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ALTERNATIVES OF INTERNET-BASED INTERNATIONALIZATION IN FASHION RETAIL

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1 INTRODUCTION

1.1 The research gap in the theoretical background

There has been widespread theoretical and empirical research made on internationalization of firms. But, when talking about the web, internationalization as a process needs to be redefined (Foscht, Swoboda & Morschett 2006, Ahokangas & Myllykoski 2011) as the web provides a wide range of new possibilities and changes in the internationalization process compared to the traditional modes. (e.g. Loane 2006) The world wide web has introduced a completely new way of doing business, as the web and its worldwide opportunities have been one of the most widely spread and influencing changes of the last decades. (e.g. Tetteh & Burn 2001) The consumers of today are used to utilize web as a daily tool, not only for communicating or delivering information but also for shopping among other activities. Also companies utilize web increasingly, for diverse activities and to varying extent. The web, and in particular e-commerce, are increasingly influencing the international business life. According to Larvala's study, e-commerce is forecasted to continue its growth; the forecasts predicted e-commerce markets to grow 2012 up over 214 billion euros, 14% more than the year before. In northern Europe over 95% of consumers have internet connection. In southern Europe the same number is close to 80%. The largest e-commerce consumer group is 35-45 year old city habitants, buying online almost twice as much as people from countryside. (Larvala 2011: 12)

Many mature companies, having developed a stable position in their home markets, have commenced to use internet-enabled activities as one business sector along with traditional sectors, and this aspect has been widely in interest of researchers. (e.g. Johanson & Vahlne 1977, Fletcher 2007, Keohane & Milner 1996, Oviatt & McDougal 1997) But, there is confusion in the academic literature and no consensus to be found on how the web fits into the traditional perspectives of internationalization (e.g. Yamin & Sinkovics 2006, Foscht, Swoboda & Morschett 2006). Internationalization research field has seldom included modern retail business in the discussion and even less notice has been given to internet-enabled internationalization of retail companies. The phenomenon of e-business and
specifically use of the web as the tool for internationalization have yet been paid limited attention to in the academic research. Thus, internet-based internationalization process of SMEs and the prerequisites for this process lack more profound studying (Amitt & Zott 2001: 494, Etemad, Wilkinson & Dana 2010). Further research is needed to better understand the impact of the web on internationalizing SMEs. Also, a theory of internationalization that combines the realities and characteristics of the web and of SMEs is needed as the use of internet to pursue international opportunities is not yet largely paid attention to (e.g. Chrysostome & Rosson 2004, Reuber & Fischer 2011).

As the internet-based internationalization is not yet widely researched, neither are there studies identifying diverse alternatives and possibilities internet-based businesses, or rather EBCs, electronic business companies, have when internationalizing their operations. There are a limited number of studies pointing out e.g. firm-level resources that are associated with the successful pursuit of international opportunities in internet-enabled markets (e.g. Reuber & Fischer 2011), or focusing on top management team's required capabilities (e.g. Luo, Zhao et Du 2005) or examining strategic entry mode decisions of large, multinational EBCs (Le & Rothlauf 2008). The aim of this study is to contribute in this research gap and examine the alternatives and strategic choices of SMEs related to internet-based internationalization.

1.2 The objective of the study

The aim of this thesis is to contribute in the discussion of internet-based internationalization and address the research gap described earlier. The focus is in examining and analyzing the alternatives of internet-based internationalization specifically from the point of view of an SME. Fashion retail provides the context for this study.

By internet-based businesses are meant electronic retail companies, namely operating their sales through web stores. This type of firms will be in the focus, but also other aspects of combining specificities of the web and SMEs will be discussed.
In this thesis fashion retail is understood as retail of specialized goods, liable to specific, changing trends and constant development.

The objective of the study is approached through the main research question:

*What alternatives are there for internet-based SMEs to be competitive in their internationalization?*

The approach to the main research question is supported by two sub-questions:

*What kind of strategic choices do SMEs make concerning internet-based internationalization?*

*How to create and sustain competitive advantage in online environment?*

The research phenomenon is approached methodologically with a qualitative research. The empirical primary data will be collected through interviews of the case companies. The nature of the study is abductive since the theoretical and empirical parts take turns and are developed in interaction with each other.

The author is one of the owner-entrepreneurs of a clothing web store called Disturb.fi which creates personal interest in the study and a new viewpoint in the discussion. That is one of the reasons why this topic was chosen.

### 1.3 The structure of the thesis

To address the research gap described earlier the previous studies of the topic and phenomena related to it will be studied and discussed. First, internationalization and few theories related to it will be briefly studied. Then will be addressed the specificities of the web and internet-based internationalization. After this, based on literature review, will be discussed diverse alternatives and strategic choices in internet-based internationalization. Closely related to strategy, competitive advantage and its main components in this specific frame will be examined. Thus, following
these reflections, will be formed a theoretical framework which examines the existing theories on the topic.

The empirical data for the thesis will be collected through interviews of SMEs doing internet-based operations and which are in diverse stages of internationalization. Interviewing companies in various stages will provide versatile information and several point of views on the internationalization process. Interviewing several companies will provide a chance to reflect, compare and analyze the alternatives and strategic choices made by firms. Through interviews will be formed the empirical data which will then be analyzed. The goal is to address new viewpoints and concepts to add in the discussion of the topic and thus contribute in the theoretical field. The aim is to bring up also practical viewpoints as managerial contributions for managers to learn from and take into consideration in the strategic decisions of their own companies.

1.4 Delimitations

The study is restricted in internet-based internationalization. This means that the aim is to study and analyze possibilities in internationalizing a web store and using the web as the tool of internationalization. Thus the more traditional view of internationalizing an actual, physical store is not in the focus of this thesis. The focus of the study is the internationalization in and through the web and the aim is to concentrate in internet-related phenomena, not in the features of more traditional way of internationalization.

The phenomenon studied in this thesis is internet-based business-to-consumer retail from an internet-based business' perspective. The companies examined in this thesis are Finnish companies operating or aiming at operating international business activities in the web. The purpose is not to give advice nor to criticize, but to analyze what kind of strategic decisions, how and why the companies have made on their web-based internationalization processes.
2 INTERNATIONALIZATION AND E-COMMERCE

2.1 Internationalization of SMEs

The phenomenon studied in this thesis is internet-based internationalization. First will be discussed briefly internationalization as such, and then the focus will relocate to specificities of internet-based internationalization. Internationalization has been viewed as a process of increasing business involvement in international markets. (e.g. Welch, Benito & Petersen 2007) There is no agreed definition of internationalization or international entrepreneurship, but there are several internationalization theories which try to explain why there are international activities. Few of them will be briefly presented and studied in this chapter.

Internationalization process of SME’s is a widely researched topic. In internationalization process the important questions are how, where and what to internationalize. Question “what” refers to the sales object, with which the company goes abroad. For an internationalizing firm the key corporate strategy decisions include questions ”in what countries does the company operate?”, ”what does the company do there” and ”how are its operations organized there?”. The culture and the conditions of the focal country are also important factors when deciding where and how to operate. Making wrong decisions on how to internationalize can ruin the whole internationalization process. The question how means which entry mode and operation modes to use. It can be crucial for the company’s success in the foreign market. The company has to make strategic decisions on if they will e.g. export, use agents in the foreign country or make a foreign direct investment. Different entry modes have different risks, as well as their own advantages and disadvantages. Depends on the firm, on the chosen foreign market and on the overall situation what mode the firm can and should use. Also the question why is important, meaning what are the reasons why a company goes abroad and why do they use certain modes or go to a certain country market. The operational planning depends on the overall strategy of a firm and embeds individual actions to serve the vision and the goals. A company's strategic decisions may depend either on push or pull -factors; for example, home markets may be too small and a company has to go abroad not to lose the whole game, which is a push factor. Or, a company may see attractive
opportunities in foreign markets, which is a pull factor. The organizational capacity must also be taken into consideration in the strategic decisions, including elements like organization's structure, finance and personnel. (Welch et al. 2007: 5-6.)

There have been a number of different theorizations and developing waves in the theories and research concerning internationalization process and processes of growth in a firm's international operations. The research theories development initiated from the internationalization concept of multinational enterprises, MNEs, prior to internet and globalization, and focusing on slow and gradual process of internationalization and on international investments of large firms. The research developed to path-breaking studies on international new ventures, INVs, on born globals and on international entrepreneurship, IE. The research overlapping with early development of the internet and with evolving globalization has also been focusing on early internationalization of smaller entrepreneurial firms, not anymore solely on large MNEs. (Etemad et al. 2010)

In the context of internationalization, the Uppsala model (Johanson & Vahlne 1977, 1990) has dominated the discussion for years and it is one of the most researched traditional theories of internationalization. The approach of Johanson and Vahlne (1977, 1990) propagates behaviorist and incremental internationalization process. The Uppsala process model introduced learning, experiential knowledge and tacit knowledge, all based on information acquisitions, to the internationalization research field. Information and knowledge about a foreign market improved the possibilities of a firm’s success and decreased its operational risks in that foreign market. Their pattern is based on a cycle of four self-reinforced constructs adapted from the process of organizational learning and adoption: market knowledge, commitment decision, current activities and market commitment.

Another widely known approach, which stands in contrast to incremental models, is Oviatt & McDougall's theory of international entrepreneurship (1994). The theory is related to the phenomenon of revolutionary internationalization and the born-global firms. The article reveals that historically many MNEs developed from large, mature, domestic firms. However, according to Oviatt & McDougall's theory (1994), recent technological innovation and the presence of increasing numbers of people with
international business experience have established new foundations for MNEs: even new ventures with limited resources may also compete successfully in the international arena due to the low-cost communication technology and transportation. The authors claim that the success of international new ventures seems to depend on having an international vision of the firm from inception, an innovative product or service marketed through a strong network, and a tightly managed organization focused on international sales growth. As changing international environment has simplified and shortened the process of firm internationalization, stage theories and organizational scale are viewed as inappropriate for the explanations of international new ventures. Firms may skip stages of international development or internationalization may not occur in stages at all. Organizational scale being a firm-specific variable is perceived either as a cause or an effect of multinational competitive advantage.

Yet with a different point of view, network theory models are based on the assumption that firms operate in a market through coordination and interdependence built on relationships. Firms within a network are dependent on the resources of each other. Often there are gains to be made through the pool of resources. (Johanson & Mattson 1988) In Johanson & Mattson's study the importance of the interdependence between firms and within industries is emphasized. This view assumes that international business takes place in a network setting where business actors are linked to each other through business relationships. The networks demonstrate stability, but, however, those existing relationships are continually changing through activities and transactions within the relationship.

Combining different elements and approaches, Dunning's Eclectic theory (1980), or OLI configuration, is a holistic framework emphasizing that international activities of a firm can be explained only based upon several strands of economic theory. The Eclectic theory explains a firm's willingness to expand abroad, identifying the factors influencing both the initial act of foreign production and its growth. It is argued that the extent, form, and pattern of international production is determined by three sets of advantages, as perceived by firms. OLI-advantages are called also competitive advantages. Ownership advantages (O of the configuration) include assets and competitive advantages of a firm. Internalization advantages (I of the configuration)
consist of firm's own core competences. Location advantages (L of the configuration) include the "where" of production, e.g. transport costs, tariff barriers and psychic distance. The configuration sets are influenced by the market, country, industry and firm specifics. It is claimed that firm-specific characteristics may be crucial determinants of any particular ownership-location-internalization (OLI) configuration. (Dunning 1980.)

Reverting to the focus of this thesis, studies conducted on internationalizing SMEs' entry mode choices have primarily focused on traditional market entry and do not deal with the question of why firms choose the web over offline channels. This question can be approached through, for example, explaining all the benefits the web can provide for SME's, a point of view discussed later in this thesis, or presenting the reduced amount of risk on online expansion compared to traditional internationalization (Pezderka & Sinkovics 2011). Many researchers proclaim the traditional, incremental theories of internationalization to fail to explain the processes of internationalizing SME’s of today, particularly those which do business online (e.g. Chrysostome & Rosson 2004: 13, Axin & MatthysSENS 2002). These traditional theories and studies were conducted before the rise of the internet in 1990s and before the globalization in the mid-1980s, so the impacts of worldwide information and internet have not been discussed in the early Uppsala models. (Etemad et al. 2010: 5) The environment of companies has been changing into global and hyper-competitive, the web and internet-driven economy being a big part of the change, which has forced the companies to change, too (Axin & MatthysSENS 2002: 437).

The advent of e-business and its rapid growth has strongly attracted the attention of scholars and research streams. Yet, academic research on e-business is stated to be sparse (Amitt & Zott 2001: 494). A lot of research has been conducted on whether the existing theories and approaches of internationalization can explain the specificities of the internationalization processes of web businesses (e.g. Le & Rothlauf 2008, Chrysostome & Rosson 2004). Lot of attention in this area has focused on the speed and the disappearance of the incremental, stage wise process of internationalization. Also, the role of entry modes in the web businesses’ internationalization processes and the meaning of distance have been widely discussed. Yet, there is no consensus on academic literature concerning web-based
internationalization or as to which model of internationalization best depicts the web's effects of internationalization. When interpreting the web's influence on internationalization theories, the network theory has been in focus (e.g. Buttriss & Wilkinson, 2003, Mathews & Healy 2007). Some researchers advocate stage models (e.g. Alon & Cannon 2000) or Uppsala model of Johanson and Vahlne (1977) or transactional cost-based model (Bennett 1997), emphasizing the importance of the web in reducing costs of transactions as well as of information acquisition and usage in the internationalization process (e.g. Mathews & Healy 2007). Pezderka and Sinkovics (2011) suggest that above that all, Dunning's (1980) eclectic framework offers substantial explanatory value concerning this question, in line with Kundu and Singh (2002) stating that Dunning's eclectic paradigm can be one such framework that explains the growth of ECCs as it brings together disparate theories.

Foscht et al. (2006: 559-560, 568) state that for analyzing the international development of small retail companies in electronic commerce one single theoretical approach is not enough. According to their studies incremental learning models are not able to explain the development of small internet-based retail companies' internationalization processes since the web is global in its nature and allows internet-based firms to leap over incremental stages. Combined models and also revolutionary models are more suitable because of this special nature of the web and because of new possibilities it provides. Specificities of the web and internet-based internationalization will be examined more profoundly in the next section of this thesis.

Foscht et al. (2006) introduce an integrative framework which represents the changes or the dynamic forces of three aspects within the firm: firstly, market-oriented processes and structures; secondly, supply-oriented processes and structures; and thirdly, the management and its processes, structures and culture. Based on their studies of a small, niche-oriented company's web-based internationalization process they state that small niche-oriented companies can achieve growth and be successful internationally, basically since the web and electronic commerce have facilitated the internationalization process and enable internationalization without capital investments and in-depth foreign activities. Specificities of the web and the ways it has facilitated the internationalization processes will be examined more profoundly
in the next section of this thesis. Foscht et al. (2006) state that small, niche-oriented firms should not limit themselves to incremental development on the international markets, but, on the contrary, aim at revolutionary internationalization with fast and widespread expansion which web enables. Still, based on their studies, they identified an incremental selection of foreign markets. Thus, based on this study, internet-based internationalization is achieved with interplay of revolutionary and evolutionary steps.

Etemad, Wilkinson & Dana (2010) suggest that the information processing technology, due to globalization and revolution of information and especially through internet, has played a central role in internationalization accelerator, especially when it comes to smaller firms. They introduce the notion of internetization, which indicates the use of internet and the tools it provides, and name it as a necessary condition for internationalization in today’s globalized world. Internetization namely means that the web is a widely utilized tool in today’s daily life, and that it has become an undeniable part of conducting business, even a necessity for it. (Etemad et al. 2010: 6-7) In line with the idea of internetization, Riggins (2000) states that it is a competitive necessity for firms to build online presence. Etemad et al. (2010: 16-17) add that internetization may already have become the prerequisite to achieve competitiveness and advantage globally, especially for SMEs, because in the internet the cyberspace abilities matter, not the physical factors which play a crucial role in traditional markets. This is called the "equalizing" impact of the internet (Etemad et al. 2010: 17), in line with Riggins calling the web "the great equalizer" for small organizations (Riggins 2000: 302).

After the advent of the web, business environment has changed drastically and the web has introduced completely new rules in the game. The web and its tools have become an essential part of today's business life, even a necessity for firms to cope with if willing to succeed. Also the internationalization pathways of firms have altered after the advent of the web, since now also the small, resource-constrained firms have the ability to expand into international markets. This phenomenon, internet-based internationalization and its specificities will be discussed in the next chapter.
2.2 Specificities of internet-based internationalization

Researchers argue on whether and how the web changes or modifies the existing internationalization rules (e.g. Petersen et al., 2002, Petersen & Welch 2003). Whereas some researchers claim that the web does not necessarily alter the laws of economics, others suggest that the web remarkably facilitates companies' internationalization paths by, for example, lowering entry barriers, reducing costs and reducing foreign market uncertainties. (Loane, McNaughton & Bell 2004, Moini & Tesar 2005, Petersen et al. 2002, Axin & Matthyssens 2002) Ahokangas & Myllykoski (2011) have even stated that internationalization as a process needs to be redefined when talking about web as internet provides a wide range of new possibilities and changes in the internationalization process compared to the traditional models. To target this problematic, the focus of this chapter will be in the specificities of internet-based internationalization. The specific features of the web as a platform for commerce, for business actions and for internationalization will be discussed, including both the advantages and disadvantages.

Turban et al. (2005) define e-commerce, as it in general is understood, as processes of selling, buying, transferring or exchanging products, services or information via the internet. E-business, on the other hand, refers to a broader definition of e-commerce, including customer service, collaboration with business partners, conducting of e-learning and processes of electronic transactions.

E-commerce companies (ECC’s) differ from conventional firms in several ways. They have multinational accessibility, at least in theory, from their inception. Because of this multinational accessibility, ECC’s can compete with firms all over the world. As well, because of the global nature of web and its accessibility 24/7, customers are able to shop wherever and whenever (e.g. Zugelder et al. 2000, Riggins 2000: 303-304). Unlike traditional multinationals, ECC’s possess a unique set of advantages, based on network resources, open accessibility, innovative entrepreneurship and information sharing. Network resources and communicating are remarkably more efficient through online channels. Open accessibility refers to the fact that through online presence a firm or a web store can be accessed 24/4 and in principle from anywhere in the world. The web has opened up completely new world
of conducting business and is thus open for all kinds of new, innovative entrepreneurship. Information sharing, as also communication, is remarkably facilitated and more effective through online channels. (Singh & Kundu 2002)

It has been widely agreed in the academic research field that the web has the ability to facilitate and enhance small firms' internationalization process. The web provides plenty of positive features and opportunities for internationalizing companies and enables them to break the rules of traditional internationalization theories. In internationalization in or through the web firms may not meet the same barriers or liabilities of "traditional" internationalization processes. Particularly internationalizing SMEs can benefit from advantages the web provides as the web means an opportunity for small start-ups to challenge large, established firms since the costs of establishing an online presence are modest (Riggins 2000: 299). The use of web for international business actions can remarkably reduce firm's costs, and thus strengthen the firm's internal resource-base for its international operations (Berry & Brock 2004: 191-192). The web removes geographical constraints, permits the instant establishment of virtual branches throughout the globe and allows immediate market entry to also small businesses (Moini & Tesar 2005) Electronic commerce bears fewer resources and less risk than traditional commerce, as in contrary to traditional internationalization path online presence does not require remarkable investments, and thus the web enables small retailers to internationalize within a short period of time and with less resources. (Foscht et al. 2006: 569) According to Loane (2006) the role of the web for internationalization ability of small businesses is remarkable since the web provides new advantages and possibilities also for SMEs because of its accelerated speed and low costs. Accelerated speed allows faster international expansion, and low costs enable also small, resource-restricted firms to internationalize and (Loane 2006)

According to Yamin & Sinkovics (2006), death of distance is one of the most salient characteristic of e-commerce. Death of distance means that in cyberspace physical locations and geographical distances are virtually meaningless (Riggins 2000: 298), since a firm may have activities dedicated to serve a foreign market but these activities don’t need to be physically located there. Often the online transactions are managed from home country, thus online internationalization is a lot more home
country centered phenomenon compared to traditional internationalization processes (Yamin & Sinkovics 2006: 343).

Accelerated speed is a remarkable feature of the web. Riggins (2000: 298) uses the term "Internet time" to describe the efficient and fast environment where companies are competing now; everything happens with fastened speed. To develop and deliver products is now measured in days or weeks, rather than months or years, and as a consequence the web and internet technology are used to reduce or even eliminate the time it takes to deliver information, products and services on demand. The web also accelerates user tasks, meaning purchasing processes, starting from comparing the alternatives and leading to issuing the purchase and receiving customer service. The information is available continuously and can be updated on a real-time basis. (Riggins 2000: 298-300) Also, the web enhances the speed of internationalization (Luo et al. 2005) and dramatically accelerates internationalization processes of SMEs as a result of enhanced international entrepreneurship opportunities (Loane et al. 2004) and as it enables internationalizing firms to leapfrog incremental stages of traditional internationalization process (Chrysostome & Rosson 2004: 3). Leapfrogging stages or “dilution of sequencing” (Yamin & Sinkovics 2006: 343) is a salient character of online internationalization. As already discussed in this thesis, traditionally seen internationalization processes contain incremental learning and sequential phases and acquiring knowledge about the focal market takes several years of time. But, in online internationalization process, the market entry can take remarkably shorter time, typically months or weeks, rather than years.

The web also facilitates communication with an unlimited number of international customers and enables firms to use customers as an information channel. Thus, as it is faster and easier to collect first-hand information on customer needs and preferences, the web enhances also the firm's processes of creating and providing value for customers (e.g. Petersen et al. 2002, Amit & Zott 2001, Ahokangas & Myllykoski 2011: 7). The ability of firm to engage and interact with international customers, without being bounded by geographical barriers, is a significant benefit of the web. The web not only enhances the interaction with customers, but also with stakeholders. (Mathews, Healy & Wickramasekera 2011) The web improves a firm's ability to communicate and interact with customers as well as with suppliers and
business partners more frequently and on a deeper level through low-cost web communication technologies, such as firm's website and e-mail (Mathews & Healy 2008: 10). It is revealed in Mathews and Healy's (2008: 11-12) study that the web is of diverse importance for different companies, but, even if the web is only a complement to the traditional network, as for some firms it is, it is still essential in the development and in the maintenance of business relationships, through the interaction possibilities it provides. Using the *marketspace*, the world wide web, may extend the business networks of a firm, and, thus, increase a firm's international orientation. Use of the *marketspace* may increase range and diversity of inter-organizational ties and international business networks and, as a result, enhance and facilitate internationalization of a firm. (Berry & Brock 2004)

It is often emphasized in academic studies that, above all, the web empowers information and knowledge gathering and processing, and thus accelerates internationalization process. (Petersen *et al.* 2002) Mathews and Healy (2008) propose that effectively "the ability to capture, process and analyse information and knowledge pertaining to internationalisation due to the Internet has enhanced the capabilities of SMEs to expand into international markets" (Mathews & Healy 2008: 8). In their study (*ibid.* 2008), the web was seen as very important mechanism for both accessing and disseminating information from and to the market and for allowing SMEs to have an international presence which previously was not possible. Mathews and Healy state that the web has allowed SMEs to dilute the asymmetry of information that traditionally existed in internationalization process (Mathews & Healy 2008: 11). Web enables companies to create globally reachable online communities for interaction and take advantage of global online media. If a small start-up is able to use these interaction technologies and media efficiently and this way increase customer loyalty this superior understanding of web possibilities may lead to early success. (Riggins 2000: 299) But, according to Berry and Brock (2004), also other external factors, those related to *marketplace* (the physical, traditional market), play an influential role in the internationalization process and in the knowledge-related processes. For firms, the web may provide an alternative platform that enhances the international knowledge base, even though it cannot provide firms with *marketplace*-based experiential knowledge. Still, internet-enabled internationalizing firms operate in a constantly changing environment in which the
knowledge gathered from marketspace, the web, seems more appropriate than pure knowledge based on experience. (Berry & Brock 2004: 192) Thus using the marketspace, the web, for international business reduces the information barrier in the internationalization process, by providing firms with international business information on markets, customers and competitors.

As stated, the web provides several opportunities and advantages for internationalizing SMEs. But, these benefits do not reveal the whole truth. The web does not provide only opportunities, but also new challenges, barriers and liabilities, too, related to internationalizing process and doing business operations in and through the web (Chrysostome & Rosson 2004, Ahokangas & Myllykoski 2011: 7). Online business and speedy expansion can lead into additional costs (Chrysostome & Rosson 2004: 8-9), growing pains (see Luo et al. 2005: 697) or trouble with local legislations (Zugelder et al. 2000: 254). Also cultural barriers, logistical issues and fluctuation of currencies cannot be solved or overcome with a simple online presence or trespassing physical borders (Petersen et al. 2002: 213, Ahokangas & Myllykoski 2011: 7). Fierce rivalry of online environment can be too much to handle for a small firm (Chrysostome & Rosson 2004: 8). The web and cross-channel retailing introduce a whole new playground and attracting consumers is a lot more complicated. Buyers are using all channels for information and shopping, and they are able to gather a lot of information already before beginning the actual shopping. (Molenaar 2010: 56, 65) For this, it is crucial for a web store to, firstly, make sure they can be found, make the website attractive, communicate actively, and differentiate themselves.

As seen, the web provides a number of new opportunities and challenges to firms. The web has allowed also small SMEs to expand and internationalize by providing new tools and possibilities. The web and internet-enabled processes can provide remarkable aide for small firms in their internationalization processes. The web has potential to reduce problems associated with distance, size and scale, and thus enable also small firms to improve their international activities and performance, and to fasten and ease internationalization processes. Moreover, the web also allows firms to embrace web-based technologies and adopt an e-business format right from their inception, and skip traditional incremental stages of internationalization (Johanson
& Vahlne 1977, 1990) - thus, the web can be utilized both as a tool to improve international performance, and also as a core capability of a firm to underpin a firm's overall international strategy. (Loane et al. 2004, Tseng & Johnsen 2011)

Key questions in the literature have been whether the web can overcome the meaning of traditional marketplace and what are the motivations of firms to engage in online retailing. The web and its possibilities are available for all kinds of organizations, not just to those engaging solely in e-commerce. Also many traditional (bricks-and-mortar) firms have incorporated online activities to become clicks-and-mortar e-businesses. (e.g. Barnes, Hinton & Mieczkowska 2004) In previous academic studies, the motivations and objectives of bricks-and-mortar firms to become bricks-and-clicks firms have been to some extent reflected. This topic is addressed next. The main focus is in the motives and diverse ways of bricks-and-mortar firms to internationalize via the web and to adopt e-commerce as a part of their expansion strategies. This question has not been widely or specifically addressed in previous academic studies.

2.3 From marketplace to market space

The specificities of the web and the possibilities it provides for online businesses to internationalize have now been examined in this thesis. The possibilities of the web attract firms, and in this chapter will be more closely addressed the factors and motivations of bricks-and-mortar firms to become clicks-and-mortar firms, and moreover, to choose the web as their internationalization channel.

The web is of diverse importance for different companies; some firms view the web as the sole mechanism or tool for international market growth, whereas other firms utilize the web as one complementary asset or tool for growth and for internationalization (Mathews & Healy 2008: 11-12). The study of Loane (2006) shows that the web can be utilized in various depths and for a variety of business functions in internet-enabled firms’ internationalization and international operations. Diverse areas of operations, from marketing and sales to human resources and to certain parts of manufacturing and administration, can be at many parts handled via
web. Internet adoption is not incremental for internet-enabled companies as it can be used right at the inception of new business operations. (Loane 2006)

The web can be utilized for various business process functions, such as marketing and sales, communication, intelligence gathering activities, manufacturing, human resources and administration. (Tseng & Johnsen 2011, Loane 2006) The web may affect a firm's ability to identify and evaluate international competitors and develop contacts and networks in foreign markets. (Tseng & Johnsen 2011) Firms use the web to underpin activities practically in all areas of operations, domestically and internationally. The web has proven to be an effective facilitator of these business process functions and it is utilized by firms in several ways. (Loane 2006, Barnes et al. 2004) The web can offer effective solutions for e.g. knowledge exchange, collaboration, resource building and communication. Several studies emphasize the ability of the web to facilitate both accessing and disseminating information, e.g. on and to markets, customers or stakeholders. Especially the role of the web as a knowledge building tool in various business process areas is emphasized; the web has positive effect on the internationalization process of firms, primarily because of the ability to generate, store, process and analyze vast amounts of information on customers, markets and competitors. This way the web has diluted the asymmetry of information (Loane 2006, Shane & Healy 2008: 11) and thus allowed SMEs to reduce barriers of internationalization.

The study of Barnes, Hinton & Mieczkowska (2004: 206-207) reveals that firms present a wide range of objectives and motives behind bricks-and-mortar firms' decision to become clicks-and-mortar e-businesses. The extents to which firms get engaged in e-activities vary, and so do firms’ objectives. The web and e-commerce are integrated into existing business models in order to reduce costs, improve efficiency in operations, enhancing marketing, and for the fear of being left behind by competitors. Thus, the motives can be to various extent operations driven, marketing driven and/ or technology driven.

Ching and Ellis (2004) study the factors which drive the adoption of e-commerce and the use of the web as a channel to foreign markets in SMEs. Firstly, decision-maker characteristics, such as age and level of education, are important in determining the
innovative attitude, thus the attitude towards the web and e-commerce, of SMEs. Cheng and Ellis state that the younger the adopter of e-commerce in a firm, the greater the extent of adoption of e-commerce. Secondly, the innovation's relative advantage affects the readiness of a firm to adopt e-commerce. Cheng and Ellis claim, in accordance with prior studies, relative advantage to be the key variable correlating with adoption of e-commerce: relative advantages are for example improved accessibility, convenience and cost. Additionally, adoption of an innovation, such as the web, is driven by the perceived costs and benefits. Thirdly, environmental characteristics, such as supplier incentives, intensity of competition and customer demand may cause pressure to adopt an innovation. (Cheng & Ellis 2004: 412-415, 419-420) The internationalization behavior and web adoption of a firm may be affected by stakeholders, such as venture capitalists (Forsgren & Hagström 2007: 301), or pressure to adopt e-commerce and internationalize can often originate also from customers' side (Ching & Ellis 2004: 414-415) Loane's (2006) study implies that the web adoption in a firm's business processes was not incremental or stage-wise; rather, if decided to engage in online activities, this change was executed in a revolutionary way throughout the processes.

A remarkable point is, as the studies of Loane (2006) revealed, that the dominant reason and motive behind integrating the web to a firm's business processes was not to modify the processes to become internet enabled, but rather how the web enablement can be leveraged to support a firm's strategic international growth objectives. For example, the web can offer solutions to specific complicated value chain activities, and, if well utilized, provide a chance for process improvement and cost reductions. Thus the web is not the meaning itself, it is a means to an end. In fact, results of Loane's research (2006) imply that firm decision-makers evaluate each online business activity, whether to begin utilizing it or not, in light of their own business goals, internal knowledge skills, capabilities and resources (Loane 2006: 274) and relate it to their own existing business models if seen beneficial. In fact, SMEs employ the web strategically, as a capability, to support and achieve their overall internationalization strategy and goals; the web does not actually influence the decision of firms to go abroad, to internationalize, but it indeed helps to speed up the processes of internationalization once the decision of going abroad has been made. (Tseng & Johnsen 2011: 582) Still, more traditional networks such as personal
relationships are perceived as essential in the path towards internationalization by SMEs (e.g. Shane & Healy 2008), thus use of the web as such does not guarantee successful internationalization. The web and internet-enabling technologies do not constitute a source of competitive advantage in itself, but the complementarity of the web with other strategic resources is the key feature leading to successful international activities and performance. (Loane 2004, Hamill 1997, Tseng & Johnsen 2011)

All in all, the business model and overall strategy of a firm still remains critical for the internationalization success. Even though firms that adopt an e-business format right from their inception are said to be "global from inception" (e.g. Loane et al. 2004), merely being online does not automatically mean to be global. Neither do the internationalization pathways of this type of firms follow identical processes. Whether a firm chooses to pursue an international strategy or not, the decision is not purely dependent on the availability of internet-based technologies, but rather it is influenced also by several other factors, such as product characteristics, international orientation of management, the availability of resources (human and financial) and the networks. In the end it is the attempt to lever value from the business model of a firm that determines the strategic decisions of a firm, and the web is an effective tool for leveraging superior value, but it is not the main point as such (Loane et al. 2004). Based on the literature review, the most important characteristics and abilities of the web in terms of facilitating internationalization of firms are related to information, knowledge and interactive capabilities of the web. (e.g. Shane & Healy 2008)

Even though web-enabled internationalization offers the potential to reduce some of the constraints, costs and barriers of internationalization and international market entry, SMEs intending to become web-enabled international players must pay particular attention to how they develop and implement an e-commerce strategy, bearing in mind that the web might bring along also new challenges easily. (Loane et al. 2004) The web simplifies and fastens the internationalization processes of companies compared to traditional internationalization process and even enables firms to begin their internationalization process in an earlier stage. But, it is important to note that web does not guarantee these opportunities. The web also presents new challenges and liabilities that need to be taken carefully into
consideration when forming strategies for internationalization processes. When developing and implementing an international e-business strategy, and defining their strategic guidelines for internationalization, firms have diverse alternatives. In the next section, based on academic literature review, will be discussed various alternatives, or strategic options, firms have on their internet-based internationalization path.
3 STRATEGIC ALTERNATIVES IN INTERNET-BASED INTERNATIONALIZATION

The growth and expansion of the internet have amended remarkably the business models and the environment of businesses. The web is a dynamic and constantly changing market, a “high velocity environment” (Wirtz, Schilke & Ullrich 2010: 5), which requires business models to be adapted and adjusted, regularly and frequently, to changes and challenges, in order to keep them successful. When internationalizing, business model must be adapted accordingly, and strategic guidelines for internationalization must be set.

Next will be discussed diverse alternatives, strategic options, firms have on their internet-based internationalization path. By alternatives are meant diverse strategic decisions and choices available for firms when internationalizing in or through the web. These strategic guidelines examined in this section are gathered from previous academic research literature. In the academic literature these alternatives are not outlined as exclusive, yet they have not been explicitly presented as strategic internationalization alternatives. Four strategic guidelines or alternatives for internet-enabled internationalization are discussed: co-operative actions, direct international online sales, physical presence and regional approach on online internationalization.

Firstly, co-operative actions are studied, such as partnerships and alliances, and their meaning for online internationalization. Second alternative discussed is direct international online sales, meaning confronting customers and conducting sales through international web stores. Third alternative examined is physical presence, such as a physical store, in the focal market and the role of physical presence in the internet-based internationalization process. Fourth alternative discussed is regional approach, meaning defining regional strategies for each region or market separately, and whether it is needed in online markets.

3.1 Co-operative actions as competitive actions

Co-operative actions of firms include building and utilizing interrelated and coordinated business relationships (e.g. Overby & Min 2001: 402), such as tight international supply chains, networks, partnerships and strategic alliances with other
firms. It is widely recognized in the academic literature that use of networks and partnering has positive effects on a firm's internet-based internationalization. Networks of a firm can in fact be the prerequisite, the reason or the facilitator to a firm's internationalization. (Loane et al. 2004) High level of cooperative activity of firms is positively related to a firm's performance and ability to create competitive advantage (e.g. Kotha et al. 2001) since co-operative actions allow firms to share risks and resources required to enter international markets. (Overby & Min 2001: 399) Both personal and business networks of a founder or management team of a firm can be of high value and central to a firm's ability to internationalize rapidly. (Loane et al. 2004: 90-91)

The strategic core of a network orientation is to allow a firm to concentrate on its core competences, on those business areas for which it is best suited, and contract with partners for everything else. Thus a firm can maintain its flexibility and ability to adapt while advancing its specialization. (e.g. Overby & Min 2001) Often partnerships provide critical resources, such as financial resources or specific skills, as well as more abstract resources, such as legitimacy and market power. (Reuber & Fischer 1997) Partners may possess complementary assets (Teece 1992) and also provide learning gains, which both enable firms to create unique resource combinations. Further, partnering with a competitor may open up completely new possibilities since competitors can learn from each other skills and capabilities which would otherwise, without cooperative relationship, be protected from each other. (Kotha et al. 2001: 774)

Superior access to learning and resources is likely to create firm-specific advantages and be leveraged into firm's propensity to internationalize. Internet-based firms can use partnerships both to reduce technological and market uncertainty, and to accelerate the creation of intangible assets, such as reputation and web site traffic, meaning the amount and frequency of visits on a particular web site. Conversely, high traffic level on a website is a valuable resource for a firm to attract potential partners. (Kotha et al. 2001: 774.) Intangible assets, such as reputation and web site traffic, will be discussed more profoundly later in this thesis.
As stated, the web has resulted in remarkable growth in competition. Overby and Min (2001: 404) propose the ever increasing environmental uncertainty and complexity as important driving forces behind a network orientation, and that firms are better equipped to meet these challenges through tight, strong networks and alliances. To adapt and respond to unpredictable customer demand and new technological requirements quickly, in order to survive in the open marketspace (Berry & Brock 2004), firms can lean on their partners and networks and develop together with them. International networks and strategic partners are spanned across different countries but still are tied together by common goals. For these reasons networks and partners can minimize country risks, such as political risk, operations risk and transfer risk. Also, partnerships may facilitate to overcome cultural distances (Overby & Min 2001: 405) and reduce psychic distance (Yamin & Sinkovics 2006). Psychic distance means general uncertainty concerning foreign markets, which arise from perceived distance, similarities and differences, between foreign markets and those markets firm already knows well. It does not mean the extent of differences as such, but the perception of those differences; the extent to which a firm expects its previously gained experience to be valid and helpful in the new market and how different the foreign market is perceived compared to already known markets. (Yamin & Sinkovics 2006: 345-346) Strategic partnerships, alliances and networks can reduce the psychic distance and thus consolidate and enhance a firm's online internationalization. The notion of psychic distance will be studied more profoundly later in this thesis.

In the e-business context the institutional environment is pivotal, encouraging infrastructural development and transactional efficiency (Singh & Kundu 2002: 693). The institutional environment includes factors such as telecommunication infrastructure and credible payment channels, and affects development of e-commerce activity in a country by, on one hand, enabling internet-enabled firms' cost effective and efficient access to information and, on the other hand, forming a dynamic competitive environment where firms must be able to constantly innovate, adapt and generate value. In this institutional e-business environment, firms need dynamic capabilities that enable them to leverage their resources and generate value-creating strategies. Network-based advantages allow firms to access complementary capabilities and minimize investments in fixed assets and technology, enabling
internet-enabled firms to properly respond to the complex environment and to absorb and utilize the knowledge rich resources in their environment. (Singh & Kundu 2002: 693-694.)

Overby and Min (2001) state that the emergence of web and e-commerce accentuates the move towards collaboration in business context, and, that firms will build and utilize networks more commonly in their internationalization processes as technology creates the ability to forge relationships more effectively. Networks, such as international supply chains, represent a value-creating network in which suppliers, manufacturers, intermediaries and even customers collaborate for the ultimate goal of value creation. The web facilitates this chain management and collaboration as it has the ability to bring all parts of the chain closer to each other and enhance the co-creation of value. Supply chain structure enhances the ability of a firm and its networks to learn new skills as well as transmit and exchange knowledge, which is crucial in internet-context where efficient, fast and reliable information flow is required. (Overby & Min 2001: 399-400.)

According to Overby and Min (2001), in today's markets key factors driving the competition are value-adding services, rather than prices. As competition takes place more between international supply chains, than between individual actors, trust is the key issue between supply chain partners, not power or hierarchies. The web and its technologies enhance the integration between and partners and within the chains, as well as initial integration between new partners and networks. (Overby & Min 2001: 402)

Le & Rothlauf (2008) examine in their study the entry mode choices made by four internationalizing e-commerce businesses (EBCs). They define an EBC as a firm fully dependent on the internet, with its unique value proposition based on the internet, thus excluding companies that use the internet only as one sales channel among many. In this study four EBCs and their internationalization processes were analyzed; Amazon, Google, Monster and Expedia. From the case studies of Le & Rothlauf (2008) strategic partnerships emerge as highly important, as all four companies of this study considered partnerships to be important for foreign market entry. According to the study, partnerships with players from the focal market can
remarkably facilitate initial market entry providing necessary experience, networks, financial resources and intangible resources, such as market knowledge. The case companies were able to quickly overcome market uncertainties and gain scale with the partnerships. Also promotional partnerships can be crucial in initial internationalization as firms can benefit from their partners’ popularity and thus increase their firm value by building legitimacy and trust. The case firms partnered only with well-known EBCs which offered better potential to exploit network effects. These partnerships were built with firms complementing the internationalizing firms’ own products and services, this way both partners enhanced each other’s activities. (Le & Rothlauf 2008: 12-13)

In the study of Filson (2004) was found that e-commerce firms should form promotional partnerships soon after their market entry, in order to gain the best possible benefit from that partnership. Marginal benefits seem to be the fewer the later the partnerships are formed; the longer internationalizing firm awaits, the more likely the customers have formed relationships and preferences for a competitor.

Thus, as an alternative or a strategic option, use of networks and partnering has positive effects on a firm's internet-based internationalization. High level of cooperative activity allow firms to share risks and resources required to enter international markets, and is consequently positively related to a firm's performance and ability to create competitive advantage. Based on literature review, another alternative in online internationalization is direct international online sales. This alternative will be discussed next.

3.2 Direct international online sales

Electronic retailing (or e-retailing or e-tailing), the sale of products and services to consumers over the web (e.g. Kennedy & Coughlan 2006), is one alternative for a firm in its internet-based internationalization. Web stores are executing electronic retailing in its most advanced form. In this chapter the features and aspects of international online retail processes are discussed.
The web and electronic retailing enable to close the gap between buyer and seller and thus eliminate layers of intermediaries, even though these parties were physically far away from each other. Thus the web enables also smaller firms with scarce resources to expand and reach customers from international foreign markets. Even though the products are tangible, and thus are not able to be transported online, as e.g. software can be distributed directly through online distribution channels, the web still holds many benefits for firms related to sales, such as marketing, communication between seller and buyer and the presentation of the products through web sites. (Loane 2006.)

Fundamental aspects in e-retailing processes are that of customer access and that of e-marketing efforts (Burt & Sparks 2003: 280). According to Hamill (1997: 306-307) the three principal applications of the web in international marketing are network communications, market intelligence and global sales promotion. Global marketing and advertising costs, as barriers to entry, are significantly reduced as the web allows reaching, in principle, a global audience in a low-cost manner, as discussed earlier in this thesis. (e.g. Hamill 1997) Online stores provide a 24/7, around-the-clock, shopping opportunity for customers, and at least theoretically widen the "store reach" area from local to global level. (Burt & Sparks 2003: 280, Sharma & Seth 2004: 700) Marketing is one crucial element also in the internationalization process as a company's marketing capabilities correlate with the speed of its internationalization. Marketing is exploited not only for attracting web page traffic, but also for reducing uncertainty, building and protecting reputation, differentiating the web store and its products and building customer loyalty. (Luo et al. 2005: 698-699) Online marketing can be effectuated in various ways, such as through marketing in online search engines, reciprocal cross linkages with other sites (Hamill 1997: 310) and, in growing importance recently, being present and (inter)active in online social media (e.g. Wirtz, Schilke & Ullrich 2010). The interactive, social features of the web will be discussed next.

In online context the customer is the marketing focus and the starting point for marketing activities. (Sharma & Seth 2004: 697) The web is a dynamic and constantly changing market, a "high velocity environment" (Wirtz et al. 2010: 5). In such an environment, firms that will succeed are those that can rapidly adjust their
supply to meet demand. Marketing in online environment is thus more concerned with better responding to customer demand, rather than conventional ways of influencing people in terms what to buy, when and how much. (Sharma & Seth 2004: 697)

In today's world online presence as such, solely having a website, is not enough. The Web 2.0, the new generation of the web, consists of social networks and their increased omnipresence, radical changes in the user behavior and relevance of user-generated content. The web 2.0 phenomenon and its development provide radically new ways for customers to interact with companies which operate in the internet. Web 2.0 phenomenon, its trends and characteristics, are changing the rules of the game called “create and capture value”. Four factors are proposed as fundamental when describing the Web 2.0 phenomenon: social networking, interaction orientation, personalization/customization and used-added value (Wirtz et al. 2010: 2-5). These factors will be discussed next.

Social networks are no more pure entertainment or tools for fun, but they have in fact become efficient business instruments for establishing contacts and for reaching customers (Wirtz et al. 2010: 11). Interaction orientation as one character of Web 2.0 phenomenon includes emphasizing user interest and gaining direct feedback from customers. Emphasizing interaction with customers in marketing functions is crucial for small startups in the international environment. Riggins (2000) suggests that the early success of many online start-ups is related to their superior understanding of how the web can be efficiently utilized for active interaction with the customers. Well planned and practiced interaction tools may be very powerful to enhance customer loyalty and thus create competitive advantage in the international environment. The web and the two-way nature of the online interaction enable firms to improve their offerings and customer service by gaining a better understanding of their customers. (Riggins 2000: 299, 306) The power of user-generated content and leveraging customers as key input developers is crucial. Users need a reason to come back and interact, and it is the company’s responsibility to create those reasons. In order to increase interaction it is beneficial to encourage negative as well as positive feedback as that can result in a more positive overall image of the firm. (Wirtz et al. 2010, 11)
Customization and customer-centric marketing mean using available user information and personalizing the offerings accordingly. The role of the user as an active participant in the value creation process (=user generated value) is a central element in the Web 2.0 phenomenon. User support and participation can, for example, improve a company’s credibility and enhance website traffic. User-added value may mean integrating user reviews and uploads on the firm’s website, or analyzing and tracking the user behavior online. (Sharma & Sheth 2004, Wirtz et al. 2010: 11-13)

One critical aspect in online sales is logistics, differing electronic retailing from the traditional retailing, since sold products have to be delivered from retailers with online operations to the end consumers. (Kennedy & Coughlan 2006: 519) The management of logistics may become a challenging issue for electronic retailers, especially in international online business. The logistics can be outsourced in order to fulfill the deliveries (Doherty, Ellis-Chadwick & Hart 1999). Customer loyalty and retention are also important for effective logistics since the logistical costs of serving continuous needs of permanent customers is substantially lower than those of serving occasional customer needs (Tanskanen, Yrjölä & Holström 2002).

According to Larvala’s extensive research on European e-retailing (2011), another fundamental issue in electronic retailing is the payment method. The payment method is one of the biggest factors when a customer is making the purchase decision; over 30% will not make the order online if they cannot find their favorite payment method in the web store. Only half of these people come back within next six months to see if there is a convenient payment method available, the other half will never come back to that particular web store. Hence, it is crucial that the payment methods are adjusted in a way that payment with foreign credit cards and foreign accounts works fluently. According to Larvala's report (2011: 10-11) two issues are of more importance than others when customers are choosing the web store where they want to visit regularly: firstly, the language of the web store and of the customer service, and secondly, the payment methods available.

The language of a web store and other factors related to different markets and cultures are discussed later in this thesis. Next will be presented and examined role
and meaning of physical presence at a focal market in internet-enabled internationalization. Physical presence and its importance are critical, argued questions in academic literature concerning online internationalization.

3.3 Meaning of physical presence

In academic discussion related to online internationalization the role and meaning of physical presence emerge often, both explicitly and implicitly. In several occasions physical presence is seen as an entry mode, even though the topic is related to online internationalization. A lot of research has been conducted on entry modes as such, some also on international e-commerce, but only few to investigate which entry modes e-business companies choose when expanding in foreign countries and if physical presence at the focal market is seen as a necessity or of any importance. In the few contributions made on the research topic the findings on the chosen entry modes diverge, also their sample of firms in the studies is heterogeneous regarding the company size and type. (Rask & Petersen 2004, Loane et al. 2004, Kim 2003) In this chapter the aim is to target this problematic, the role and meaning of physical presence in internet-based internationalization.

The importance of physical presence emerged from the study of Le and Rothlauf (2008). Le and Rothlauf (2008) examine in their study the entry mode choices made by four internationalizing e-commerce businesses (EBCs). They define an EBC as a firm fully dependent on the internet, with its unique value proposition based on the internet, thus excluding companies that use the internet only as one sales channel among many. In this study four EBCs and their internationalization processes were analyzed; Amazon, Google, Monster and Expedia. From the case studies of Le and Rothlauf (2008) emerge two issues above all: the importance of partnerships and the importance of physical presence. In this study it is suggested that simply setting up country-specific websites is not sufficient for entering foreign markets, at least if the market is important, since sole online presence is not sufficient in order to establish an effective market entry, penetration and strong market presence. In line with these results, Chrysostome and Rosson (2004: 6-7) and Petersen, Welch and Liesch (2002: 209) argue that the web alone cannot enable SMEs to penetrate foreign markets as it is a limited tool for it and that market penetration requires a local presence. Often
foreign market success requires adaptations and adjustments in products or in operation methods for e.g. different customer needs, government regulations or available distribution channels. These adjustments and a deeper market penetration may require local physical presence. Also the need for experiential knowledge cannot be fulfilled solely through internet as it deals with explicit knowledge rather than tacit knowledge which is needed in foreign market environment. The internet can facilitate firm’s gathering of objective knowledge but its role in providing experiential knowledge is not so clear. (Chrysostome & Rosson 2004: 7, Petersen, Welch & Liesch 2002: 210) In addition, the language used in a web page and the contents may also build a barrier for a successful internationalization, depending on the focal culture.

A firm's future performance at the chosen focal market depends on choosing the correct market entry mode, thus this choice determines the success of a firm's international operation and must not be neglected or underestimated. According to the study of Le and Rothlauf (2008), for companies like Google and Monster, providing only virtual products and services, pure locally adapted website was enough for expanding into minor and less important markets. The web allows reduced transaction costs and expansion with little resource commitment, and is thus a remarkable channel to create competitive advantage. But, especially the bigger and more important the market was, simple setting up of local web sites was not sufficient in order to establish an effective market entry, penetration and strong market presence. All four companies in this study chose to use FDI, for example an actual store or a representative office, for expanding internationally which is a clear indicator of the fact that physical presence was regarded essentially important. (Le & Rothlauf 2008: 2.)

It was shown in the case of Amazon that when a company is offering physical products, not only virtual, physical presence becomes even more important, as the geographical distances exist still when doing business in the web. Also, for proximity to local customers and for the creation of trust, physical presence may be critical. In addition, physical presence eases coping with specific market features and specificities. For example Amazon established independent foreign subsidiaries to be able to tailor its services and web site to the needs of the local customers. (Le &
Rothlauf 2008: 13-14) Physical presence, such as a store or an office, often with local employees, also helps companies adapt to local market conditions and especially gain market knowledge. The web provides a lot of information on foreign markets but it cannot provide experiential knowledge (Petersen et al. 2002: 210) which is crucial for an internationalizing firm to survive and prosper. Most of the investments made by the four case companies of Le and Rothlauf's study were full ownerships. Partial ownerships were the case only in few situations, and primarily in Asian countries, such as China, because of the cultural distance and difficulties to enter such a different market area alone. (Le & Rothlauf 2008: 13-14)

Thus, in the few contributions made on the topic, it is strongly argued that physical presence is of high importance when willing to enter successfully a new market with internet-based business. In academic literature also "bricks and clicks"- combinations (Kennedy & Coughlan 2006), meaning that firms have both online presence, click store, and physical presence, brick store, have gained some attention. Kennedy and Coughlan (2006: 518) state that these combinations provide both retailer- and customer-based advantages. Customers prefer to buy on the web from firms that have brick stores, since reputation and trust seem to be established by more traditional retailing, physical presence, more efficiently than by sole online presence. Reputation and trust on online business and as success factors will be discussed later in this thesis. Studies have implied that customer loyalty in traditional brick-and-mortar store and in online store are linked as consumers using both on- and offline shopping channels tend to spend more on average than customers using only a traditional shopping channel. (Dennis, Merrilees, Jayawardhena & Wright 2009) Retailer-based advantages from integrating online and offline channels allow retailers to leverage the strengths of each channel to make them work efficiently together and thus increase sales in both channels. Kennedy and Coughlan state in line with Sharma and Seth (2004) that integrating online and offline channels include also increased shopping convenience, easier product return and ability to offer information that may motivate a consumer to buy offline. (Kennedy and Coughlan 2006: 518, Sharma & Seth 2004)

In line with these results, Berry and Brock (2004) state in their study that the use of marketspace (online virtual world, the web) and the use of marketplace (the
traditional business environment) are not exclusive, and that the marketspace cannot replace completely traditional marketplace-based activities. Marketplace represents the physical world of resources, whereas the marketspace represents the virtual world of digitized information. These both worlds are intrinsically interconnected (e.g. Berry & Brock 2004: 190) but still each world possesses unique characteristics. According to the findings of Berry and Brock (2004: 209), marketspace indeed can enhance, ease and fasten a firm's internationalization process, by reducing barriers and providing wider access to information, but, firstly, does not guarantee internationalization, and secondly, cannot substitute the importance of the marketplace, the traditional environment.

In addition to the continued importance of the marketplace, Berry and Brock (2004) emphasize that the marketspace, the web, in itself and its mere adoption are not sufficient to overcome barriers to successful small firm internationalization. The authors claim that "Within firms, high-level usage of the marketspace must be effectively integrated into international business routines before the potentially beneficial effects on internationalization are evident at an organisational level" (Berry & Brock 2004: 210). By this authors mean that, even though the web, marketspace, can be used to overcome resource-related constraints, such as interaction costs, access to information and extension of business networks, entrepreneurs must understand that it is not enough to successfully internationalize a business. They must learn to utilize the marketspace in an efficient way, to support and complement pursue of opportunities in the traditional marketplace. (Berry & Brock 2004: 210-211). In line with this statement, and the findings presented earlier in this chapter, lies the remark of Burt and Sparks (2003) that the real benefits for retail processes of the web and e-commerce arise from the way in which tasks and activities are performed within the (e-) retail channel, and how the web impacts costs and efficiency. These tasks include e.g. marketing, distribution, store merchandizing and payment. Thus, the main point is how well the web is utilized for the overall strategy's and business model's purposes. (Burt & Sparks 2003) Berry and Brock state that complementary exploitation of both, the marketspace and the marketplace, is likely to provide the optimal internationalization route for small businesses.
Based on the studies conducted, a crucial question concerning internationalization and the web is if online internationalization can overcome the traditional internationalization process. In this chapter it has been stated that even though the web can be utilized to overcome barriers and constraints, it is not enough to successfully internationalize a business. Rather, complementary exploitation of both, the market space and the marketplace, is likely to provide the optimal internationalization route for small businesses.

Forsgren and Hagström's study implied a curious possibility that firms may actually reduce their physical market presence after having built well established customer relationships and thus reassured the local customer base. Simply put, this would mean that improved market knowledge can lead to less market commitment. (Forsgren & Hagström 2007: 300) Based on this statement, firms could utilize physical presence as a tool to gather useful market knowledge and take advantage of this knowledge for the success of their internet-enabled business in that particular market. This kind of thinking would be in line with fourth alternative in internet-based internationalization, regional approach to global e-strategies, presented in the next chapter. Regional approach implies that internet-enabled firms would develop different regional strategies for different physical market areas, even though conducting business online. This alternative, regional approach to global e-strategies, will be discussed next.

### 3.4 Regional approach to global e-commerce strategies

As described earlier in this thesis, the web has changed drastically the ways of conducting business and market scope of firms. Even SMEs are now able to reach in principle global market area with relatively low costs and fast speed. But, even though the web is considered as global, a literally world wide web, there are results of academic research indicating that online businesses cannot (or should not) approach different markets in a global way. In this chapter will be discussed if the nature of the web and e-commerce is indeed global, and whether or not it is possible to target (online) market regions with a global overall strategy.
When comparing different countries and markets, there are differences in consumer traits that affect their shopping and e-shopping behavior. Most important of these differing traits are gender, education, income and age (Dennis et al. 2009), so to say individual traits. But, not only individual characteristics matter in shopping behavior, as Lynch and Beck (2001) found out that e-buyers, customers of web stores, act differently online depending on their home region and user experience. Their study showed differences in beliefs, attitudes, perceptions and internet buying behavior, varying across different cultures and regions.

When shopping online, not purely a web site's marketing or attractiveness have impact on e-consumers' shopping behavior. The influence of social factors, meaning other people and surrounding environment, on purchase intentions is remarkable, since these factors are able to dictate whether or not one should perform a certain type of behavior or not. This influence originates from culture and other social motives of a particular market or country. These factors are widely recognized in studies of traditional shopping and purchase behavior, and should be acknowledged also in online shopping. (Dennis et al. 2009) Lynch and Beck (2001: 726) propose that it seldom possible to target these diverse potential customers with a uniform strategy due to cultural divergence and local market differences. Thus, it is necessary to develop consumer market-oriented strategies for global segments and adapt web content to meet micro- and macro-level market differences as well as consumer preferences, concerns and ideologies.

For example, social culture sets standards for individuals' needs and the products they choose to fulfill them. To analyze cultures, in the study of Lynch and Beck (2001) was used Hofstede's conceptualization of culture (Hofstede 1984, 1997), employing four dimensions: Individualism, Uncertainty avoidance, Masculinity and Power Distance. Macroeconomic variables included e.g. GDP (Gross Domestic Product), purchasing power and internet infrastructure and penetration in a country. Also the internet user experience, meaning the time spent online, the frequency of internet usage and the online activity of an individual in general, affects how individuals behave online. The study showed regional differences in all dimensions measured. The internet user experience turned out to be the critical difference between consumers. Users who were not so active online in general, held less
favorable attitudes toward the web, and were more wary of the web stores they shopped in, and less committed to return to these sites to complete purchases. These differences are important to note an address when building an international online strategy. (Lynch & Beck 2001: 729-734.)

The online activity is linked to the concept of trust. As online activities and e-shopping become more familiar to a customer, and a customer becomes more experienced online and on e-shopping, trust towards online channel grows, including both the web in general and a particular e-shop. Along with growing trust, customer tends to utilize online channels and e-shopping increasingly. (Dennis et al. 2009) The initial issue of attracting e-shoppers is thus to influence their online shopping experience, and raise trust and loyalty towards a firm. In addition to trust and loyalty, three other specific dimensions relevant to e-shopping experience have to be acknowledged: usefulness, ease of use and enjoyment. Usefulness refers to customers' perceptions that using online shopping channel enhances the outcome of their shopping. Ease of use implies the degree to which e-shopping is perceived as requiring minimum effort, e.g. in navigating, clarity, and ability of e-shoppers to find their way around a site. Enjoyment reflects the experiential and hedonistic aspect of e-shopping, as per how entertaining and trustworthy an e-shopping experience is to a customer. These social factors vary across individuals, and especially across cultures and market regions. Still, the individuals within a region or culture are all unique, with unique characters and consumer traits. The purely individual traits, such as gender, education, age and income, have also influence on e-purchasing behavior. The environmental social factors and individual consumer traits altogether moderate and affect one another. (Dennis et al. 2009: 1129-1131)

The evidence of the study of Lynch and Beck (2001) shows that is it seldom possible to target these diverse potential customers with a uniform strategy due to cultural divergence and local market differences, and that it is necessary to develop consumer market-oriented strategies even when operating online, challenges the assumption that the web is global by its very nature, and that simply putting a business online would make a company global. People still need to feel engaged somehow with vendors.
According to Dennis et al. (2009: 1129-1128), firms are to some extent able to influence e-shoppers' decisions and act as social motivators, by e.g. active interaction and communication with customers, establishing and developing brand communities, and raising trust and loyalty towards their firm among customers. As discussed also in this thesis, e-consumers' attitudes and trust towards an e-retailer are positively influenced by e-retailer's interactive action. Still, these actions are not at all certain to outrun other social factors of e-shoppers' purchase decisions.

Consequently, even though internationalizing firms may affect e-consumers' perceptions on the firm, companies that have an understanding of the culture of their target country, and have an ability to mirror this culture, will have a competitive advantage. A web site's content has to be designed and written in a way that customers from diverse cultures and contexts can interpret and understand it in the way it is meant to be understood. The consumer has to be provided with the feeling of trustworthy interaction, sometimes also with feeling of local, face-to-face, culturally-relevant interaction. To succeed in this a firm shall examine consumers, create its own multiple sites, follow consumer preferences, and tailor the text and content on their sites according to the region they sought to attract and target. A firm can do this on its own or join forces with an established global web site with already established mirror sites around the world, focused to specific markets. Or, companies can partner with local, culturally-specific portals. (Lynch & Beck 2001: 736)

In this section four different alternatives in internet-based internationalization have been presented and discussed. Strategic decisions define a firm's overall internationalization guidelines and pathway. The four alternatives presented are not exclusive and can be also combined. They have their own specificities and essential aspects, which differentiate them from each other.

First alternative presented is co-operative actions. According to previous academic research, core of co-operative actions is in finding support and legitimacy for internet-based internationalization activities. Also gaining visibility and thus attracting customers through co-operative actions, is an essential goal of internationalizing firms.
Second alternative is direct international online sales. Based on previous academic study, the essential question to focus on direct international online sales is marketing. As stated, marketing is a fundamental aspect in e-retailing processes and also in online internationalization. According to literature review, the most crucial operations of international online sales are logistics and online payment methods. Online interaction is critical for an internet-based firm’s internationalization process in today’s business world.

As the third alternative, is presented physical presence. Physical presence at a focal market implies a foreign direct investment, FDI, on the focal market. FDI means for example establishing an actual store or a representative office at a foreign market. Basically, physical presence means that the firm is visible and present in the market also in a more traditional, physical way, not solely with online presence. It is widely agreed in previous academic study that physical presence is necessary for a firm to obtain experiential learning, which is not possible through online activities. Experiential learning is stated to be crucially important for a firm’s further expansion.

Fourth alternative, based on literature review, is regional approach. According to previous academic study, a firm cannot approach diverse online markets with one single online strategy, even though the web is in its nature seen as global and limitless. Regional and cultural differences still exist, which an internationalizing internet-based firm should take into consideration in its strategies.

Closely related to strategy is the concept of competitive advantage. Gaining and maintaining competitive advantage is the key to succeed, as well as in home market as in international markets. As discussed, competition in online environment is even more harsh and fierce than in traditional business environment, thus it is even more important to be able to gain and maintain competitive advantage in online setting. In the next section will be discussed, based on literature review, essential aspects of building and sustaining competitive advantage in internet-based business environment. At the end of section four the theoretical framework, combining all these elements together, is presented both in textual and in graphic form.
4 COMPETITIVE ADVANTAGE IN E-BUSINESS ENVIRONMENT: SUCCESSFUL PURSUIT OF INTERNET-BASED OPPORTUNITIES

As stated, the web has made internationalization more feasible for also resource-constrained firms and thus expansion to foreign markets is not anymore the exclusive right of large, well established corporations. The web is described to be one of the most important changes of past decades that affect businesses: firms, also small ones, are able to internationalize via the web and via electronic commerce, without capital investments and in-depth foreign activities (e.g. Foscht et al. 2006) which was not possible before the web. But, in the online environment there is also a much larger pool of competitors. It is required for companies to find ways to create and sustain competitive advantage and succeed in their path of expansion. In research literature it is widely recognized and often stated that continuous improvement and adaptation are the only means to ensure that firms are not left behind as their competitive environment keeps on reforming. (e.g. Ching & Ellis 2004: 424)

Kotha et al. (2001: 773) state that competitive actions are the primary mechanism for firms to, firstly, erode the advantage of competitors and, secondly, establish and protect their own advantage. In a hyper-competitive environment such as the web firms taking more competitive actions have superior performance. Taking competitive actions such as continuously innovating is important for maintaining competitive advantage and thus for firm's propensity to internationalize and pursue international opportunities. In this chapter will be examined different aspects of creating and sustaining competitive advantage in online environment, closely related to a firm's internationalization strategy and alternatives.

Tetteh and Burn (2001) propose that SMEs can achieve global competitiveness without necessarily increasing their actual size, but rather by building on other assets, including virtual and soft assets. These assets include e.g. knowledge, information skills, digital resources, and also competencies for network management, meaning inter-firm relations and collaborative engagements with other firms. These diverse aspects of competitive advantage in international online environment will be studied in this chapter.
4.1 Role of knowledge and experiential learning

In academic research on internationalization, knowledge is one of the central concepts. Knowledge is stated to be the basis of a firm's internationalization, and that different types of knowledge affect the internationalization of a firm. (Johanson & Vahlne 1977 & 1997, Loane 2006, Hamill 1997, Cuervo-Cazurra 2011, Mathews et al. 2011) The traditional internationalization pathways have been quite extensively studied also from the point of view of knowledge, but the aim of this chapter is to examine the role of knowledge and learning in the light of internet-enabled internationalization.

As stated earlier in this thesis, the web has the ability to enhance firm's information acquisition and usage, as well as dissemination of information to customers, and thus facilitate and accelerate the internationalization. Information about a market, customers and competition can reduce the uncertainty and perceived risks of expansion. The study of Mathews, Healy and Wickramasekera (2011) confirms that the web has positive influence on firms' information and knowledge acquisition and usage in their internationalization process, and that the web has a positive influence on international market growth. The web is a very efficient knowledge-building tool: a tool to access and gather knowledge on new markets, industry trends, and supplier details, as well as on competitors with relatively low costs in real time, through e.g. search engines, information portals, discussion channels, online publications, etc. Accurate and timely information is a critical success factor for internationalizing companies as intelligent decisions cannot be made without relevant information. (Loane 2006, Hamill 1997)

In incremental internationalization models (e.g. Johanson & Vahlne 1977, 1997) the roles of knowledge and learning in a firm's internationalization path are emphasized. One of the greatest barriers to internationalization and to the initial internationalization decision to begin with is the lack of knowledge about foreign markets. (Johanson & Vahlne 1977) The primary concern for an internationalizing firm is how the previously gathered and developed knowledge can be applied in a new, unknown market. (e.g. Chetty & Campbell-Hunt 2003) Reversing conventional understandings of learned knowledge, Petersen, Welch and Liesch (2002) propose a
re-evaluation of internationalization theory in light of the remarkable changes to information and knowledge availability and management. The web improves the efficiency of information and knowledge flow and thus alleviates conventional barriers of internationalization. (Petersen, Welch & Liesch 2002)

The process of learning through experience can be remarkably slow, especially compared to the fast speed of online activities. Forsgren and Hagström (2007: 299) point out that the slow process of experiential learning can be replaced by "grafting" knowledge into the firm. One possible strategy is to acquire knowledge and expertise instead of learning from one's own current activities. Even though this strategy might not bring full capacity of learning and experimenting into the acquiring company, it implies a faster internationalization process.

According to Warkentin, Bapna and Sugumaran's (2001:150-153) study, companies have to be proactive in acquiring and utilizing the necessary knowledge in a systematic manner. In the dynamic environment of internet-based markets, information and knowledge are crucial assets, in order to be able to react to market demands efficiently and create competitive advantage. Warkentin, Bapna and Sugumaran suggest e-knowledge networks to be the key for firms' success in web-based business. E-networks mean collaborative networks exchanging strategic electronic commerce knowledge, e-knowledge, within and between companies.

Petersen, Welch and Liesch (2002: 212) point out that internet-based expansion probably enhances also more conventional business operations of a firm by enforcing experiential learning in a firm. The staff has to develop new, special skills to deal with clients from several markets and cultures over the internet which will likely have spill-over effects to more traditional operations. E.g. responding to language differences and diverse buying behavior of clients on the web requires special skills which should be applicable also in face-to-face situations. Thus the web may well promote international experiential learning and enhance other international processes and operations, both directly through web-based activities and as a result of generating spill-over effects to international business operations in general.
Traditionally, firms begin their journey on their home market, building and stabilizing their position and especially learning before going abroad and utilizing the experience and learning in foreign markets. After having entered a specific country, a firm obtains more and more knowledge on this specific market, and can utilize this information to further expand into neighboring countries. (Chetty & Campbell-Hunt 2003) But, some firms do not build up home-market knowledge before going abroad, instead they aim at entering foreign markets fast after the establishment. Reasons for quick foreign market entry could be e.g. building a brand name or investing abroad quickly can be seen to build remarkable first-mover advantage and thus risks and costs of the investment may become tolerable. Some routines and experiences from the home market are of little relevance or useless in foreign markets and thus succeeding in foreign markets may require de-learning of these old procedures and habits. Therefore it is better not to carry along knowledge from operations in the home-market as they might constitute a disadvantage. (Autio, Sapienza & Almeida 2000) The need of de-learning and information that might constitute a disadvantage are related to the notion of psychic distance, which will be discussed next.

4.2 Notion of psychic distance

Closely related to knowledge and learning, and an important aspect to take into consideration when defining strategic guidelines for internet-based internationalization, is the notion of psychic distance. Psychic distance means general uncertainty concerning foreign markets, which arise from perceived distance, similarities and differences between foreign markets and those markets firm already knows well. It does not mean the extent of differences as such, but the perception of those differences; the extent to which a firm expects its previously gained experience to be valid and helpful in the new market and how different the foreign market is perceived compared to already known markets. (Yamin & Sinkovics 2006: 345-346.)

Yamin and Sinkovics (2006) examine the characteristics of e-commerce and particularly psychic distance perceptions resulting from online internationalization. According to their studies, when a firm perceives a foreign market to be very unfamiliar and distant, it expects its prior experience not to be a good predictor of what is waiting for it in the new market and thus adopts a cautious approach and uses
resources to learn about the new market. This well-planned, profound preparing phase is likely to end up into good performance on the new market. On the contrary, when entering markets that are expected to be closely like home market, e.g. due to physical closeness, firms may neglect the needed market research and fail to recognize the important differences, which can easily result in poor performance. This is called psychic distance paradox (Yamin & Sinkovics 2006: 345-346, Petersen, Welch & Liesch 2002: 216) which is one crucial aspect to take into consideration when planning to enter new market areas. Psychic distance paradox is closely related to superstitious learning which means that managers of internationalizing firms interpret inaccurately their prior experience, for example assume a new market to be similar than previously entered markets have been, or some prior experiences are mistakenly generalized to concern also the new market area, and thus the preparing of managers is not valid or appropriate and leads to poor performance. (Yamin & Sinkovics 2006: 346)

Axin & Matthyssens (2002: 443) state that with online internationalization the theory of psychic distance does not hold, as the web enables companies to expand almost regardless of geography or culture. Also Yamin and Sinkovics (2006: 347-348) suggest that online internationalization most probably will create a perception of reduced psychic distance as online internationalization provides tools for specific customer targeting, interactive marketing and developing a fuller understanding of the customer. Thus the differences between cultures and markets may not be perceived as a major obstacle to internationalization into foreign markets. As Yamin and Sinkovics (2006: 348) add, this perception of reduced psychic distance is likely to be stronger when digitalized products are in question, compared to non-digitalized products. With digitalized products the firm looks at the focal market and its conditions solely through a loop provided by its interactions with the online customers. But, with non-digitalized products, some parts of the value chain are located in the foreign market, not only online, and through those activities a firm has an opportunity to gain insight in the market and its specificities. These experiences in the foreign market are likely to moderate the perception that psychic distance was reduced because of online interactions of the internationalizing firm. (Yamin & Sinkovics 2006: 348)
On the other hand, it is important to note that when the psychic distance, the perception of distance, is reduced by the online interaction, the danger of “falling into virtuality trap” is present. (Yamin & Sinkovics 2006: 340) It means that the learning gained from online interaction with customers dazzles the internationalizing company and it will not recognize the further need to learn about the target market by any non-virtual means. Online internationalization may lead internationalizing firms to mistakenly believe that they have already accurate knowledge about the foreign market, and thus abandon research, which can be fatal to the firm’s internationalization path, or prevent it to prosper and pursue international opportunities the best way it could if it had done a proper market research.

A remarkable point of view, related to the notion of psychic distance and the virtuality trap, is that online internationalization can enhance customer focus of the internationalizing firm, but not market focus. In the domestic context suppliers face mainly the same socio-cultural and economic environment that is embedding their customers but in cross-border settings a supplier does not have this insight. A firm can use its customers and online interaction with them as a key information source, but the reality of the host environment may remain hidden and is not necessarily revealed in this interaction. (Yamin & Sinkovics 2006: 349) Consequently, an internationalizing firm is not completely able to develop a full understanding of the focal market’s conditions when relying solely on customer information without any market research. Thus, focal market research is still important, or even vital, for internet-based internationalization and successful pursuit of international opportunities. Obviously direct customer interaction can provide a lot of useful information but that may not help a firm to identify areas where it lacks knowledge and where it should commit resources in order to gather more knowledge. The capacity to identify knowledge gaps can be crucial when willing to succeed in a foreign market. Even though a firm understands its customers’ behavior and needs due to online interactions, it may not learn about the market’s environmental conditions and features through online actions. Relying too much in customer knowledge and neglecting the gathering of market information can make the firm fall into “virtuality trap” (Yamin & Sinkovics 2006: 349) and fail in their pursuit of international opportunities.
As already discussed in this thesis, for internet-enabled firms the internationalization process is rather fast and discontinuous than slow and incremental (Forsgren & Hagström 2007) and thus seems to create a new internationalization pattern. Still, despite all the dynamic forces the web allows, internet-enabled internationalization is achieved not purely in a revolutionary manner, but rather with interplay of revolutionary and evolutionary steps. In the study of Foscht et al. (2006), concerning internet-based firm's internationalization process, it was revealed that the selection of target markets was incremental, as in their study international expansion took place in concentric circles, around the home market, expanding gradually, and not through a sudden global invasion. (Foscht et al. 2006: 568-570) Thus, the web seems to determine the choice of markets in terms of internet usage in the focal market; rather than emphasizing psychic distance, cultural affinity of reduced uncertainty when choosing which markets to enter, internet-enabled firms' motivation to choose a market seems to be firstly the maturity of markets in terms of internet usage and secondly the market potential. (Forsgren & Hagström 2007)

As stated, SMEs can achieve global competitiveness without necessarily increasing their actual size, but rather by building on other assets. In two previous chapters the focus has been in knowledge and learning, as well as in a closely related notion of psychic distance, and their role in building and sustaining competitive advantage in internet-based internationalization. Other assets important for SMEs in achieving global competitiveness include e.g. information skills, digital resources, and also competencies for network management, meaning inter-firm relations and collaborative engagements with other firms. Next will be discussed intangible firm-specific assets and their role in internet-based internationalization, and after that the focus is on the meaning of a top management team's capabilities for competitive advantage in international online environment.

4.3 Intangible firm-specific assets

As stated, the web has made internationalization more feasible for also resource-constrained firms and thus expansion to foreign markets is not anymore an exclusive right of large, well established corporations. But, in the (international) online environment there is also a much larger pool of competitors. It is required for
companies to find ways to create and sustain competitive advantage and succeed in their path of expansion. Both external and internal factors affect, firstly, a firm's decision to internationalize and, secondly, their ability to create and exploit competitive advantage (Dunning 1980).

Dunning (1980) states that when internationalizing, firms must possess some firm-specific advantages they can effectively transfer internationally. Kotha, Rindova and Rothaermel (2001) explore how the firm-level factors, including firm-specific characteristics and behaviors, affect the internationalization of internet-enabled firms. Resource-based view (e.g. Barney 1991, Amit & Schoemaker 1993) on internationalization focuses on the resources, assets and capabilities, especially intangible ones, a firm controls. In this view it is emphasized that resources that are unique and difficult to imitate or substitute provide firms with competitive advantage. Thus, according to resource-based thinking, it is crucial for an internationalizing firm to be able to create and effectively utilize unique resources and value combinations, and to be capable to protect them. Next will be discussed intangible firm-specific assets and their importance for internet-based internationalization, based on literature review.

Reputation

Reputation is in many cases highlighted as the most difficult intangible asset to create or imitate (e.g. Barney 1991), and thus an important source of sustainable competitive advantage. Reputation consists of perceived reliability, trustworthiness and quality (Barney 1991) and of overall appeal and perceptual representation (Reuber & Fischer 2011: 661) of a particular firm. Favorable reputation is a valuable resource as it can attract more investors, customers, suppliers and employees. This attractiveness can be followed by price-, cost- and selection-advantages. Favorable online reputation can yield remarkable competitive advantage in international internet-enabled markets since the online environment increases herding behavior, meaning that consumers imitate easily the purchase decisions of other consumers. (Reuber & Fischer 2011: 661, 664.) According to Kotha et al. (2001), uncertainty about reliability and trustworthiness is an essential feature of internet-based markets.
since there are a lot of new entrants and no physical closeness can be experienced online.

Kotha et al. (2001) state that web-based firms with an established reputation in their home environment more likely attract the attention of international users, compared to firms without such reputation. Favorable online reputation consists of two dimensions: firstly, being visible online (Kotha et al. 2001: 775) and, secondly, being seen as providing high-quality goods (Reuber & Fischer 2011: 668). Customers will not purchase from a firm they are not aware of, and they are more likely to turn to firms with which they are familiar. A firm can enhance its online visibility through search engine optimization, advertising in social media and purchasing keywords from information services. What comes to quality dimension, a firm can signal to consumers about its quality, with for example disclosing certain information online, affiliating with prestigious third parties and other reputation-building mechanisms. Also signals created by online entities, such as online ratings and reviews, are important reputational signals of a firm. Consistency across the quality signals is important as it leads to perceptions of higher quality among consumers. The online reputational signals, on one hand, influence buyers in geographically disparate markets, and, on the other hand, through perceived trustworthiness of a firm are positively related to the extent to which a firm can successfully exploit international opportunities. (Reuber & Fischer 2011: 668-669)

Trust

Trust is a crucial matter in e-commerce (e.g. Sharma & Seth 2004: 700). Grabner-Kraeuter (2002: 43) states that trust is the most significant long-term barrier for realizing the total potential of e-commerce to consumers, not only a short-term issue. A potential buyer cannot experience and evaluate fully the goods sold in the internet, and that is why the buyer usually is more skeptical on e-shopping than on traditional shopping. This information asymmetry between the buyer and seller may influence the buyer negatively and the buyers may be reluctant to engage in business with a firm they don’t know, and refrain from making the purchase because of the uncertainty. (Le & Rothlauf 2008: 4-5) Online retailer can use information policies, guarantee policies and reputation policies in order to influence trust expectations of
potential customers. Information policies aim at reducing the described information asymmetries between sellers and buyers with communicative measures, such as advertising and marketing. Guarantee policies are assurances of the right of return or of seller’s responsibility to compensate the price to the customer in case of damages. Reputation policies are the results of trustworthy behavior, use of references such as known brands, or cooperation with partners who already have a good reputation. (Grabner-Kraeuter 2002: 47-48)

Thus, according to e.g. Järvenpää et al. (2000: 47), consumers' willingness to buy from internet sellers is contingent on the seller's ability to evoke consumers' trust). Trust is affected by consumer's perceptions of the size and reputation of a store, and trust is associated with lower perceived risk of shopping at a particular site. Trust is based on the consumer's belief that the seller is able and motivated to deliver the goods or services reliably and of the expected quality. In online environment the creation of trust depends on an electronic storefront, not on any actual salespeople, and trust is mostly affected by the size and the reputation of a web store.

Based on the study of Grabner-Kraeuter (2002: 46-47), the website itself, as the mediate between the consumer and the merchant organization, provides the clue for online consumers of the efficiency and reliability of an online retailer; the content and the design of a web page together with a user-friendly and effective navigation system are the necessary preconditions to communicate trust to consumers. Reputation correlates partly with recognition, as is shown in the study of Järvenpää et al. (2000: 62) thus active promotion might also influence consumers’ perception of reliability before even making the first purchase. Physical presence in a particular market area was seen in the same study of Järvenpää et al. (2000: 62) as an important factor to evoke trust, partly because it enhances a firm’s visibility and recognition.

Interaction capabilities

As discussed also earlier in this thesis, interaction with customers is vital for a firm operating in online environment. Based on the study of Riggins (2000: 300), efficient online customer interaction is a powerful tool for firms to, firstly, differentiate and, secondly, gain customers' trust and loyalty as customers appreciate to be able to
interact with a firm and that they are listened to. The web enables small companies to challenge established large firms, create competitive advantage and gain customers' trust and loyalty with effective and innovative use of interaction tools. Interaction orientation and co-creation of value together with customers have to be strongly emphasized in a firm's business model. To obtain long-term competitive advantage, content and functionality of a web site have to be constantly updated and new technology has to be utilized properly in order to serve customers as effectively as possible and to help them to make the purchase decision. (Riggins 2000: 300-301)

Interaction capabilities enhance web traffic on a firm's web site, which in itself is an important intangible asset for a firm. Web traffic means the number of individuals who visit a firm's website in a specific time line. Since web-based firms have no location-based advantages, web traffic indicates how widely users are aware of and interested in a specific web site. The number of web traffic increases exponentially, firstly, because of enhanced interaction between masses of users, and, secondly, because users follow other users and thus prefer websites with higher levels or traffic. (Kotha et al. 2001: 772.) Web traffic is related also to reputation and trust, as discussed, since high web traffic empowers reputation, evokes trust and thus correlates with a firm's overall success.

**Online brand communities**

According to Reuber & Fischer (2011), online brand communities are an important firm-level resource positively related to a firm's successful pursuit of international opportunities. As stated earlier in this thesis, the web provides new forms of communication and interaction and of empowering customers. Online brand communities facilitate value co-creation by firms and consumers: through online brand communities buyers can communicate with sellers, acquire information and become more loyal towards a firm and, on the other hand, online brand communities provide firms with information on their markets and interaction with their customers, which also enhances firm's abilities to discover and exploit international opportunities. (Reuber & Fischer 2011: 667, 671)
The more engaged the firm itself and the community members are in the community, the more the online brand community enhances a firm's successful pursuit of international opportunities in internet-enabled markets. Engagement means discussing and communicating in public, which can evoke trust in potential new customers (Reuber & Fischer 2011: 672) and, also, prevent a firm from becoming too isolated from their online markets (Yamin & Sinkovics 2006).

In this chapter were discussed important firm-specific assets for SMEs in achieving global competitiveness in online environment. In the next chapter the focus remains inside the firm, but moves to the capabilities of a top management team and their meaning for creation of competitive advantage in international online environment.

4.4 Capabilities of the top management team

It has been stated in several studies that the role of the founder or the decision maker is essential to a firm’s internationalization process. The decision maker has the power to decide whether or not a firm is going to expand into foreign markets. The determination, drive and willingness to take risks to build a firm into a highly successful international one is up to the decision maker. Concerning the founder's spirit, the set organizational culture can remain long after the founder has left the business. Still, not purely drive and willingness of a founder or decision-maker can lead a firm into international success, some specific characteristics and capabilities are needed, too. (e.g. Chetty & Campbell-Hunt 2003) Based on a literature review, in this chapter are discussed these capabilities needed for a highly successful internationalization.

As Reuber & Fischer (2011: 664) state, one firm-level resource positively related to a firm's successful pursuit of international opportunities are online technological capabilities of entrepreneurial firms and their top management teams. In line with this statement are the findings of Kotha et al. (2001), showing that technology-related assets and investments are positively related to a firm's propensity to internationalize. Technological capabilities consist of being able to turn information technology into customer value. The technological context of web-based firms changes rapidly and constantly and thus, for survival, it is necessary for a firm to
know how to cope with it. Knowing how to integrate technology in the every-day operations provides advantage for a firm as it enables a firm to pursue internationalization opportunities provided in internet-enabled markets (Loane et al. 2004). According to Berry and Brock (2004), entrepreneur's or top managers' prior internet experience is critical for the success in internet-based internationalization, even more critical than a prior international business experience.

Technical functionality and integration, for instance, enables firms to better analyze their data (Zhu & Kraemer 2005), including information on markets, customers, competitors, etc., and thus discover and exploit international opportunities. Another critical dimension related to technical capabilities is website customization. Ability to customize a website aims at communicating effectively with customers in specific regions, building a stable presence in diverse market areas via the web and adjusting to preferences of potential buyers from very different cultural backgrounds. Thus the aim is to customize a website according to the needs and preferences of a specific audience. This enables firms to successfully pursue and exploit international opportunities. (Reuber & Fischer 2011: 670)

In addition to possessing technical capabilities, firms and their top management teams also need dynamic capabilities since the competitive advantage needs to be regenerated constantly in the rapid environment characterized by hyper-competition (D'Aveni 1994, Rindova & Kotha 2001) This means that a firm must be able to identify, evaluate and adopt technical innovations and this way exploit international opportunities. (Reuber & Fischer 2011: 671)

Reuber and Fischer (2011: 671-672) point out, in line with a long tradition of IE research, that the beliefs and behaviors of top management affect its internationalization (McDougall et al. 1994, Oviatt & McDougall 1994, Reuber & Fischer 1997) and its successful adoption of internet-related technologies, which, in turn, impact firm's successful pursuit of international opportunities. The decision makers' strategic international orientation profile becomes a determinant of internationalization as the readiness, internationalization pro-activeness and personal goals of a manager have influence on whether and in which way a firm chooses to internationalize (Mathews & Healy 2008: 5, Moini & Tesar 2005) Also in Forsgren
and Hagström's study (2007: 299) the strategic orientation of decision makers was highlighted, as they state that the top priority of an internet-based firm willing to expand internationally should be an explicit internationalization strategy aimed at international growth.

According to Luo, Zhao and Du (2005: 697-698), top management team's intangible skills, such as top management team's international experience, innovation capabilities and marketing capabilities, influence positively an internet-based firm's speedy foreign market entry and success in the focal markets. In line, according to Ching and Ellis' studies (2004), decision maker's characteristics such as age and level of education are important factors in determining the innovative attitude of SMEs. Internet-based firms that are able to move fast are also better able to create competitive advantage: early movers can gain larger customer-base which enhances the success of a firm and may serve as a driver of even wider expansion (e.g. Grant & Bakhru 2004).

To conclude, the key issue related to the discussion on internet-based internationalization (e.g. Loane et al. 2004) is that the web plays an important role, but just to have the web and related technologies in place is not enough. The real competitive advantage lies in how effectively a firm is able to integrate these technologies into its business model. Failure to adopt necessary technologies can lead into complete collapse of business. Technical and IT capabilities are thus crucial for the ability to take advantage of international opportunities, as are also top management team's characteristics and capabilities. Firm-specific assets together with effective collection and use of knowledge and experience define a firm's abilities to expand and prosper internationally. All the aspects of competitive advantage discussed in this section seem to be more or less interrelated and together form a powerful basis for successful pursuit of international opportunities.
5 THEORETICAL FRAMEWORK

In the literature review, there was not found a specifically outlined set of alternatives for online internationalization. Based on research, four alternatives were pointed out: physical presence, co-operative actions, direct online sales and regional approach to online internationalization. These alternatives do not necessarily outline each other; they may be utilized as separate or complementary strategic guidelines or ways to internationalize an internet-based business. Each alternative contains essential features and aspects that differentiate them from each other.

As strategy is closely related to competitive advantage, also this aspect is included in theoretical framework. Firstly, in the research, knowledge, learning and experience were closely correlated to creating and sustaining competitive advantage in the international online business field. Superior access to learning and resources is likely to create firm-specific advantages and be leveraged into firm's propensity to internationalize. Secondly, firm-specific assets and capabilities were emphasized as critical success factors for internationalizing internet-enabled businesses. The success factors, knowledge and firm-specific assets, in their part complete and affect the alternatives of internet-based internationalization. Vice versa, the strategic alternatives influence a firm's success factors and creation of competitive advantage.

This theoretical framework is shown in a graphic form next page.
Co-operative actions
  - Support
  - Visibility
  - Legitimacy

Direct international online sales
  - Marketing
  - Logistics, online payment
  - Online interaction

Physical presence
  - FDI
  - Experiential learning

Regional approach
  - Cultural / regional differences
  - Customization

Knowledge
Capabilities
Assets
Co-operative actions as an alternative in internet-enabled internationalization

Co-operative actions are widely emphasized in the academic literature related to internationalization, both in general and in internet-enabled context. High level of cooperative activity of firms, including partnerships and strategic alliances, is positively related to a firm's performance and ability to create competitive advantage. Partnerships can provide critical resources, such as financial resources or specific skills, as well as more abstract resources, such as visibility and legitimacy. Partnerships may also provide important knowledge and market power. Partners and allies may possess complementary assets to support and facilitate a firm's internationalization path and also provide learning gains, which both enable firms to create unique resource combinations and succeed their pursuit of international opportunities.

Direct international online sales as an alternative in internet-enabled internationalization

In direct online sales, meaning web stores, the web enables a firm to close the gap between buyer and seller and thus eliminate layers of intermediaries, even though these parties were physically far away from each other. Thus the web enables also smaller firms with scarce resources to expand and reach customers from international foreign markets. Marketing is a fundamental aspect in e-retailing processes and also in online internationalization process as a company's marketing capabilities correlate with the speed of its internationalization. Global marketing and advertising costs are significantly reduced as the web allows reaching, in principle, a global audience in a low-cost manner. Other most critical issues in organizing online sales are logistics and online payments.

The web holds many benefits for firms related to sales, besides marketing, such as high-level interaction between seller and buyer. Internet-enabled sales, internet-based marketing and interactivity of the web can be utilized and exploited for building firm-specific assets and competitive advantage; to reduce uncertainty, build and protect reputation, differentiate the web store and its products and build customer loyalty. Interactive orientation of the web allows gathering knowledge and gaining
direct feedback from customers, as well as improving a firm's credibility and analyzing user behavior online.

**Physical presence as an alternative in internet-enabled internationalization**

The role of physical presence at the focal market, when operating with an internet-enabled business, is emphasized in the academic literature. It is widely recognized and often stated that simply setting up country-specific websites is not sufficient for entering foreign markets. Based on literature review, the web alone cannot enable SMEs to penetrate foreign markets as it is a limited tool, since effective market penetration requires a local presence, FDI (foreign direct investment) in the market. Often foreign market success requires adaptations and adjustments in products or in operation methods for e.g. different customer needs, government regulations or available distribution channels. These adjustments and a deeper market penetration require local physical presence.

Also the need for experiential knowledge cannot be fulfilled solely through internet as it deals with explicit knowledge rather than tacit knowledge, which is needed in foreign market environment. The internet can facilitate firm’s gathering of objective knowledge but its role in providing experiential knowledge is not so clear. Physical presence, often with local employees, helps companies adapt to local market conditions and gain market knowledge. Companies can utilize physical presence at a focal market as a tool to gather market knowledge - although, improved market knowledge can lead to less market commitment. Physical presence and proximity to local customers may be critical for the creation of trust among customers. It is stated that "bricks and clicks"- combinations, to have both online presence, click store, and physical presence, brick store, have both retailer- and customer-based advantages.

**Regional approach**

Based on academic studies, e-buyers, customers of web stores, act differently online depending on their home region and user experience. Studies have shown differences in their beliefs, attitudes, perceptions and internet buying behavior. Consequently, it is seldom possible to target these diverse potential customers with a uniform strategy,
due to cultural divergence and local market differences, even though operating in principally global online setting. Thus, it is necessary also for internet-enabled businesses to develop consumer market-oriented strategies for global segments and customize their web content to meet market differences that affect consumer preferences, concerns and ideologies. Regional target strategy can in fact build and create trust among customers towards a web store, and thus create firm-specific assets and competitive advantage. Companies that have an understanding of the culture of their target country, and have an ability to mirror this culture, will have competitive advantage.
6 METHODOLOGY

6.1 Research strategy and methodology

This study is a qualitative research and the empirical data is collected by qualitative methods. The focus of interest is in analyzing the phenomenon, internet-based internationalization, and the alternatives SMEs have on their internet-based internationalization path. This phenomenon is not widely research in academic literature, neither are the alternatives addressed explicitly in previous research.

The choice of qualitative research is justified as the goal of this thesis is to study and form a deep understanding of the phenomenon of internet-based internationalization, more specifically, of the strategic alternatives SMEs face on their internet-based internationalization path. Qualitative method of research is explorative and relational, whereas quantitative research searches for statistical generalization and verifying. (Tuomi & Sarajärvi 2009, 85) Qualitative research takes place when the aim is to be able to describe a phenomenon, a process or a meaning, and gain a deeper understanding of it. The goal of this study is to gain better understanding of the phenomenon and for this goal deeper information than sole statistics is needed.

This study is also abductive in its nature, as theory and empirical research take turns. The research begins with a theoretical study, and is followed by the empirical part. Then the author goes back to theory in order to analyze and compare it to the collected empirical data; the theory needs to be tested with the empirical research in order to be valid. In abductive approach inductive and deductive approached are combined (Balnaves & Caputi 2001, 39); in inductive approach conclusions are drawn from a single unit case to general, and the theory is based on empirical evidence. Deductive approach means logical reasoning based on theory, and conclusions are drawn from general to single unit case. In abductive approach theory and empirical research take turns, and empirical research is needed to validate the theoretical study.
The purpose of a case study is to gain deep and detailed understanding of a case, by utilizing several sources of data, and with this information test the findings of theoretical research. (Eriksson & Koistinen 2005, 27) In this study the author has firstly taken a wide look on previous academic literature, and formed an understanding of the phenomenon. The empirical data was collected by utilizing both, firsthand information collected in interviews of the case companies and secondary information of the case firms collected from several sources, such as companies’ web sites and media articles. The empirical data is collected in order to deepen the understanding of the phenomenon, and to compare the results to the theory.

6.2 Collection of empirical data

Three cases companies were carefully chosen for this study. Firstly, DropIn.com, clothing web store owned by Off Consult Oy. Secondly, Erätukku.fi, web store specialized in arctic outdoor clothing of Erätukku Oy. Thirdly, Suksikauppa.com, a web store of winter sports equipment owned by Ski Web Shop Oy. More precise descriptions of the case companies will be presented later in this chapter. These three case companies are all in different phases of internet-based internationalization, which provides an opportunity to view the phenomenon from diverse perspectives. For understanding the various strategic alternatives firms have in their internationalization process, it is important to learn from diverse point of views and thus from companies in different situations.

DropIn.com is in the planning phase of internet-based internationalization, which provides a loop on the explicit strategic planning of this process, and describes well the motivations behind a firm's strategic guidelines and choices. As the strategic alternatives are at the core of this thesis, it is important to hear point of views from a firm in the planning phase; they are at the moment defining the strategic guidelines, and thus can explicitly describe the motivations and reasons behind these choices, as the questions related are "at the table" right now. A firm with a longer experience on the topic may not be able anymore to explain precisely what were the ideas and reasons behind decisions made in the past.
Erätukku.fi is already internationalized as they have activities in Sweden, too, in addition to Finland. They have experience already on international internet-based activities, and as they are at the moment planning their further expansion, they are able to describe the strategic alternatives and choices made, and in the light of their experience to describe why certain strategic guidelines are chosen over others.

Suksikauppa.com is already widely expanded, executing international internet-based business in several countries. This firm provides an experienced point of view on the topic as they can describe their choices and based on their experience define which choices were the right ones to make.

In the interviews of these three case companies it was possible to discuss of the case firms' situations and reflect their experiences and thoughts on the theory. The method for the interviews is semi-structured interview, meaning that the perspective and phenomenon are precisely known but not explicitly defined; the themes for the interview are given, but the body of the interview is flexible. With this method the interviewees may more informally and freely discuss the phenomenon and provide also that kind of information the interviewer has not foreseen. This way the interview can really enrich the research. Themes for the interview were based on the theoretical study, and were divided by the formed theoretical framework. Interviews took place in February 2013 and the language of the interviews was Finnish since it is the native language for both, interviewer and interviewees. Interviews took approximately an hour each.

The interviews were recorded and carefully transcribed. This data was analyzed and then divided into themes relevant for the research topic. Some direct citations are also included in order to highlight certain important notes and statements of the interviewees. The interviews and the citations are translated from Finnish to English, which does not weaken the reliability of the research since the focus is on the facts and contents of the interview, not on the precise linguistic expressions.

In addition to interviews, also secondary data was utilized, such as companies’ web sites and other publications, in order to form a wider picture of the companies’ internationalization paths.
7 FINDINGS OF THE EMPIRICAL RESEARCH

7.1 Introduction of the case companies

7.1.1 DropIn.com

Dropin on is a Finnish retail store of urban street wear and snowboard culture. The collections of Dropin include clothing and equipment from over 40 famous international brands. DropIn- values include top quality, reliability and authenticity, both in their products and in customer service. Their experience and personal style is emphasized. DropIn takes advantage of multichannel service, by serving their customers in an online store, in two actual stores located in Helsinki, and in mobile channels. Their vision is to be the number one leader in urban street wear and snowboard culture in Northern countries.

DropIn.com won the award of “The web store of the year” in 2010. The experience and knowledge of DropIn’s founder-owner mr Juha Valvanne has been remarked nationwide and he has been interviewed in several publications concerning e-commerce. Mr Valvanne is one of the most widely known and appreciated figures in Finnish e-commerce industry.

DropIn is at the planning phase of internationalization. The firm is not yet conducting international business, but the first steps towards internationalization have been taken since they are actively planning the process of international expansion.

7.1.2 Erätukku.fi

Erätukku.fi-web store is specialized in arctic outdoor clothing. Erätukku.fi states to be dedicated to life outdoors: they provide a wide range of camouflage clothing, footwear, accessories and outdoor clothing from diverse brands, also including their own exclusive brand JahtiJakt. The values of Erätukku include customer satisfaction, top quality with reasonable price, technical development and highest operation
standards. Mr Markku Jääskeläinen, the marketing manager of Erätukku Oy, was interviewed for this study.

Erätukku has several stores in Finland, and their web store Erätukku.fi operates in Finland. Erätukku's daughter firm is established in Sweden and they manage sales in a store in Borlänge as well as in the Swedish web store Erätukku.se, named Vildmarks.

Erätukku provides an interesting chance to examine the topic. As they have already experience on expansion to one foreign market, Sweden, they can mirror their future expansion on that experience. Also, as they are at the moment preparing their expansion, and drawing their strategic guidelines of further internationalization, they have these issues on the table, so to say, and they can clearly outline their strategic views and reasons for specific decisions.

Erätukku has representatives in several European countries, namely retail stores which have Erätukku-products in their collections. These retailers also have web stores, operating in their own countries, which can be found directly from Erätukku-web pages.

Erätukku is actively developing a global online sales network, a global Erätukku-web store. The global online sales network is planned to be built as both for entering new market areas and supporting already existing market areas' retail network. As Erätukku already has representatives in certain countries, they are willing to enlarge their presence and offerings in those countries through online stores. For completely new market areas web store would be utilized as an entry mode.

Concerning online internationalization strategy, Jääskeläinen mentions visibility in foreign focal markets as one of the biggest challenges and issues. In online environment, it is a completely different thing to build visibility, as compared to a actual store in a busy city center. Firstly, one has to get people notice the web store, attract them, and secondly, get them visit the web store. Only then begins the actual selling in the online store front.
In foreign focal countries Erätukku has already begun work for building visibility. They are preparing aggressive online marketing and promotion activities through social media and various e-marketing channels.

7.1.3 Suksikauppa.com

Suksikauppa.com, owned and run by Ski Web Shop Oy, is a Finnish web store selling ski equipment via a web store to end customers. Suksikauppa.com was established in 2006 in Finnish ownership. Suksikauppa.com sells winter sportswear known for elite design and technical performance. They offer skis, related equipment and also clothing for ladies, men and kids. The selected brands are of the very best in performance, also with an unbeatable affordable price. At first the web store was opened only for deliveries inside Finland. Suksikauppa.com has expanded their collection every year and now they are an international web store, driven to international success by focused selection of top quality products and bold attitude towards foreign markets. Mr Jerker Krook, the founder-owner of Ski Web Shop Oy, was interviewed for this study.

Suksikauppa.com started small and with light costs, and solely for Finnish markets. After the first, well accomplished year in Finnish market, the firm began to plan and prepare expansion into other Northern countries. First target market was Sweden, and after that Suksikauppa.com expanded incrementally to Norway, Denmark and Germany. Now, in 2013, Suksikauppa.com is an international web store that delivers the whole year round several quality ski brands directly from the manufacturers, through an own stock storage, via the web store to the end customers all around Europe. Practically, Ski Web Shop Oy has four separate web stores: Suksikauppa.com for Finland, Skidbutiken.com for Sweden, Skishopen.com for Norway and Skiwebkauf.com for German language markets. Through German language Skiwebkauf.com are handled also other European markets, with web pages translated into English language. Finland, Sweden and Norway are the main markets, with 90% share of the total sales, and have their own web pages. Deliveries to other European countries, practically to all countries utilizing EUR-currency, are handled through German web pages.
The own stock storage keeps the costs low and provides a 24h shopping possibility for their customer. The core values of the firm are good service and premium quality.

7.2 Alternatives of internet-based internationalization in fashion retail

7.2.1 Co-operative actions

When discussing about partnerships and networking, all three interviewees agreed that partners and networks are in many ways critical for internationalization process to succeed, and that an internationalizing internet-based company has to have a lot of partners in international markets.

Mr Jääskeläinen from Erätukku states that networks are the key to international success and partnerships in international focal markets are crucial assets, as the people in focal markets have the knowledge and experience on the focal customer base. Thus the knowledge and experience can be grafted from networks, and be utilized for successful internationalization. Mr Jääskeläinen describes that

"The customers and trade in every country is profiled in its unique way - thus the knowledge on local market and customers must be obtained separately for every market, and partners in focal markets are crucial for obtaining this information".

Networks and partnerships are important also for operational issues. Mr Krook from Suksikauppa.com accentuates that crucial aspects for internet-based business and e-commerce are logistics and payment methods, and these partners have to be selected carefully. In line, Mr Valvanne from DropIn.com states that

"The crucial issues to solve are logistics and payment methods, and finding the right partners for these issues is critical.”

DropIn has analyzed diverse options as for partnerships and selected those ones who offer the best solutions and chances. The selected partnerships help DropIn.com
solve important practical issues that are essential for their business to run. Mr Valvanne names Itella as their logistical partner. They have selected Itella, as Itella offers a wide range of possibilities both in home market and in foreign markets, and thus facilitates expansion to foreign market areas. Mr Valvanne has learned that

“One of the key questions is to find reliable partners who are able to guarantee the critical operations to function well. Itella is that kind of a partner, taking care of logistics and deliveries.”

For payment methods DropIn sees Klarna as the best choice. Klarna is an international payment method service, providing simple and safe payment solutions for internet-based businesses. Klarna’s payment methods cover several markets, and provide a wide range of reliable solutions for an internationalizing business.

These partners, Itella and Klarna, are selected in order to support DropIn.com to, firstly, organize their critical international operations, and, secondly, build a reliable, top quality image of the firm and of their service, both in domestic and in international markets. These partners have first-hand information on focal markets and can remarkably facilitate the firm’s internationalization processes.

Also in the case of Erätukku, according to mr Jääskeläinen, partnerships are searched for very practical, daily issues, such as online marketing and various operative actions. The most important issue in search for partners is to gather market knowledge and customer information. Mr Jääskeläinen states that

"In foreign markets, as also in Finland, without market information a firm only scratches here and there and has no clear goals, loses remarkable amounts of money and is not able to focus in right things. All in all, in online business, targeting and finding the customer is the most essential thing."

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1 http://www.itella.fi/english/
2 https://klarna.com/
Also represented brands can provide important partnerships and networks, according to Mr. Krook from Suksikauppa.com.

“...the brands make the difference, as they can provide everything we, our company, brand ourselves with - the products, marketing material, everything. How you brand yourself to the customer is the main question in internet-based business.”

Also visibility is an important issue co-operational actions can provide. Concerning online internationalization strategy, Mr. Jääskeläinen from Erätukku mentions visibility in foreign focal markets as one of the biggest challenges and issues. In online environment, it is a completely different thing to build visibility, as compared to an actual store in a busy city center. Firstly, one has to get people notice the web store, attract them, and secondly, get them visit the web store. Only then begins the actual selling in the online store front. Co-operation and networks can facilitate gaining visibility as they have information on effective channels and on best ways to reach the local customer base.

Co-operative actions are important in the market entry. For example, for efficient market entry to Sweden, Erätukku.fi has had a lot of benefit of partnering with Finnish Association of Hunters (Metsästäjien Keskusliitto) a strong player on the field; the Association co-operates closely with corresponding association in Sweden, which in turn opens up favorable networks for Erätukku.fi.

"Through this Finnish partner we have had contacts to their Swedish partner, and thus created partnerships to Sweden. It is a partner from the focal market, with information on the market. This type of partnerships we must develop, where we are able to gain market information and knowledge and also visibility on that specific market."

Suksikauppa.com emphasizes the importance of co-operation with other companies. Companies willing to target similar customer bases, can co-operate in marketing and promotion, and also promote each other in order to increase each other's visibility.
According to Mr Krook from Suksikauppa.com partners provide also knowledge. Still, for Suksikauppa.com, both in Finland and in international markets, the most important channel of information are their customers. The firm emphasizes and puts a lot of effort in discussing with their customers, e.g. in discussion channels, in social media and through e-mails. Active communication and encouragement in discussion and in giving feedback provide Suksikauppa.com with direct information on markets and on customers. This type of information is the most useful and reliable, as it comes directly from customers.

Thus, according to the empirical data, partnerships are crucially important for internationalizing internet-based SME’s. Partnerships and networks can provide important knowledge and information, visibility, operational support and help in branding an internationalizing company in focal markets.

7.2.2 Direct international online sales

There were no remarkable differences between interviewed firms when discussing direct international online sales. Various issues were pointed out but these experiences and opinions were in line with each other.

All three interviews revealed that logistics and payment methods are the biggest challenges to solve when internationalizing an internet-based business. The three companies interviewed maintain the central storage in Finland, organize sales through their web stores, and handle the international deliveries from their central storages to all foreign markets. Challenges related to logistics and payment methods are solved through partnerships.

Besides logistics and payment methods, there are a number of other remarkable challenges on building, developing and expanding an internet-based business. Firstly, gaining visibility and credibility is a very tough thing to do in online environment. As Mr Valvanne from DropIn.com states,

"Many people think expanding and internationalizing with a web store is an easy task. It is not. It is a completely different thing to establish a store on
Aleksanterinkatu here in Helsinki, compared to opening up a web store. One with a web store has to find the customers, get people's attention, attract them, and give them a good reason to visit the web store. It is challenging.”

Thus targeting customers is one of the key tasks in online sales. Another important issue is to be unique and to differentiate your web store from others. Mr Valvanne points out that

"How can you differentiate yourself from your competitor? How are you different and unique? Those are important questions, and difficult ones. It is important to be able to differentiate yourself with your service and collections. Price is not the main factor to be different. It varies from one market area to another, what is the most efficient differentiating factor for your web store. In one country you want to emphasize and bring out different things than in another market. For us, our brands are the core and the front line for our expansion.”

In line, also Mr Jääskeläinen from Erätukku.fi states that one essential thing is to know the market and customers you are targeting. Otherwise the resources cannot be focused and utilized the best possible way. He states that

"In foreign markets, as also in Finland, without market information a firm only scratches here and there and has no clear goals, loses remarkable amounts of money and is not able to focus in right things. All in all, in online business, targeting and finding the customer is the most essential thing. Firstly, gaining their attention, and secondly, getting them to visit our web site."

When preparing their online internationalization through direct international online sales, DropIn.com analyzes each market area specifically and only after careful planning executes their expansion plan. They change the collection according to the target market, and focus on emphasizing their brands and collections in foreign markets.

It was emphasized in the interviews that activity in social media is crucial in today's business. Social media is an efficient tool to build visibility, credibility and trust
among customers, and also to communicate with them. One has to be not only present in social media, but active, too. Openness and interactivity build trust towards the web store, especially in international context. As Mr Valvanne from DropIn.com states,

"Customers follow you and your actions, so it is better to be active and interesting. If there is no action at all to follow, they are no more interested in you. Social media, for example Facebook, functions the best possible way when customers themselves discuss and change opinions together, help out each other and give recommendations. Then the true power of active social media really shows."

Interactivity and social media is highlighted also in Erätukku.fi's strategic plans. For example, they are going to open up their own Youtube-channel to be able to communicate effectively with their customers and to provide a channel for customers to easily get to know the products, to find help and to create trustworthy image and reliability. Social media is also planned to be utilized for collecting customer feedback and creating discussion between and with customers on Erätukku-products and customer experiences. That way more customers could be attracted by showing them other customers' experiences and thoughts on Erätukku.fi. According to mr Jääskeläinen Erätukku.fi is putting a lot of emphasis on making their social media channels lively, active and interactive.

Mr Jääskeläinen has noticed that in online environment certain sociability is arising. Social groupings and communities gather together people with shared interests. These societies and groups share experiences and recommendations concerning e.g. products related to the shared topic of interest, and people in these groups follow the example of the group.

"As the web and online activities come more and more common, and traditional social interactivity between human beings decreases, people get to miss the feeling of being part of a social community and start looking for that in online setting. For this Erätukku has been partnering with Association of Hunters, and will begin cooperation also with other associations and organizations, in order to be part of these
specific communities through our own products. Through these communities and with Erätukku inside it also customers can get into and familiar with Erätukku."

When expanding abroad, DropIn's headquarters will remain in Finland. The major strategic guidelines and marketing guidelines will be defined in a Finnish headquarter, but in every market area will be a local regional manager. Mr Valvanne justifies this decision by saying, that

"It is essential to have someone there in the focal field. Someone who knows who to talk to, who has the networks, who knows where and how to advertise, etc. Information and knowledge are most efficiently gathered through people."

Mr Jääskeläinen from Erätukku.fi states that when selling clothing online, size of clothes is the crucial issue and problem to solve. A customer cannot know his or her size without trying on the product, so the seller has to provide some measurements to give an idea for the customer of the right size. Uncertainty at customer’s side is an important aspect to consider in online sales: uncertainty concerning the price, the quality and the deliveries. This uncertainty is even more highlighted in international online context. Mr Jääskeläinen says customers have to be convinced and their trust won before any sales can be made, especially when even the home country of a web store is not familiar to customers;

"The problem is to convince the buyer why he or she should order anything from that kind of a web store, coming from land of penguins they do not know anything about."

Concerning online sales, Jääskeläinen emphasizes the constant development of the web and of the technology. One cannot make too fixed or firm plans, since the online environment is in constant move and changes all the time in rapid pace. Thus, one key issue for a firm is to the able to change the strategy along the way, if something comes up and a change of direction or amendment of plans is necessary. A firm has to be able to adapt to these constant changes and adopt these changes into their activities.
The story of internationalization of Suksikauppa.com describes well their strategic decisions concerning online internationalization. When established, Suksikauppa.com started small and with light costs, solely for Finnish markets. In the beginning it was decided to focus only in one main product (skis) and in one side product (bindings). This decision to focus only in two products made it possible to offer a competitive collection right from the beginning. It was clear right from the start that there was lack of and huge demand for online ski shop.

After the first, well accomplished year in Finnish market, the firm began to plan and prepare expansion into other Northern countries. The first foreign market choice was Sweden, because of the size of the market and easy location, and the Swedish web store was opened in Skidbutiken.com, with similar base and look than the Finnish web store. The beginning of sales in Sweden was relatively uncomplicated; in Swedish market the delivery times are short (1-4 working days) and it is easy to follow up the market as it is so close. The customers are quite similar in Finland as in Sweden, at least on their online consuming behavior. Crucial issues in both countries are the price, product selection and trustworthiness of a web store. In addition, it is important that additional information on products and the company is easy to find. After opening a customer service number in Sweden the sales speeded up there.

After Sweden, Suksikauppa.com expanded incrementally to Norway, Denmark and Germany. Scandinavian markets are the main markets for Ski Web Shop Oy; other European markets are handled through German Skiwebkauf.com, via web pages translated in English. Now, in 2013, Suksikauppa.com, with its three other foreign web stores, delivers the whole year round several quality ski brands directly from the manufacturers, through an own stock storage, via the web store to the end customer. The firm emphasizes the benefit of this type of gradual growth and expansion, even though the business is conducted online; learning and experience gained from every single market area is highly important for success of future expansion. Mr Krook states that every single market is still different, some are more or less difficult than others, but from every market one can learn something. It is also important to know in time when to pull back; earlier Suksikauppa.com had activity also in Denmark, but decided to pull off from there since the market seemed too difficult and to demand too much of resources to be profitable. As Mr Krook from Suksikauppa.com states,
“When expanding an internet-based business into international markets, the most important element is the product you sell. Other thing is to brand yourself right. Our segment is small, our products are differentiated, and our collection is very wide and specialized – those issues are the key points in our international success. The product has to be good and differentiated, and something that people do not return easily. Our product, skis and related equipment, is like that. Price is the third essential factor in online business – it matters, as often people try on products in actual stores, and order those products from online stores with lower price.”

As said, Finland, Sweden and Norway are the main markets and altogether cover 90% of the sales. Suksikauppa.com does not market actively to other European markets. Their strategy is to “be there, but not actively promote ourselves in there”, as mr Krook states. If and when a market seems to get interested and orders become more frequent from a certain country, it is time to focus more effort and resources on that specific country. More effort means e.g. translating web store into focal country's language, providing customer service with local language and tying resources into marketing in that country. Thus, the English language web store provides an opportunity to be present in a market with low costs, or with no costs at all, and try out which markets begin responding and showing potential.

All in all, there are a number of challenging issues to solve when internationalizing an internet-based business through direct international online sales. The web site itself, with its language and other visible dimensions, is only one side of the big picture. Logistics, payment methods, visibility, targeting and convincing customers, choosing online collections, etc., are important questions to solve when internationalizing an online business.

7.2.3 Meaning of physical presence

The meaning of physical presence showed differences in opinions and experiences between interviewed companies. All three interviewed companies saw physical presence as in principle positive for an internet-based firm’s internationalization, but its meaning and necessity provoked diverse comments.
Mr Valvanne wants to expand DropIn.com to foreign markets also with physical stores, but for sake of restricted resources they will begin their internationalization with internet-based business. According to mr Valvanne, the firm is going to try out the market with a web store, internet based business, and see how it turns out – after that it might be time for direct investments in a foreign market. He justifies this by saying that

"It is important to be there in the market also physically. But, it is a question of capital, since the investments are bigger. Also, physical presence requires a lot more organizing, for example with staff, combining the web and the actual store, and so on."

In line, Suksikauppa.com has no physical stores or other physical presence in focal markets. They deliver the orders from their central storage located in Finland, are present in the focal markets with online presence and handle sales and customer service through online channels. Mr Krook from Suksikauppa.com states that

“Of course it would be good to have also physical presence at the markets. But it requires so much resources and effort that we have decided so far to remain as a web store.”

Based on the experience of Suksikauppa.com on the industry, price is the essential element in internet-based business. As many customers try out products in physical stores, and order them online because of lower prices, establishing a physical presence at a market may not be the most cost-efficient way to expand. Mr Krook has noticed that

“In any case, even though people would try the products on in an actual store, they most probably would make the purchase in a web store. The prices are most probably lower in internet than in actual stores.”

On the contrary, Erätukku emphasizes the meaning of actual stores, which the company has opened already 12 all around Finland. In the very beginning, Erätukku was established and functioned as a mail-order business. Web store as it is today was
established in 2003. Thus the firm has experience of operating without an actual, physical store, since the actual stores have been opened up after having experience of mail-order business. The brick-n-click combination of Erätukku.fi in Swedish market works well and both stores support each other. Erätukku opened first a store in Sweden in July 2012, after that opened the Swedish web store, www.eratukku.se. Mr Jääskeläinen from Erätukku states that

"Even though the web and online activities got stronger and stronger, still there will always be those people who want to check the web store first and then come to the physical store to actually see and feel the product. They are afraid of issuing the order online."

Mr Jääskeläinen states that when a brand is well-known and people know the product and the brand already, it is not necessary to have an actual store. But, when selling clothing, and if the brand is not so well known and established yet, it is important for people to have an opportunity to touch and feel the product, to get to know it so to say, and for that a physical store is important. Still, mr Jääskeläinen believes that the meaning of actual stores is becoming less and less important and the meaning of online store fronts will increase. For this, too, Erätukku.fi is really putting a lot of effort on developing their online presence and online sales.

The strategy of Erätukku.fi is to enter new markets with a web store. Mr Jääskeläinen does not think physical presence would be a necessity in those new market areas;

"So far we think that actual stores are not needed in the new markets. So-to-say physical visibility, being present, would be handled through fairs and other events."

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3 (E-kaupan lehti 2010 (1) 17.)
According to Mr Valvanne from DropIn.com, the most important issue is not the choice of entry mode, but the ability to gather knowledge and to learn. Mr Valvanne states that

"Regardless of the entry mode, it is important to learn of a market and use that experience. One should take one market at a time, learn from it, and use that knowledge and experience in future expansion. That way one doesn't have to begin from scratch in the next country."

Accordingly, also Mr Krook from Suksikauppa.com emphasizes the meaning of knowledge and information. Mr Krook states that the most important market information comes directly from their customers, through online channels and telephone, and thus physical presence in a focal market has not been considered as a necessity to gather market or customer information. The firm has been able to overcome the physical distance with active communication, providing several communication methods, being active in social media and in discussion channels, and encouraging their customers to discuss and communicate: thus the firm is able to gather crucial market and customer knowledge without physically being present at the market.

Thus, internet-based businesses would in principle benefit from having also bricks-and-mortar stores in focal markets, but with scarce resources they see it better to focus in online activities. In case of clicks-and-mortar combinations, as in case of Erätukku, it might work well and both stores, mortar and online, may support each other well. Still, according to the interviews, it is not necessary for an internet-based firm’s internationalization to succeed to have physical presence at focal market. In the frames of this study it is not possible to focus more specifically on the question if physical presence would remarkably fasten or facilitate internet-based internationalization; this problematic provides an interesting aspect for future research.
7.2.4 Regional approach

All three interviewed internet-based companies think international focal markets as separate, not as one global market area, regardless of the fact that all of them conduct their business online. There are some differences between them on how they see this problematic, but there is a consensus on the fact that each market area has to be targeted and reached separately, one at a time.

Mr Jääskeläinen from Erätukku states that even though the web is seen as a global market space, there are definitely differences between countries. As a concrete example he mentions Google-marketing, a very basic daily tool for international online business;

"As simple as that, for example Google-marketing is completely different when comparing different countries - its effects and especially the costs of it - the differences between countries are tremendous".

Also in line, Mr Valvanne from DropIn.com states that as there are important differences between EU-countries, strategies have to be developed for every country specifically, according to their regional differences. There are differences between different countries' regulations, culture, and habits, and,

"the most important of it all, are the numbers. By numbers are meant the size of e-commerce in a specific country, the size of the target market, and the statistics of e-buyers. Those numbers matter above all factors.”

Mr Valvanne with his team has gathered precise information and statistics on several foreign markets in order to prepare and plan their expansion strategy carefully. They have research information on markets, specifically on those important numbers Mr Valvanne mentioned. According to this information, there are tremendous differences between EU-countries that affect online business. Mr Valvanne states that
"Partly for these differences between countries, it is important to localize the web store according to the target market. Localization means for example translating the web pages into target country's language, providing customer service in customers' own language, and providing familiar payment methods for them”.

Mr Jääskeläinen from Erätukku.fi emphasizes the meaning of knowing the customers in focal markets. When preparing online expansion, it is crucial to be able to understand the market and the behavior of a customer in focal markets;

"It is a remarkable advantage if one can understand the behavior of a customer, and through that understand the functioning of a market. For obtaining this information partners are highly important.”

Valvanne points out that localization build trust: when customers consider the web store as local and as their own, regardless of the fact that from where the goods are actually delivered from, customers trust the web store remarkably more than a web store with foreign language and unfamiliar payment methods. Thus it is better if the origin of the web store does not show right on the front page, when expanding to foreign markets.

"EU-level regulation is needed to get rid of boundaries between EU-countries. Even though the web has no physical boundaries, there are remarkable differences between countries that affect executing online business between countries and market areas, and thus the trade is not completely free or limitless. EU-directives and other regulation could be a solution for this dilemma.”

Mr Krook from Suksikauppa.com has learned that it is important to beforehand properly gather information and knowledge on the focal market, since for example consumer legislation differs between countries. Also different features of visual look and functionality of a web store are appreciated and highlighted in different
countries. Concerning internationalization, the company highlights careful planning and well prepared business plan.\footnote{E-kaupan lehti 2009 (1) 3}

For Suksikauppa.com, customer orientation is one of their main principles. The web store functions in every main focal country, in Finland, Sweden, Norway and Germany, in the local language, as they want to provide customers a chance to get to know the products and terms of use in their own language. This has been a good decision since they have had a lot of positive feedback, e.g. that their web pages are easy to use and understandable. Mr Krook highlights language as a crucial aspect in an international web store:

“Meaning of the language is essential. Your language makes it your web store. If a customer is able to use a web store in his or her own language, it yields trust towards the web store, builds reliability and creates a feeling of safety.”

As most remarkable differences between market areas, Mr Krook from Suksikauppa.com mentions price to be one differentiating element between countries. Suksikauppa.com is able to price their products differently to different countries, according to a country's general price level. For example, more expensive products sell better in Norway, and products with lower price sell better in Finland. Other regional differences Mr Krook does not mention. The four web stores of Suksikauppa.com are built on same functional basis, with same pictures and functional features, and same type of information. The firm has not selected different products for different markets, thus they do not differ their offerings according to target market. Thus, otherwise than their language and price-based differences, these web stores seem identical, regardless of the focal market. Summing up the discussion of regional differences, Mr Krook from Suksikauppa.com states that

“In online business the most important element is the product you sell, and the crucial question is how you brand yourself, regardless of the focal market.”
According to mr Jääskeläinen from Erätukku, the strategy of Erätukku.fi is to expand their international online operations one market at a time, "piece per piece" as mr Jääskeläinen puts it.

"Markets and regions are so different from one another, you cannot go global with one single approach; most probably you will not get anything out of it. But, if you are able to take one specific piece, a market, in time, and get to know it and get inside it, through that it is a lot easier to gain possibilities to expand further".

By this mr Jääskeläinen refers to ability to gather knowledge from a market and transfer that knowledge into expansion to new market areas, as one can learn what works in a specific market area and utilize that learning in further expansion.

"Then, when examining the next piece, one can avoid the pitfalls one has learned with the previous pieces.”

For Erätukku.fi it is highly beneficial that they already have an existing network of retailers in several foreign markets. Mr Jääskeläinen states these retailers are in a very important position in the strategic planning of online expansion since they possess important information on markets and customers and, especially, they have experience on retailing the products of Erätukku.fi in a specific market environment. Thus they can provide valuable help, specifically in creating visibility and attracting customers.

Thus, based on empirical data, online environment cannot be seen as one global market area. There are remarkable differences between countries, even though the web as such may not respect the geographical boundaries. It is important for an internet-based SME to understand the features and specificities of focal markets and behavior of their international customers in order to succeed in their online internationalization.
8 CONCLUSIONS AND DISCUSSION

In the literature review, there was not found a specifically outlined set of alternatives for online internationalization. Based on research, four alternatives were pointed out: physical presence, co-operative actions, direct online sales and regional approach to online internationalization. These alternatives do not necessarily outline each other; they may be utilized as separate or complementary strategic guidelines or ways to internationalize an internet-based business. Each alternative contains essential features and aspects that differentiate them from each other. In this study, these alternatives are exclusively presented in the theoretical framework.

As strategy is closely related to competitive advantage, also this aspect is included in theoretical framework. Firstly, in the research, knowledge, learning and experience were closely related to creating and sustaining competitive advantage in the international online business field. Superior access to learning and resources is likely to create firm-specific advantages and be leveraged into firm's propensity to internationalize. Secondly, firm-specific assets and capabilities were emphasized as critical success factors for internationalizing internet-enabled businesses. The success factors, knowledge and firm-specific assets, in their part complete and affect the alternatives of internet-based internationalization. Vice versa, the strategic alternatives influence a firm's success factors and creation of competitive advantage.

Empirical data was collected from interviews of three different case companies. The theoretical framework is studied in the light of these interviews. In this chapter these results are concluded and discussed. Firstly is presented a framework, based on findings from empirical data. Secondly, these findings are discussed more profoundly.
Co-operational actions

Support
Visibility
Legitimacy

Marketing
Logistics, online payment
Online interaction

Physical presence

Direct international online sales

FDI
Experiential learning

Regional approach

Cultural / regional differences
Customization

Knowledge
Capabilities
Assets
8.1 Co-operative actions

The critical importance of co-operative actions, partnerships, networks and alliances with foreign partners, is confirmed. All the three case companies agreed that finding right partners is essential, as they can provide necessary support, visibility, knowledge and legitimacy.

In addition to that, partners can be of high importance for branding, as was revealed in the interview with Mr. Krook from Suksikauppa.fi. Branding your web store in a correct way is crucially important, as it can determine the success of your whole expansion to that specific market. Partners can be very useful in building a wanted image in a customer's mind of your brand. For example, which firms your web store is co-operating and promoting with, what kind of associations are you creating with your marketing, what do these associations mean in a specific culture, what do customers think about that kind of promotion, how is your web store different from others, etc.

Also, partners in a focal foreign market are crucial for finding and targeting the customer, as Mr. Jääskeläinen from Erätukku.fi pointed out. Partners in a focal market have the information and knowledge on local customers, critical for an internationalizing internet-based firm. If a firm does not know where to focus, how to utilize resources, how to find, target and attract customers, etc., most probably the expansion will not turn out as successful as it would end up with right partners. Knowledge and information are the key issues to be obtained from partners, essential for successful expansion in online environment.

Finding partners seems to be one of the very first steps and key questions in internet-based internationalization path. Partners for organizing logistics and online payments were mentioned in every interview. Also promotional partnerships were found important. Built networks are also seen as important for building further networks, which in turn can be of very high importance in further expansion.
8.2 Direct international online sales

Interviews of the case companies confirmed that the essential points in direct international online sales, in sales through a web store, are marketing, logistics and online interaction.

Marketing includes for example branding, again highlighted. Ability to brand your web store in right way is crucial for international expansion to succeed, as mr Krook from Suksikauppa.fi lined. Marketing is essential part of branding, of making your brand and your web store visible in a specific way.

Also related to marketing, is differentiation. In online environment it is even more important and yet challenging to differentiate your web store from all the others, as mr Valvanne from DropIn.com stated. Being visible online is a challenging task, and capability to be visibly different from others is critical.

According to all three interviews, logistics and online payments are the most essential questions in organizing online sales. Finding the right partners for these central questions is critical.

All the case companies emphasized the meaning of activity, interaction, and communication with customers. Social media and other online interaction channels are very important tools for an internet-based firm to utilize and take advantage from. It is not enough to be online, one has to be active and, above all, interactive. Being active and communicative online yields trust towards a web store, and builds loyalty among customers. Online environment is heading towards more and more sociable communities, according to mr Jääskeläinen from Erätukku.fi, and internet-based firms should be able to notice this development and play along with it.

8.3 Physical presence

According to previous academic study, pure online presence is not enough and physical presence is necessary for a successful international expansion. All the three case companies saw the meaning of physical presence slightly differently; that
successful online expansion is definitely possible also without any physical presence at the focal country, but, still every one of them admitted physical presence would be good for a stable position in the focal market. "Yes, physical presence would be good, but..." was the opinion in every interview concerning this topic.

Suksikauppa.com has been conducting online business for several years in foreign markets, solely on online basis. Mr Krook from Suksikauppa.com stated that they have so far decided to remain as online business because they have not seen necessary to invest in foreign markets that widely as an FDI would require. Also mr Jääskeläinen from Erätukku.fi outlined that physical presence in focal markets would be handled via fairs and other occasions. Mr Valvanne from DropIn.com, based on their research, said FDI's would be too much in the beginning, but, as also mr Krook pointed out, it is possible to "test" the market potential with a web store, and then invest in the most promising markets when possible.

This way, online channels would be utilized for penetrating the market and learning from it. Then, according to the case companies, after experimenting and gaining knowledge on markets, an FDI would become in question. This progress is reverse to findings of previous academic study, as it was stated that FDI's are required and necessary in order to properly penetrate a market, to gain knowledge and learn about the local environment, and to support online presence. The case companies see physical presence as important, but differently than previous academic studies have shown.

8.4 Regional approach

In literature review regional approaches were seen as one alternative way of expanding online business to international markets. In the interviews in became clear that the market decision and regional approach is more important than just another alternative; it is one of the first if not the first strategic decision to make when expanding internet-based business abroad. The target market determines all the other strategic outlines and aspects: firstly a firm must decide which market to target. Only then can they look for the right partners. Partnerships and networks may be part of the decision of which markets to target, and they are critical in finding the right
solutions and answers to questions, such as: what are the customers like, how to find and target customers, how to build visibility in the chosen market, whether gained experience is useful and valid or not, how to organize logistics and online payments, etc.

Every case company stated it is necessary to create a specific strategy for each market, even though expanding with an internet-based business. Thus, it is necessary to build strategic guidelines, networks and operations on each market separately. As per regional and cultural differences between countries, customization is important, as localization yields trust among customers. When customers are able to utilize a web store in their own language, it is more likely that they feel it as their own. Also numbers matter in the expansion and targeting decision, not only cultural aspects, as statistics such as internet penetration, market potential, etc. differs between countries, too. Thus first decision to make is the focal market. Information and knowledge are crucial at this point, in order to be able to choose between markets, and further, to target them correctly. Then can be defined the strategic guidelines as well as decisions on partners and operations.

8.5 Knowledge

All in all, as was pointed out in theoretical framework, and confirmed in three interviews, knowledge is the crucial concept in every aspect of internet-based internationalization. Knowledge guides strategic decisions and it is both the trigger and the result of different operations. Internationalizing companies gather information and knowledge through several methods and through strategic decisions, and utilize knowledge and experiences as guidance for their further strategic decision.

Even though the web could be seen as one global market area, there are remarkable regional and cultural differences between countries which must be taken into consideration also in internet-based business. Thus information and knowledge must be obtained for each country and market area separately, and each target market must be targeted with a specific strategy. Experience and learning gained from one foreign
market area can, according to all interviewed case companies, be utilized for the benefit of further expansion.

Partnerships can provide important information on focal markets. All three case companies emphasized the fact that the customers and trade in every country is profiled in its unique way, and thus the knowledge on local market and customers must be obtained separately for every market. Reliable partners in focal markets are crucial for obtaining this information. With right kind of, specified market information a firm is better able to find and target customers, focus their resources and succeed. Three case companies agreed on the fact that the best way to collect information and knowledge is through people, thus through partners on focal field. In online context also interactivity, for example in social media, is an important way for firms to collect valuable information. Being active in social media and interacting with customers is highly important for several reasons, such as building trust and loyalty among customers, and especially for gaining first-hand information and knowledge.

8.6 Theoretical implications

The theoretical implications of the study are shown in the framework based on empirical study. The goal of this study was to contribute in the discussion of internet-based internationalization and focus in examining and analyzing the alternatives of internet-based internationalization. In previous academic research the alternatives were to be found, but not exclusively named nor throughout explained. In this study the diverse alternatives are named and described, and also their interrelations and timeframe have been shown, as can be seen in the framework based on empirical study. The elements are still there, but based on results of this study also their interrelations and timeframe can be described.

Also, in previous academic literature, the importance of physical presence was highly emphasized. It was stated in several studies that online presence is not enough for efficient market penetration or international success. According to the results of this thesis, based on interviews of three case companies, meaning of physical presence is way less important than was estimated in previous academic literature. All three case
companies stated physical presence would be good, but because of limited resources it is not seen as the first step of internationalization, and they have found ways to come over the lack of physical presence. If seen necessary, physical visibility can be obtained through fairs and other occasions at focal market. Also, efficient interaction with customers at international markets can cover the lack of physical presence, and still an internationalizing internet-based business can become highly successful. Thus, online presence can be enough for efficient market penetration and for success in international online environment.

8.7 Managerial implications

The author is one of the owner-entrepreneurs of Disturb Scandinavia Oy, running a clothing web store called Disturb.fi. This position creates personal interest towards the research topic and provides new viewpoint in the discussion. As Disturb.fi is at the moment in the planning phase of internationalization, this research has offered a lot of interesting viewpoints to mirror in the author’s own company’s situation. During the interviews for empirical data, it became clear that the strategic plans of Disturb.fi have been following quite similar ways than the interviewed case companies. The plan is to “test” the focal markets with a web store, and see through online activities which market areas seem the most profitable for further investments.

One important managerial implication of this study is the high importance of regional strategic approach in internet-based internationalization. Even though the web has brought a lot of new possibilities and in principle limitless potential to grow, there are still remarkable problems to solve, obstacles to pass and limits to cross before internet-based internationalization can take place. Physical boundaries do exist more or less also in online environment.

This aspect has been considered also in Disturb Scandinavia Oy, but referring to the results of this study, this aspect has to be given even more attention to. The market choice is the very first strategic choice to make in internet-based internationalization process, and this decision guides all the other strategic choices. The choice of target market can be initiated also by other strategic elements, such as existing partnerships, but still the choice of market defines remarkably the rest of strategic alternatives. Not
one single strategy is enough when willing to expand widely into foreign markets, but an internationalizing internet-based firm must prepare and execute several strategies, based on market information and knowledge.

8.8 Validity of the study and suggestions for future research

The aim of this thesis has been to contribute in the discussion of internet-based internationalization and focus in examining and analyzing the alternatives of internet-based internationalization. Fashion retail has provided the context for this study. By internet-based businesses are meant electronic retail companies, namely operating their sales through web stores. In this thesis fashion retail has been understood as retail of specialized goods, liable to specific, changing trends and constant development.

The objective of the study has been approached through the main research question:

*What alternatives are there for internet-based SMEs when internationalizing their business?*

The approach to the main research question has been supported by two sub-questions:

*What kind of strategic choices do SMEs make concerning internet-based internationalization?*

*How to create and sustain competitive advantage in online environment?*

Firstly, the previous academic research has been studied widely. The results of previous theoretical research have been shown in theoretical framework. Theoretical framework has been tested by empirical research, namely interviews of three case companies. As the topic is internet-based internationalization, these three case companies were chosen firstly, based on the fact that they all conduct internet based business, and secondly, based on their phase of internet-based internationalization. These three case companies are all in different phases of internet-based
internationalization, which provides an opportunity to view the phenomenon from diverse perspectives. For understanding the various strategic alternatives firms have in their internationalization process, it is important to learn from diverse point of views and thus from companies in different situations. The results of empirical data are shown in the framework based on collected empirical data. Based on the theoretical research, verified by the empirical data, are formed and explained answers for the presented research questions. The strategic alternatives and choices of internet-based internationalization process are presented and discussed. The critical elements of creating and sustaining competitive advantage in online environment are examined and explained. Thus, the validity of the study is shown.

For future research, an interesting point of view is provided by EU-regulations and their impact on online business in EU-region. Even though European Union is namely an area of free, limitless trade, there are still remarkable differences between countries and obstacles in online sales from one EU-country to another. This problematic has been mentioned in this study, but within the limits of this research this question could not be examined more profoundly.

According to the empirical data, it is not necessary for an internet-based firm’s internationalization to succeed to have physical presence at focal market. In the frames of this study it is not possible to focus more specifically on the question if physical presence would remarkably fasten or facilitate internet-based internationalization; this problematic provides an interesting aspect for future research.

Another direction for future research is the required capabilities and assets of internationalizing internet-based firms. These aspects were highlighted in theoretical research of this study, but they were not opened up in empirical data. When asked during interviews of critical assets and capabilities, firms did not open these issues and did not seem willing to discuss about them. Critical capabilities and assets may be a difficult topic to discuss with firms, or to obtain information about, but it is an interesting area for future research.
REFERENCES


