



# Framework for an Internationalization Strategy

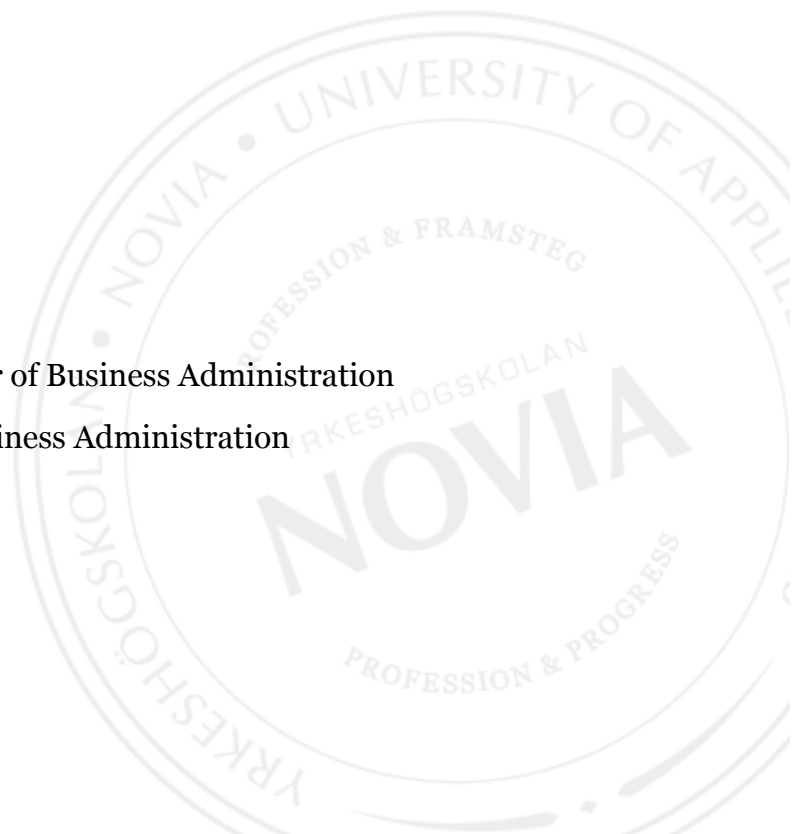
Case: Company X

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# **BACHELOR THESIS**

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## **Summary**

In the world today, globalization is growing and borders are shrinking. Companies are taking advantage of that, by internationalizing their businesses to gain new customers, gain a bigger market share and get an advantage point against rivals.

The aim of this bachelor's thesis is to build a framework for Company X to help them internationalize. Through different analysis I will try to find out if Company X's industry is favorable for internationalization, is the target country's market suitable for the company and which would be the best strategy to use to internationalize.

The theoretical part of my bachelor's thesis will consist of internationalization, small companies and strategic internationalization, strategic planning and closely related subjects. I will conduct my research with the help of different strategic analyzing tools, which will help me to find answers to my research questions.

The result of my study will tell if Company X should internationalize, if the target country is suitable and which entry mode to use when internationalizing.

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### Abstrakt

I dagens värld växer globalisering och gränserna krymper. Företag tar nytta av detta och internationaliserar deras verksamhet för att få nya kunder, förvärva en större marknadsandel och för att få en fördel mot konkurrenten.

Syftet med mitt examensarbete är att bygga upp ramarna för Företag X för att hjälpa dem genom internationaliserings process. Genom olika analyser kommer jag att försöka komma ut med ett svar till om Företag X industri är gynnsam för internationalisering, om mål marknaden är gynnsam och om vilken metod skulle passa bäst för Företag X att använda för internationalisering.

Examensarbetets teoridel består av litteratursökning och behandlar ämnen som internationalisering, små företag och strategisk internationalisering, strategisk planering och andra liknande ämnen. Jag kommer att utföra min undersökning med hjälp av olika strategiska verktyg som kommer att hjälpa mig att komma till ett resultat i undersökningen.

Resultatet i min undersökning kommer att visa om Företag X borde internationalisera, om mål marknaden är gynnsam och vilken metod skulle vara bäst för Företag X att använda för internationalisering.

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Språk: Engelska

Nyckelord: Internationalization, Strategic Planning, Globalization, Internationalization Framework, Strategy, Digital Printing, Sweden

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# **1 Introduction**

The world today is changing constantly, and it is getting smaller and smaller with the help of new technology, the internet and globalization. People are more international than a decade ago and businesses are following, and if not it is easy for them to fall behind in development. Companies are taking advantage of globalization, and using it to expand their business, to acquire new customers and spread their costs.

The internet and shrinking international barriers are creating a lot of new opportunities to expand sales, knowledge, production and to easily expand internationally. Even though it is easier to internationalize a company today than a decade ago, it still requires a lot of strategic planning to be able make a decision. To see if it is actually profitable for a company to internationalize, it is important to analyze all the factors that can impact future decisions.

Digital printing means modern printing with the use of laser and ink-jet printing methods. The digital printing industry is growing and developing at a fast pace. It is estimated that the digital printing industry will be worth \$187.7 billion by 2018, which means it has a annual growth rate of 7,4%. Digital printing's share of the printing industry was 9.8% in 2008 and will grow to 20.6% by 2018. There are also a few trends in the digital printing industry that many companies are yet not fully tapping in too, and could be beneficial especially in internationalizing to gain an advantage over the companies that already exists in the market. (Smithers Pira, 2013).

I have partnered with Company X to help them analyze the process and to build up an internationalization framework. I will analyze the industry as a whole, the target country Sweden and also conduct other different analysis to conclude which market entry strategy would be most suitable for Company X.

## **1.1 Aim**

The aim is to create an internationalization strategy framework for the case company to help them make an transition to the Swedish digital printing market. The aim of the research is to get a better picture of the target markets attractiveness in the digital printing market. This work will try to answer the following research questions:

- Is the digital printing industry favorable in internationalization?
- Is Sweden's digital printing market suitable for the case company?
- Which strategy of internationalization is the most suitable for the case company?

## **1.2 Research methods**

In this thesis I will be using different strategic analysis tools. My research is conducted in four areas, which are industry analysis, analysis of Company X, target country market analysis and market entry strategy. In industry analysis, I will be using Porter's 5 driving forces and internationalization drivers to get a better picture of the industry. I will be using a SWOT: TOWS Matrix analysis to see where the company has strengths, weaknesses, opportunities and threats. To analyze the target country market I will be using the PEST analysis, CAGE framework and benchmarking of the main competitor. In the last part of the research I will be using market attractiveness and competitive strength matrix and a scoring model to get the conclusion of which entry method to use for the new market.

## **2 Company X**

Company X is a small-sized company that operates in the digital printing market. The company has been operating since 1997 and currently employs 13 people. The company has one office in Finland where production is done. The company's revenue was 2 008 000 € in 2014 and the company has customers all over Finland and a small amount of exports to different countries all over the world. The company is known for fast and precise service. Company X's products and services as graphic and digital services, exhibition stands, posters, high definition sublimatable photo panels etc.

## **3 The digital printing industry**

Digital printing means modern printing with the use of laser and ink-jet printing methods. In digital printing the images are sent electronically with the help of PDF's or similar files to the printing machines, where the images are printed on different papers, textiles or other material like aluminum photo panels. (Rouse, 2010). Digital printing can be done in a lot of different sizes and styles, but digital printing companies also specialize in printing on other materials like fine art materials (canvas and quality photo paper), fabric, outdoor advertising and exhibition materials and structures.



Offset printing is a method that uses mass-production printing where the pictures and texts are transferred to rollers in the machine and then to the print media, which is most often some kind of paper. Offset printings advantage and biggest difference is the high-volume printing ability. Offset printing has high starting cost, which means it is not suitable for small-volume printing and this is their weakness compared with digital printing.

Digital printing is a developing and growing industry compared to the offset printing industry. In 2013 the digital printing industry was a \$131.5 billion industry globally, and it has been estimated that it will grow to be a \$187.7 billion industry in 2018. That means the industry will have an annual growth rate of 7.4%. There are studies that indicate that the digital printing's share of the printing industry will grow from 9.8% (2008) to 20.6% in 2018. This clearly shows that the offset industry is slowly starting to lose its grip on the market, and will be replaced by the constantly developing digital printing industry. Digital printing has also the advantage of being more suited for changing demands and customization than offset. (Smithers Pira, 2013). Even though the offset printing industry is losing its grip and offset printing had a setback during the 2008 financial crisis, it has been estimated that the net balance will grow around 20% this year globally. Offset print is still making most of the revenue of all printing but digital printing is growing constantly. (Hakola, Maailman painomarkkinoilla kasvua? , 2016). 2015 was a good year for the digital printing industry and the Nordic digital printing companies have made a lot of new investments in new machines, which show that there are strong beliefs for the industry's future. (Hakola, Takana hyvä digipainovuosi, 2016).

The set-up and production costs of these two industries are very different. Digital printing has lower set-up cost, but it has high costs per print unit. Offset printing has high set-up cost, but has low costs per print unit. With the changes happening in the printing industry, it has researched that the prices of digital printing will rise, while the prices of offset printing will get even lower. This price aspect will not affect the growth of the digital printing that much, because the digital printing industry can make up the price aspect with other factors as faster production, faster adaptation to changing demand and more developed technology. (Smithers Pira, 2013).

New trends in the digital printing market, which also compromise the market position of offset printing, is new machines for digital printing that can print high-volume cheaper than before and also allow the digital printing companies to do mass-production faster than offset companies. Also the digital printing market has a lot of new trends that give digital

printing additional value for example digital cutting machines that can produce customized packages and customized shaped cutting on different materials. These machines can revolutionize the industry by reducing labor costs and help automatization of the after printing process such as cutting or creasing. (Winslow, 2016).

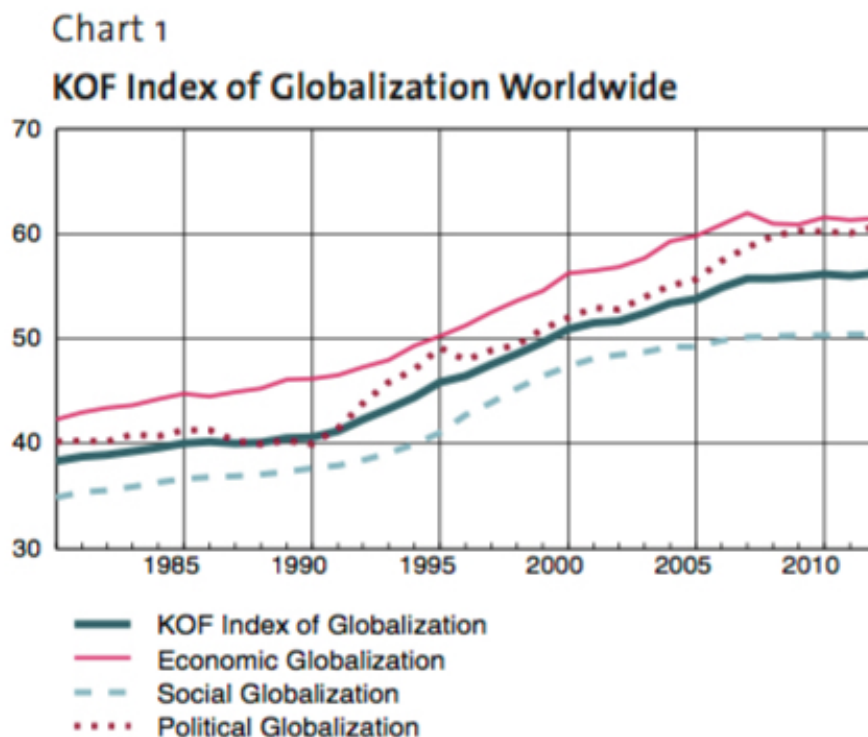
## **4 Internationalization**

International business refers to companies trading, exporting, selling products, global sourcing, investing, manufacturing infrastructure and transferring assets across national borders. The goals in international business are to organize, produce, conduct, source and market business for value adding purposes on an international level. This can be done with either physical or intellectual assets. (Cavusgil;Knight;& Riesenberger, 2013, ss. 2-3).

Internationalization is a big and complicated process and it can acquire a lot of work of companies to research different subjects, establish way of internationalization and also start the process of actually getting internationalized. There are big risks and difficulties that come with internationalizing, and that is why companies need to have strong and valid reasons to consider such a big strategic move. (Grunig & Morschett, 2012, s. 27).

### **4.1 Globalization**

The world we live in today is getting smaller and smaller. The borders have been opening up and governments are coming together to form different free trade markets, economic unions and common markets. Political and legal policies, social and trade barriers and tariffs are shrinking, which is making internationalization easier for companies. Know-how and innovation is also easily shared with the help of internet and other communication tools. This also helps companies to internationalize and still be able to share information in real time. (Krugman;Obstfeld;& Melitz, 2012, ss. 31-39). The world has been developing and coming together but it is starting to look like we have soon reached the top of globalization. Globalization has the possibility of growth as long as we keep helping third world countries be a part of it. (KOF Swiss Economic Institute, 2015).



**Figure 1: Index of Globalization. (KOF Swiss Economic Institute, 2015).**

The KOF Index of Globalization Worldwide shows the index of globalization on three different factors: economic, social and political.

The economic dimension comprises the extent and impact of factors like cross-border trade, investment and revenue flows in relation with GDP, trade and capital transactions restrictions globally.

The social dimension is measured in three categories, the first one is cross-border personal contacts via telephone calls, letters, tourist flows and size of foreign population. The second one is cross-border information flow via internet, TV and foreign press products. The last dimension is cultural closeness to the global mainstream, like the number of global branches as IKEA, book imports and exports in relation with GDP.

The political dimension is measured by the number of foreign embassies in the resident country, number of international organizations that the resident country is part of, number of UN peace missions the country has engaged in and the number of bilateral and multilateral agreements the country has concluded since 1945.

As you look at figure 1, you can clearly see that all the three factors have stopped their growth and are moving forward steadily. You can also clearly see that the social factor is in a lower level than the political and economic growth. (KOF Swiss Economic Institute, 2015).

## **4.2 Advantages and Disadvantages of Globalization**

Globalization has many different advantages and disadvantages. It would be possible to continue the list of these for very long, but in this chapter I will take up a few of the advantages and disadvantages I think are important to be aware of.

### **4.2.1 Advantages**

- Free trade and the benefits for consumers

One of the big advantages globalization provides is free trade. The barriers and tariffs between countries and continents give more freedom to import and export different products from. Modern technology and engineering has provided most of the world with the opportunity to move products and information around faster and cheaper. This provides companies with the possibility to easily expand their products and services to a larger customer base. The consumer also profits from free trade as much as companies, because they are able to lower prices of products and services via the more open market. They have an ability to choose products and services from a large selection and this also pushes companies to compete with each other, which often leads to lower prices or other kinds of benefits to consumers. (Occupy Theory, 2014) (Ebeling , 2004).

- Labor and knowledge movement

Today's workforce can easily move around and provided knowledge and skills to the highest bidder. Also it is easier for future workforces to educate themselves or get more knowledge from somewhere else if their residence place cannot offer them the education they need. This leads to labor and knowledge movement. Because of the internet the labor force does not always have to relocate to work in another country. Companies can also have a huge benefit from this, because if the resident country does not have enough educated labor in a certain field, they are able to get the labor easily from somewhere else. (Occupy Theory, 2014) (Kulkarni, 2016).

### 4.2.2 Disadvantages

- Negative affect on developing countries

Globalization often causes rich get richer, and the poor get poorer. The big companies are taking advantage of the developing countries and moving their production there for cheaper production prices. For the big companies it drives down production prices while increasing their competitive stand. The labor force in the developing countries is driven to the position where they have to take under paid work, because the competition of work itself is so big in the developing countries. That leads to the situation that the people living in developed countries are not able to rise their living standards and they get stuck in a so called ‘poverty zone’. Due to the situation where the workforce in the developing countries has to accept under paid work, they are also put in jobs with high security risk. This happens because the labor force doesn’t have the power to affect their job situation, salary, work time and work environment, which simply said means that they really don’t have any worker’s rights. (Pologeorgis , 2016) (Occupy Theory, 2014) (Morgan, 2015).

- Negative affect on the environment

Globalization has a huge effect on the environment, which can be either direct or indirect. Globalization is a growth-stimulating factor, and growth in the economic sector usually leads to need of more resources, more transport and more production. This impacts the environment in many different ways such as deforestation, increased amounts of carbon dioxide in the air, other pollutions, and reduction of biodiversity. These are problem, which are promoted by globalization. The situation is worse than ever and the environment is suffering. (Huwart & Verdier, 2013).

### 4.3 Free trade markets

Free trade market means unrestricted purchase and sale of different products and services between countries, without the constraints as tariffs, duties or quotas. A free trade market gives an opportunity for nations to maximize their economic output and income growth. It is often a win-win situation because it enables nations to focus on their other competitive advantages. (Investopedia).

A single market means a trade bloc involving multiple nations that have a mutual agreement to permit free movement of capital, labor, goods and services. In EU’s single

market there is coordination in social, fiscal and monetary policies. (Business Dictionary, 2016).

The EU Single Market and the European Free Trade Association (EFTA), which includes Iceland, Lichtenstein, Norway and Switzerland, are coming together and making the movement of goods, services, capital and people easier, cheaper and faster. The EU trade policy is based on four main policy's, which are; create a global system for fair and open trade, open up markets with key partner countries, make sure other play by the rules and ensure trade is a force for sustainable development. All this gives a great fundament for a single market, which makes it much more easier for companies, people, products, knowledge and money to move around freely. (European Commission, 2016). EFTA also has an agreement with the EU to be a part of the single European market, which makes the single market area even bigger. (EFTA, 2016).

There are multiple free trade markets in the world between areas and countries. For example the North American Free Trade Agreement (NAFTA), includes USA, Canada and Mexico. The agreement has existed since 1994 and has an exchange of good worth US\$ 2,6 billion each day. (NAFTA NOW, 2016). Another example of trade market is The Transatlantic Trade and Investment Partnership (TTIP) between USA and Europe, which is currently under planning. TTIP would be a bilateral trade agreement, which means it is an exchange agreement that favors the other party in certain goods and also removes some tariffs and other trade barriers. TTIP is mostly about reducing regulatory barriers for big businesses, banking regulations, food safety regulations, environmental laws and the sovereign powers of individual nations. TTIP has gotten a lot public critic's and it is not yet been decided if the agreement will take place or not. (Williams, 2015).

#### **4.4 Drivers for internationalization**

As stated earlier, internationalization comes with big risks and difficulties. Companies can decide to internationalize for multiple reason, or companies can also just have one good reason to internationalize. Some of the drivers can be:

1. Find and seek new opportunities for growth through new markets and customers. There are possibilities for tapping into a market demand that is not that strong in your domestic country. This way it is possible for the company to gain new

customers and a stronger position in the market. If the company succeeds, it can benefit highly by increased turnover, higher margins, other profits and growth.

2. Developing economies of scale in for example production, R&D and marketing. When the market is bigger than the domestic market or production in a country is more economical, companies may want to create economies of scale to lower for example production cost and get bigger contribution margins.
3. Access low-cost labor, raw material, lower production costs and have a closer location to supply sources. It can be economically profitable to internationalize a company to reach raw materials near and also access cheaper labor force. Even opening up a new production plant in a new country where the cheap raw material, supply sources and labor force is can lower production costs in long-term, create a vast contribution margin and lower operating expenses.
4. Gain new capabilities and ideas for business methods. By internationalizing a company will employ new labor force, and usually this labor force will have new ideas, thoughts and capabilities the company can take advantage of. The new ideas and capabilities can be gained in one country, but the company can use it in their operation internationally.
5. Access international key customers and invest in potential new relationships. Sometimes companies are obligated to internationalize to reach their customers, who often in this case are international as well. When companies internationalize because of potential relationships, it is usually because of a plan to establish a joint venture or similar. This can be done for example to gain a stronger market position or new customers.
6. Balance risks and gain strategic power. Companies can balance risks with spreading their operation to multiple market areas. If one market is affected by a financial crisis, another area might actually benefit from it. When companies operations are spread like this, the risk of the crisis effects on companies finance will be smaller then without international spread. Companies can also have a big advantage for going international for strategic reasons like gaining power over locally based competitors. This power can be used to start a price war.

7. Confront competitors and oppose competition in the domestic market. By gaining a stronger position in foreign markets, it will almost automatically give a stronger positioning in the domestic market. (Grunig & Morschett, 2012, ss. 28-33) (Cavusgil;Knight;& Riesenberger, 2013, ss. 10-11).

Also the situation in the world can be intriguing for a company to internationalize. The barriers of trade and investment are lower than before, and that is making it easier and more inexpensive for companies to start international trade or investments. The financial markets are integrating, which is making it much easier for companies and customers to perform trade and investments in foreign currencies. (Cavusgil;Knight;& Riesenberger, 2013, ss. 12-13).

#### **4.5 Risks of internationalization**

Internationalization always includes different types of risks, and the biggest of them can be divided into four different groups called cross-cultural risk, political risk, financial risk and commercial risk.

The cross-cultural risk appears from differences in language, culture, lifestyle, religion and customs. Language can cause problems in communication, and culture and lifestyles can highly affect employee's work behavior and buying behavior. If a company is not aware of a country's religious customs and beliefs, it can cause a company to do marketing, which local people could find insulting. For example if a company would internationalize to a Islamic country and not pay attention to the Islamic culture in marketing, the company could offend its customers and get a very negative image and in the worst case even have to pull back from the market.

Political risks appear in situations where foreign governments can politically, economically or legislatively restrict or affect company's business. Government's in many countries has the possibility to restrict the access to markets, which can lead to huge setback for a company that is trying to internationalize. For example if a company internationalizes to a country where is restricting laws against the business that the company conducts, it might create a huge loss in revenue if they couldn't conduct their business as planned.

Financial risks appear when there are big variations in exchange rates. This can easily be forgotten, but can actually have big effects on international business because business transactions are usually made in multiple currencies. For example a company exports



products to a country that has another currency. The products exported and paid in the foreign currency can cause a loss of profit if the currency's value would fall from inflation or other harmful economic conditions.

Commercial risks appear when companies don't develop or execute their business decision with proper strategies or fail to use to strategies that would be fitting. This can lead to huge profit loss or attempt to internationalize unsuccessfully. For example if a company decides to enter a joint venture with a prospective partner and later notice that the partner has financial problems. This could cause both the companies to declare bankruptcy in a worst-case scenario. (Cavusgil;Knight;& Riesenberger, 2013, ss. 7-9).



**Figure 2: Four risks of internationalization.** (Cavusgil;Knight;& Riesenberger, 2013, s. 8).

## 5 Small companies and strategic internationalization

When discussing and looking at research of internationalization, most of the topics concentrate on larger enterprises going international, but in the latest years small and middle-sized enterprises (SMEs) internationalization has become a more popular topic. Small and middle-sized companies are a vital part of the economy as a generator of development, innovation, growth and job opportunities on all levels. EU has made forecasts indicating there will be a 90% global growth that will originate outside the EU in

the coming years. SMEs will and can play an important part in global value chains. (European Commission, 2016). The European Commission has also done a study of internationalization of European SMEs. According to this study the larger the organization the more they tend to internationalize, but in fact 38% of small and 53% of medium-sized companies are actively exporting goods and services. Also the study came up with the result that the smaller the country, the bigger tendency its SMEs have to be international. The most popular sector for international SMEs is trade, manufacturing, transport, communication, research and most of the SMEs start their journey to internationalization through imports and exports. ( European Commission, 2010).

The crucial reasons and issues behind SMEs internationalizing are often growth and knowledge related issues, technology, development and the existence of foreign demand. You could say that already existing international competitors are making SMEs to consider internationalization to get a better position in the industry. Changing business environment and trade liberalization is making it easier for SMEs to internationalize, because costs are lower and trade liberalization is making bureaucratic demands in internationalization smaller. These changes are important for SMEs to have a possibility in internationalization, because the expenses and resources do not need to be big. (Kjellman ;Sundnäs;Ramström ;& Elo, 2004, ss. 11-13) (Onkelinx & Sleuwaegen, 2008).

Even though internationalization need is growing, the survival of SMEs is not guaranteed, because internationalization has many risks. Internationalization can put a limit on SMEs with limited financial and managerial resources or the company spreading their resources too thin over many markets, internal cooperation might get confusing and problematic, underdeveloped strategic planning and not enough strategic know-how, and the lack of good administrative and control systems. (Onkelinx & Sleuwaegen, 2008) (Kjellman ;Sundnäs;Ramström ;& Elo, 2004, ss. 64-65).

## **6 Strategic planning**

There are many ways of defining what exactly strategy means, but Alfred D. Chandler defines it as ‘the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals’ (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 3). There are different strategies, which can be used to achieve many different goals. With strategic planning organizations are able to align their vision, mission, and long- and short-term

goals to achieve a certain goal. Strategic planning, depending on the strategy that is chosen, can use different tools through the strategy process as statistics, questionnaires, and existing data from different departments of the company.

## **6.1 Strategy levels**

Strategy can exist on three different levels in an organization and can be divided in to corporate-level strategy, business-level strategy and operational strategy.

Corporate-level strategy has a comprehensive outlook of the organization and how value can be added to the whole organization. This can include strategically trying to solve geographical capacity, expand the assortment of products or services, purchasing other businesses to be able to grow your own business and to distribute resources.

Business-level strategy concentrates on separate businesses competing in their specific market. This strategy level concentrates on innovation and how to do competitive moves and react to others competitive moves.

Operational strategies concentrate on how the factors of the business-, and corporate-level strategies fit together in terms of components, resources, processes and people. This strategy needs to be closely in link with business-level strategy.

The levels of strategy should normally be linked somehow throughout the company to get integration in the strategy the company uses. Each of these levels should always be aligned with the others. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 6-7).



**Figure 3: Levels of Strategy.** (Chitrangumar, 2013).

## 6.2 Strategic position

Strategic positioning concentrates on how the company's strategies will affect the external environments and how a company will strategically position operations to be able to have the maximum profit. The external factors can be separated into four different parts, which are environment, culture, capability and purpose.

Culture is a big external factor that affects strategic positioning of a company. As stated earlier cultures have a big impact on a company's operations and therefore it automatically becomes one of the strategic factors that play a role when companies plan their positioning.

When companies plan strategically their positioning they will have to take in account environmental factors, that is the political, technological, social and economic situations and aspects that are different everywhere and can quickly change. These aspects and situations can create opportunities or threats for companies, and have therefore different attractiveness levels for strategic positioning.

Companies all have different capabilities when it comes to competences and resources. With resources and competences the company has to strategically determine the company's own weaknesses and strengths, which combined with the environmental factors

can tell the company if they will have a competitive advantage or disadvantage in where they choose to position their company.

To be able to properly position a company, company's purpose has to be very clear. A company's purpose can be expressed in different way for example through missions, visions and objectives. Especially the mission and vision could be called company's ultimate goal, and are not therefore fully qualified to be the aim for a strategy a company is pursuing. That's why a company needs a strategic goal, which is clear and which everybody follows. This is needed to get a good cultural fit with strategic positioning. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 10-11)

### **6.3 Strategic choices**

Strategic choices are basically strategic options that companies have for being able to move in different directions and use the methods they see are most effective for being able to achieve the company's goals. A strategic direction could be for example adding a new product to the company's product range and the method could be to start producing the product or buying it from a supplier. The most typical strategic choices are business strategy, corporate strategy, international and innovation strategy and acquisitions and alliances. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 11-12).

Business strategy is based on the strategic choices in terms of how the organization wants to compete on an individual business level. For example the organization choses to be the most low cost or high quality competitor. The organization could use the cost-leadership strategy or a focus strategy. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 12, 108-114).

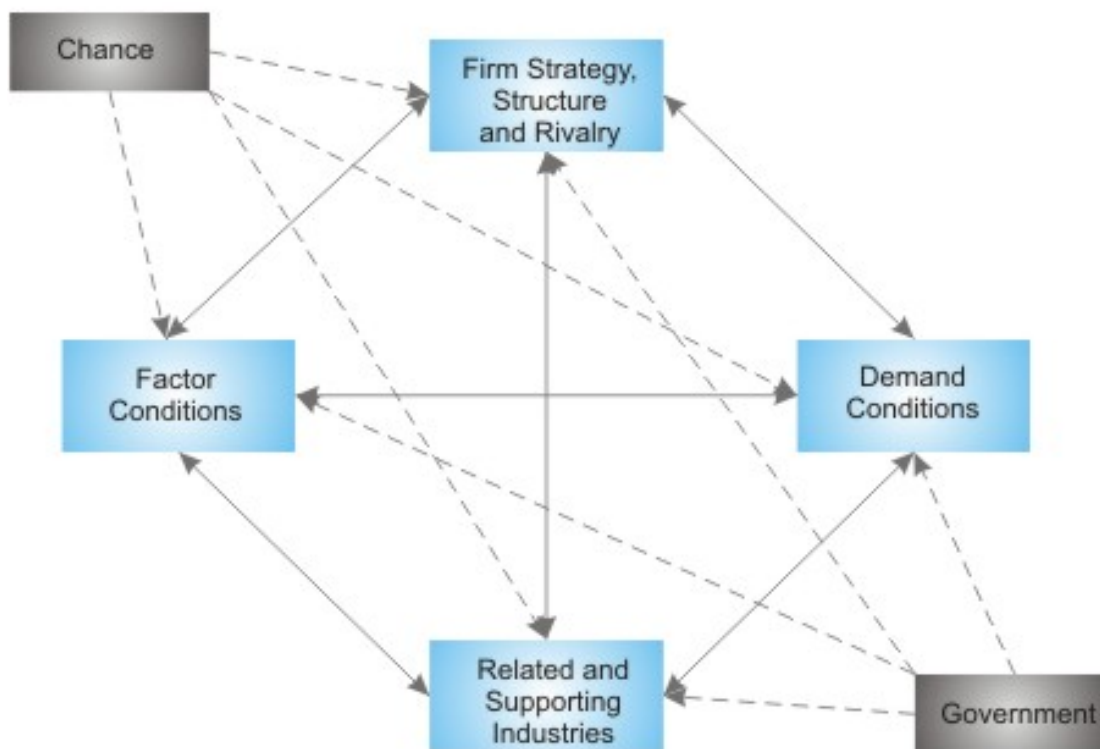
Corporate-level strategy (and diversification) is concerned with issues of corporate scope, with which business the organization wants to include in business portfolio and decisions concerning diversification from other companies. This strategy can also include issues of internal relationships. The Ansoff product/market growth matrix can be used as a corporate strategy framework for making the four basic directions of organizational growth. According to the matrix, market penetration is the type of growth where companies try to increase their sales in existing markets.



Figure 4: Ansoff Product/Market Growth Matrix. (Dubovskiy, 2014).

Product development growth strategy involves introducing new products into current markets. A situation where a business enters a new market with its existing products is marked as market development growth strategy. Diversification growth strategy can be achieved through offering new products into new markets. (Johnson;Whittington;Scholes;Angwin;& Regnér, Fundamentals of Strategy, 2015, ss. 12, 130-137).

International strategies are concerned with the internationalization of the organization, which could also be seen as a type of diversification. The main question of a strategy of this type is where should we internationally locate and compete? A good strategy to use in work with internationalization is Porter's Diamond strategy. This strategy uses a model that is designed to help understand the competitive advantages nations or certain groups has, and how governments can act as stimulant to improve a nation's or a group's position in the global economic environment. (MindTools, 2016) (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 12, 157-176).



**Figure 5: Porter's Diamond Strategy. (MindTools, 2016).**

Innovation strategies are concerned with whether or not the organization is innovative, if it is innovating in an appropriate way and how it should respond to competitors innovation. There are several different methods and processes the organization can concentrate on while trying to make themselves more innovative. (Johnson;Whittington;Scholes;Angwin;& Regnér, Fundamentals of Strategy, 2015, ss. 12, 183-200).

Acquisitions and alliances are also important strategic choices for an organization. Some companies prefer using their own resources, but some organizations think it is a better option for them to do an acquisition or an alliance with another organization. There are different motivations for acquisitions, alliances and mergers such as finance, knowledge, technology and integration. Organizations have to strategically look at their options and decide if the other organization is an organizational and strategic fit and if the organization actually get more value and efficiency from the option they choose to make. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 12, 208-225).

#### 6.4 Strategy in action

Strategy in action means the way organizations put their chosen strategies to practise. There are three key issues for putting strategy to action; structuring, systems and strategic change. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 12).



**Figure 6: Strategy in Action.** (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 232)



### **6.4.1 Structure**

Structures in this chapter refer to types of organizational structures. There are different structural types of organizations that can be used depending on size, goals and the internal atmosphere of the company. The structure is the base of many strategies because depending on formal roles, responsibilities and ways of reporting in the organization will determine how the chosen strategy will be applied to the company and how it will be put to practise. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 232-233).

Start-up and small companies often use a functional structure, where company's primary specialist roles or a department, such as production or sales and marketing, divides the responsibilities. In functional organization structures the chief executive or CEO is in touch with all the operations. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 233-235).

The divisional structure is built up on the organizations separate divisions on the basis of products, services or geographical area. The divisional structure attempts to overcome problems in diversity. With divisional structures organizations can respond to specific things division by division and does not need to go all the way up to get approval. This works especially well for organizations that are geographically scattered. The problem with divisional structures is usually with sharing knowledge and cooperating with other divisions. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 235-236).

The matrix structure combines different structural dimensions at the same time, and this means that the staff usually reports to two different managers from two different divisions at once. This organizational structure promotes cooperation and knowledge sharing between divisions, but can be very complex to control. Matrix structures usually make decision-making slower and can also be confusing and time-consuming for the staff because they will report to two managers. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 236-237).

### **6.4.2 Systems**

As mentioned earlier structures are the base of many strategies, but structures need the support of systems. Different systems can help organizations ensure control over a strategies implementation. Start-up and small companies can and often do rely only on direct supervision, but this does not work for large organizations. Large and complex

organizations often need more sophisticated structures and systems to be the most effective. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 238).

Planning systems are different systems organizations, especially larger ones, use to plan, control and keep together their resources and the use of them. These planning systems control direct input of different things, for example financial input, human input and long-term investments. The planning systems help organizations control how the strategies will affect the inputs or how the inputs affect the strategy. These planning systems are important especially for larger organizations, because they are more time effective way to have an oversight of different parts of the organization to help planning. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 238-239).

Cultural systems focus on the organizational culture and beliefs. The three keys in a cultural system are recruitment, which means cultural aspect are considered while selection of appropriate staff to fit certain strategy work, socialization, which means that employee behavior is shaped by a social process for example training, and reward, which means that appropriate behavior and achievements can be rewarded. Cultural systems are important to achieve certain cultural results in the organization. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 239-240).

Performance targeting systems focus on the organizations performance and outputs like product quality, revenue, profit and customer service. These outputs are often known as key performance indicators (KPIs). The performance and outputs can be measured internally or externally. Larger organizations often chose to follow the development of some of the KPIs and concentrate more on the numbers than on the way they are achieved. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 240).

### **6.4.3 Leading Strategic Change**

Putting a strategy to action always results in some kind of change in an organization. Leadership has a huge effect on putting a strategy into action, and getting it to work in a logical and orderly way. Top managers, chief executives and CEO's have a big role in this kind of work, because they will lead and help the staff work accordingly to the strategy and also report the results and changes the strategy will cause. The managers in a company have an important role in aligning the strategy and the vision of the future together. They are also the embodiment of change. The middle managers are typically seen as the people

who implement the strategy itself according to the strategic plans. Different styles of leadership often also affect how the changes actually are implemented and how the staff accepts the change. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 243-247).

There are also multiple types of strategic change for example adaption, reconstruction, revolution and evolution. Usually when companies implement strategies, they build on their prior strategy rather than fundamentally changing the prior strategy. The change that comes with the new strategy is gradual and amends to what the company has done earlier. With reconstruction the change is rapid and can cause disruption in the organization. This type of change usually causes a major change in the structure of the company, but the fundamental culture and the business model still stays the same. This type of change happens a lot in situations of crisis stabilization or management changes. Revolution is a very challenging type of change. It is a fast changing process that also affects the business culture and the people in the organization do not always see the need for change that clearly. This situation can come as result of a long time of decline in a market or in a situation where customer's no longer value provided products. Evolution is a type of change where the organization exploits existing capabilities and also is searching for new capabilities. Simply said the organizations are working in multiple time frames to use and find capabilities in an efficient way. This type is problematic because to organization has to work in a focused, flexible, efficient and innovative way while working in more than one time frame. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 247-250).

#### **6.4.4 Evaluation of strategies**

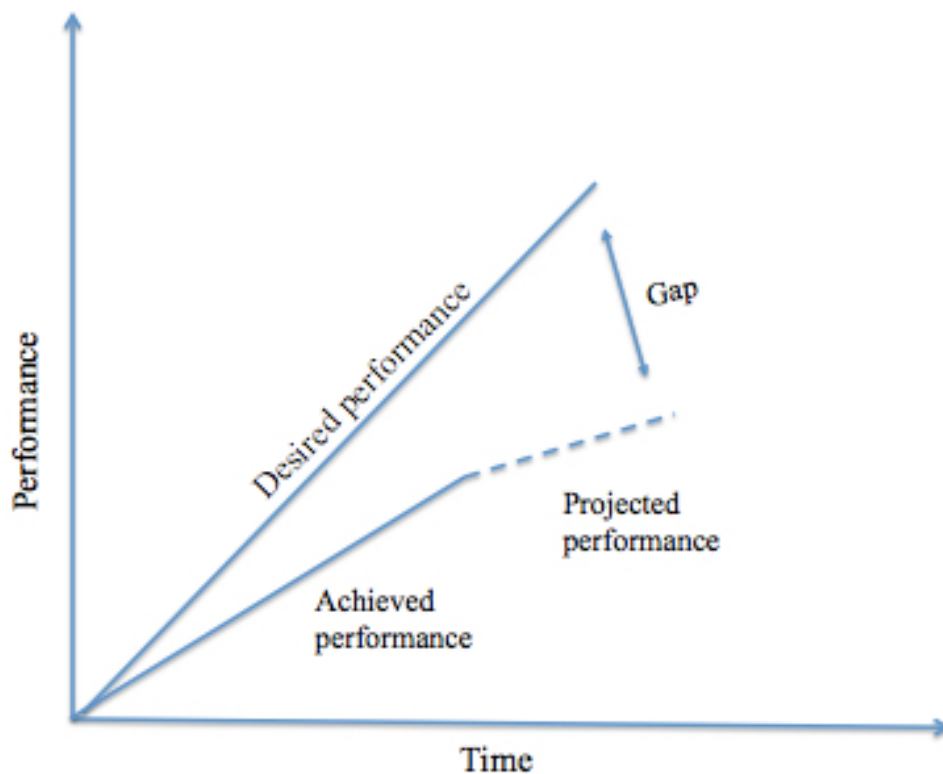
Evaluation is a crucial and fundamental process to strategy. It is important to evaluate both existing strategies and new strategies. Without the evaluation process it is impossible to measure the efficiency and effectiveness of strategies and when evaluating the strategy the organization can also clearly see if they are reaching the results they desire. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 259-260).

There are many ways to look at organizational performance, some of them are performance measures, performance comparison and gap analysis. Performance measures are typically measured in various economic outcomes. The main three economic outcomes in performance measures are product markets such as market share and sales growth, accounting measures of profitability such as profit margins and return on capital employed, and financial market such as movements in share prices and public stock exchange. This is

important because these indicators can be conflicting and give the company a better picture of for example growth. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 259-260).

Performance indicators are measured against something, which means performance relative to chosen factor. The three main indicators to consider are organizational targets, trends over time and comparator organizations. The organizational targets are a set of key target from management's own targets. The trend over time is something that investors and stakeholders are interested in so they can see if the company's performance is declining or improving over time. And the comparator organizations are about comparing performance against other comparable organizations, such as competitors. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 260)

Gap analysis compares achieved or projected performance with the performance that was desired. It is very useful when identifying performance gaps and when involving projections, as well for forecasting future problems. The size of the gap in the gap analysis is a sign about how much the strategy needs to be changed. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 260-261).

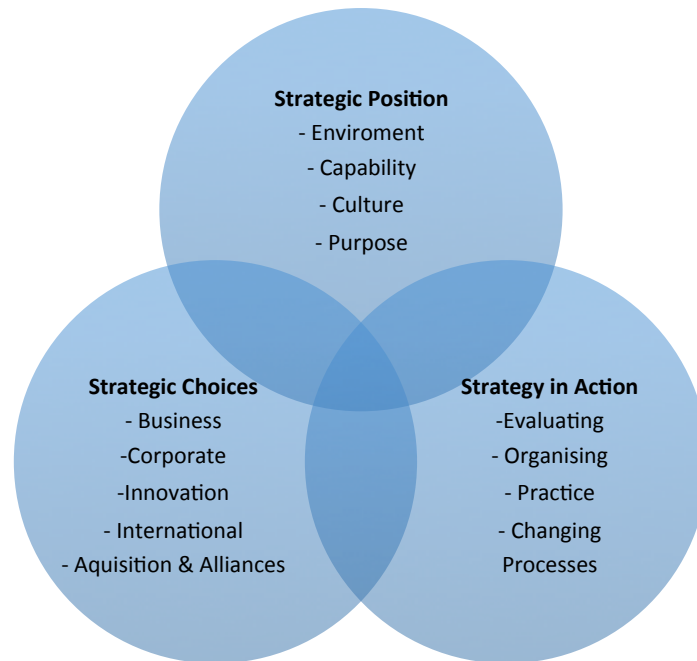


**Figure 7: Gap Analysis.** (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 261)

In an evaluation of strategy it is also important to have evaluation key performance indicators (KPI's). The performance analysis establishes the need for new strategies, and after that the strategic options need an evaluation and that can be done with a SAF evaluation criteria, which stands for suitability, acceptability and feasibility. Suitability is concerned with defining which of the proposed strategies is the most suitable for the key opportunities and constraints the organizations has. Suitability assesses for example how the strategy will exploit the organization opportunities in the environment and how the organization can avoid threats. Acceptability is concerned with if the expected performances will meet the expectations the organization's stakeholders have. This can be done with the 3R's method, which stands for risk, return and stakeholder reactions. Feasibility is trying to define if the organization is actually capable to work the strategy in practice. The three key issues that feasibility is concerned with are financial feasibility, people and skills and strategic change. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 261-265).

## **6.5 The Exploring Strategy Model**

The Exploring Strategy Model is a three-part model that draws the emphasis of the interconnected strategic issues. This model connects the parts of strategic position of an organization, assessing the future strategic choices and managing strategy in action. The Exploring Strategy Model often shows the three-parts in a linear sequence, but often when organizations use this model, they can't follow the model in a linear sequence because choices often have to be made before the positioning, so position can be fully understood. A proper understanding cannot always be achieved if an organization does not try the strategy in action to understand the strategic position. The model is often used by organizations to provide a comprehensive and integrated framework for analyzing an organization's strategic position, choices and the strategy in action. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 9-10).



**Figure 8: The Exploring Model.** (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, s. 10).

## 7 From domestic to international

There are multiple ways for companies to internationalize and every company has to find a suitable and fitting method. There are many factors and forces that affect the company's decision on how to enter a new market. There are internal and external factors, desired mode characteristics and transaction-specific behavior.

The internal factors are the company's size, international experience, financial capabilities and the product. Some of the external factors are sociocultural distance between the home country and the target country, country risk, demand uncertainty, direct and indirect trade barriers, intensity of competition and number of relevant intermediaries available. The desired mode characteristics are risk averse, control and flexibility. The last factor transaction-specific factors are tacit nature of know-how. (Hollensen, 2004, ss. 277-284).

### 7.1 Export modes

One of the most common ways to start a journey from domestic to international is export mode, and if the company sees growth potential they can gradually evolve towards foreign-based operations. In export entry modes the company manufactures its products in the domestic market, in the target market or in a third world country. When the manufacturing is not done in the target market, the company transfers the products either directly or

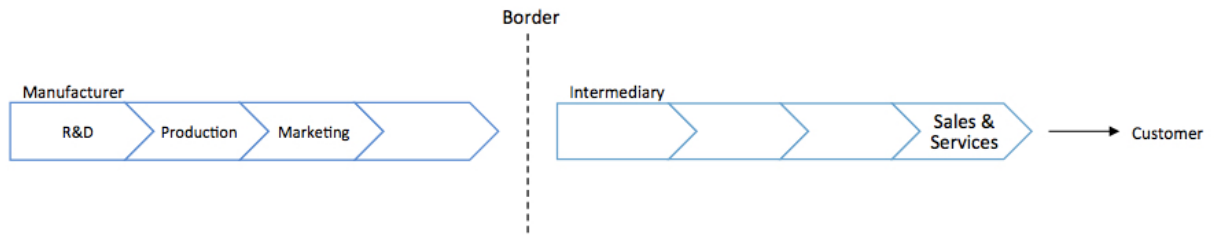
indirectly to the target market. Exporting can be divided into three different types; indirect, direct and cooperative export. (Hollensen, 2004, ss. 291-292)

Indirect export is when the company that manufactures does not take care of the exporting activities. Instead a domestic company takes care of the exporting process. The five main indirect export methods are export-buying agent, broker, export management company, trading company and piggyback export. Piggyback export is when a company is selling their own products internationally and have built-up a comprehensive marketing network abroad. In addition to this the company also tries to maximize the power of its network, by also taking in additional products from local producers that compliments their existing products. (Hollensen, 2004, ss. 293-297). For example a company can use the piggyback method if they want to internationalize but lack the financial resources, experience and certain products they say they will export. They can in this situation piggyback products from another company abroad to be able to provide those products and even market and distribute those products without high costs.

Direct export occurs when the manufacturer sells directly to an importer or a local buyer in the target market. Direct exporting is also an easy method for companies to internationalize and does not enquired much know-how if the target country has a small sociocultural distance, thus all know-how is an advantage. Some of the methods of direct export are distributors, agents or another choice of an intermediary. Choosing a suitable intermediary can be a very complicated process, because there are many criterias that have to be checked to see if the intermediary will be suitable. Some of the criterias can be; size of firm, physical faculties, knowledge and use of promotion, overall experience, reputation of supplier, customers and banks etc. (Hollensen, 2004, ss. 297-302).

The cooperative export mode, which is also known as export marketing groups, is often found among SMEs that are trying to enter a foreign market for the first time. Many of the companies that use this method have a lack of scale of economies in manufacturing or marketing. In this method companies come together to form a wider product concept that could be more attractive to the consumer. (Hollensen, 2004, ss. 302-303).

From the figure below you can see an example of how direct exporting works and what is done on both sides of the border. The intermediary in this example can be thought as a distributor.



**Figure 9: Direct Export**

## 7.2 Intermediate entry modes

Intermediate entry modes differ from export entry modes in the way that they are primarily a source and vehicle for transferring knowledge, skills and sometimes even export opportunities. (Hollensen, 2004, ss. 308-310).

Contract manufacturing is an intermediate entry mode, in which the company can start producing in a foreign market without making a financial commitment. It is a good way if the management lacks resources and willingness to invest to establish manufacturing in a foreign market. (Hollensen, 2004, s. 310).

Licensing is a method where the company can establish local production in the foreign market without capital investments. This method differs from contract manufacturing in the way that licensing is usually done for a long time period and the national company carries responsibility because of more value chain transaction are transferred. There are different methods of licensing for example licensing agreement and licensing out. A licensing agreement is where the national company has an agreement with a foreign company, where the national company gives something of value to the licensee in exchange for payments and certain performance. Valuable things could be for example a patent, manufacturing know-how or the use of a trademark. When there is a range of strategic reasons to license, it is called licensing out. Important motives in licensing out are for example the licensor will remain the superior in its product development, the licensor is too small to have enough financial, managerial and marketing experience to internationalize and constraints on import into the licensee's country. (Hollensen, 2004, ss. 311-312).

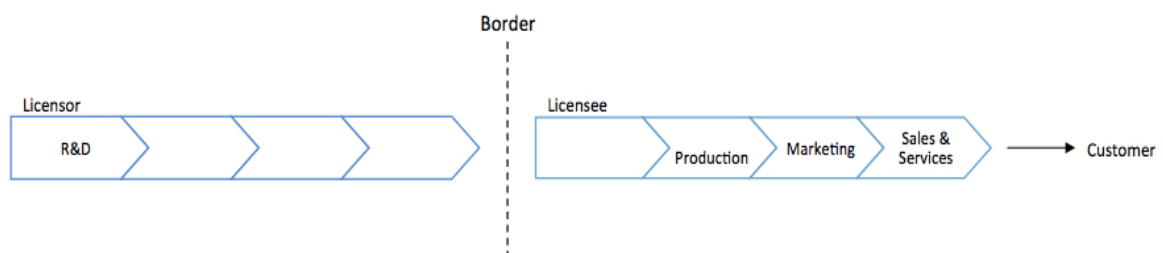
Franchising is a marketing-oriented market entry method of selling a business service to independent investors. The investors can have working capital but little business



experience. Franchising can be the right to use a name or a whole business concept. There are two types of franchising; product and trade name franchising and business format package franchising. The product and trade name franchising is like trademark licensing, it typically has a distribution system in which the supplier makes contracts to buy or sell product or product lines. Examples of product and trade name franchising could be many soft drink bottlers. The business format package franchising could be called a whole package deal, which means that the franchisor will be able to get trademarks, names, copyrights, designs, patents, trade secrets, business know-how or geographical exclusivity. The franchisor can also get managerial help to set up their new business format from the company that is providing the franchising. Franchising has become a famous concept through many fast food companies. (Hollensen, 2004, ss. 313-318).

Joint ventures and strategic alliances are partnerships between two or more parties. In the international dimension of these entry methods, the parties are from different countries. The formal differences between these two methods are that strategic alliances are usually non-equity cooperation and the joint ventures either a contractual non-equity joint venture or equity joint venture. There are many pros and cons when it comes to international joint ventures and strategic alliances. Some of the pros are shared technological and managerial skills can lead to new opportunities in existing sectors, partners in the target country can speed up the market entry process, can help with overcoming different barriers and tariffs and shared R&D operations can maximize knowledge and minimize costs. Some of the cons in joint ventures and strategic alliances can be complicated managerial arrangements, slow information flow and slow and shared decision-making. (Hollensen, 2004, ss. 318-326).

From the figure below you can see an example of how licensing works and what is done on both sides of the border.



**Figure 10: Licensing**

### 7.3 Hierarchical modes

A hierarchical entry mode means a way of entry where the organization owns and controls completely the foreign entry mode. The level of the control that the head office has can be applied to the subsidiary abroad, depending on how many and which value chains can be transferred to the subsidiary abroad. The transfer of value chains then again depends on the ratio of shared responsibility and competence between the head office and the foreign subsidiary, and the company's wants of internationalization. You could say that a wholly owned organization could go through four stages while trying to internationalize through the hierarchical entry modes. The four stages are; ethnocentric orientation, polycentric orientation, regiocentric orientation and geocentric orientation. (Hollensen, 2004, ss. 335-337).

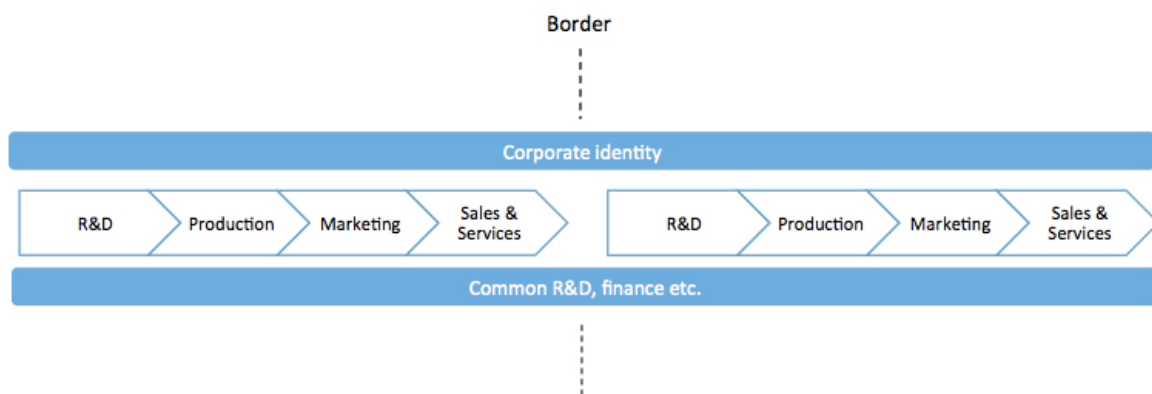
Ethnocentric orientation means that the company extends its marketing methods used in the domestic market to the foreign market. This is often done through domestic-based sales representatives. A sales representative usually travels abroad to perform different sales functions to clients or exhibitions but is still employed by the domestic organization and also work there. (Hollensen, 2004, s. 337).

The next stage of expanding an organizations internationalization level is polycentric orientation, which means that the company has an assumption that the foreign market is so different that it needs an own subsidiary and adapted marketing to successfully be able to penetrate the new market. This can be done through a foreign sales branch or subsidiary, resident sales representative or a sales or production subsidiary. This means that the company has to establish some kind of formal office in the foreign market, where depending on the company's wants, the marketing, sales or the production is done. The foreign offices usually also employs locals to help them to get a proper grip of the foreign market. (Hollensen, 2004, ss. 337-339).

The regiocentric stage means that a region of the world represents the company. This can be done through regional headquarters or regional centers. This means that the company can start a whole new division in their company for marketing, sales, production and other services to the foreign market. The company can also launch new products or decide not to provide some of their products in the foreign market, depending on the cultural differences, demands or capabilities that the company has. (Hollensen, 2004, ss. 341-342).

The last stage is the geocentric stage, which means that the company becomes a transnational organization. This means the company tries to coordinate and integrate operations throughout national boundaries to achieve an alliance on a global scale. The goal with transnational organizations is to identify similarities and differences in the cross-border markets to link the company over national boundaries. (Hollensen, 2004, s. 342).

From the figure below you can see an example of how a transnational organization works. Here you can clearly see how the organization is trying to have an alliance between everything on a global scale.



**Figure 11: Transnational Organization**

## 8 Choice of method

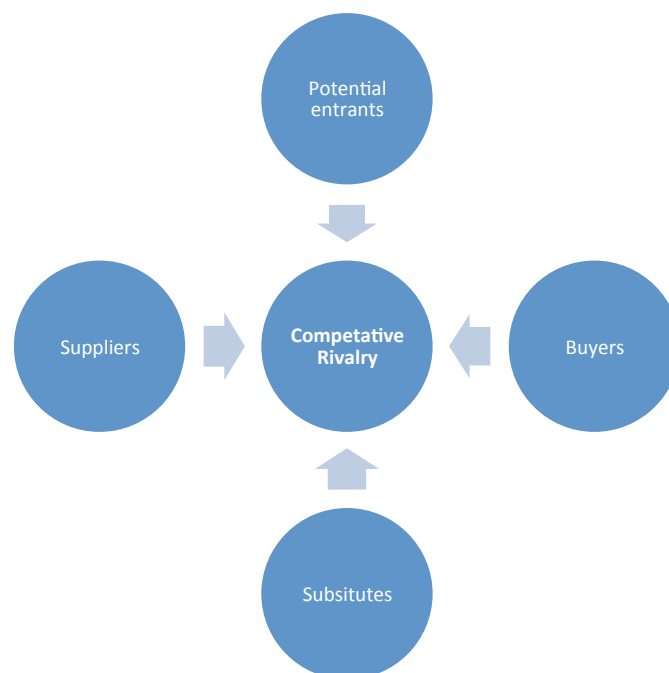
When deciding which method I should use for this thesis, I decided I wanted to look up methods that will give the broadest perspective for my research. I decided to use different frameworks and analyzing tools, because I have knowledge of them before and they are usually effective. I will conduct an industry analysis with the help of Porter's 5 driving forces and internationalization drivers. With the help of these tools, it will be possible to get a clear picture of the digital printing industry. I will use a SWOT TOWS Matrix analysis to figure out Company X's strengths, weaknesses, opportunities and threats and how they could be used to maximize the company's value. To analyze the target country Sweden I will use PEST Analysis to figure out the target countries environmental influences and the CAGE framework to get a good picture of the distance of the target market country market and the market that the company is coming from. After that I will conduct a benchmarking over the main competitor's profile. After all this I will do a market attractiveness/competitive strength matrix to see actually how the company would

do and which factors are present in the target market and see if the target market is included in the primary markets. The last step is to use a scoring model to determine which one of the entry options is most suitable for Company X.

## 9 Industry Analysis

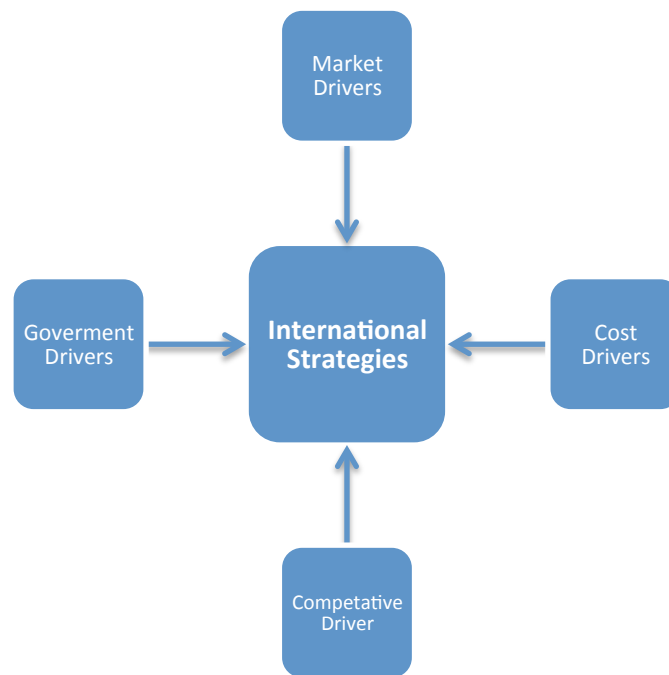
To be able to forecast and analyze an industry it is important to have a good overview of how the industry and what is happening globally and in Sweden. This chapter will analyze the digital printing industry more specifically. To do the industry analysis I will be using two strategic tools; Porter's 5 driving forces framework and internationalization driver's framework.

Often when measuring industries attractiveness, the company basically wants to know how easy it is to earn high profits in the desired industry. The Porter's 5 driving forces framework helps to identify the attractiveness of an industry in terms of five forces, which are threat of entry, threat of substitutes, power of buyers, power of suppliers and the extent of rivalry between the competitors. These five driving forces together, help to make a picture of the industry's structure. If the forces are low, it is often a sign that the industry is attractive. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 28-33).



**Figure 12: Porter's 5 Driving Forces**

The internationalization driver's framework helps companies to determine the different pressures of internationalization. Companies need to determine different factors when internationalizing, so they can make profitable strategic decisions. The internationalization driver's framework analyzes the market drivers, cost drivers, government drivers and competitive drivers. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 158-162).



**Figure 13: Internationalization Drivers**

## 9.1 Porter's 5 driving forces

**Competitive rivalry:** The competitive rivalry in the industry is moderate. The digital printing industry, as stated in chapter 3, is growing constantly. In 2013 the industry was worth \$120.9 billion. The forecasts say that the growth will continue and the industry will reach 225% of its 2013 value by 2024. The digital printing industry is growing because it is allowing the print companies to improve their service levels to customers and it is easier for companies to make more personalized prints to the end users. (Smithers Pira, 2014). There are also new trends coming to the market as printed packaging that can now be done with digital printing machines. The retail value of printed packaging is over \$400 billion and less than 3% of that is digital print packaging, so this untapped opportunity will probably also help the industry to increase its value. (Xerox, 2016). The Western European

digital printing market was approaching \$920 million in 2013 and is constantly growing. (Smithers Pira, 2013).

The fixed costs in the digital printing industry vary depending on the size of the company. Some of the fixed costs are for example lease of printing machines, labor costs and real estate costs. In general the fixed costs are usually medium high or high. Also because of the high price of digital printing machines, the exit barrier is also higher. If a company wants to exit the market, it has to be able to sell its printing equipment. It is possible to do, but can take some time. The easiest way to exit the market would be to sell the company as whole. This is usually possible, so the exit barriers could be said to be medium high. (Mejtoft, 2005).

**Threat of entry:** The threat of new entrant in the industry is moderately low. In the digital printing industry the entry costs are high because of the high price of printing machines. When companies have reached large-scale production, the cost of production will decrease. Material costs work the same way. The more material the company buys, the less it costs. It can be very expensive to enter the industry for a new entrant and it takes time to match the production level of already existing companies. Experience is also important to have in the digital printing industry, to be able to help the customers to decide the right product. This can also make the production process easier for the company, when they have the right knowledge of the industry. (Mejtoft, 2005).

Differentiation in the digital printing industry is highly possible. The companies can decide to provide different materials, different printing methods, quality, production speed, and value adding services as cutting products into a certain shape and so on. Of course these differentiation possibilities might cause the company some additional costs, especially if they have to purchase new production machines. (Mejtoft, 2007).

The legislation and other restraints in the digital printing industry are small. Companies that provide digital printing technology can apply for patents and can have some restraints in production etc. The digital printing companies don't have restraints for their work. (Kanuri, 2016).

**Threat of substitutes:** The power of substitutes for digital printing is moderately low. Substitutes for digital printing are offset printing, digital and online media. The offset printing can be used as a substitute for digital printing in high quantity printing. Offset printing has low cost when it comes to high quantity, when digital printing has high cost in

high quantity printing. Offset printing is not a big threat to digital printing, because of the different kinds of customers. Offset printing is more used for example newspapers or other high quantity prints. Digital printing can be more customized and have different print and material possibilities. As also stated earlier, digital printing industry is growing more rapidly than the offset printing industry that has not really changed much in the last decades. (Just Creative, 2001).

A bigger threat for digital printing is digital and online media. The biggest advantage digital and online media has is the speed and the high level of flexibility. Nowadays it is possible to get almost anything electronically like books, advertisement, news etc. Even many billboards are electronic screens that show various advertisements instead of big posters. Technology is also rapidly evolving and there are always new innovative ways to do electronic advertisement. Despite all this, people still argue that digital and online media will not be able to substitute digital printing. (Teachey, 2014).

**Power of buyers:** The power of buyers in the digital printing industry is moderately high. There are multiple companies that offer different kinds of services and materials in different price ranges, which mean the buyers, have a lot to choose from. The switching costs are usually not that high for the buyers. They can negotiate prices for a long-time relationship or just for one certain case. It is very usual that buyers use multiple different companies at the same time for different products. It's also very important for the digital printing companies to be able provide buyers with personalized products and fulfillment services. (Dana & Zarwan, 2014).

**Power of suppliers:** The power that the suppliers have on the digital printing companies is moderate. There are a lot of suppliers that companies can choose from with a lot of different machines in different price ranges, quality and functions. (Drupa, 2016). The switching costs of production machines are high, so it's not easy to change from supplier to supplier, though a company can have production machines from multiple different suppliers.

## 9.2 Internationalization drivers in digital printing

One of the biggest internationalization market drivers for the digital printing companies is that the industry is constantly growing, and the forecast of the industry's future looks more than promising. The customer needs are also similar in the different markets, which helps companies to internationalize easier in the market. (Smithers Pira, 2013).

The cost driver for internationalization depends on which method the company decides to use as help for internationalizing. If a company just exports its products, it is a great way to spread cost and gain more customers. If a digital printing company decides to start a new office abroad, it will have high start-up cost due to the need to hire more labor, invest in new machines and rent or buy a location. It is also possible to establish a joint venture or buy another company, which makes the start cost lower. (OECD Working Party on SMEs and Entrepreneurship, 2009).

The government drivers for internationalization are the reduced barriers and low tariff costs. Nowadays there are multiple different free trade agreements and economic communities, which make internationalization much easier and also they encourage exports and trade. (Krugman;Obstfeld;& Melitz, 2012, ss. 31-39). The digital printing industry can benefit from this through expanding their business, gaining more customers and spreading their costs.

Competitive internationalization drivers for the digital printing industry are to grow larger than other companies in the same field. It is especially important because the digital globalization can cause companies to lose their market position to others, and that is why growing, being able to spread costs and through that lowering prices is especially important in digital printing. (Bughin;Lund;& Manyika, 2016).

### **9.3 Digital Printing in Sweden**

Sweden's digital printing is very advanced. The digital printing industry was worth €2.5 billion in 2011 and has been growing steadily since even if it has had a small decline in the rest of Scandinavia. To comparison Finland's digital printing market was worth 1.8 billion in 2011. The digital printing market in Sweden has had a 4.5% growth this year and in 2011 the share of the digital printing industry in Scandinavia was 34%. Sweden is also one of the biggest importer and exporter in the Baltic countries, with imports in printing materials for €356 million in 2011 and provides 27.2% of Finland's imported goods in 2011. (Print Center, 2013) (Dovile Buskeviciute, 2012).

The packing trend and 3D printing trend in Sweden is growing, and these areas are not properly tapped in. There has been rise demand in faster production, smaller quantity printing and better quality printing, which have made inkjet printing to be in demand instead of offset printing. Canon has made estimates that by the year 2020 digital printing



will take over the printing industry and be the dominant printing technique in Sweden. This fact will be especially beneficial for SMEs in the digital printing industry. (Visutech) (Canon, 2016).

Even though offset printing will decline, there is a new competitor in the market. The Swedish Institute for Advertising and Media (IRM) has made estimates that Sweden will in 2016 invest SEK 14 billion will be invested in digital media, which could be a substitute for digital printing. Even though digital media is growing it creates only 22,1% of income of the whole news media branch, while the income of printing is still 77,9% in the news media branch. (Mackhé, 2015) (Institutet för reklam- och mediastatistik, 2016).

### **9.3.1 Conclusion of the Industry Analysis**

The digital printing industry has clearly a strong grow on both a global level and in Sweden. Trends as package production and 3D printing are both relevant topics in the global market and also in the Swedish market. Digital media could be a substitute for digital printing, but even if digital media is growing, it does not seem like it could overtake the digital printing market. The entry possibility in the digital printing market is good but not too common because the industry having high start-up cost. After defining all the factors that impact the industry with the help of the different analysis tools, I think it is clear to say that the conclusion is that the digital printing industry is favorable for Company X to expand internationally or to Sweden.

## **10 SWOT Analysis: TOWS Matrix for Company X**

With the help of SWOT Analysis it is easy to summaries and analyzes the key issues for a company that can help them to assess future actions. The basic SWOT Analysis provides a summary of the company's internal strengths (S) and weaknesses (W) and the company's external opportunities (O) and threats (T). The TOWS Matrix version of the basic SWOT Analysis differs in the way that it analyzes the way that the company could use strengths to maximize opportunities (SO) and minimize threats (ST). It also analyzes how the company could minimize weaknesses by taking advantage of opportunities (WO) and minimizes weaknesses by avoiding threats (WT). (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 65-70) (MindTools, 2016).

The following will contain a SWOT Analysis: TOWS Matrix of Company X made by myself. To be able to conduct this part of the research I will be using knowledge I have gained while working at Company X for several years.

	<b>External Opportunities (O)</b> <ul style="list-style-type: none"> <li>• Expansion</li> <li>• Package production</li> <li>• Automatization</li> </ul>	<b>External Threats (T)</b> <ul style="list-style-type: none"> <li>• Digital media</li> <li>• Environmental qualifications</li> <li>• Digitalization of offset printing</li> </ul>
<b>Internal Strengths (S)</b> <ul style="list-style-type: none"> <li>• Speed &amp; flexibility</li> <li>• Broadness of production</li> <li>• Value adding services</li> <li>• Quality</li> </ul>	<b>SO</b> <ul style="list-style-type: none"> <li>• Expand production</li> <li>• Concentrate to add new products to their range</li> </ul>	<b>ST</b> <ul style="list-style-type: none"> <li>• Strengthen value adding services and production to get a grip over digital media and offset</li> </ul>
<b>Internal Weaknesses (W)</b> <ul style="list-style-type: none"> <li>• Capacity</li> <li>• Mix ups in the production</li> <li>• Certain materials missing from production range</li> </ul>	<b>WO</b> <ul style="list-style-type: none"> <li>• Expansion</li> </ul>	<b>WT</b> <ul style="list-style-type: none"> <li>• Expansion</li> <li>• Get environmental certificates</li> </ul>

**Figure 14: SWOT Analysis: TOWS Matrix for Company X**

The strengths of Company X are especially their production speed and flexibility. Company X is known by fast delivery, and another of their strength is the broadness of their production. They produce a lot of different products from different materials and price ranges. This is a huge advantage because of big orders that may include different products, which can all be produced under the same roof because of the production broadness. They also provide value adding services for example editing and cutting in forms.

The weakness of company X is their capacity. Even if they are able to produce in a large quantity, sometimes the customer's needs are bigger and they will chose another producer and this creates a loss in sales and possible customers. They also have difficulties in printing on thicker paper because it does not fit into to the printing machines. Company X

has a very flexible working method, which is also their weakness as they don't have proper production tracking and some orders are forgotten or printed wrong.

Company X's opportunities are in expansion, automatization and developing their packing production. Company X's has already once expanded because of increased growth and need for new production machines to keep up with demand. Automatization would create savings in labor costs and sometimes even in the speed. As stated earlier packaging production is a new trend in the digital printing industry and it would be a very profitable source to tap into. (Winsløw, 2016).

Threats that Company X has are digital media being used as a substitute for digital printing, which could in the future make the digital printing industry smaller. Offset printing house are also starting to expand their functions to digital printing, which gives them the advantage to get new customers that need bigger quantity printing and digital printing. These two factors can also make an impact on the industry pricing and Company X could have to lower their prices and get less income. Environmental awareness is also increasing and if the digital printing industry is forced to have environmental standards, such as ISO standards, it can force Company X to change their methods and implement the standards.

Company X could use strengths in value adding services for example editing and cutting in forms and broadness of production to expand even more and strengthen their opportunities in expansion, value adding services and automatization. They would be able to purchase new machinery to get into to the package production and expand their broadness of production even more.

Company X could use their strengths in value adding services and broadness of production to minimize the threat of digitalization of offset and digital media. By having the value adding services as packaging production and other customization, which the offset printing most often does not have, Company X could gain a stronger position in the market than digital media and offset printing.

The weaknesses in capacity and certain materials missing from production range could be minimized with the expansion opportunity. Company X could expand their capacity by getting new machines that can produce larger quantity and also new machines that would be suitable for other materials than Company X has now.

To minimize weaknesses and avoid threats Company X could benefit from expansion and implementing environmental certificates. These two solutions would be beneficial to both minimize weaknesses and avoid threat.

## 11 Target Country Market Analysis

In this chapter I will analyze the Swedish market, using PEST analysis for environmental influences, the CAGE framework for distance analysis and Benchmarking for the main competitor's profile. The goal is to get a clear picture of how Sweden's market looks from different points of views. This will help to tell if the market is suitable for Company X.

### 11.1 PEST Analysis: Environmental Influences

The PEST analysis helps to understand the business environment in the target market. The PEST analyzes four different categories, which are the political, economic, social and technological factors. Going through all the factors can help a company find something that could potentially be relevant to the decision making of choosing the market. (Johnson;Whittington;Scholes;Angwin;& Regnér, 2015, ss. 22-25).

**Political:** Sweden is a constitutional monarchy with parliamentary democracy. The people of Sweden are allowed to vote and influence the decision of which political party will be representing the people in the parliament. This method has been used by Sweden since 1917. The Social Democratic Party has been dominant for the last decades, but still the power has shifted many times between the Social Democrats and the 'non-socialist' political block in the last 30 years. The Instrument of Government guarantees the Swedish citizens with the right to obtain free information, form political parties, practice religion and hold demonstrations. (Swedish Institute, 2016). Lobbying has been booming in the past years, and it has been estimated that Sweden has around 750 lobbyists. (Törnkvist, 2013). Sweden does not require lobbyist to register, but it is said that the policy when talking about lobbyist is transparent. When the lobbyist visits someone in the parliament, they always have to log their visit but not if the meeting is outside the parliament as a social event. (Törnkvist, Swedish lobbyists have a culture of transparency, 2013). The political situation in Sweden has been stable for a long time. (The Global Economy, 2014). Sweden has implemented also many anti-corruption laws effectively and corruption is not a problem there in anyway. (Business Anti-corruption Portal , 2015)

**Economic:** Sweden has one of the most fast growing developed economies even though they have had high government spending on influx of immigrants and surging house prices. Industrial production has fallen a bit, especially after the fall of automotive industry in Sweden. Sweden's export and imports has been growing a lot in the last years. (Focus Economics, 2016). Sweden's GDP was \$493 billion in the end of 2015 and has a growth rate of 0,3%. The GDP from the manufacturing industry was 157492 SEK million in March 2016. The labor costs in manufacturing industries are around 32.88 EUR in an hour. In the middle of year 2016 the unemployment rate was 7,6% and the labor force participation rate was 64,3%. The inflation in Sweden is 1%. (Trading Economics, 2016). The digital printing market was worth €2.5 billion in 2011 and both offset and digital printing industries are doing well in Sweden. (Printcenter, 2012).

**Social:** Sweden has great social standards. In Sweden education and healthcare are government funded and is provided for everybody, this includes even dental care till the age of 20, elderly care and care for people with disabilities. In 2012 Sweden's government put 238 SEK billion on health and medical care excluding the dental care. (Swedish Insitute, 2016). Sweden has also great human rights and has great gender equality. They have been a great example for other countries on how to take action on these topics. They have great possibilities for parental leave and try to accomplish a country without fear of abuse or violence. (Swedish Institute, 2016) (Swedish Institute, 2016).

**Technological:** Sweden's technological development is known around the world and it has been said that Stockholm has almost as many tech startups as Silicon Valley. The Nordic tech exports are worth around €2.6 billion, and of that over half is coming from Sweden. It is clear to say that Sweden is very advanced in the technological field. Niklas Hedin, CEO of tech company Centiro, states that "It has a strong culture of engineering, a world-leading telecom sector, a stable and well-functioning economy combined with a high internet penetration rate at an early stage of the internet era that resulted in a very potent mix". (Mitzner, 2016). Sweden spent 3.6 % of their GDP on research and development (R&D) in 2009, and the EU-wide target for this is to spend 3% by the year 2020. (Carter, 2015). Sweden ranked second globally in 2011 in countries that devote most economic output in R&D and also in countries that have most scientific and engineering researchers per capita. It is obvious that Sweden has a strong position globally and is innovative when it comes to technology. (Florida, 2011).

The business environment in the target market is very much suitable for Company X. The social and political factors are very close to the situation in the company's domestic market. Especially the economic and technological factors show good possibilities for Company X to internationalize to the Swedish market. As stated earlier Sweden has one of the most fast growing developed economies and its imports and exports are growing. Even if the industrial production has fallen a bit it mostly affects the car industry and doesn't have a big impact on the digital printing industry. The technological advancements in Sweden could potentially attribute Company X with new technology that would not be so easily accessible in their domestic market.

## **11.2 CAGE framework: Distance analysis**

CAGE framework helps to determine the distances between two different countries and their cultures, administration, geographic and economic situations. This is an important analysis to do, to be able to determine whether or not the company that's planning to expand or the product you're trying to sell is suitable for the planned market. Sometimes companies tend to overestimate the appeal of the potential market and with the help of this tool companies can avoid the overestimation and get a real distance of the market. (MindTools, 2016). The Geert Hofstede Index is used to research cross-cultural groups and organizations. The most known work of Geert Hofstede is the cultural dimension theory, which I will be using to determine the distance between the two countries. (Gert Hofstede, 2016).

**Cultural distance:** The cultural distance between Sweden and Finland is small according to the Geert Hofstede Index. The official language in Sweden is Swedish and in Finland both Finnish and Swedish are official languages. Both Sweden and Finland have a moderately low power distance, which means that both countries culture are independent, wants hierarchy only for convinces and wants equal rights. Both countries also has a high score in individualism, which means for example that the individuals in the country are expected to take care of their immediate family only and at work places hiring and promotions is only earned through merit. In masculinity Sweden and Finland scores different. Sweden is considered a feminine country where quality of life is a sign of success, while Finland is more masculine and this means the fundamental motivation is to be the best. Also Sweden has a lower score in uncertainty avoidance and this is a sign for a more relax attitude and deviance from the norms is tolerated. Finland has a much higher score in uncertainty avoidance and means that the Finns are more uptight and wants to

follow the norms. In long term orientation and indulgence Sweden's scores are higher. The long-term orientation describes how a country is maintaining their links to the past and present at the same time. Sweden is very neutral in this, while Finland more concentrated on the future. Indulgence describes how much individuals try to control their desires and impulses. Sweden's high score in this means that they do not try to control their desires and impulses too much, but instead try to exhibit willingness to enjoy life and follow their dreams. Finland has a lower score and a higher level of restraints to follow their dreams. (Geert Hofstede, 2016).

**Administrative distance:** Sweden and Finland are part of the EU Single Market and Helsinki treaty endeavor to maintain and develop further co-operation between the Nordic countries in the legal, cultural, social and economic fields. Even if Sweden and Finland cooperation in the earlier mentioned fields, they lack the same currency, which can cause a small administrative distance. (European Commission, 2016) (Norden, 2016).

**Geographic distance:** Sweden and Finland are neighbor countries so the geographic distance is very small. The countries connect in the north and from the south they are separated by the Gulf of Bothnia. It is easy to travel between the countries by car, boat or airplane. (Google Maps, 2016).

**Economic distance:** Both Sweden and Finland are developed countries. As earlier stated Sweden's GDP is 493 USD billion and it has a growth rate of 0,3%. Finland's GDP is 230 USD billion and the growth rate is 0,6%. The unemployment rate in Sweden is 7,6% and in Finland 9,3%. (Trading Economics, 2016) (Trading Economic, 2016). The infrastructure in Sweden is very modern and is regarded as an important component of equitable wealth system. The infrastructure in Finland also has an efficient rail and road network which also works as a gateway to Russia, but is not as good as the one in Sweden. The sea communication and transport is big in Finland but Sweden is also more advance in this field. (Nations Encyclopedia, 2016) (Nations Encyclopedia, 2016).

### 11.2.1 Conclusion of PEST Analysis and CAGE framework

The distances between Finland and Sweden and their cultures, administration, geographic and economic situation is not very big. I think the biggest cultural difference is that Finland is more concentrated on work, while in Sweden the sign of success is good quality of life. Because of the geographic distance is very small, also the administrative distance is not too

big because of both of the countries are part of the EU Single Market and Helsinki treaty and both factors help Company X to internationalize to the Swedish market. The economic distance is a bit bigger, but it has great possibilities for Company X while internationalizing, for example the great infrastructure for possible transportation, other distributions and a bigger market.

### **11.3 Benchmarking: Main competitors profile**

The competitive benchmarking assesses relative market place performance. Basically this analysis takes apart the competitors different components in their business and products and compares their performance with your own performance to get a clear picture of how the companies differ and if the competitors are much stronger in their performance than your own. There are many different measures that can be used in benchmarking as delivery reliability, value-adding services, speed and flexibility. The measures that get used always differ depending on what kind of industry or company is being analyzed, but are usually chosen because of how much the customer values these certain functions. (Hollensen, 2004, ss. 98-100).

In this competitive benchmarking I will be comparing Company X to two competitors in the Swedish market. In my benchmarking analysis I will be grading the nine factors from five, which is the highest to one, which will be the lowest. I will also be including the customer in my analysis and rank the different measures by how important they are to the customer to get more depth to the competitive benchmarking. When looking at the figure it will be clear to see what the customer think it is important and how the three different companies can live up to the customer values in the measures I will be using.

I will conduct the competitive benchmarking with the help of knowledge I have gained in the several years working for Company X and digital printing industry. The customer value is graded with the help of knowledge I have gained and from different customer encounters I have learned what customers in this industry value.



<b>Benchmarking Values</b>	<b>Customer Value</b>	<b>Company X</b>	<b>Frontline Expo</b>	<b>Storbildsfabriken</b>
Ranking	5-1 points	5-1 points	5-1 points	5-1 points
Product broadness	3	4	4	3
Speed and flexibility	5	4	4	4
Low price	4	3	2	2
Delivery on schedule	4	4	4	4
Value adding services	3	3	2	4
Easy to contact and buy	3	5	3	4
Environment consciousness	2	3	4	2
Quality	5	4	4	4
Package production	2	2	1	1

**Figure 15: Benchmarking: Main Competitors Profile**

As you can see from the figure, the competitors are very alike and have the same ranking in many of the factors. In some of the factors Company X does better than the customers put weight in the value and sometimes a bit worse. All three competitors are in the end on the same level and it can clearly be seen that in this case, the companies would definitely be competitors in the target market. Company X is exceeding in the measures of easy to contact and buy and environmental consciousness. Another huge benefit that Company X would have in this market is the pricing. The two Swedish companies that I compared with Company X, has high pricing compared to the customer wants and Company X pricing. In the Finnish market Company X's pricing is not the cheapest, and usually is more expensive than the rivals in Finland. This would give Company X a potential benefit in the new market, because the company has a possibility to win rivals in price wars, especially if still producing the products in Finland.

## **12 Market Entry Strategy**

In this chapter I will do an analysis of how attractive the market is for Company X and how the strengths of the company affects the competitiveness of the market. After this it will be possible to determine if the target country is a primary market, secondary market or a ‘catch what you can’ market. After this I will list a couple attractive entry options that could fit Company X and with the help of a scoring model determine which entry option is the most suitable.

### **12.1 Market attractiveness/competitive strength matrix**

The market attractiveness and competitive strength matrix is known to some as the McKinsey Matrix. This instrument helps to figure out for example the current business portfolio and decide in which fields to invest more or less. The analysis is done with the help of different factors, but it is not so easy to always choose them correctly. Some of the factors that affect market attractiveness are market size and growth. The competitive strength is all about product and service profitability and the factors can be brand recognition and distribution strength. The factors of both market attractiveness and competitive strength get rated and given a weight factor. The rating is from 1-5 and the weight factor is a decimal percentage of weight of the importance of the factor. After this you get a result by multiplying the rating with the weight factor. The result will give an answer to how attractive the target country’s market is for new entrants by classifying it to one of three different country types. The A countries are the primary market. This means this is a primary target country for a new entrant. In these countries it is possible for the internationalizing company to have long-term development and establish a long time presence. The B countries are the secondary market. In these countries the risk is higher than in A countries but there is still opportunities. The last class is C countries that are called the ‘catch what you can’ market. Internationalizing to a C country has high risks and is suitable for more short-term market needs. (Olsen, 2016).

The market attractiveness analysis is evaluated with the help of the knowledge I have gained from working in the industry and the knowledge I have gained during the analysis process. The weight factor I have decided with the help of the management of Company X.

<b>Factor</b>	<b>Value</b>	<b>Rating (1-5)</b>	<b>Weight factor in decimal</b>	<b>Result (grading x weight)</b>
<b>Market Growth</b>	Annual growth rate of 7.4%	4	0,20	0,80
<b>Market Prohibitive Conditions</b>	Low level of tariffs, barriers etc.	5	0,15	0,75
<b>Pricing</b>	High pricing of products	4	0,25	1
<b>Physical distance</b>	Neighbor country	5	0,10	0,50
<b>Intensity of the competition</b>	High	3	0,10	0,30
<b>Differentiation opportunities</b>	Some level differentiation possible	3	0,05	0,15
<b>Overall risk in the industry</b>	High setup costs	3	0,15	0,45
<b>Total:</b>				<b>3,95</b>

**Figure 16: Market Attractiveness**

As you can see from the market attractiveness the score is 3,95, which is moderately high when the highest possible score is 5. The factors that have the highest weight factor have also the highest rating. This is also a very good indicator of the market attractiveness, because of these are the factors that impact the decisions the most. The Swedish market is clearly attractive, because of good situation in the market prohibitive conditions and physical distance. In general the industry is also getting more attractive by year because of the 7.4% growth rate, which is also a very good sign when internationalizing. As you can see from the Benchmarking analysis and from this market attractiveness analysis, you can see that pricing in the Swedish digital printing market is higher than in the domestic market. This could be a beneficial factor for Company X that could have the possibility to operate with higher prices for more profit.

The business strength analysis is evaluated with the help of the knowledge I have gained from working in the industry and the knowledge I have gained during the analysis process. The weight factor I have decided with the help of the management of Company X.

<b>Factor</b>	<b>Value</b>	<b>Rating (1-5)</b>	<b>Weight Factor decimal</b>	<b>Result (grading x weight)</b>
<b>Product and Service Uniqueness</b>	Moderate level of uniqueness	3	0,20	0,60
<b>Customer Loyalty</b>	About 80% level of loyalty	4	0,40	1,6
<b>Production Capacity</b>	Moderate production capacity	4	0,05	0,2
<b>Distribution Strength</b>	Air, sea and land transportation	5	0,10	0,50
<b>Image</b>	Good image	5	0,10	0,50
<b>Technology Prices</b>	High prices for technology	3	0,05	0,15
<b>New Trends</b>	Package production	4	0,10	0,40
<b>Total:</b>				<b>3,95</b>

**Figure 17: Competitive Strength**

As you can see also the competitive strength got a high score of 3,95. The factor that has the highest weight factor also got a very good rating. Also the small factors that do not have very high weight factors got a very good score. It is clear to see that the competitive strength is also strong for the Swedish market and it would be a good option to internationalize to this market with all the good conditions for new entrants. Especially the customer loyalty is important and it is a good sign to get a high score in this area and also in the image because this is very important when internationalizing.

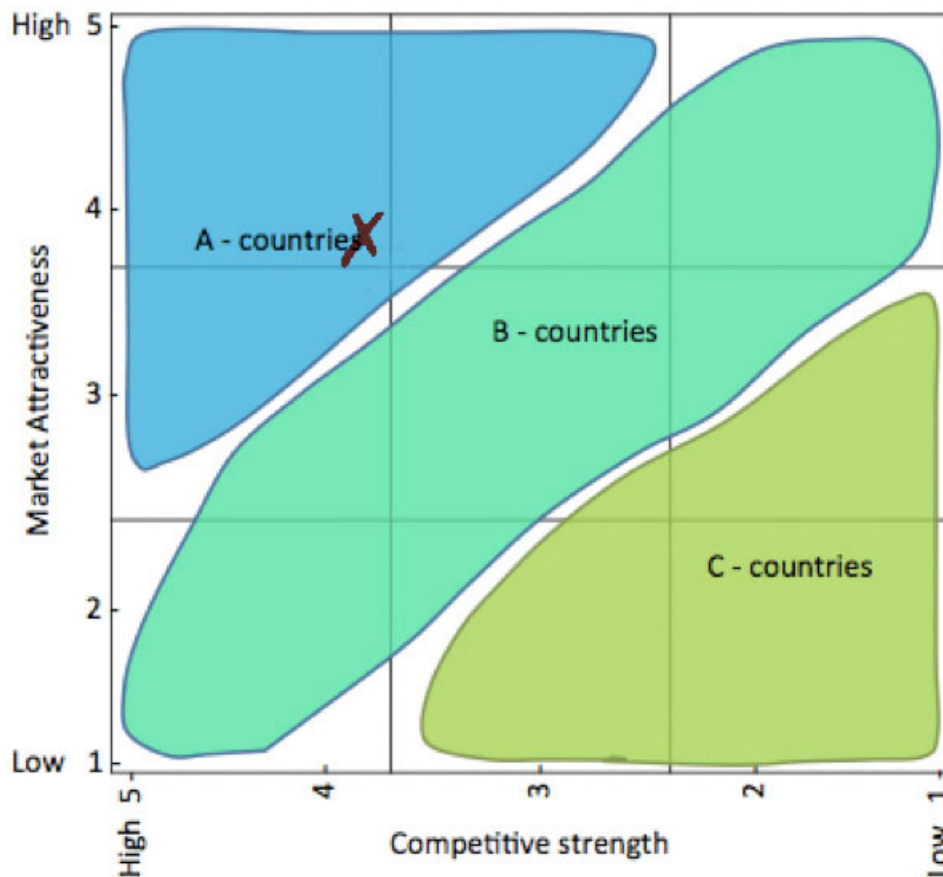


Figure 18: Market Attractiveness/Competitive Strength

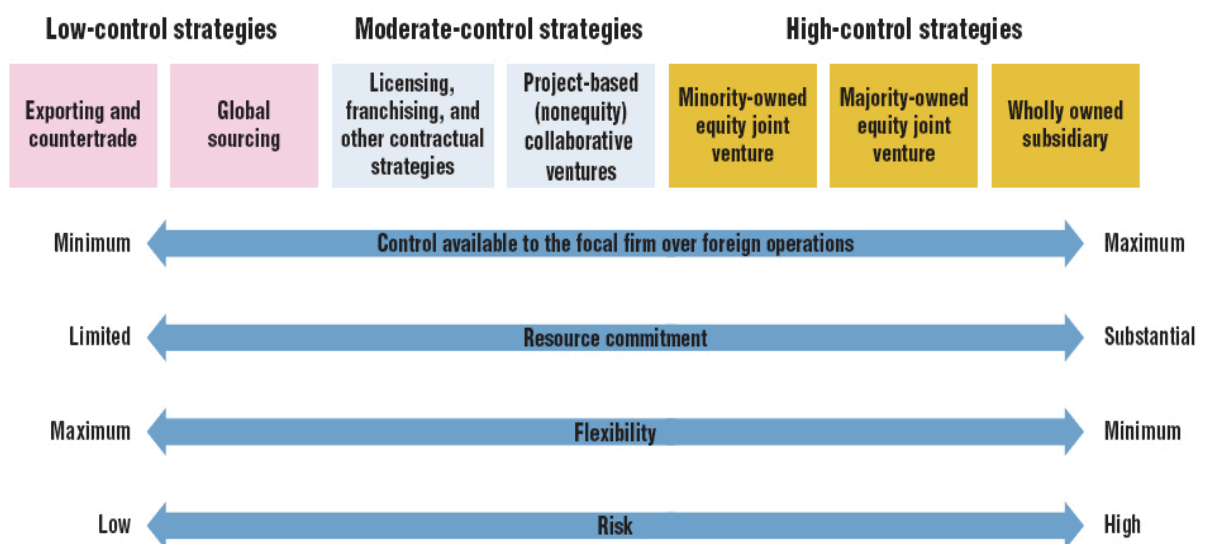
### 12.1.1 Conclusion market attractiveness and the competitive strength

With the score of 3,95 from both the market attractiveness and competitive strength matrix, Sweden as a host market will be a part of the A countries. This means the country is a primary country to internationalize for Company X. When a potential market is an A country, it is important to do further research throughout to maximize the potential the company could have in the market and avoid all the possible risk to maximum. With all the good conditions that the target market is providing, it looks like Sweden definitely is a country where Company X could succeed in.

## 12.2 List of entry options

There are many different ways for a company to internationalize. In this chapter I will take up four methods that I think could be suitable for Company X and in the next chapter I will analyze with a scoring model, which one of them would be the best. Different methods have different levels of requirements and assets needed for the process and they also have a

different level of control, resource commitment, flexibility and risk. (Cavusgil;Knight;& Riesenberger, 2013, ss. 178-183). When a company is doing their decision about which entry mode to use to internationalize, there are many factors to consider, both internally and externally. The internal factors are for example size of the company, which works as an indicator of resources and the company's international experience. The nature of the product and its physical characteristics also affect the decision of which mode to use. For example in the soft drink and beer industry companies often decide to go with licensing agreements or investing in production facilities abroad, because it suits the product and makes internationalization easier and costs less than exporting to distant markets. Some external factors are sociocultural distance between home and host country, market size and growth, direct and indirect barriers and the intensity of competition. These factors can affect highly on the decision on which mode to use, but also on the fact that should the company internationalize at all. For example if the target market has high direct and indirect barriers, it maybe does not much sense to export to that specific country but instead invest to a production facility abroad. (Hollensen, 2004, ss. 279-284). Below I will list a couple of entry modes that I think could be suitable for Company X and open them up before conduction a scoring model: evaluation criteria to determine which option is the best.



**Figure 19: Classification of Foreign Market Entry Strategies.** (Cavusgil;Knight;& Riesenberger, 2013, s. 180).

**Joint Venture:** One of the possibilities for Company X to enter the market would be to form a joint venture with another same sized digital printing company.

A joint venture basically means two or more companies form collaboration to create a jointly owned enterprise by investing money, know-how and sharing the risk. This kind of venture can be permanent and the ownership can attain from minor ownership to major ownership. A joint venture has many benefits. First of all the local partner would have the local know-how and have the familiarity with the local ways and market condition. With a joint venture also the risks would be shared, and this could speed up the process of entering the actual market. A joint venture would also be beneficial for Company X in reduced costs in the beginning. As stated earlier, the start costs in digital printing are high because of the high costs of production machines, high costs of starting to build a stock for materials and renting or buying business space.

The risk with a joint venture is that if the two companies have very different views and plans for example for investments among other things, the upper management can have difficulties to work in an equal partnership. With joint ventures it is very important to have clear rules and visions for now and the future to be able to avoid any problems in the upper management. Joint venture contracts should also be made very specific, clear and precise. (Hollensen, 2004, ss. 311-312) (Cavusgil;Knight;& Riesenberger, 2013, ss. 210-215).

**Direct exporting:** Another possibility for Company X to join the Swedish digital printing market would be to direct export their products, which means that Company X would be selling their products directly to the final customer or to a importer in the foreign market. The importer would work as an extension for the exporter in the foreign market.

Direct export would be a good method for Company X because of low investment requirements and small amount of know-how needed to enter the new market. This is also a good method to start the journey to internationalization, because of it is always possible to evolve the method after getting used to the new market and small risks and low level of commitment if the internationalization is not profitable. (Hollensen, 2004, ss. 297-302).

Direct exporting is a good entry method also because it easily fits to all company sizes and to so many different fields. Exporting is also very easy nowadays because of low tariffs, barriers and other factors that come from the shrinking borders. As mentioned earlier exporting is one of the most used internationalization method amongst SME's, and this

clearly indicates that exporting could be a good entry method for Company X to use to internationalize. (Cavusgil;Knight;& Riesenberger, 2013, ss. 179-187).

**Resident sales representative:** A resident sales representative is a person who is taking care of the sales functions in the foreign market. This option has a bigger customer commitment than the domestic-based sales representative, in which the sales personnel lives in the origin country of the company. The sales representative takes care of the customer service, sales and representation of the company in the foreign market. This method can be very effective if the sales personnel are already familiar with the industry and has good contacts in the foreign market. Company X could benefit from a resident sales representative in the way that financial investment is not big and it is easy to develop this method to different directions if needed. Also the risk in this method is very low and flexibility very high. (Hollensen, 2004, ss. 337-338).

**Sales and production subsidiary:** In this entry mode the company that wants to enter the new market would put up a sales and production subsidiary, which means that the company would also produce and have sales personnel in the target market. This entry mode has high resource commitment, low flexibility and a higher risk than the other entry modes. The benefits with a sales and production subsidiary is that the new customers can clearly see that the company is committing to the new market. This method should not be used if there is not strong enough believes that the production and sales in the new market will have long-term potential. The benefits with this method is the local know-how and connections trough the local personnel, the close access to the market and the domestic production will not get backlogged with work if the target market ends up being very profitable. (Hollensen, 2004, ss. 338-339). This could be a great method for Company X for a more long-term strategy, but the startup costs would be high.

### **12.3 Scoring model: Evaluation criteria**

Market entry strategies differentiate a lot between each other, which makes them hard to compare to each other. For company X I will be analyzing joint venture, direct export, resident sales representative and sales and production subsidiary. However, there are six important aspects to consider when choosing the market entry option that are control, resource commitment, cost and profit potential, flexibility, partner resources and knowledge dissemination. These six factors can be very influential on the end decision of which option to choose. (Grünig & Morschett, 2012, ss. 143-148).



**Control:** The level of control in a joint venture is moderate because of the company will not be only owned by one, but is owned usually by two different companies and this also means that the decisions that are made, are made together. In a joint venture the share of the ownership can vary and different companies can have different management structures, and all this affects the level of control in a joint venture.

The level of control in direct exporting is moderately high. During the exporting process it is possible for companies to make their own decisions but there are always some parts in exports that are not in the control of the company. Direct exporting allows the company to retain more control than exporting with intermediaries.

The level of control when having a resident sales representative is very high because of the representative is an employee of your company and that means you have the right to control their work.

The level of control with a sales and production subsidiary is also high, because it is also controllable by the company. There might be some government limitations to the production part but nothing that should significantly change the level of control.

**Resource commitment:** The resource commitment in a joint venture is moderate. The costs, resources and risk are always divided between the companies that are together in the joint venture. I might even be that the set-up costs are not even that high, if the other company already has some resources in the target market.

The resource commitment in direct exports is very low. There is not always any resource commitment needed in direct exports because there is no start-up costs or the need to purchase new equipment etc.

The level of resource commitment with a resident sales representative is moderate. The sales representative is a resource itself and company's do have to commit when hiring new personnel. There might even be some need to get equipment and office for the representative.

The resource commitment with a sales and production subsidiary are high. There will be set-up costs for equipment, personnel and premises and they are something that a company needs to commit to for a longer period of time.

**Cost and profit potential:** The cost and profit potential in a joint venture is moderate, because both costs and profits are shared. For example the set-up costs will not be that high because of shared resources but also the profit will not be that high either because it is shared too.

The cost and profit potential with direct exporting is moderate. Direct exporting the cost of for example transportation will be high; because there won't be any kind of production in the new target country and the profit after all the cost might not be that high either. If the market where the transportation will be done is close, then also export costs will be lower.

The cost and profit potential with a resident sales representative is moderate. The profit potential is higher with the help of the sales representative. The cost potential is small, because there are not high costs when hiring a sales representative.

The cost and profit potential with a sales and production subsidiary is high. First of all the set-up costs are high and also the risk is high. Though if the subsidiary starts creating turnover, the profits could also be very high.

**Flexibility:** The level of flexibility in a joint venture is low. In a joint venture the company is committed to a partner for a longer time, and it is not easy to get out of a joint venture. Because of a moderate level of resource commitment, a joint venture can't just leave a specific market that easily.

The level of flexibility with direct exporting is high. When a company does direct exports it is not committed to resources that would be stopping the company from being flexible and also the company can make their own decision throughout the way.

The level of flexibility with a resident sales representative is moderate. The company has then committed to this new sales representative but is still able to maintain flexibility in the company.

The level of flexibility with a sales and production subsidiary is low. The company is committed to a new market through personnel and production and it is not easy to be in a situation like this. Though if the company has only one owner, there is still a level for decision and control flexibility.

**Partner resources:** The level of partner resources with a joint venture is high. The resources, risks and financial assets are both shared and if the partner company is from the target market there is also a gain in the local know-how and market familiarity.

The level of partner resources in direct exporting is low. There are really non-partner resources shared, except if the company decides to export through an intermediary who could have local knowledge of certain things.

The level of partner resources with a resident sales representative is moderate. Because of the sales representative will be local, the company could gain local know-how to some level through the new sales personnel. Thus in this entry mode the partner resources would only limit to knowledge and contacts.

The level of partner resources with a sales and production subsidiary is moderate. Through local personnel it is possible to get a high level of new knowledge and contacts, but the company will not gain other resources from this entry mode.

**Knowledge dissemination:** The level of knowledge dissemination in a joint venture is moderate. The knowledge from the partner company will automatically transfer across the organization. The knowledge will be protected by contracts and the partner company will not gain any advantage against the other company.

The level of knowledge dissemination in direct export is low. If the company is selling their products directly to the customer or maybe through one intermediary, there is a very low risk of knowledge dissemination.

The level of knowledge dissemination with a resident sales representative is moderate. The new sales representative could possibly leak some information to a rival company, but this can be also protected by different contracts between the company and the sales representative.

The level of knowledge dissemination with a sales and production subsidiary is high. By employing new staff and especially management personnel the risk of knowledge dissemination will get higher and the whole process of production is open for new people to learn from.

The scoring model is evaluated with the help of the knowledge I have gained from working in the industry and the knowledge I have gained during the analysis process. The importance factor is decided with the help of the management of Company X. The importance of the factor is rated from one to three, where three stands for high importance and one for low importance. The rating done in the scoring model for the different entry modes goes from one to four. In this case four stands for positive and one for negative.

<b>Factor</b>	<b>Importance of the factor</b>	<b>Joint Venture</b>	<b>Direct Exporting</b>	<b>Resident Sales Representative</b>	<b>Sales and Production Subsidiary</b>
Control over marketing	2	3	4	4	4
Required financial resources	3	1	4	3	1
Required management resources	3	2	3	3	2
Production costs	3	3	3	3	2
Shipping costs	1	3	3	3	4
Flexibility	2	1	4	3	1
Commitment and risk	3	2	3	3	1
Distribution channels	2	4	4	4	3
Risk of knowledge dissemination	1	2	4	3	2
<b>Overall score</b>		<b>45</b>	<b>70</b>	<b>64</b>	<b>40</b>

**Figure 20: Scoring model for best entry option**

### 12.3.1 Conclusion of the best entry mode

In this scoring model the importance of criteria is determined by a scale from one to three, where number three is the most highest of importance and the score itself is determined by a scale from one to four, where one stands for very negative and four for very positive. In the scoring model used above the score is calculated by multiplying the importance of criteria with the score of that factor.

As you can see from the scoring model, the best entry options for Company X is clearly direct exporting and the next best option is a resident sales representative. Both of these options scored high in the factors that had a high importance as for example required financial resources and flexibility. These two would be especially good for Company X

that is expanding abroad for the first time, because of the high level of control and flexibility and a low level of resource commitment.

### **13 Conclusion**

As a conclusion that I have gotten after analyzes made by the industry, market and the company itself, is that Company X is ready and has the favorable conditions to internationalize.

The digital printing industry itself is favorable for internationalization with high growth and new trends that companies have not tapped in yet, that could be counted as an advantage when internationalizing to gain differentiation against the competitors. There are signs that offset printing industry is slowly shrinking and making room for the growing digital printing industry. Even if the digital printing industry normally has high startup costs, I do not think this would affect Company X because the most entry modes for the company does not enquire high setup costs. The rivalry in the industry is high, but I think with some differentiation and setting the right prices, Company X could differentiate enough to stand out from the crowd.

The Swedish digital printing market is suitable for Company X to internationalize in because of small distance between the two countries and the very suitable business environment. Also the location of the market is very good, because it is easier for SME's to internationalize closer to home so the internationalization process is much easier to handle. The Swedish digital printing market keeps growing and the industry will take over the printing industry in Sweden by 2020. This is an indicator that the digital printing industry is not yet to bloom fully, so Company X could expand their business there now, and be able to take the advantage of the coming industry bloom.

The best strategic options for company X to internationalize are without doubt direct exporting and a resident sales representative. Both of these options scored well in the scoring model and both of these options should be considered and thought through which one of them is more suitable for the company and its imagine and way of handling business.

My final proposition for Company X is to internationalize by using the method resident sales representative even though it scored lower than direct exports. I would recommend this option because I think it is more suitable for Company X and it is more suitable for

their method of conducting business. Another reason why I would recommend this option is because it is more customer friendly as customers would have the possibility to meet up with someone from the company, for example when wanting to get a offer of a bigger deal or needs guidance in materials etc. Company X would actually be a part of the market in Sweden with a resident sales representative, instead of just exporting to a new country. With the help of a resident sales representative it is also easier for Company X to get insight of the market and maybe even reach new customers easier than from domestic market. The resident sales representative method would also be easier to expand, if the Swedish digital printing market would prove itself to be very beneficial for Company X by hiring new sales representatives or even setting up a production and sales subsidiary. This method is also flexible if the internationalization attempt would fail and the market would prove itself to have too much rivalry or otherwise not profitable.

## **14 Critical Evaluation**

This bachelor thesis is built up as a framework to a company, for them to be able to get the theoretical knowledge needed for internationalization and also for not having to analyze the market themselves.

After a critical evaluation of this thesis, I think that the end result of the study I conducted is accurate. The work could have been a bit more accurate if I would have used additional analyzes and maybe by conducting some kind of survey to get more information of the target market.

The methods I have used to conduct this research are valid and it would have been hard to do a research of this topic with other research methods only. The different analyzes used for this study support each other and that helps to give a better ‘‘big picture’’ and a proper conclusion. The research methods I have used are also commonly used while planning strategic internationalization, which I think helped me come to a trustworthy conclusion.

The information sources have been good and trustworthy and I have much personal experience of the company through working there. The only part that could have been better is that it has been hard to find information of the digital printing industry for free and some of the sources have been older. With newer information the end result could have been even more accurate, but I do not think this factor would have changed the end results in anyway. Also Company X has gone trough some structural changes in the company and

that is why I have used an older value when it comes to the revenue of the company. Because of this I think the reability is moderately high.

In the end I am very satisfied with the result I have gotten in this research I have made. I have also learned a lot about the industry and also about the theoretical parts of strategic planning and strategic internationalization. I feel like I have achieved my aim in this research and I look forward to the future to see if Company X decides to internationalize or not.

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