing operations, improved communication opportunities, conquering new markets, cutting costs and finding new suppliers. It is easier for smaller companies to specialize and get closer to new customers with accrued flexibility. Recruiting will also be easier with internet assisting. With internet small companies are able to bring product information on the awareness of mainstream public with small costs and inform a large amount of customers with very low costs. Disdaining e-business detracts the
competitive edge of a company because in the meanwhile competing enterprises are embracing e-business into the basic structures of their businesses.

Obstacles of internationalization for small companies and e-businesses have been resistance of changes and scarcity of resources. Building a new business model on an e-business basis requires both capital and consulting. A crucial step is taken when advantages are understood and concrete benefits seen. Writers push forward the claim that the smaller the company the greater the potential benefits. (Fillis & Wagner 2005).

After observing the process of internationalizing I concentrated on looking at internationalization process of small companies from the point of view of business model. I started with a discussion of a business model; what a business model is and how it is weekly used in business. Common business model is a baseline and from common business model business models for born global businesses and international new ventures evolve.

Osterwalder et. al. (2005) write that business models are being talked about by business people, journalists, consultants and academics. It is being discussed under various headlines and it has been associated to many different areas of business such as e-business, information systems, strategy and leadership. Even though business models have been talked about in relatively many occasions they still remain as a poorly understood issue.

The business model is a blueprint of a company’s way of doing business. The business model also reflects the strategic position where the company stands at and the strategic goal it targets and how the company in fact works. The business model plays the role of a building model for the company as it builds up its business. Business model, however, is not such a one-dimensional issue. Various authorities have presented their views about elements of a business model, the type of business model and its place in real life. Even though we are talking about business model, other authors may have deviant understandings. (Osterwalder et. al. 2005)

Teece (2010) states that the development of global economy has changed the traditional relationship between customers and suppliers. New communication technology has opened global trading regimes, customers find information fast and
supply alternatives are more transparent. While being established, the company makes use of the business model directly or indirectly determines the architecture of value creation, delivery of goods or recruitment of the company. The innermost existence of the business model is to delineate the ways the company creates value for customers, makes customers pay for this value and transforms the income into profit. The business model helps the company understand what customers want, how they want it and what they are willing to pay for. (Osterwalder et. al. 2005)

Being successful in today’s no-time-to-think-economy requires a company to have an ability to learn to switch the business model of that company in a quick and efficient manner, write Linder & Cantrell (2010). Mere fastening of a traditional working model is not enough. Instead of an organizational change companies should be simply able to change their way of thinking. The writers intend to say that if the whole organization is being totally modified the changes are expensive and evoke insecurity in the company. However, a challenging and constantly changing business environment requires fast reactions and fluent, active meeting of current needs is made possible with a pronounced business model.

Amit & Zott (2001) defines e-business:

“As a business conducted over the internet, with its dynamic, rapidly growing and highly competitive characteristics, promising new avenues for creation of wealth.”

Business Model can be defined as follows:

Teece (2012) arguments that “the core function of a business model is to define the manner of how an enterprise delivers value to customers, persuades customers to pay for the value and switches those payments into profit.”

International business can be defined as follows:

“Any business activity across national borders, including exporting and importing, manufacturing, service provision and retailing; also refers to the organization itself which engages in cross-border business.” (Morrison 2009: 5)
1.2 Case company

After making me familiar with the theories of internationalization and business model I started to look for a suitable company to be a case company for my thesis study from this perspective. I crashed out with a small Finnish company acting in game e-business. The company had a need for a study on how to make their business go global and they asked me for bringing some thoughts and theory to support their process.

CEO of the case company says “It is the concept, it is the contents marketing that adds value to our customers by games, it works in Finland and according to our observations because of this evolution of technologies and on the other hand because of the decadence of printed media, the focus in marketing will be more in internet and it has been but not in the form that we have, contents marketing embedded in a game, it has not been implemented outside of Finland. In my opinion Finland is kind of a pioneer and we can and we have the prerequisites to multiply our concept and thus offer the agents and communities and companies of these areas a boost in visibility and on the other hand a chance to play our games.”

The case company of my study is a small Finnish company. The business idea of the company is to provide communities and enterprises with software applications as a means of marketing and communication. Managers of the company are aware of the need to conquer new markets and motivated to proceed in the field. The thesis will expand the knowledge base they have about the subject and be a guideline for future activity. The focus of the thesis work will be on analyzing the current business model and the prerequisites of internationalization of the company. The concluding remarks of my research will potentially be helpful for companies thinking about becoming international in the future.
1.3 Research questions

I will be answering the research questions with an analysis of the theoretical survey of various papers and a documented interview of the managers of my case company. I will first broadly discuss business models in international business contexts, then analyze the company’s way of doing business in terms of an established business model and finally see if these two have any correspondence with each other. The research questions are as follows:

1. What are the special features of internationalization of a small Finnish company?

Sub-question for the first research question is:

1.2 How is the internationalization path for the case company?

2. What is the Business model of a small Finnish company at a preparative stage of internationalization?

1.4 Methodology

The research consists of two stocks of information. The first part is a collection of articles or papers from publications related to international business studies. We scrutinized them to get a real-time picture of the research on the area and to clarify the concept of a business model. The latter part is an empirical study that was carried out as a workshop. The author of the thesis got acquainted with the company by spending time at their office and meeting their partners. Finally he arranged an interview with the managers of the company. The interview has been written down and analyzed by the researcher.
1.5 Structure of the paper

The theoretical value of my study is in finding new information on business models in international business environments. My theoretical interest is in how business models work in international business environments. The first task will be to discover and identify the current ‘de facto’ business model of my case company, a Finnish game/communication company. Secondly, I will be trying to catch the modifications and alterations the domestic business model will undergo while the company internationalizes. The third issue is what are the critical pitfalls or problems of business model that should be especially taken into account while working on an international business model?
2. INTERNATIONALIZATION PROCESS

The theory I have chosen as the basis of my study will be dealing with issues related to the process of internationalization of Finnish small and medium size companies (Finnish SMEs). In the latter section I will be discussing issues around electronic business, previous and current research findings, its relevance and implications for international business. The motivation for approaching the topic of the thesis from both points of view of business studies stems from the position of the case company of my study in the market. Internet is a vital part of the business of the company but their business activities are not limited to electronic channels of sales or a website. Internationalization process is observed from the point of view business model. Essential research question of the study is to clarify how internationalization process affects to the existing business model.

I had been reflecting around idea of investigating prerequisites and opportunities of internationalization for Finnish SMEs during my studies. It is widely known that in Finland there are many SMEs that have competitive advantages to succeed in global market but there have been huge problems in bringing these products or services to markets. An even greater problem has been that the market edge in Finland is narrow and firms have to find new markets and customers for their products. I made the final decision about the topic of my thesis after a representative of a small Finnish company contacted me and asked if I was interested in this type of task.

2.1 Internationalization process for SMEs

There has been trade between Finland and other countries as long as there has been business. In the seventeenth century Finland exported tar to Germany, Russia, Portugal and Sweden, and imported salt from Sardinia. (Pirnes et al. 2002: 8-10) These transactions took place during the same decades as the really famous East Indian Company had international business between Great Britain and India. The deeply buried belief of lack of skills in marketing and international trade of Finnish business people does not in this light seem to be valid.
Internationalization of Finnish SMEs has been investigated by various scholars and there is a great deal of data available on the subject. In this study the internationalization of a small Finnish enterprise will be examined from the point of view of e-commerce business model as the unit of analysis. The final outcome of the study is supposed to be to understand what happens at the initialization phase of the process of internationalization of a Finnish SME, what the triggers of it and the differences between making business in home and a foreign country are.

In this chapter I will define some terms that will occur in the text later on

\textit{International business} means any business activity which spans across one country and the transactions of which are located in different countries. (Janet Morrison 2009: 5)

\textit{SME – small and medium sized enterprises} comprise of ten to two hundred fifty employees and have a turnover of less than fifty million. (European commission 2000: 2)

A \textit{Finnish SME} is a SME company doing business in Finland.

\textit{Entrepreneur} is a person who has identified opportunities and had an access to necessary resources to create a new business (Morrison 2009: 8).

2.1.1 Internationalization of the Finnish SME

\textit{“The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace”} (Hill 2009:6).

\textit{“We define an international new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”} (Oviatt et. al. 2005)

Irrespectively of the background of a business, when the firm wants to conquer new markets, it will face new challenges and opportunities. The internal organization,
culture and the strategy of the company will owe much to its home environment but be also strongly influenced by the foreign environment. Seizing business in new markets stands also for growing risk for the company. (Janet Morrison 2009: 4)

According to Morrison, the main idea of business is to provide goods, services or a combination of both to customers at a price they are willing to pay. When companies offer similar products or services they are competing with each other to persuade potential customers to buy their products instead of their competitors’. Thanks to internationalization, the supply for customers has widened to encompass all companies offering the same product or service. (Morrison 2009: 5)

Oviatt & Mcdougall see that technological innovations and increased information and knowledge about international business have created new corner stones of creating international growth. They also accentuate the point that the entrepreneur can be in the middle of the global business wherever and at multiple spots simultaneously through Skype meetings and travel around the world in one day. (Oviatt & Mcdougall 1994:1)

Much is written about internationalization and new ventures and it is a demanding task to gather a coherent set of theory. However, it is clear, that all authors reporting their views on the issue point to the same object. Saarenketo (2002), Morrison (2009), Oviatt & Mcdougall (1994) and Hill (2009) indicate that markets of the world are converging. Challenges posed by globalization must be taken seriously. Globalization and internationality enable companies to work with a wider scope. Competition will increase and being ‘local’ is just an image. Increased markets will entail challenges. Companies will have to pay attention to stiffened competition, changing markets and demanding customers. In the next chapter I will be searching for reasons behind the necessity for internationalization.

2.1.2 Motives for Internationalization of SMEs

Internationalization is often a natural part of growth and development strategies of the company. Causes and motives for internationalization derive from issues
concerning the company. These factors are external and internal operational environment and company-specific factors. (Vahvaselkä 2009: 61-62)

Issues evolving from the company itself are features of the company like age, size, industry, model of the enterprise or issues stemming from management of the company, like orientation of strategy or market, international training, language skills and network or situations where management makes decisions. According to Vahvaselkä (2009), an activator of internationalization is an internationally oriented management team that is willing to seize on the rewards of internationalization. In SMEs the ultimate decision is made by the CEO and under these circumstances the eventual realization of internationalization is straightly related to his or her commitment in internationalization.

Factors surrounding external environment are factors concerning markets either at home or a foreign country. For Finnish companies a natural incentive for globalization is the smallness of domestic markets. Pull-factors include openness and attractiveness of large foreign markets (Vahvaselkä 2009: 61-62) Other sources of willingness to expand overseas may include a new employee, overproduction or deceleration of home markets. External activators could be for example demand and orders from foreign countries or support by the government. (Vahvaselkä 2009, 62-63)

Also according to Forsman et al. (2010) the most important factors in internationalizing are the interest of the management team towards international activities as well as demand for products of the company from foreign countries. Initiatives from foreign countries are a natural and easy way to start operations abroad. Loane (2002) states that young companies could compensate for their short experience in business with high knowledge of and expanded understanding of e-commerce.

According to a study by Loane, the founders of a company have been seen to have a great impact on the internationalization of the company. Vahvaselkä (2009), Forsman et al. (2010) and Loane (2002) all highlight the role of owners. As a conclusion I would state that interest in internationalization by owners only is not enough for a successful launch or flight at foreign markets. The leaders have to be
highly educated in their area of business and expertise, have a strong motivation for being international and have a sustainable vision of one global market place.

2.1.3 The difference between doing in home country and abroad

In national business operations, encompassing the business in local markets as well, companies take advantage of knowing their customers, acting within the same language and using the same currency. Transactions between companies, money transfers and potential legal actions work under the same legalization, whereas in abroad all these have to be clarified and gone over. Media is an easy way for companies to reach potential customers but the foreign rules must be learned before embarking on markets abroad. Distribution channels must also be explored in depth before going abroad. Risks in home country business are easily predictable and when risks come true they are easily managed. (Morrison 2009: 6-7)

International business is wider and more complicated than national business. When a company is acting in foreign markets, it needs to be ready to solve different problems when encountering new people, customers in different culture and environment. Distribution channels may contain many intermediaries and transportation can be a lot more extensive and expensive. Reaching customers in different cultures and environments also brings many demands and media may not always act like in the home country. The use of foreign currency may as well pose new risks. (Morrison 2009: 6-7)
2.2 Various Entry Strategies

Axinn & Matthyssens write in 2002 that internationalization models based on physical distance lose in significance as the number of e-businesses become more popular. The world is culturally more homogeneous than before, regardless of a country or continent, internet is connecting people from USA to Beijing. In this chapter different internationalization strategies are observed from the point of view small and medium sized companies.

2.2.1 Born Global enterprises

Born Global enterprises have built their businesses international at the time the company is being set up. Since the first step of the company’s history the international point of view is strongly invited. The vision and the mission of the company are designed for international markets, all the products or services are also made suitable for the global market, the structure and the financing systems of the company also serve the key idea of being a competent actor at global markets. Usually these BG-companies are internationalized while being born or immediately after that. (Vahvaselkä 2009:33-34)

Born global enterprises have channeled their businesses international at the same time as the company has been set up. During the first steps of the company’s history the international point of view is strongly invited. The vision and the mission of the company are targeted at international markets, all the products or services are designed for global markets, the structure and the financing systems of the company also serve as the key idea of being a capable actor in global markets. Usually these BG-companies are internationalized while being born or immediately after that. (Vahvaselkä 2009:33-34)
BG-companies are usually small, ownership is divided to one to three owners and there are usually only few workers working as specialists. Establishers have usually high education, earlier experience about how to manage business transactions possible in international contexts. Managers’ language skills are usually good, they are willing to carry high risks, they are highly motivated and relatively ambitious of becoming successful internationally. (Vahvaselkä 2009:34)

Characteristic of a BG-company is that know-how is high and products are high-tech products or special products for a narrow market niche. R&D costs are higher compared to manufacturing companies and products are unique and difficult to imitate. Commercializing this kind of products requires large scale marketing and knowledge to find the right market niche from huge global markets. (Vahvaselkä 2009:34)

Global markets and global customers offer huge possibilities for firms coming from small market countries. By using global communication technology firms are able to simultaneously rule plenty of markets and occupy new market area. New business areas are easy to integrate into the existing portfolio and be operated according to the same principles as earlier regions. The differences between the paths of internationalization are the need of time, the amount of collaboration and the need of networks required in internationalization. The path of organic growth stands for slow, slowly expanding business model, whereas born global path is relatively fast. The speed of growth can be influenced by business networks and partnerships. (Vahvaselkä 2009: 31)

The definition of a born global enterprise is valuable when speaking about electronic business. Many different authors speak about lower barriers, internationalizing from inception and business in a global market place. Internet and electronic business are offering new possibilities for small firms in small markets. By internet critically wider amount of customer are reached and head of the company can actually locate where ever in the globe.

2.2.2 Partnering-Based Internationalization
Partnering-Based model is based on co-operation with a company that has resources that the internationalizing company does not have. It is faster than the organic growth path, but slower than the born global bath. Partnering-based model is applicable when a company has a high quality product or service but does not have all the needed resources. The company might for example have a finished product and be sure that there is market potential in international markets, but not have a needed distribution channel. By partnering with companies in the foreign country the company is able to access ready-made networks and channels to start selling. An experienced management team is usually needed in the kind of company who has good relationships with local partners and who can offer market knowledge regarding local customers and markets. (Vahvaselkä 2009: 33)

Varamäki and Tornikoski (2007: 175) have investigated external strategies of SME’s. They have found that many Finnish companies have overstepped the organic growth path and started to plan their internationalization according to model of “Born Networked”. This means that the companies start to look for suitable networks to support their internationalizing process at the first steps of their internationalization. (Vahvaselkä 2009: 33)

2.2.3 Uppsala Model

Another approach is the Uppsala model. U-model was created by Johanson & Vahlne in 1977. It is a theory based on research and results gathered in Swedish manufacturing companies. (Johanson & Vahlne: 1977)

International activities generally start from markets that are culturally or geographically close (Johanson and Valne 1977). Companies attempt to start with an entry mode that does not restrict their activities very strictly. This means that in case the foreign operations are not profitable there is a chance to come back home to make business in home markets only. That is why the first phase usually includes exporting or using a foreign agent. (Forsmann et al. 2010)

When a firm gathers knowledge, experiences and networks by exporting, it is in a little while able to take the next step and expand its speed of internationalizing. A company that follows the U-model supports exporting by an independent sales
representative in the foreign country, which is also called an agent. The next step will be to create a sales office of their own or a subsidiary in the focal country. The last step will be taken to establish a production or manufacturing facility in one of the countries in question. The aim of the U-model is that at every step the commitment to the relationships and experiences are increased. (Johanson & Valhne 1977)

Uppsala model is one of the most famous internationalization models in the world. The empirical data was collected in 1977 in medium sized Swedish manufacturing companies. The U-model is still feasible in certain industries nowadays and it intertwines partly with the internationalization model of partnering based internationalization process, represented by Vahvaselkä 2009. When it comes to Finnish SMEs there are some industries that could use U-model as possible entry strategy in their internationalization.

Äijö (2001) has written about slow expansion to global markets. At developing stage the company starts to put more resources and investments on internationalization. Different models of enhancing global transactions are products exporting, cooperation with foreign partners and possibly an own sales office in the target country. When the amount of investments grows and the firm centralizes more power on growing in the foreign market, the amount of trade grows fast, but the final results of operating in foreign markets are many times negative. Characteristic of the growth stage is a fast growth rate. At this stage business made outside of one’s own country could be profitable, even though liquidity is thus usually relatively week. The company continues investing in and occupying areas where business has been profitable. At this stage the company is somehow experienced and it has knowledge about some markets.

Äijö (2001) brought out that the safest way to start internationalization is first to expand to neighboring countries which are physically and mentally close and do not require lots of investments and where spiritual barriers between nations are low, like in Uppsala model.

Axinn & Matthyssens (2002) criticize Uppsala-model because it is being depicted as a separate part of the business portfolio of the company. Also, the Uppsala-model hand in hand with other traditional internationalization theories has been too strongly created from the product-point of view of business. Services are a prominent part of
international trade nowadays, thus theories supporting it should better take into account services and international internet markets that have undergone changes as a result. Worth a note is also that it is not possible so to speak to transfer experience and data from a country to another anymore. In Axinn & Matthyssens (2002) opinion Uppsala-model based on internationalization which develops and expands stage by stage is old-fashioned. The writers see that the data is already there in the internet and if it is being transformed from one country to another, it will slow the process of internationalization down instead of fastening it.

2.3 Internationalisation in Electronic Business

Rapid change at international markets brings challenges for traditional internationalization theories. It is difficult to apply the traditional stage-by-stage-internationalization approach to e-commerce context. Traditional internationalization theories, such as Uppsala Model have not been created to work in a changing operation environment. The markets are changing rapidly and traditional internationalization theories are not powerful enough to explain it.

Oviatt & Mcdougall (1994) argue in their article that new technologies, economic and social resources are changing the market place. International communication has been changing, it is fast, effective and more complicated. Sending real-time messages, sound, pictures and movies is cheap. The cost of transportation is lower than years before. Business areas are integrating and differences between an entrepreneurship at home or being a businessman abroad is small.

Onetti et. al. (2012) see that globalization drives firms to be more competitive and more innovated. In technology-based companies that sustain flexibility, rapid increasing and strong entrepreneurship cannot escape the influence of globalization.

Loane (2002) writes in her study that there is no absolute need to have economies of scale to be competitive. Even a small firm can find their niche market to offer their products or services. Through new communication technologies it is able to stand in the middle of the global stage and be international since the inception. Author sees that internet is the biggest reason for the burst of BGs. This is in concordance with
the notion from Vahvaselkä (2009) that a small company can be competitive at large markets after finding their niche. In their study they found that small firms are not adopting internet with same intension as larger companies, though internet can offer a number of possibilities to enhance business. For example larger firms are seen in the internet 24 hour per day and they widely use intranet and extranet to improve their actions. Loane’s point that larger firms are more inclined to adopt e-business tools than smaller companies contradicts the BG theory. We will discuss this in the conclusive section of this chapter. (Loane 2002) Fillis & Wagner (2005) support the same reasoning. In their research it was discovered that a small company can benefit more about adopting internet than a large company. The most remarkable reasons for a slow adoption rate of internet commerce have been scant personnel and financial resources, small companies suffer from a lack of education and competent workforce.

Loane (2002) writes in her article that there is current research about internet accelerating small firms’ internationalization. Loane states that factors behind these trajectories are issues such as information gathering, financing, marketing strategy and human resources management. In Internet it is possible to meet these demands with less time and money. This is what makes electronic markets so persuasive. As a conclusion the writer sees that small companies can start internationalization at earlier stages. The most important part of internationalization especially concerning small companies acting in e-business are human resources.

*Business dictionary defines human resources as the division of a company that is focused on activities relating to employees. These activities normally include recruiting process and hiring new employees, benefits of the employee and retention.*

*(Business dictionary)*

Human resources are not even a subtopic of my study but remarkable part of resources of the company. In small firms there are usually only few employees in addition to the entrepreneur/s. In small firms the personnel is in key role when thinking about internationalization. As written in the chapter Motives for Internationalization, authors like Vahvaselkä (2009), Loane (2002), Forsmann et al.
(2010) and Oviett & McDougall (1994) regard human resources as a meaningful asset on the path of going global.

Loane (2002) writes in her article that human resources are one of the most important priorities. Especially in a knowledge-based company employees are the biggest asset. Development and training of the personnel is critically important. In early days expertise and knowledge were bought, nowadays the situation is different. Yet training and growing the spiritual asset is a key resource in small companies. As a result of Loane’s study I would state that all companies are facing environmental and competitive pressures. Depending on the state of e-commerce and internet offering of the company various activities can be enabled. Internet and e-commerce offer a chance to easily find extra resources of aid for technical and cultural problems. It is vitally important for companies operating in e-business environments to understand complex environment of internet and its implications for future.

Ahokangas & Myllykoski (2011) point out that internationalization with internet brings new things into traditional business. It is easier than before for companies to cross borders, on the other hand, competition has become harsher, collaboration and subcontracting have become global, adoption of innovations has become faster and dependence of markets on each other has lessened. The thoughts presented by Ahokangas and Myllykoski aggregate the views of many of the writers introduced above about the influence of internet on internationalization. To simplify, I would state that chances have enhanced but competition become more severe.

2.4 Conclusion of Internationalization of SME, BG and E-Business

The market area is changing all the time, people are more and more conscious of using internet. When old days’ products were transported with ship, it took few months to get the order ready. Messages are sent via internet really fast and branches can be advised from the headquarters by internet. (Loane 2002)

When it comes to the definition of Born-Global and e-business we can say that these terms and phenomena have much in common. Born Global enterprises usually have
highly educated owners. In Born Global companies people see that their market place is the whole world. Born Global companies are flexible and fast in reacting to changing situations. The key mission is to get in to the international market as fast as possible after setting up the company. (Vahvaselkä 2010:33-37)

E-business is a business built in internet. Companies that have a stable footing in e-business are flexible and their personnel are aware of the internet. All authors indicate that all companies involved in e-business are in fact either born global or internationalizing very fast. A reason for fast internationalization is the open market area which covers the same area as the internet. Whether a company is a born-global or going to internationalize very fast the foundation of the company are skillful people. That is why in both cases people in companies are key resources.

The traditional way of internationalizing has been criticized for concentrating on only part of the company’s strategy. In business life the internationalization can not be an external component in a holistic business strategy of the company. Uppsala model concentrates too strongly on the product while the meaning of services in exportating is increasing. (Axinn & Matthyssens 2002) The writers see that problematic in Uppsala model is also transferring of the knowledge from one country to another when internet companies who are mostly operating in internet and are not dependent on cultural differences, relationships or special features of the target country, when knowledge is available in internet. Still remarkable parts of the companies need personal relationships supporting their businesses, like customer service, expertise, personal salesman and in delivery process. Companies who are not strictly involved in e-business need have still advantage on having personal relationships, knowing the culture and habits of the target country, and can not say there is no room for the theory of the Uppsala Model nowadays anymore.
3. BUSINESS MODEL

The second research question of my case study was to study what is the business model of a small Finnish company at preparative stage of internationalization. The empirical data was collected based on a canvas model by Alexander Osterwalder (2010:1-2). Osterwalder approaches business model by constructing a map. In the following chapter I will go through the business model trying to find similarities and differences between Osterwalder and other authors. Different points of view are searched from various researchers, the key idea was to create a simple and understandable way of seeing a business model.

3.1 Concept of Business model

When speaking about business models it is paramount to understand what business models are. Researchers speaking about business models have different perceptions of business models. It is challenging to keep the model and context so simple that all involved in the discussion are on the same level of understanding. (Osterwalder 2012:3) There is no clear conceptualization for a business model says Onetti et al. (2010) and suggests that there are as many business models as businesses. They also warn about mixing the concept of strategy and business model. These authors see that it is reasonable to make an effort on making a clear distinction between the concepts of business model and strategy. Where Osterwalder (2010), Chesbrough (2010) and Teece (2010) have a clear practical proposition of what a business model is, Onetti et al. (2010) approach the issue from the points of view of focus, modus and locus.

Teece (2010) writes about the essence of business model and emphasizes that a business model is the way in which the enterprise delivers value to customers, lures customers to pay for the products of the company and transforms those payments into profit of the company. According to Teece (2010) business model approves the hypothesis of the management of a company of how customers are found, what they
want, how they want it and how the company can convert these factors into positive profit in balance sheet.

Osterwalder (2010) speaks about nine building blocks. Chesbrough (2010) writes in his article that IBM has been an early leader in component business modeling. The model of IBM was constructed of the same cornerstones as the canvas model. The blocks are divided into four different segments which are customers, offer, infrastructure and financial viability. The Book Business Model Generation likes to give a picture that a business model works as a blueprint for the company, combining organizational structures, processes and systems. When thinking about the meaning of a blueprint of the construction, it is easy to seize it is vitally important. In the same way Osterwalder brings out the importance of a business model for a company. (Osterwalder 2010: 16)

Chesbrough (2010) argues that a business model imposes a firm between suppliers and customers. It also identifies potential competitors and substitutive technologies. A business model also formulates the competitive strategy of how a company can form a constant competitive edge when struggling against competitors and keeping the first mover advantage.

Onetti et al. (2012) see that globalization encourages firms to be more competitive and more innovated. In technology-based companies that tolerate flexibility, rapid increase and strong entrepreneurship cannot remain without an influence of globalization. Onetti suggests that a solution for withstanding rapid growth and perpetually changing markets is to create a business model based on modus, locus and focus. Locus means the place where business is executed. Locus also includes the path of internationalization. Focus is the key idea of how to build a workable business model and how money is transferred from customers to the enterprise. Modus means the way that the business model is executed and how resources are allocated. (Onetti et al. 2010)

Various authors have different ways of approaching business models. Generally all of them describe it as a tool how to make a business is succeed. Onetti et al. (2010) have a little bit wider vision towards a business model compared to other authorities.
All the authors however see business models as a crucial part of business or a life cycle of new technology.

3.1.1 Value creation to the customers

Customers are at the heart of business and a requirement of profitable trade. They are the most significant part of a business model as well. In order to satisfy customers, companies used to classify them into different segments. Reasons for different segments are to offer right goods or services to right customers. It is also important to know who the customers bringing money to the company are and who are the unprofitable customers that should be avoided. (Osterwalder 2010: 20)

3.1.2 Customers according to the business model

The main question concerning the customer segment is first to understand who are the customers and then how to serve them as well as possible. When a company starts thinking about different segments they have to find differences between potential customers. After understanding who are the customers to be contacted the next step is to find the right distribution channels to reach those customers. Different customers and channels require different relationships and companies have to be conscious of all potential partners and devices that are needed in reaching those channels and customers. The most important issue for the company is to find through channels and segments the customers who enable profitable business. For customers it is important to find the services that bring them the most added value and which they like to pay for different aspects of the product. (Osterwalder 2010: 20, 27)

According to Chesbrough (2010), the business model identifies who are using the technology. Who are the paying customers and how are these customers who are ready to pay for the goods of an enterprise. Chesbrough sees the customer as a meaningful part of a business model. The thinking about customers from Chesbrough is in line with that of Osterwalder.
When trying to reach very specific and specialized customer segments a niche market strategy is used. Value propositions, distribution channels and customer relationships are targeted at a certain group. Examples of niche markets are found in car part manufacturing industry, where they are dependent of purchases from automobile manufacturers. (Osterwalder 2010: 22-29)

A company can have customers who are in the same market segment but still have different needs and problems. For example in the banking sector in Finland it can be seen that people who own a lot of money are in the same segment as customers who have more than 100 000 euros money. (100 000 euros is a limit for that you can be served by the private banking teams.) (www.tapiola.fi) Both need the same banking and financial services but people who are more valuable customers for company merit private services. (Osterwalder 2010: 21)

In diversified customer business models two totally different groups of customers are served at the same time. In his book, Business Model Generation, Osterwalder (2010) writes about a company, Amazon, which is one of the biggest internet based stores. Amazon needs a very high level IT infrastructure and when they noticed that they had extra server space to sell, they also started to sell online storage space and on-demand server usage. They were able to execute this by a very powerful IT infrastructure. (Osterwalder 2010: 21) Chesbrough (2010) has similar thoughts. Mediocre business combined with a successful business model yields better results than unforeseenly brilliant technology coupled with average business model.

3.1.3 Value propositions

Onetti et al. (2010) bring out that value proposition is not definitely a part of the business model. According to their study value proposition is mentioned in only few business model theories. As an argumentation Onetti sees value proposition as such a comprehensive part of the business that it fits better in the part of the strategy. Chesbrough (2010) and Osterwalder (2010) see that value proposition is at the heart of a business model. In the Osterwalder’s canvas model value proposition plays an important role. Onetti al. (2010) see that value proposition is a part of the modus of
the company and when it has been risen to the business model it has gotten too much attention.

According to Chesbrough (2010) a business model articulates the value proposition. Chesbrough is speaking about the value proposition which is offered through new technology. While Osterwalder sees that value proposition is improved by better service, Chesbrough emphasizes that new technology is the way to develop the value proposition.

Value propositions are a way to lock customers to buy products or services from one supplier over another. It is a way to solve customer problems and serve them in the best possible way. Value propositions retain a bundle of different solutions, services or products. It is said that the value proposition is the tie which keeps the supplier and customer together. (Osterwalder 2010: 23)

There are lots of different value propositions, others are qualitative, for example design, feeling and customer experience and others quantitative, like price, speed of service or guarantee. Newness means that a company has something that is better and newer than that of the competitors’. This phenomenon has often been seen in mobile phone business. Value proposition is also many times highlighted by performance. For example in the PC sector, manufacturer has ventilated faster PCs with more disk storage space in better graphics environment, but the improved performance looks like it has gone its way to the end. (Osterwalder 2010: 23)

In customization a company concentrates on certain segment of customers in order to have special knowledge about them while simultaneously having the advantage of economies of scale. Osterwalder also speaks of the issue “Getting the job done” meaning the whole service. (Osterwalder 2010: 24)

Suppliers do not only offer products but also take care of maintenance of their goods. Brand and status can be a very strong bond between a customer and a company. For example a watch from Rolex signifies wealth and success. Convenience and usability mean making things easy to use for the customer. The CEO of Apple, Steven Jobs, really understood this and said it many times in his autobiography that the most important things, which he wanted to export to customers, were easiness of use and totally beautiful design. (Osterwader 2010: 25) (Steve Jobs 2011)
I do not see a problem in locating a value proposition into a business model. I understand that it is larger part of a company’s business than an element in a business model, but when the business model is serving the target customer, luring them and tying long range customer relationships; value creation is a key lock between company and customer.

3.1.4 Channels

Channels in the business model tell how the value proposition is delivered to customers and how different customer segments reach value propositions. The interface the customer experiences is formed through communication, distribution and sales channels. Channels have different tasks among customers. Channels are simply a way to reach customers and bring them the company’s value proposition and ask them what they want to buy. (Osterwalder 2010: 27)

There are many important questions regarding channels. Which channel do we choose to reach our customer? How do we do it now? How are our channels deviant from the ones of our competitors’ and are these channels integrated to each other and do our customers understand that? Which one of the channels is currently working best and how could we improve our channels? (Osterwalder 2010: 27)

According to Osterwalder channels have five distinct phases. Channels can be created by the company or with a partner. The task of channels, whether they are direct or indirect, is to bring the value propositions to customers. Channels can also be mixed channels being composed of both direct and indirect channels. Direct channels mean that the company owns the channels. This means an own website, own direct sales or for example own electronic commerce. Indirect usually means that the company has a third party to help them to increase sales. Experience and skills of a partner usually ease getting new market and strengthening sales force. The dark side of indirect selling is that it lowers margins. Own channels and especially direct ones enable higher margins, but take resources while being erected. The
challenge is to find a balance between direct and indirect channels to maximize profits. (Osterwalder 2010: 27)

3.1.5 Customer relationships

Customer relationship describes the relationship between a company and a customer. There are different relationships; they vary from personal to automatic relationships. Customer relationships have many dimensions; for example acquisition, retention and boosting sales. For example, when a mobile network operator offers a free mobile phone when customer buys a subscriber connection, we are speaking about acquisition. Customer retention happens when markets are saturated and most of the customers are reached and a company tries to keep all its customers. Advertising and marketing are examples of boosting sales. (Osterwalder 2010: 29)

When speaking about customer relationships we have to understand what kind of relationships our customer segments expect from us. Personal assistance is based on relationships between human beings. This type of relationships can be executed through phone or a personal meeting. A deeper model of personal assistance is dedicated personal assistance. Personal assistance is used when a customer is really profitable and the relationship is supposed to last long time. (Osterwalder 2010: 29)

In self-service customer relationships there are no direct services at all. In this model it is possible for the customers to do everything by themselves. A more advanced level of self-service is automated service. Every customer is treated individually. Automatic systems recognize customers and serve them very carefully. At the best level an automatic relationship works almost like a personal relationship. (Osterwalder 2010: 29)

Nowadays more and more companies develop communities for their customers. Communities help customers to share knowledge and the company to find new ideas. Co-creation is a way to harness customers to be a part of a developing team of a company. The best example of this type of a company is YouTube. In YouTube the
contents are created by customers and the company only maintains the infrastructure. 
(Osterwalder 2010: 29)

3.1.6 Revenue stream

“Traditionally the media industry and event organizers relied heavily on revenues from advertising. In recent years, other sectors, including software and services have started relying more heavily on advertising revenues.” (Osterwalder 2010: 31)

Chesbrough (2010) sees that a business model is a detailed revenue mechanism. It describes in an exact way the mechanism by which the revenue is delivered to the company.

Revenue streams mean the cash flows that the company earns from its customer segments. If it is said that a customer is at the heart of a business model, the revenue streams are the arteries of the body where money flows from heart to body. Revenue stream is a tool to understand the cash flows earned by different customer segments for the company. Every revenue stream is a specific pricing mechanism. The price can be a fixed list price, dependent on market, auction etc. The revenue streams result from one-time customer payments but they can also be long lasting on-going payments. More and more companies have adopted business models where customers are partners and selling and buying are continuous projects. There it is seen that revenue streams cannot be calculated only for one time. (Osterwalder 2010: 31)

Again we are in front of the same question, customers. What are the value propositions that our customers are willing to pay for and what are they paying for the company at the moment. What is the way they pay and are they content for that. What is the role of one revenue stream among others? (Osterwalder 2010: 31)

In e-commerce money comes from trade executed in internet. For example cash flow is dependent on how many customers have spent time on our website. For companies acting in e-commerce the most important revenue streams comes from internet and various money transfer services in the internet.
3.1.7 Key resources

Onetti et al. (2010) writes that key activities in today’s management are control of time, space and network relationships. Authors criticize that in traditional corporate strategy these issues have been forgotten. Today these dimensions are well presented in entrepreneurship literature but not in practical business models.

According to Osterwalder, building blocks show the most important resources to make a business model work. Key resources enable offering a value proposition, reaching new markets and maintaining customer relationships. Key resources are dependent on the type of a company’s business model. The size and the industry of the company have an influence on what are key resources. Osterwalder (2010) states that there are various key resources. Different resources described by Osterwalder can be physical, financial, intellectual or human. Key resources can be owned by the company itself, be leased from some other company, purchased or acquired from competitors. (Osterwalder 2010: 35)

3.1.8 Key activities

Key activities differ in different kinds of companies. For Microsoft a key activity is to develop new software, for McKinsey it is to solve problems. Key activity has an impact on all other parts of the business model, in other words, a key activity describes the most important issues to make the business model work. If you want to understand key activities you have to know what key activities a particular business model requires in order to make value propositions, distribution channels, customer relationships and revenue streams to work. (Osterwalder 2010: 37)

Chesbrough (2010) sees that a business model is also a part of a value chain. In a value chain there should be offerings and complementary assets which support the position of the company in the value chain. Key activities are a way to keep the position and to develop it.
According to Osterwalder (2010) there are different kinds of key activities. Production activities relate to designing, making and delivering products with high quality or with large scale. Problem solving activities include offering new solutions for customers. These activities are highly related on showing customers something new or organizing customers’ activities in a new way. These activities are mostly based on knowledge management and continuous training. (Osterwalder 2010: 37)

When Onetti et al. (2010) say that management of time, space and network relationships have been forgotten nowadays, Osterwalder (2010) brings practical suggestions on how business models are tuned to make the business work better. A crucial part of this process is the management of the company who finally makes the decisions about where they want to take the company. Chesbrough (2010) also pointed out that through successful business models enterprises are able to gain more profit. He added that with active pondering new businesses can be found among old ones. Finally, the purpose of a business model is to create a successful business. Osterwalder (2010) and Chesbrough (2010) have risen up various tools to organize a business where Onetti (2010) wants to divide it through locus, modus and focus dimensions.

3.1.9 Key partnerships

Vahvaselkä (2009:33) writes that one possible way of expanding to new markets is partnering based internationalization. It is clearly seen that when a company is thinking about a potential partner from new markets the dimension of key partnership is very strongly emphasized.

According to Osterwalder key partnerships describe the network of suppliers and other partners that make the business model work. Companies build partnerships for many reasons and partnerships are more and more important all the time, cornerstones of their business for many companies. With partnerships companies reduce risks, optimize business models and acquire resources. (Osterwalder 2010: 39)
Osterwalder (2010) distinguishes four different types of partnerships. The first is a strategic alliance between non-competitors. On the other hand a company can formulate a strategic partnership with competitors. When a company is aiming at new markets a joint venture could be the best possible way to create new business. Importance of buyer-supplier relationships must not be forgotten to ensure a successful relationship between a company and its suppliers. (Osterwalder 2010: 39)

When it comes to business models and partnerships, companies have to understand who are the partners. Firm should as well be aware of who the strategically important suppliers for our company are and what resources we could find from our partners. (Osterwalder 2010: 39)

Osterwalder (2010) divides partnerships into three different types. The first sector is optimization and economics of scale are often built to ignore pointless waste of resources or futile actions. It is often illogical for a company to own all resources. Optimization involves sharing infrastructure and outsourcing actions which are unprofitable and do not include critically important information. When speaking about risk reduction and uncertainty it is often led to strategic alliances. It is a common feature that companies who are competing in some other business can collaborate in some other business. When it comes to acquisition of particular resources and activities, it is a question of a divided business model. Even though every company has its own business model, some parts of the model can be divided. Capabilities can be extended by acquiring knowledge, licensing some products or services and having better access to customers. For example a mobile phone manufacturer may license production of handsets instead of producing them by itself. (Osterwalder 2010: 39)

3.1.10 Cost Structure

Osterwalder (2010) writes about cost structure that it describes the most important costs incurred while operating under a particular business model. The block cost structure takes into account the acts of creating and delivering value as well as maintaining customer relationships and generating revenues from these actions.
Costs are results from key resources, key actions and key partnerships. Cost structure plays an important role in business model. For example some companies like Ryanair have based their business model on low cost structure. (Osterwalder 2010: 41)

Also Chesbrough (2010) speaks about cost structure as a part of business model. Business model estimates the cost structure and make an enlightened guess about profit potential. When investigating cost structure the following issues should be cleared. What are the most important costs related to our business model to make the business profitable. Which of our key resources and key activities are most expensive? (Osterwalder 2010: 41)

According to Osterwalder (2010) costs should be minimized in every business model. In cost-driven companies the cost structure is minimized in every field of business. Every possible function is outsourced if it is profitable. The company only takes care of the key business. In value driven companies the value of a product or service is appreciated higher than the nominal price. Companies concentrate on serving their customers in the best possible way. For example luxury hotels use value driven cost structure. (Osterwalder 2010: 41)

Fixed costs also consist of fixed costs, variable costs, economics of scale and economics of scope. Fixed costs consist of costs that do not change despite of changes in volume of goods and services. Typically fixed costs are salaries, rents and physical manufacturing facilities. When it comes to variable costs there are costs that vary depending on volume of goods and services. For example music festivals are highly dependent on the amount of visitors. Economics of scales mean that a company has advantage from producing huge amounts of the same product. On the other hand economics of scope take advantage of a larger scope of operations. (Osterwalder 2010: 41)
3.2 E-business and business model

Ahokangas & Myllykoski (2011) raise into discussion an issue called “internationalization” where both e-business and internationalization are joined together. Internationalization can be seen as an entry for internet start-ups and companies that relocate their business into internet, which is captured in term internetization (being internet-like). The internet offers new windows of opportunity for creating customer relationships, maintaining them, creating new channels and acquiring new suppliers. The world wide web affords a new operation environment where it is possible to cooperate, trade, create communities and networks and business models. Internet enables developing new value chains for companies. The internet as a market is challenging, it is regarded as dynamic, an environment with high-velocity, the predictability of which is low and volatility high.

Zott et. al. (2011) argue in their article about four dimensions of a business model: first business model is going to be a unit of analysis, second business model explains how the firm does business, third business model captures all the strategically important activities of the business and fourth business model explains how value is created. Author continues with business model and internet. The definition of e-business is, according to the writer, to do business electronically. It consists of e-commerce, e-markets and internet based business. To simplify, when there are commercial transactions with business partners or buyers over the internet we can speak about e-business. Usually websites play very important role in these companies.

Chesbrough (2010) writes about business models and new technologies being inseparable. According to Chesbrough mediocre technology connected with successful business model is more valuable than great technology with worthless business model. Technology has no objective value. Value comes when technology is launched via a business model. The same technology can be launched in many different ways. The same technology can be launched successfully or it can even fail. Technology launched successfully can bring more value than has originally been expected. On the other hand the most brilliant technology can be damaged with a badly planned and executed business model.
As Oviatt & McDougall (1994), also Amit & Zott (2001) have written about fast change of environment in e-business. Advantages in communication and information technologies have diminished the cost of communication and computing and the time it has taken before. Now there is a totally new infrastructure and architecture in companies. New culture has no boundaries and exists throughout the world. This has enabled developing new boundary-spanning business models inside a company and inside an industry as well. Brynjolfsson & Hitt (2004) add that a business model that goes over borders takes into account both customers and suppliers.

Arenius et al. (2006) notice they have showed how internet can help to lower liability of foreignness and resource scarcity, and thus make the speed of internationalization faster. They also propose that internet can affect the international intensity and global diversity of knowledge intensive firms by increasing both of these. Use of internet can compensate for a lack of massive international experience and business development. Arenius et al. (2006) state that internet can be a simpler way of internationalization and marketing in international business. For example there is no need to be physically in touch with the customer if internet is used. The writers see that internet has two different impacts on a company, on its international marketing operations and sales channel strategy. Internet will assist in operating functions conducted overseas, for example sales and marketing of subsidiaries in want-to-go markets. They also reckon that it is even possible to base sales and marketing of the company of countries where substantial time difference is high into internet.

3.3 Internationalization and changes in business model

Linder & Cantrell (2010) write in a very fascinating way of business models and how they are like carved in water. Writers point out that there is no sense in claiming that old rigid organizational structures are too slow in reacting to the constantly changing no-time-to-think environments. Instead, writers suggest that the best firms change business models fluidly without changing organizational structures. Writers define business model as the core logic of how a firm wins the customer, lures the investors and earns profits. In a company there are different models for different units but there
could also be one coherent business model covering a holistic picture of the company.

There are four dimensions in which the business model stretches when it comes to internet says the authors. Writers see that internet is not a business model. Reason for this is that there are so many different companies. For some of them internet is totally important place to make business, while for someone else it is only an ad-hoc service. Authors were wondering if companies should change business models when they start to use internet. Internet is a natural part of business for some companies, others it offers huge possibilities and for gas station for example it does not matter whether it is on the internet or not. However, they see that internet can speed up the pace of change of a business model. In worldwide markets there are more competitors and more are born all the time. Internet also lowers barriers and enables acting together with one or two problems over the boundaries.

When it comes to changes in a business model Chesbrough emphasizes that a poor business model can destroy an amazing technology or innovation. According to a study of Chesbrough one of the most successful business models was built around the finding that the more people copy and print papers the more Xerox made profit. This was based on the amount of sold tones and papers. The key idea was to trust a new business model and to start using it. Xerox produced printer and copy machines as effectively as possible. Based on the same business model were developed instructions on how to correct printers and copy machines without calling service. Again more printed papers and thus more profit for the Xerox. In the same way we can say that a well-made business model can support internationalization process of a firm.

Zott et al. (2011) write that according to their studies a business model is not only a value proposition or a net of relationships nor a description of revenues but it is all these elements together. Björkdahl (2009) writes that when a firm has a new technological innovation, it needs a new way and place of operations which means that it needs a new business model for new technological innovations. Björkdahl’s article has been titled Fertilizing Technology with Business Model. This tells about the prominence of the theme.
Vahvaselkä (2009:31) writes that when a young company aims at global markets definitely after inception it means that all dimensions concerning business model are recruited into supporting internationalization. In the organic path of internationalization, like in Uppsala model, effects on business model are not very powerful. In that model new customers in abroad are served according to the old modified business model. However the business model has to change. When developing new business models, managers should always take into account the customers in new markets; how to organize channels, fulfill value propositions, acquire resources needed and have assets good enough to take these risks.

When a company chooses internationalization by partnering, business model changes more dramatically. Especially key resources and channels should be re-evaluated. Practically the whole business model should be lifted to the new standard and investigate how to prepare for the internationalization through every different dimension. All the changes should serve the internationalization process. Companies which have aimed at the global market since their inception have built their business model to serve global markets. Internet plays an important role in many of them. Channels are organized through internet and human resources are skillful and experienced in international business. Business model does not change dramatically because it is ready to serve needs of an internationalized company.

When observing internationalization through business model we see that the business model of a company does change if a company is not born global. Scrutinizing a business model very carefully helps a company to be ready for a successful internationalization and face the risks which internationalizing entails.
3.4 Theoretical framework

Picture 1. Internationalization at the preparative stage

Picture 1 summarizes the theory chapter. At the heart of the picture are the elements of the business model processed in the theory chapter. At the left end of the picture there is the company tied into its operation environment. At the top of the picture are the selected theories of internationalization. Internationalization theories include theories treated in the theories section and are the theories I have selected as the foundation for mulling over on small and middle-sized Finnish companies’ internationalization processes. As a whole the picture covers the environment from which the company makes an effort from, the form and objectives of the company especially on the part of internationalization. The company develops the basis for the business model. The distinct elements of the business model are created according to the environment, company and model of internationalization. In my research I will be concentrating on finding the idiosyncrasies that take place inside the business model after the company actively starts thinking about internationalization.
3.4.1 Company and environment

Most important in internationalization is the company. The most important about the company is their internal motivation. While thinking about internationalization a key role is played by a motivated board of directors, international experience and high education. The size, industry and conformation of the company have an effect on the process. (Loane 2002, Vahvaselkä 2009, Forsman et al. 2010). Language skills and familiarity with the target country markets have a positive effect on the internationalization of the company (Johanson & Vahlne 1977). The willingness of the company to embrace and harness new technics have a remarkable influence on starting of internationalization. Companies operating in software industry, biotechnology or with hi-tech products are fast at assimilating new means of reaching customers outside the borders of their own country as well. (Oviatt & McDougall 1994) The significance of the environment for a company is substantial. Companies that are naturally engaged in e-business or whose business takes place in internet are inherently international. The operational surroundings of a company is not a constant state and especially internet has had a powerful impact on the relevance of the ambiance. (Loane 2002).

Internationalization theories can be listed from left to right. The models are arranged based on the rapidity of the process. Uppsala-model represents a traditional way of internationalization where new markets are approach in a riskless way and projects advanced after experience accumulates. The goal is to start internationalization on markets that are physically and psychically close, where culture, language, money and operational context are known. In Uppsala-model the business run in home country is first stabilized. Practical activities create a solid space for the company in a new country and the company is able to gather market experience for conquering new markets. (Äijö 2009, Vahvaselkä 2009, Forsmann et al. 2010).
Partnering-based model of internationalization is based on internationalization of the company with a partnering company. While approaching new markets the company looks for a partner who has the competence that is needed for a successful occupation of the new market. The company may for example have a very strong product which is suitable for the market but no experience about markets, sales channels or relations to authorities. In this kind of situation the partnering company is able to bring the assistance needed and thus make the internationalization process happen faster than in the case the company was building their networks by themselves. Internationalization with a partner requires capital and it has a risk of losing their own know-how to the partnering company. Born Networked-model refers to a company that attempts to be networked since its establishment and which builds their operations on various relations. (Vahvaselkä 2009)

Internationalization in internet, which is called by Ahokangas and Myllykoski (2011) enternationalization, stands for a company that internationalizes through internet. Internet makes the market of the company. With internet it is easier for the company to reach high levels of customers and tell about their company than before. Via internet national borders are lowered and companies work just like on common large markets. It is possible for a small company to have greater visibility with small unit costs. (Loane 2002, Fillis & Wagner 2005, Oviatt & McDougall 1994).

Born Global-theory is based on a way of internationalizing where a company aims at becoming international since it is established. Founders of Born Global-companies

Figure 1. Basic Mechanism of Internationalization (Johanson & Vahlne 1977)
usually have high education. Their products are generally related to hi-tech and software industry, thus their research & development costs are relatively high. Born Global-companies often sustain with a tiny market space, so called niche-markets. (Vahvaselkä 2009).

Business model consists of nine distinct elements, which are at the centre of the figure in the picture 1. The blocks are divided into four different segments including customers, offer, infrastructure and financial viability. Blocks investigating the standing point of the customer are customer relationships and customer segments, supply is described by value propositions and channels, financial aspects are depicted by cost structure and revenue stream, key partnerships, key activities and key resources stand for infrastructure.

Figure 2. Business model canvas. (Alexander Osterwalder 2010:2-3)

The theoretical framework has been built to answer the research questions; what are the special traits of internationalization of a Finnish small or middle-sized enterprise and what must be taken into account from the point of view of business model at the time of internationalization. Internationalization is related to the capacity of the company to take risks and the level of motivation of the managers of the company. Issues arising from the company, operational context and the attractiveness of the markets have an effect on the rate of internationalization for the company. The theoretical framework has been made to include the most applicable theories of
internationalization from the point of view of a Finnish small and middle-sized company.

The business model of a company will be challenged when it starts thinking about internationalization or takes the first steps towards global markets. The nine building blocks of the theoretical framework are compiled of the critical activities of a company and are influenced by the business model and the means of internationalizing selected by the company. Business model is a flexible concept that stretches on the course of the advancement of the internationalization activities of the company. The prospective internationalization of the case company will be examined with the nine building blocks as tools.
4. METHODOLOGY

In a qualitative research you may build your results very open-mindedly. You have to find a workable balance between your own analysis and material being explored. While writing about results remember to tell the most important findings. (Hakala 2008:213) In this chapter I will try to answer my research questions by analyzing the workshop or training session with the CEO and the developing manager of my case company. The workshop was kept in a room of the company. Introduction to the case company will give an overall picture of the company.

Empirical data of my study was collected with workshop from the case company. I introduced myself to the company by following their activities during one month. During this month I familiarized myself with the structure of the company, employees, customers and business environment. After this month we agreed upon a meeting where I gathered the material. The session took us two hours and was kept in classroom. According to Hirsijärvi et al. (2009: 134) a case study is a detailed and very intensive examination of a singular case or a small group of issues concerning the subject of the study very tightly. I had open questions concerning the company and questions about internationalizing. After I draw the business model canvas according to Osterwalder (2012:18-19) and we filled the canvas with CEO and developing manager. The questions and the transcription are seen in the attachments.

4.1 Baseline for Methodology

Hirsijärvi et al. (2009) write that a qualitative research study requires by its nature comprehensive data collection and the data is collected in natural, realistic situations. In this study is used qualitative research methods and abductive reasoning. Abductive reasoning means that theory and empiricism are in dialogue with each other and it is usual in qualitative research (Rahkolin 2011:42). The research plan is in process during the study and lives by the study. Data collection, analysis,
interpretation and reportage are interwined and interpretations are made during the research process. (Eskola & Suoranta 1998: 15-16)

In a deeper level we could say that the case analysis was a half structured study. Collection of data was executed by an interview. Hirsijärvi & Hurme (2000) speak about half structured theme interviews where interviews proceed by following a crucial theme. (Hirsijärvi & Hurme 2000: 48). In a non-structured study there are no ready-made questions but the interview progresses by feeling and situation. A structured interview is executed by following a form. In my study there were forms which I made before the interview, but when we were at the workshop it was executed by following the natural discussion guided by me. (Hirsijärvi et al. 2009: 209)

Attendance of examinees is crucial in most qualitative studies. Working in the field is a special way to get into touch with the examinees. (Eskola & Suoranta 1998: 16) Objectivism is born actually through recognizing researchers own subjectivity. In qualitative research non-hypothesis means that the researcher does not have a certain pre-hypothesis of the target of the research or the results of the study. Of course we have to remember that we build new consciousness on old awareness. In qualitative research the researcher should be surprised or learn during the time of writing. (Eskola & Suoranta 1998: 19) I have no pre-assumptions about my study and I hope to learn from the research phenomenon as much as possible. An internationalization of a company is always a very special happening and in my study observing it through business model I have no pre-assumptions of what the results could be. I chose the case study as the form of my study because I wanted to have very special knowledge about the matter. A case study is, as the name says, a study where only one or maximally some cases are being examined. Case study is used when special knowledge is needed. (Hirsijärvi & Hurme 2000: 58)

4.2 Introduction to the case company

My case company has its origins in a hunting-related board game. The game was made with Metsästäjäin Keskusjärjestö in 2005. It is a game for people interested in
hunting and hiking. It became very popular among this population. The case company realized that a game is a powerful way of sharing knowledge and wanted to develop more of them. A traditional board game was pretty soon transformed into an internet-based game and the company was born in 2007. (Case Company Website).

What distinguishes my case company from all other companies on the field is the business concept or format of them. The games have been created for having fun at leisure time. The games have been created for increase of information and learning. They want to be able to educate people in a fun and amusing way. The purpose of the case company is to make people aware of various issues and phenomena and educate them with games. This is an alternative way of approaching things.

The case company has been profitable since 2007. It has been profitable since its inception. The company has been only operating in its own business area, games. In terms of company growth, the last three years have been stable. The main obstacle for growth is a lack of competent staff in sales. At the moment there are ten people working in the company. A future goal for the company is to expand sales by recruiting new people.

The company has recruited a new development manager who is responsible for the growth, sales and marketing of the business. Today, the company is one of the biggest providers of internet-based quizzes. The company aims at being an internationally known player at know-how games. Increase in sales in Finland, launching of new products and development of marketing efforts are responsibilities of the development manager as well as the managing director. To succeed in internationalizing the company has employed an expert in the area for exploring and planning internationalization in chosen countries.

At the moment the company only has a couple of top product games. With one of these games inhabitants of municipalities get to know their communities and local companies with a new intriguing way. The game incorporates information about the community and business life surrounding it. The other game is a means of marketing for a company where people contest with knowledge about a company and get to know it in the company's marketing space in internet. The latter game is also a means of communicating to workers inside of a company.
The best players are rewarded by communities or companies to motivate them to reach for even higher scores. The third business area is quizzes for schools and other institutions of education. School quizzes educate people on the schools or institutions, the programs they have to offer etc. School quizzes make people learn while playing, which is more fun than traditional means of educating. Children and adolescents spend more and more time in internet. The case company’s aspiration is to focus their interest in learning and exercising intelligence in a fun way with games developed by them.

4.3 Research on Preconditions of Internationalizing

The study on the prerequisites of internationalization of the case company was started with Oulu University. It will be a Pro Gradu-thesis. The study is a theoretical examination combined with an empirical study on a theme interview. The results - the thesis - will contribute to strategic planning of international business activities of the company. A special emphasis of research will be on changes in the business model of the case company while it is becoming international. In the study the biggest part will be played by business model. We believe this will clarify the principles of strategic planning for the company in its search for growth.

4.4 Research design

The study of the prerequisites of internationalization will be begun with an analysis of the current business model of the company in Finland. This will be done with an internationalization expert. After I have outlined an understandable picture of the current domestic business model of the case company I will proceed to sketching and reflecting on the new international business model.

There are several studies on business models and I have presented them in depth in the theories section of my study. The business model that I have selected as the unit of analysis for my thesis consists of nine elements that can be found in any company.
Companies seldom consciously build business models for their companies or analyze their activities from a point of view of a business model. A business model, however, is the blueprint of the company’s business activities, a collection of its tools of making money. We can almost say that every company is managed by some business model, consciously or unconsciously.

The business model I have chosen as the unit of analysis of my thesis is divided in several segments. In customers group there are customer relationships, customer segments and value proposition. Delivery channels and key partnerships are the starting points of supply chains. The infrastructure of the company includes key resources and key activities. Revenue streams of the company indicate where money is coming from and how the costs structure of the company is. Key activities are the company's guidelines and working models for developing the business.

The company's business model in Finland makes key people of the company aware of the way they make business in Finland at the moment. It makes them prioritize issues at necessary fields. After the key people of the company have a decent image of their business model in Finland, they proceed to identifying and developing areas that will be changed while becoming international. At the initial state of research on internationalization the focus will be on chances at Northern Countries. The results will be a basis for research on entering the European market. A natural starting point for international sales will most probably be the physically and mentally close Sweden.

4.5 Relevance of Internationalization

Growth of the company of my case study has been slow during the last three years. The company has, however, started a search for significant expansion of their business and marketing of their products for general public since the end of last year. The company wants to be an international pioneer of games based on knowhow. By investigating opportunities of internationalization the company creates knowledge and comprehension about their chances of becoming an international actor.
Positive publicity and increase in recognizability gained by internationalization are worth taking advantage of in the best way possible. In reality this means more broadcasting and visibility in media. Economies of scale are a vital prerequisite of success in the world of games in the long term. The more the games of the company are being played, the more valuable the brand is. The company has been profiled as an expert in knowhow-games and it aims at becoming a known game house at knowhow-games sector.

The people of the case company know that they will have to put their shoulder to the wheel for international recognizability and growth of the company and brand. A company with a will to meet new challenges and enhance exports of Finnish knowhow to new markets will have to take steps bravely. Internationalization will be mainly executed with incoming money. External support finances and other support activities will have to be maximally utilized.

4.6 Challenges

A main challenge for the case company at the moment is that it is not well known at local markets in Finland. In terms of internationalization a considerable challenge is allocation of resources for local and international markets. What is the portion of resources lost in domestic markets if internationalization is started? At best internationalization is a route to growth, recognizibility and trustworthiness. In our opinion success abroad is a merit at domestic market as well.

I want to point out that there are two fields my case company acts on. The company is a forum for playing, signaled by the trademark of their game environment in internet. The game environment is a place in internet where players are able to spend time by getting acquainted with Finnish communities and learn by games. With marketing solutions from the company managers of municipalities and companies know how many people are interested in their products and who these people are. Also, it should not be a surprise that digital communication and marketing have been rapidly increasing during the last few years.
On the other hand the case company is a software developer, who is able to do content marketing for companies. Contents marketing refers to marketing executed within internet, aimed at being useful, fun or informative. Contents marketing borders on expert marketing which aims at highlighting the expertise involved in the company in question. The case company wants to provide a solution that resolves problems of communication for any company.

4.7 Summary of the case company

In the future we expect our case company to be a powerful international actor in know-how games segment. Internationalization is a prominent particle of the rise of the company. Research on internationalization is a remarkable element of this complex and challenging project. Growth in game industry is rapid and it is predicted to have a prominent role in Finnish exports. There are already various co-operation partners and support networks as well as educated workforce. It is time to take the crucial step towards internationalization.
5. CASE STUDY ANALYSIS

The analysis section relies on the theoretical framework. The material gathered in the case company will be analysed through the theoretical framework. At the analysis stage I will be attempting to make the theory and analysis discuss with each other and thus produce new information. For analysis I will be reading the litterated interview of the managers of my case company with my theory. The analysis will then be trying to generate new international business/business model theory and provide the case company with a recommendation of how to change their business model and which internationalization theory (and strategy) to select to make the most successful internationalization.

5.1 Company

The most important in internationalizing is company. In my analysis I will be treating the role of the company in internationalization and its effects on the internationalization theory to be selected. The size, age, shape and industry of the company play a remarkable role in the consideration whether to internationalize or not. (Vahvaselkä 2009). However, without a motivated management, the company will never start internationalization.

5.1.1 Motivation for internationalizing

Vahvaselkä (2009:61-62) writes that internationalization of a company is often a natural part of growth and development strategies of the company. Also there are many elements concerning the company, like age, prevalent market situation, motivation and language skills. When I was asking why case company should be internationalized the answer was:

“First, our concept content marketing is working in Finland. As we have noticed print media is decreasing when at the same time
technological development is accelerating. And as a result of this, focus in marketing is moving all the time more and more in the internet. It has been like that but we have content marketing embedded in the quiz and we don’t know that the same is in any other country than in Finland. Finland is as a pioneer in these issues and we as a company we have all requirements to go into foreign countries and duplicate our concept and that way offer.”

CEO

Saarenketo (2002:1) point out that in current situation, even the smallest firms face the demands of globalization. This can be also read from the answer of the CEO. All the time more and more companies are involved in raising their international activity more and more rapidly and intensively than they have done in the past. The management team of the case company is aware of these demands, and understanding and adaptation is going to be vitally important for the company, in order to survive and keep growing.

As Vahvaselkä (2009) writes about the natural way to start internationalization also the CEO of the case company see they have all the needed requirements and market situation is benevolent to prepare starting internationalization. Also can be read that industry is ready for that and will support the process.

Loane et al. (2002) highlight the role of owners. Loane indicates that the leaders of the company have to have strong motivation and they have to be well educated. CEO of the company is one of the owners and the level of motivation is high. Only one of the leaders in company has international experience and personnel are not highly educated. Even though leaders of the company are not well experienced in international business, I think they have good motivation to start internationalizing. However there is a question have they prepared themselves with risks of internationalization?

5.1.2 Surroundings and company
My case company operates in an environment which is technologically high-level. The company meets their customers’ demands with contents marketing and the products of the company are physically located in internet.

“so, substance marketing which in fact meets our customers’ demands with games, it works in Finland and in our perception on the other hand with this technological development and then on the other hand with the deterioration of printing media, the focus will be going more in marketing into internet and it has been but in this way”

CEO

Reading the mananging directors’s comment we can see that the company envisions the business of their own industry will be more strictly concentrated on into internet in the future. Also they see that the home country of the company, Finland, is a pioneer in doing substance marketing. Fillis & Wagner (2005) writes that small companies are slow in adopting all possibilities offered by internet. The case company clearly understands opportunities brought by internet but they are insecure about how it would be most effectively put into use.

5.2 The internationalization theory selected

The traditional theory of internationalization (Uppsala-model) is based on riskless advancement of the business into a physically and mentally prominent (close) country. (Johanson & Vahlne 1977) The primary operational environment of the company, however, and Axinn & Matthyssens write in 2002 that internationalization models based on physical distance will lose in significance as a-business becomes more widespread. The world will be culturally more homogeneous independently of country or nation. Based on the information gained in the workshop the starting point for internationalization for the case company is to start internationalization from Sweden and proceed to wider Europe through Sweden. Their perception of internationalization follows quite strictly the Uppsala-model, which means starting from a familiar and secure country with low risk and seeing if there is anything more to come up.
Internationalization based on partnering requires a competent partner. The case company is not sure of if they should find an agent from Sweden or a cooperation partner.

“it is that will we find Swedish people who know how to sell this thing in there” CEO

The company is aware the risks of taking a partner and internationalizing anyway. The comment from the CEO well describes the company’s viewpoint.

“culture certainly differences and then language barrier and these issues basically it is possible that a partner steals our concept and goes to do it by itself”

The starting point of the company itself for internationalization is cross-breed of an organic and partner-based internationalization. Take cautious steps into a known neighbouring country which is physically close. According to Uppsala-model they will try to find and agent or a partner with which the business can be established on new markets. On the other hand the company thinks about finding a partner who already has stable sales channels and competence in running the company’s activities in Sweden.

The business environment of the case company is partly located in internet and partly in traditional business. Their games are played in internet but the customers that pay for advertisement time are Finnish and they are contacted via telephone or e-mail. The comment from the Development manager tells about the company’s approach towards internet and opportunities offered by it. Relocating the business of the company into internet is beyond the smallest step.

“It was there like I told you the answer that we are aiming at that foreigners are let to play our games and we offer this same solution for these people from different countries. With substance marketing, was that right.” Development manager of the case company

Playing the same games as Finnish people is possible for foreigners through internet. With internet it can be done quickly and effectively and the only real challenge is the Finnish language, which means that the games must be translated to be understandable for foreign users or be symbolized such that lack of language skills does not inhibit playing.
"It will basically give a chance, meaning it gives an opportunity for a global visibility. If we work in an international way we are able to cooperate with various companies so that they can then be seen there abroad” CEO

With this comment the managing director is chasing the fact that where the substance marketing traditionally bought to Finland has been internationally seen, it brings added value for Finnish companies which thus receive international visibility.

Fillis & Wagner (2005) write that internet has brought substantial advantages for chances of internationalization of a small company. Amplification of marketing operations, fast communication through continents, lowering of costs and finding new resources with internet. We see that the case company has not utilized opportunities provided by internet in the best possible way. If the company was able to deliver their service through internet, connecting customers independently of their location was possible.

“with this technological development and then on the other hand with the deterioration of printing media, the focus will be going more in marketing into internet and it has been but in this way” CEO

The company sees the opportunities of internet and changes in the business environment and chances brought by this development. I would state that the most powerful model for internationalization for the case company feels the internationalization which means internationalization with internet. Relocating the business into internet is risky but on the other hand it enables highly fast internationalization with low costs. The internationalization process of the company could be controlled from Finland on, all other activities being performed via internet.

5.3 Internationalizing through business model

In this chapter I will observe internationalization of the case company from the point of view of business model. Researching case company is challenging when the company is walking in the boundary of internationalization. One foot of the company is in the domestic market but the other is about to jump over the border. It is very
fruitful to collect notifications on how business models live during internationalization. According to Figure 1 the nine building blocks of the business model will be treated from the point of view of internationalization; what must be taken into account before going abroad. In the analysis I will itemize the modifications of the elements in front of internationalization (of the way selected). In the conclusions section I will exhibit the results of my examination within the theoretical framework and display the results for managers.

5.3.1 Resources

One of the dimensions of business model by Osterwalder are key resources. Osterwalder (2010:35) states that people are needed in all companies, but in some companies human resources are the diamond of the business. Especially important they are in knowledge-intensive and creative businesses. In the interview it became clear that human resources are a key resource for the case company. Different internationalization theories emphasize the role of motivated, educated and skillful managers in these processes. (Loane 2002, Vahvaselkä 2009) The managers of the case company do not possess all of these skills.

While thinking about internationalization in concordance with Uppsala-model the worries of the company are the managers have lack of knowledge of Swedish culture and language. The managers of the company lack some of the skills that are necessary for the internationalization process. They will have to rely on external assistants. They have some concerns related to these agents. One of these worries is finding a sales man who is able to convey the idea to the Swedish audience.

While talking about internationalization with internet, what pops up are key resources. Fillis & Wagner (2005) argue that small companies do not have sufficient resources for adopting possibilities brought by e-business, because education and consulting is too expensive. Loane (2002), Onetti & McDougall (1994), Vahvaselkä (2009) and Forsman et al. (2010) write that the most crucial assets in small and medium-sized companies are the personnel resources of the company. Basically, if a company does not have motivation or will to internationalize, it will never happen. If
there is motivation to be found, the company needs expertise and experience. Vahvaselkä (2009) writes that companies that are born global are usually led by people with high education or lots of international experience. In my case company there is internet-related experience in a very limited manner. The products of the company are not globally zenith and thus wider competition was a challenge at international markets. More resources were needed for developing applications and games, which means competent work force.

As a conclusion Vahvaselkä (2009), Forsman et al. (2010) and Loane (2002) highlight the role of owners. They state that interest by owners for internationalization is not enough for a successful launch or flight at foreign markets. The leaders have to be highly educated in their area of business and expertise, and have a sustainable vision of one global market place. To reach a global market and to meet the increased competition more human resources might be needed. Expertise was probably needed for internationalizing through internet but also for creating more attractive products to respond to enlarged competition in internet.

5.3.2 Internationalization through key activities

Key activities of a company include the daily routines the people of the company perform in order to sustain in the future. There are several of them in every company. They relate to the value proposition, customers and cash flows. For the managers of our case company research and development of their core business activities, games, is important. In my case company key activities, in addition to selling Visas, include developing new software for contents marketing, developing a platform for games from other developers, developing internal reporting for improved steering of activities and visibility and marketing in Facebook. All these procedures are carried out in order to be ready for international trade. Every activity has been built the foreign end user in mind.

The managers: “Yes, we will also have to proceed to the contents developing, so that there is something new coming every year.”

“Games and game variations.”
“Games from other developers.”

“The properties of the games, little steps of evolution so to speak.”

“This 3D will give us head start.”

Vahvaselkä (2009) points out that different companies have different entry strategies. According to Born Global-theory customers are reached via technology. In e-business customer are reached through internet. At this moment customers are contacted via phone or by meeting them. Internationalization with high speed will need concrete activities to reorganize business model and concentrate key activities to improve products and services to respond to challenges of international markets. Key activities performed by the case company to develop their business and prepare for internationalization bring more and more people into internet.

5.3.3 Internationalization through key partners

Key partnerships are the network of the company that makes the business model work. Partnerships are designed to spread risks and reduce insecurity. Only few companies own all their instruments. They usually only do what they do best and let suppliers and partners take care of the rest. Partnerships are also useful in acquiring knowledge and reaching customers. (Osterwalder 2010: 41)

“And then we hope that the partner from Sweden was soon but there is this recruiting, it has not been completed? And also I see Business Oulu is kind of a partner, for example, this kind of developing companies, they have been very valuable, and then this Kauppakamari, without these we would not have had access to Sweden and then there are these various projects.”

In the previous section I have been discussing various business or internationalization models. In two of them, in the Partnering Based Internationalization and Uppsala Model, partnerships have a prominent role. In the former one partnership are needed for getting something that the company does not already have. In Uppsala Model the relationship is more organically generated;
partnerships step into the picture after direct exports but before having a subsidiary abroad. This is, at the point of having a foreign agent.

5.3.4 Cost structure and revenue streams

Costs are minimized in all companies with all business models. Osterwalder (2010) writes about companies that are cost-driven or value-driven. In our case, as it often is, the company falls between these two. The revenue streams of the company consist of yearly payments from municipalities. These communities pay a subscription fee for a right to be seen in the company’s games in their net environment.

The company has economies of scale; after they have developed a game they can copy and deliver that game as many times as they want to. Their fixed or variable costs do not substantially increase when more games are sold. The company has a light organization. The company has nothing invested in appliances or devices. Fixed costs include rents, personnel, assets, marketing, research and development. It takes about half of all revenues. Variable costs take one third of revenues.

“Definitely we have to improve, the target net or this profitability must be raised up to 30% at least.” CEO

If the case company starts internationalization according to Uppsala-model their costs will increase. Adoption of operative business is more expensive abroad than in Finland. Practically the costs of the company will also increase if the company attempts to find a partner from Sweden. While becoming international a bigger turnover is of course a goal. Internationalization traditionally in the Uppsala way or based on partnering would also require financial sponsors. The company should borrow for becoming international and thus the risk related to cost structure in Finland was enlarged.

While thinking about internationalization through internet, effects on the cost structure are not that remarkable. Practically new resources and activities will require additional investments and thus increase costs. The economies of scale mentioned
earlier might bring additional turnover, for every single non-native customer and in the long run remarkably improve profitability.

5.3.5 Value proposition

A value proposition is a way to make the customer choose the company’s product instead of some others. (Osterwalder 2010: 22) When asked about a reason to select their product, the company was not sure about their answer:

“I’d say, we have, how would I put this understandably, we have a different product, unique product, it is in different form.” CEO.

The value proposition of the case company is to provide customers with solutions for their marketing and communication needs. The company does not sell their products in Internet but the unit of trade, game session, takes place in Internet. The managers emphasize the role of their games as instruments of contents marketing. They are pretty convinced of having a competitive advantage. This is based on the fact that there are no other tools or games quite like this at the market. The directors also believe that their playing environment is a secure, pleasant and enticing place for a customer to get to know municipalities and other institutions later as well.

Reading the managing directors comment I see that the company believes to have its competitive edge in being different. Fillis & Wagner (2005) argue that small businesses’ advantage is flexible service and individual facing of the customer with internet. Also a small company survives with a small market niche at huge global markets. Examining from the point of view of value proposition internationalization requires meeting the customer with an individual product enough.

5.2.6 Channels

The company sells their products straight to their customers. In business model language this is an own direct channel of trade. They contact their customers to
maintain a long-term relationship. If there are some problems in these relationships they are resolved. In the future customers will be receiving monthly reports of the number of visitors on their sites. If their customer is a financially balanced municipality they may try to sell them some more solutions. In the future they wish new customers will be contacting them as well.

“Straight from the Internet, at the moment it is this, in the future they will be receiving information from various media.” CEO

Ahokangas & Myllykoski (2011) write about internationalization with internet. If a company forms a new business model which is based on internet we can talk about internationalization. The channels to customers for the case company have been telephone and e-mail. If the channel to customers could be created to happen in internet, the company could forget telephone as a means of reaching customers and it was easier for customers around the world to been in touch with the company.

5.3.7 Customer segments and customer relationships

The company has been selling their products mainly and quite exclusively for municipalities. Other buyers have been associations, some companies and some schools. Of these, companies and schools are more about issues of future business. The only real customer segment is municipalities. As well, real customer relationships the company has only with municipalities.

“I’d say that it is the maintenance of the relationship, we target at that, contact customers and report to them.”

While thinking about the changes needed in current business model I think the paying customers should be the playing customers. At the moment the only cash flow comes from the advertisement money coming from companies. If the company selected enternationalization as their strategy of internationalization, the cash flows of the company should be composed of money coming from customers visiting the website.
5.4 Changing business model

“It gives a chance to be seen globally. It means that our domestic customers could be seen internationally” CEO

After examining the business model of the case company we see that there are some changes in the domestic model. Clearly, the managers and other personnel of the company have been thinking about going abroad. Linder & Cantrell (2010) write that fast changes in business models are needed instead of large and slow motions of overall organizations. For the case company, their organization is light and their business is strongly steered by their business model. One of the dimensions the prospective internationalization has had an impact on are key resources. The company has started to recruit personnel with experience in international business and apply for financial support from export promotion institutions.

In customer relationships and channels no alterations are to be expected unless the business model itself will be changed. Customer segments will also remain stable with current model. The appreciation of the value proposition will increase due to internationalization because of wider visibility on world markets. The company has already started to create partnerships with other companies, people and institutions that might be useful in the future. Key activities of a company are drivers of the company activities. (Osterwalder 2010: 25) The biggest changes take place in the key activities part of the company. Some of these are normal development of business that would have been carried out anyway. For internationalization, these expansions, though, are vital.

"It is the starting point that it may be changed but we are going to start with this model, see if it works."

While scrutinizing internationalization from the point of view of business models, there are several challenges and requirements for changes in the business model even at the preparative stage. What these changes are, are mostly defined by the way of internationalization selected. With a traditional internationalization model changes in business model are not as prominent as when a company migrates their business to come about in internet.
6. CONCLUSIONS

In the previous sections I have been looking at internationalization of small Finnish companies. The theoretical part of my study has been completed by internationalization theories and business model theories. Both theories have been observed from the point of view of different authors. I have also conducted a qualitative empirical case analysis. My case company was a small Finnish technology and marketing oriented company. It has some traits of e-business and a hint of E-business behavior but is mainly a small Finnish company. The empirical data was gathered by an interview and analyzed through a 9-block business model. A special interest was on what happens to a business model, the way the company does business, when the company internationalizes.

The objectives of this study were to examine internationalization of a small Finnish company. With theoretical and empirical data we attempted to find a new tool for this kind of company. For the case company I hope to find practical findings in order to help them when they are planning internationalization. When it comes to the business model it was analyzed with exact information and I believe this study will mark out the way how they are starting internationalization.

The theoretical background was formed of various theories of internationalization and business models. To gain empirical data we conducted a theme interview. The basic idea in my research was to approach these theories and empirical findings from the point of view of business model.

6.1 Theoretical Findings

My study was based on both theoretical and empirical research. The theoretical part was completed with an interview in a case company. The interview was conducted for gaining more understanding about the issue. Finally I compared my results of the empirical part to those of the theoretical part to cumulatively create new science on
Finnish small companies, internationalization and business models. My own findings are analyzed and compared to previous studies.

The theoretical basis of my study was chosen to back up my empirical findings. As written in the introduction, the subject of my study was a result of the theoretical framework which was completed by an assignment from a company and my own interest in the topic. The applicant was in need of information to subsidize preparations for internationalization of a small Finnish technology-oriented company. To approach the phenomenon I selected a few internationalization theories and analyzed them through business models.

The ultimate purpose of my study was to answer my research questions:

1. What are the special features of internationalization of a small Finnish company?

Sub-question for the first research question is:

1.2 How is the internationalization path for the case company?

2. What is the Business model of a small Finnish company at a preparative stage of internationalization?

In chapter two I have been discussing internationalization and internationalization paths. When a company starts to think about internationalizing it is thinking about finding new markets, new customers, better profitability or feeling the pressure of overproduction in a too narrow market niche in home country. Internationalization always provides possibilities but it also raises risks of being unsuccessful. Finnish companies have to understand that internationalization opens many doors to global customers but also brings global competitors. It should always be observed truly deep. Generalized company needs motivated management and clear markets overseas. Demand from abroad indicates good market potential.

Risks are more easily predicted at home markets. When a company makes a decision to start internationalizing, many common issues change to be uncommon. Media works in a different manner compared to that in home country, language barriers set demands for communication, cultural phenomenon should be taken into account and think about how to manage to lure customers.
Companies acting in e-business are usually international since inception. Born Global enterprises which in many cases have been born in the internet have been concentrated on how to build their business model to serve customers at global markets. The case company of my study has been in action during five years and started to think about internationalization lately.

Looking from that point of view we could say that it is not a Born Global company. Partnering based internationalization could be a possibility instead of a born global path. Observing the business model of the case company it was clearly seen that key resources need more power. Company needs knowledge about new markets, knowhow about how to lead international operations and first of all how to serve customers in new markets. A partner company abroad could be a workable solution for the case company.

Uppsala model would support the partnering based internationalization process. The current situation of the case company does not allow starting a rapid and fast internationalization. On the contrary it is better to start slowly and with low risk. That can be done by starting in a country which is physically and psychically near.

Products of the company are in internet, however, and users around the world have chance to go play them. With current business model money comes from advertisers. Refining the business model to be more internet-reliant would open an opportunity for the company to carry out internationalization according to principles of internationalization. To make internet-based business a remarkable change would have to be made on channels as well. At the moment customers are being contacted via telephone and e-mail. Relocating sales and business to be completely executed in internet would offer the company a chance to act on global markets with moderate costs.

My empirical data was in concordance with theoretical material. The theory supports internationalization of the case company even though there has not been much interest towards it from abroad. The company is strongly motivated to go international and they believe there will be demand for their products and technology on international markets.
It is interesting to look at this path from the point of view of business model. Does the company have to change their domestic business model for internationalization? Scrutinizing internationalization through business model opens up intriguing outlooks. According to the study it was clear that business model will change. A company planning to go global thinks about their business model. What should we do as a business if we would like to survive in international markets? A business model is not only one simply theory, but it is flexible and it should be looked at in a bigger picture. In a deeper level many dimensions of the business model should be changed while becoming international.

More theory of business models will be needed to take into account all the concerns of going abroad at the moment of internationalization. The most important finding was that when a company starts planning of going global the business model should be carefully scrutinized. After starting the process of going global all the dimensions of business model should be scrutinized from the point of view internationalization. All weaknesses found should be strictly examined.

Internationalization has been much investigated and during the last years this research has accelerated its pace. A wider theoretical point of view for my study was brought by Uppsala-model developed by Morrison, Johansson & Vahlne (1977) and it forms the basis of my study. Vahvaselkä (2009) draws a clear and multifaceted picture of internationalization of a Finnish company which is complemented with many more up-to-date studies (Loane 2002, Axinn & Matthyssens 2000). Especially e-business requires more recent articles. (Ahokangas & Myllykoski, Fillis & Wagner 2005).

The Business Model is a familiar term even though there is considerable controversy around the form and definition. Osterwalder (2005) Ahokangas & Myllykoski (2011) argue that business model and internationalization have not been systematically studied. I was confronted with this issue with my Master’s Thesis as well, there were findings available, but in a restricted manner. Onetti et al. (2010) write that there are as many business models as researchers. I do not agree, guidelines for applying business models for developing a company point to one direction. Differences are related to the visions if a business model is a part of a strategy or the key logic for creating value. (Linder & Cantrel 2010)
I did not discover theoretical data for preparations for internationalization from the point of view of business model. Challenges for the business model while thinking about internationalization of a company require further research. I compiled my stock of theory by combining studies of internationalization with studies of business models. The final theoretical framework was synthesized of material related to a company, internationalization theories and business models. (Picture 1) I wish my contribution will add to the discourse of changes in business models while companies are being internationalized. Thinking about business models as blueprints of companies it is worth a thought to reflect on how they could be made such that they enable an internationalization as flexible and effective as possible.

To summarize, internationalization theories and business model theories support each other. I recommend companies critically examine their businesses and business models in the light of internationalization and business model theories before starting internationalization operations. Motivated management team and understanding of risks are also important.

6.2 Practical findings

In the practical findings I want to present some thoughts and ideas that are useful for companies and entrepreneurs thinking about becoming international. It was important to have a case company to examine international issues in a practical and concrete environment. In this chapter I will attempt to give some useful advice for managers and companies who are in a similar situation.

Internationalization theories back up companies when they are going abroad. The managers of the company are motivated. They have an idea and an ability to execute it. At the same time, the company has only moderate resources. Huge losses would possibly destroy their business. The company does not have a lot of financial assets. They do not have very experienced personnel or international experience either. The company sees that their operative environment, market segment and technology drive them international. Company is also tied with internet, users face case company in the internet but customers are contacted by phone or e-mail.
The company is at an interesting stage as it thinks about if it starts internationalization with a step-by-step-model or partnering based path. Examining the business model of the case company in the light of empirical material it is clear that the company has been thinking about internationalization. Looking at internationalization through business models we see that something must happen in the business model internationalization to be able to start. On the other hand, internationalization in a traditional way feels slow and thinking that the environment and technology give possibility for fast internationalization.

With a fast review you might feel that in the current situation the best way is to start internationalization in a low risk way. The company itself thinks that Sweden is the best country physically and psychically to start internationalization. The company is, however, already operating in internet and it is accustomed to operate in internet. This arouses the question that if the company has a chance to conquer the globe in internet is it sensible to walk around in a massive scale?

While investigating the structure of the company on the basis of the theoretical framework I would state that the best way to internationalize was internationalization. The starting point for internationalization in the internet way of the company is pretty good. In concordance with the theory the company has a lack of financial and personnel resources (Fillis & Wagner 2005). In spite of these deficiencies the company sees that they have a unique product for which there is a sufficiently large slice of markets available. The technology will evolve in the future and printed media be deteriorating. Internationalization will be fluently performed with internet. By transferring their business into internet they would be able to reach an enormous base of customers simultaneously with small unit costs. Challenges naturally brought by in the meanwhile were increased competition and more complex expertise on their own segment.

The business model of the company at the moment is centered on pleasing Finnish customers. The required change in the business model is directly proportional to the pace of the internationalization of the company. If the case company is being internationalized according to the Uppsala-model, changes are moderate. The elements of the business model undergo little modifications and no radical changes
to the existing business model take place. Practically, various building blocks will have to be accustomed to meet the requirements of global trade.

Internationalization with a partner requires larger changes. Especially resources and key activities have to be re-considered. Also, it must be thought through if the partner is able to commit to the same value proposition as the original company. Cash flows of the company have to be re-considered and it will be challenging to enter an agreement that is simultaneously both engaging and encouraging. Related to this model the company is worried about losing the business on the hands of the partner and thus fully realizing the risk of not internationalizing itself at all.

While internationalizing with internet the business model of the company must be to re-written. With a workable business model the company could be made working in E-business. This means, of course, that many building blocks of the business model should be radically modified. Looking at the chances of internationalization for the case company from the point of view of the business model, however, changes are not infeasible. The first task is to create a new model for thinking about the issue, not for business. The business model of the case company, which is internationalizing, takes into account the altered needs of the company in a global market environment and prepares the company for meeting prospective challenges. Unambiguously it is hard to say what a company must do to make sure it succeeds in its internationalization process. Business model is a flexible tool enough to deal with transformations needed inside the company.

For the case company to most likely way of internationalizing is enternationalization. Uppsala-model is deemed as to slow and resource-lavishing. Having a partner would be risky and potential gains unsure. Because the case company is already in internet, the distance to internationalization with it is not that long. From the point of view of business model this means that the business model will be totally modified. Customers will no longer be limited to municipalities and companies but the earning logic will be composed of money coming from website users and advertisement space sold.

Resources and key activities are in a key position when the company responds to a new competitive setting where a small Finnish company must be able to compete.
People with skills and experience will necessarily be needed. Partners will be searched from internet and it’ll be thought about how to make agreements that push forward both parties of the deal. All public support that is possible for the company to receive will be utilized. The channels are fully based on the internet and the customers must not be contacted via telephone but the customers make their payments via internet. As well the value proposition and the accomplishment of it will be a question. How can we make the existing customers take advantage of the internationalization process.

When preparing for the internationalization it is crucial that there are people who rule the international operations. My case company does not have enough human resources and it will have to find people who speak foreign languages and have experience in these markets. Various domestic organizations can help to find potential partners and employees from new country. Organizations that support exports are crucial key partners when preparing for the internationalization.

As a conclusion I state that when a small company thinks about internationalization, it is feasible to open the business model of the company and start to review it with assistance of the Picture 1 for example. After opening the business model it is sensible to examine international theories from the point of view of business model and think over how our business models fits into the internationalization theories. All companies are different and every company has to review the whole picture: What kind of company do we have and what are its preparedness and volition to internationalize? After this we must go deep down into the business model to look for means for a successful internationalization process in that way.

6.4 Evaluation of the research

The aim of the study was to examine internationalization of a small Finnish company. Internationalization was studied by collecting empirical data from a case company. The case company has been defined in the chapter Methodology. Data collected from the case company was analyzed through theoretical background.
6.4.1 Reliability and validity

Reliability and validity evaluate the reliability and repeatability of a study. Reliability describes repeatability of the study. Validity refers to suitability of the research methods. (Hirsijärvi & all. 2009: 231) The validity of this study has been tried to be guaranteed by defining the phases of analysis and justification of the study exactly. Reliability has been taken into account by examining various theories from different points of view. The objectivity of the research might be in danger because I was paid for working for the company and I know the managers of the company beforehand. However, I have been objective in my study.

6.5 Further study

Thinking about further studies it came up that practical research about the relationship between business model and internationalization of companies needs to be studied further. There should be studies about how business models look like before and after internationalization. Thinking about the case company, research on successful and failed attempts to internationalize would have been helpful. I would like to contact the case company in a couple of years to see what was changed and if the internationalization was successfully completed or not.
REFERENCES


